Encana Corporation: Is the Worst Over Yet?

Description

It appears that the bleeding of the oil industry has not stopped, despite very deep cost cuts put in place to combat tumbling oil prices that have sent both the loonie and Alberta's oil-rich economy down for the ride.

One such company is Calgary-based **Encana Corporation** (TSX:ECA)(NYSE:ECA). Encana is an oil and gas producer that is focused on producing natural gas and oil and natural gas liquids. Encana has, much like the rest of the industry, felt the pressure of decreasing prices.

Here's a look at how the company fared in the most recent quarter and what to expect moving into the remainder of 2016.

Quarterly results

Encana reported fourth-quarter results last week that showed the company had a deep $612 million net loss for the quarter, coming out to be $0.72 per share. While most of this number is a result of write-downs, it is still a significant loss for a company that has already implemented a number of hard cuts.

Cash flow came in at $383 million, representing a small 3% increase for the quarter.

The news wasn't all bad, however, as many of the deep cuts that the company introduced last year were translated into lowered costs and more efficient operations. The company had targeted a total of $375 million in reduced spending for the year, and announced that it had not only met but exceeded this number by reaching $400 million in cuts.

In terms of debt, the company managed a 30% reduction over the course of the year, amounting to $2 billion. The company now has no long-term debt maturities until 2019.

Production and job cuts

Fourth-quarter production from the company's four core assets came in 35% higher than the same quarter last year to 274,000 barrels of oil per day. In terms of liquid production, the company produced

145,000 barrels per day in the most recent quarter, an increase of 36% over the same quarter last year.

The company announced last week the intent to save up to $250 million for the year, and in order to accomplish this, Encana will need to cut staffing levels. A further 20% reduction in the company's current workforce is expected, which is on top of already deep cuts made over the past year.

By the end of the year, the number of employees at Encana will be half of what the company had back in 2013, which means nearly 1,600 jobs eliminated over the past three years.

Looking ahead

The company announced during the quarterly and year-end results that it will be reinvesting nearly all capital on the core assets with the goal of bringing costs down by $550 million from 2015 levels.

The company has done an incredible job of reducing debt and decreasing costs, but remains a very risky investment. Should Encana continue on the current path of cost cutting and making existing operations more efficient, the company and investors will be rewarded.

CATEGORY

1. Energy Stocks
2. Investing

Category

1. Energy Stocks
2. Investing

Date
2025/08/02
Date Created
2016/02/29
Author
dafxentiou