Encana Corporation Post Results: Takeaways for Investors

Description

The oil industry has had a rough few years. When oil came crashing down from over US$100 per barrel, many oil companies, as well as the loonie, came crashing down with those prices.

In the wake of that new reality, companies such as Calgary-based **Encana Corporation**. (TSX:ECA)(NYSE:ECA) have been forced to make difficult decisions to rein in costs and improve efficiencies.

The company announced quarterly results this week that left many wondering if an investment in the company is still feasible. Here's a look at the report and what lies ahead for Encana and investors.

Quarterly report

Encana reported results earlier this week that missed expectations set by analysts. Revenue after royalty payments, which analysts had largely expected to be $892.2 million, came in lower at $753 million. This figure is significantly lower than the first quarter last year when the company posted $1.25 billion.

The company also had an asset write-down of $607 million and an additional $22 million for restructuring charges. The operating loss came in at $0.15 per share, or $130 million. Analysts had expected the company to only post a loss of $0.12 per share.

Despite the results, which were worse than many expected, the company remained optimistic about the year ahead, citing a massive $550 million in year-over-year savings that would be realized.

Encana also made note of the fact that within company's current inventory of four core assets are wells that are extremely low cost and high performing, which should drive improved results for the company while additional efficiencies and cost-cutting measures are explored.

As recently as February, Encana announced the elimination of one-fifth of the company's staff–approximately 500 positions based on what staffing levels were towards the end of 2015. The company also slashed the capital spending budget for the year to fall into the US$900 million to US$1 billion range, down from the US$1.5-1.7 billion it was previously.

Looking past the quarterly results

After the quarterly announcement, Encana's stock dropped over 13%, but this could be viewed as good news to those investors looking to buy into the company. Despite the drop, the company is still up over 8% in the past month and up over 36% in the past three months.

The company has worked hard on reducing costs and boosting efficiencies over the past few years. In the past three years staffing levels have been reduced by 50%, which have made a leaner and more cost-effective operation. All that is needed is for demand and oil prices to rise.

Some of the employees that were cut earlier this year were redeployed to other areas of the company that were previously contracted out. Additionally, nearly 4%of the company's workforce were given the option of a sabbatical, which helped protect nearly 80 jobs.

Is Encana worth the investment?

Encana is a very different company today in comparison to what it was just a year or two ago. The continued weakness in oil prices has forced the company to make difficult decisions and become more efficient. Should oil prices push higher, Encana will be in a very advantageous position.

In my opinion, investors who have a significant appetite for risk may want to consider a small position in the company, which has made considerable cost-cutting strides in the past year and has ambitious plans to do so this year.

The stock price falling this week should be considered with a long-term view; the stock is up for the year, but still down over a longer period. Investors of Encana should be looking at the long term and not at the short-term fluctuations.

CATEGORY

1. Energy Stocks
2. Investing

Category

1. Energy Stocks
2. Investing

Date
2025/08/01
Date Created
2016/05/06
Author
dafxentiou