



## Why You Should Hold on to EnCana Corporation

### Description

Shares of **EnCana Corporation** (TSX: ECA)(NYSE: ECA) are trading more than 2% higher as I write this article since the company announced its acquisition of Texas-based **Athlon Energy Inc.** (NYSE: ATHL) for US\$5.93 billion (the total value is US\$7.1 billion including debt).

This acquisition is one more step closer to CEO Doug Suttles' goal to turn the struggling energy company around by giving Canada's No.2 gas producer a large stake in Texas' oil-rich Midland Basin. The deal continues to cement EnCana's previously announced change in strategy to shift from oil to liquids and this deal will add roughly 30,000 barrels per day to the former's production.

Analysts at Canaccord Genuity say EnCana is using its large cash position to make a significant acquisition. After selling **PrairieSky Royalty Ltd.** ([TSX: PSK](#)) as well as getting rid of a number of mediocre gas assets, EnCana was in a unique position of having a lot of cash on its books. And this deal has come as the icing on the cake. Canaccord Genuity also notes that the company is going outside of its core areas with the Athlon deal to establish a new core position in the Permian

EnCana's management has always been open and vocal about adding a new core area. And this time, the market is nodding in approval given the premium quality of Athlon. This morning, Suttles assured investors that Athlon's assets are "the best of the best" in the broader Permian basin. He also said the Permian growth area will be self-funding in 2016 and beyond. Basically, the company is trying to deliver its 2017 portfolio promises today. Suttles says the plan is to hit 200,000-250,000 barrels of oil equivalent per day (BoE/d) over the next five years.

The deal continues to fast track EnCana's vision to have 75% of its 2015 production come from liquids. This is an incredible vision and achievement given that just a year ago, the company was weighted 80-90% on gas.

For those that are worried about EnCana taking on \$1.15 billion of Athlon's debt, the company urges them to rest assured. EnCana is positive the deal will not affect its investment-grade credit rating as it expects its net-debt to debt-adjusted cash flow to be only 1.5x in 2015. The debt-adjusted cash flow is a financial ratio that represents the after-tax operating cash flow, excluding financial expenses after

taxes.

Having said that, it's always good to be cautious. The market may not have fully digested the news and this "high" may quite possibly be a knee-jerk reaction. There will be several other factors to be considered and analyzed in the next few days. But if you already have a position in EnCana, I'd recommend holding on to it. The company has proven itself in the past year and is likely to have a great future ahead.

## CATEGORY

1. Energy Stocks
2. Investing

## Category

1. Energy Stocks
2. Investing

## Date

2025/09/08

## Date Created

2014/09/30

## Author

sandram

default watermark

default watermark