At Less Than $10 Per Share, Is Encana Corporation Finally a Buy?

Description

Encana Corporation (TSX:ECA)(NYSE:ECA), one of North America's largest producers of natural gas, natural gas liquids, and crude oil, announced second-quarter earnings results before the market opened on July 24, and its stock has responded by falling over 13% in the trading sessions since. Its stock now sits more than 62% below its 52-week high of $25.69 in September 2014, so let's take a closer look at the results to determine if now is finally the time to buy, or if we should avoid it indefinitely.

Lower commodity prices lead to very weak results

Here's a summary of Encana's second-quarter earnings results compared with its results in the same period a year ago. All figures are in U.S. dollars.

Metric	**Q2 2015**	**Q2 2014**
Earnings Per Share	($1.91)	$0.37
Revenues, Net of Royalties	$830 million	$1.59 billion

Source: Encana Corporation

In the second quarter of fiscal 2015, Encana reported a net loss of $1.61 billion, or $1.91 per share, compared to a net profit of $271 million, or $0.37 per share, in the same period a year ago, as its revenues, net of royalties, decreased 47.7% to $830 million.

These very weak results can be attributed to the steep decline in commodity prices over the last year, which led to the company recording a $1.33 billion ceiling test impairment, and led to its average realized selling price of natural gas decreasing 13.7% to $3.52 per thousand cubic feet and its average realized selling price of oil and natural gas liquids decreasing 37% to $43.78 per barrel.

Here's a quick breakdown of eight other notable statistics from the report compared with the year-ago period:

1. Total production decreased 21% to 388,700 barrels of oil equivalents per day
2. Production of natural gas decreased 38.3% to 1.568 trillion cubic feet per day
3. Production of oil increased 152% to 86,200 barrels per day
4. Production of natural gas liquids increased 20.9% to 41,100 barrels per day
5. Cash provided by operating activities decreased 61.1% to $298 million
6. Cash flow decreased 72.4% to $181 million
7. Reported an operating loss of $167 million, compared to a gain of $171 million in the year-ago period
8. Ended the quarter with $496 million in cash and cash equivalents, a decrease of 75.6% from the beginning of the quarter

On a positive note, Encana announced that it will be maintaining its quarterly dividend of $0.07 per share, and the next payment will come on September 30 to shareholders of record at the close of business on September 15.

Should you buy Encana's shares on the dip?

The second quarter was terrible for Encana, so I think the post-earnings drop in its stock is warranted. I also think the company will face continued weakness in the second half of the year because natural gas and oil prices remain under pressure.

However, I think all of the recent weakness and potential weakness going forward is priced in to the stock at this point. Furthermore, it now trades at just 27.6 times fiscal 2016's estimated earnings per share of $0.35, which is inexpensive compared with its five-year average multiple of 51, and it has the added buffer of a 3.6% dividend yield.

With all of the information provided above in mind, I think Encana represents one of the best turnaround plays in the energy sector today. Foolish investors should strongly consider beginning to slowly scale in to long-term positions over the next couple of weeks.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

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