

Can the Earnings-Induced Rally in Encana Corporation Continue?

Description

Encana Corporation (TSX:ECA)(NYSE:ECA), one of North America's largest producers of natural gas, natural gas liquids, and crude oil, announced third-quarter earnings results on the morning of November 12, and its stock has responded by rising over 8% in the trading sessions since.

Its stock still sits more than 57% below its 52-week high of \$19.05 reached back on November 21, 2014, so let's take a closer look at the results to determine if the stock could head higher from here and if we should consider initiating positions today.

Lower commodity prices lead to year-over-year declines

Here's a summary of Encana's third-quarter earnings results compared with what analysts had expected and its results in the same period a year ago. All figures are in U.S. dollars.

Metric Q3 2015 Actual Q3 2015 Expected Q3 2014 Actual

Adjusted Operating Earnings Per Share (\$0.03) (\$0.04) \$0.38

Revenue, Net of Royalties \$1.31 billion \$1.08 billion \$2.29 billion

Source: Thomson Reuters Corp.

In the third quarter of fiscal 2015, Encana reported an adjusted operating loss of \$24 million, or \$0.03 per share, compared to an operating profit of \$281 million, or \$0.38 per share, in the same quarter a year ago, as its revenues, net of royalties, decreased 42.6% year over year to \$1.31 billion.

The very weak results above can be attributed to the lower commodity-price environment, which led to the company's average realized price of natural gas decreasing 7.9% to \$3.71 per thousand cubic feet, its average realized price of natural gas liquids decreasing 59.9% to \$19.57 per barrel, and its average realized price of oil decreasing 45.3% to \$49.38 per barrel.

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

- 1. Total production decreased 15.4% to 398,300 barrels of oil equivalent per day
- 2. Production of natural gas decreased 29.6% to 1.55 billion cubic feet per day
- 3. Production of liquids increased 35% to 140,400 barrels per day
- 4. Cash provided by operating activities decreased 34.9% to \$453 million
- 5. Cash flow decreased 54% to \$371 million

Should you buy or avoid Encana today?

It was a horrible quarter overall for Encana, so I do not think the pop in its stock was warranted. With this being said, I do not see further upside from here and think Foolish investors should avoid the stock today, especially because natural gas and oil prices remain at very low levels, which will likely lead to another disappointing performance in the fourth quarter, and because there are much better investment options in this and other industries today.

With all of the information provided above in mind, I think Foolish investors should avoid Encana's stock until commodity prices recover or, at the very least, until the release of its fourth-quarter results.

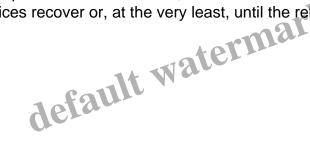
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