Does Encana Corporation's International Exposure Give the Stock an Edge?

Description

Alberta's major oil patch players are taking a wait-and-see approach when it comes to proposed policy changes from the province's new NDP government, which has pledged to review royalties paid by oil and gas companies. Analysts say some companies will be more exposed than others if the changes are implemented. For instance, companies with higher international exposure, such as **Encana Corporation** (TSX:ECA)(NYSE:ECA), will be "somewhat shielded" from the prospect of higher royalties according to BMO Nesbitt Burns analyst Randy Ollenberger.

Encana CEO Doug Suttles says he's already spoken with Alberta premier-designate Rachel Notley. "Let's make sure we talk as you consider alternatives, and if we can support in any way with information or insights, we are happy to provide that," Suttles told reporters following the company's shareholder meeting. "I've got to believe her biggest challenge at the moment is putting her government together, and it's a bit early to be speculating on policy changes."

Still, Suttles says the premier must recognize the importance of the oil and gas industry, and the impact of any changes. "You would almost have to be from another planet not to understand how important oil and gas is to Alberta and Albertans," he said. "You've got to be careful about speculating about what might happen. The important point here is I don't think it's lost on governments that it is a very competitive market out there."

Suttles said Encana can provide a perspective on operating not only in Alberta, but also in British Columbia and the United States. Last year Encana bought a Texas oilfield for $3.1 billion from Freeport-McMoRan and purchased Texas-based Athlon Energy for $7.1 billion.

Encana released its latest quarterly results earlier this week, posting a $1.7 billion loss in its first quarter. The loss included a $1.2 billion impairment charge related to weak oil prices. Earlier this year, the company said it was assuming a price of US$50 a barrel for the benchmark West Texas Intermediate crude, which has since risen to over US$60 a barrel. "We didn't believe $100 oil was going to last forever and we don't believe $50 will last forever," said Suttles. Encana is assuming oil prices of US$62.50 for the remainder of 2015 and US$75 next year.

In the wake of Encana’s results, RBC Capital Markets downgraded the stock to “sector perform” from “outperform,” but raised the target price to $15 from $14. Analyst Greg Pardy said the energy producer has successfully refocused its portfolio for high-margin growth for the foreseeable future.

“Alongside its common equity offering, Encana may be contemplating further non-core asset dispositions beyond the $800 million already announced—a step which could further strengthen its balance sheet,” Pardy said in a note to clients. Pardy said Encana’s cost efficiencies remain on track, and it reaffirmed its 2015 capital spending program, but the analyst said he simply sees more attractive opportunities elsewhere.

Still, Encana’s Texas properties may give it an edge over its oil patch competitors, especially if oil prices continue to rise. And even though its quarterly results were weak, with operating earnings plunging 98%, they still beat analyst estimates. This is certainly a stock to watch, but I would suggest holding off on any purchases in the oil and gas sector until oil prices stabilize at a higher level.

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1. Energy Stocks
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