Should You Buy EnCana Corporation After its Latest Earnings Release?

Description

For **EnCana Corporation** (TSX:ECA)(NYSE:ECA), it's déjà vu all over again. To understand why, just look at what happened back in 2009. The energy giant divested its oil assets into a new company, opting to focus on natural gas. Then came the shale gas boom, which crushed natural gas prices, as well as EnCana's stock price.

Fast forward to February 25, when EnCana reported earnings for the fourth quarter of 2009. This time, it was low oil prices caused by a revolution in shale drilling that impacted results.

Below, we take a look at how bad the situation is for EnCana, as well as how the company got here. Finally, we look at whether or not this has created an opportunity to buy EnCana shares.

Just how bad was it?

The numbers certainly weren't pretty. EnCana posted an operating profit of $35 million for the fourth quarter of 2014, or $0.05 per shares. This is way down from the $0.31 per share achieved a year earlier. It's also way below the $0.21 per share that analysts were expecting.

Amazingly, this all happened even though liquids production increased 61% year-over-year. The company also achieved $150 million in cost savings throughout the year. So, how exactly did the company get to this point?

How we got here

When new CEO Doug Suttles was brought on board in 2013, EnCana was reeling in the face of low gas prices. To address this, Mr. Suttles announced a plan to turn the company into an oil-weighted producer. More specifically, he wanted 75% of the company's operating cash flow to come from oil and liquids production.

To make this happen, Mr. Suttles began selling off gas properties, using the proceeds to buy oil assets. Most notable was the US$6 billion purchase of Athlon Energy in late September. The move allowed EnCana to achieve its 75% oil weight goal two years ahead of schedule. This is also the main reason oil production increased so much last quarter.

That said, with oil prices having fallen so much, the acquisition looks like a big mistake. To put this in perspective, Spanish energy giant **Repsol SA** paid about $47,000 per barrel of production for **Talisman Energy Inc.** in December. In comparison, EnCana paid nearly $240,000 per barrel for Athlon. As the saying goes, timing is everything.

So is this an opportunity to buy EnCana shares?

There was some good news from the earnings release. EnCana has announced another round of budget cuts from 2015. Capital spending is now slated to fall between $2.0 billion and $2.2 billion, a $700 million drop from previous guidance. Investors seem pleased with this; EnCana's shares are up in response. So, should you jump on board?

Well, not so fast. EnCana has made too many wrong moves in the past, and I simply wouldn't trust the company at this point. The latest quarter's results offer yet another reminder. If you're looking to bet on an oil price rebound, there are better options out there.

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