



Should You Invest in Encana Corporation?

Description

On Tuesday, **Encana Corporation** (TSX: ECA)(NYSE: ECA) released its budget for 2015, planning for \$2.7-2.9 billion of capital spending, a slight increase over this year's plans.

There were some major positives from the announcement. The capital spending is directed at high-quality resources, and is flexible based on where energy prices end up. The company's "portfolio transition", which involves switching from natural gas to oil and liquids, is two years ahead of schedule. And the plan calls for additional cost savings from efficiency improvements. As of this writing, the stock is up more than 8% in response.

That said, this is not a good time to jump on Encana. Below we explain why you should go with **Canadian Natural Resources Ltd.** ([TSX: CNQ](#))([NYSE: CNQ](#)) instead.

The problem with Encana

In business, just like in hockey, you always want to skate to where the puck is going, rather than where it already is. Encana has a bad habit of doing the exact opposite.

The problems started in 2009, when the company spun off its oil business to focus on shale natural gas. Shale was popular at the time, but the move seriously backfired when gas prices plunged. Then the company decided to shift into oil & liquids production. This involved selling some of its gas assets right into a buyer's market.

This year, the company was buying heavily once again. In May, it paid \$3.1 billion for a shale oil property in Texas. Then in September it agreed to buy Athlon Energy for US\$6 billion in cash. These purchases now appear to be big mistakes – for example the acquisition in May was done right near the top of the market.

What's been the effect of this strategy? Well, over the past five years, the stock is down by more than 50%, even after the price bump. And nothing really seems to be changing. So if you're a long-term investor, you might want to avoid this company.

A company to buy instead: Canadian Natural Resources

Over the past five years, the stock price of Canadian Natural Resources Ltd. has not done particularly well either, down about 9%. But Canadian Natural has had to deal with collapsing gas prices, big heavy oil differentials, and the current oil rout. And its shares have performed a lot better than Encana's. Longer term, Canadian Natural shares have returned 15% per year over the last 15 years. How has the company achieved such success?

Well Canadian Natural, much like Wayne Gretzky, tends to skate to where the puck is going. In other words, the company buys low and sells high. A perfect example occurred in February, when it paid **Devon Energy** \$3.1 billion for a collection of gas assets, right when no one else was buying. Most observers believe Canadian Natural got a bargain price.

So looking ahead, as oil goes through its rout, you'll want a company that knows how to properly take advantage. Canadian Natural is that company, and its shareholders should be just fine in the long run.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:DVN (Devon Energy Corporation)
3. TSX:CNQ (Canadian Natural Resources Limited)

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