Why Encana Corporation Surged by More Than 20% on Wednesday

Description

Shares of **Encana Corporation** (TSX:ECA)(NYSE:ECA) are up by more than 20% after the company reported strong fourth-quarter earnings. We'll take a look at Encana's year in 2015 as a whole as well as what the company has planned for 2016.

A strong quarter

Excluding write-downs, Encana posted an operating profit of US$0.13 per share, easily beating analyst estimates of US$0.01. There were a few reasons for the strong result.

First of all, Encana's fourth-quarter production from its four core assets totaled 274,000 barrels of oil equivalent (boe) per day, ahead of the company's guidance of 270,000. This included liquids production of 145,000 barrels per day, up 36% year over year.

Encana was also very adept at reducing costs. Operating costs per boe were down 7% versus the previous quarter. Transportation and processing costs were down 10%. Processing, minerals, and other taxes declined by 21%. Like any other energy company, Encana is doing all it can to cope with the downturn.

A year of transformation

Encana's year was certainly not an easy one. The company had made a big acquisition the previous summer, right before oil prices started their precipitous decline. As a result, the company's balance sheet needed to be fixed.

To deal with the problem, Encana sold its assets in the DJ Basin and Haynesville for a combined US$1.75 billion. The company also achieved more than US$400 million in "capital and operating cost efficiencies" partly from a 20% reduction in its workforce.

These actions allowed the company to reduce its debt by US$2 billion during the year. Better yet, another US$4.5 billion in credit facilities were extended to 2020.

More cuts

The big headline from Encana's fourth-quarter announcement is that the company will cut another 20% of its workforce, which amounts to roughly 500 positions. Certainly, this was not an easy decision to make. CEO Doug Suttles said that the job reductions "not only at Encana, but across the industry" are the worst he's seen in over three decades.

As would be expected, Encana also announced more cuts to its capital program. For the year the company plans to spend between US$900 million and US$1 billion, a reduction of more than 55% relative to 2015.

This will reduce production to about 350,000 boe/d, down from over 400,000 in 2015. But investors clearly don't seem to mind. Instead, they are reacting positively to Encana's ability to cut back. It's a theme we've seen quite a bit in today's energy environment.

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