



EnCana Corporation Spent \$7 Billion on Potential; Should Investors Be as Optimistic?

Description

Earlier this month, **EnCana Corporation** (TSX: ECA)(NYSE: ECA) sold its remaining stake in **PrairieSky Royalty Ltd.** ([TSX: PSK](#)) for \$2.6 billion, not to mention the \$1.67 EnCana got out of PrairieSky's IPO. This also follows the \$1.8 billion sale of its Bighorn assets and a \$530 million unloading of some of its existing Texas assets.

With this multibillion-dollar sell-off, investors have been wondering what EnCana might do with that big pile of cash, aside from rolling around in it. Now the answer is upon us, but will investors be able to share in this new deal?

Everything's bigger in Texas

In an all-cash, US\$5.95 billion (CDN\$7.1 billion) blockbuster deal, EnCana will acquire Texas-based **Athlon Energy Inc.** (NYSE: ATHL), its \$1.15 billion debt, and its 56.656 acres of land located in the oil-rich Permian basin. This new addition will boost EnCana's footprint in the region to 140,000 acres, which further solidifies the company's goal to have a larger part of its portfolio based on oil production.

On a per-share basis, the deal works out to \$58.50 per Athlon share, a premium price as Athlon closed last week at \$46.72. This, however, is not the highest price point that has been paid lately in the Permian resource play, making the 15-times-EBITDA ratio more tolerable to digest. That is, until you start to look underground.

What lies beneath?

A huge draw to investing in this region of Texas is the fact that the U.S. Energy Information Administration has declared that the Permian Basin area "is the nation's most prolific oil-producing area" — it has about 3 billion barrels of oil and oil equivalent locked beneath its layers of rock, dirt, BBQ sauce, and footballs.

This Athlon deal alone is expected to add 30,000 boe/day of production to EnCana, a nice boost that begins to make up what has been sold off this year. But what has analysts concerned is that most of

the land acquired is still seen as prospective and is still a gamble in many areas.

This isn't the first major acquisition in Texas by EnCana. Earlier this year, it picked up **Freeport-McMoRan Inc.** and its 53,000 boe/day production from the Eagle Ford region for US\$3.1 billion.

For those unfamiliar with EnCana, this acquisition is part of a broader strategy to diversify itself from its core natural gas production to oil, propane, and butane. This strategy was enacted as domestic supply began to boom in B.C. and prices started to tumble, and one that is beginning to unfold as currently 36% of production is non-natural gas, which is projected to reach 75% in 2015, just shy of EnCana's 80% target.

What now?

Investors of Athlon are in for quite a pay day once the deal is complete, especially those who jumped in last year when the stock was in the mid-\$20s. But where does this leave EnCana's investors?

If the land produces as hoped, this could be a game changer for the company that has abandoned its status as Canada's No. 1 natural gas producer in the name of diversification. But this isn't a complete turnkey deal here as EnCana expects to spend another \$1 billion developing the region to hopefully post positive cash flow in the next two years.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:PSK (PrairieSky Royalty Ltd.)

Category

1. Energy Stocks
2. Investing

Date

2025/07/22

Date Created

2014/10/01

Author

cameronconway

default watermark