Is Encana Corporation Making the Right Moves to Survive?

Description

It has been a busy month for **Encana Corporation** (TSX:ECA)(NYSE:ECA). The shale-focused driller raised nearly $2 billion in cash to improve its financial flexibility as market conditions remain weak. That's a lot of cash, so is the company making the right moves with that money so it can survive the current market malaise?

Lightening the load

The bulk of Encana's cash infusion came from an equity offering that closed in the middle of March. It was able to sell nearly a billion shares of its stock at $14.60 per share, which brought in about $1.44 billion. The deal, which was announced at the beginning of the month, was actually offered at a discount to the company's stock price at the time, as shares had been over $15 per share prior to the offering's announcement. So, not only did this offering dilute investors, but it was made at a below-market value.

That said, the company had a very specific purpose for that cash. It planned to use it to redeem two separate bonds it had outstanding. These were the company's nearest-term bonds and included US$700 million of 5.9% notes due in 2017 and $750 million of 5.8% notes due in 2018. So, by paying off these notes, the company would reduce its overall debt and cut its interest payments. What this is telling investors is that Encana felt much more comfortable paying down this debt, even if it needed to issue equity at a discount in order to survive what could be an extended downturn in the oil market.

Trimming around the core

The other move Encana made to raise cash was to complete the sale of its 50% joint venture that owned midstream assets in the Montney shale. That deal brought in $461 million for an asset that while important to Encana, wasn't a core asset.

This sale accomplished two very important goals for Encana. First, it brought in some more cash that the company plans to reinvest into new oil and gas wells, which are core to its business. That cashalso helps fund about half to the company's expected funding gap between its expected cash flow andits budgeted capex plan.

On top of that, the company avoided having to invest its precious capital to build the additional midstream assets that are needed to support the development of new wells in the Montney resource play. In fact, the buyer has agreed to invest up to $5 billion in the future to build the needed infrastructure assets. That was money that Encana and its drilling partner would have had to invest in infrastructure instead of drilling new wells.

Investor takeaway

Encana raised nearly $2 billion to pay down its debt and cut its funding gap in half. Clearly, these are the right moves for the company to be making so that it can survive what could be a long downturn in the oil market. Given that no one knows when oil prices will improve, it makes sense to get its balance sheet in tip-top shape so that it has the flexibility to handle whatever the market sends its way.

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