Is Encana Corporation Leaving Canada?

Description

After unloading $2.8 billion in assets last year, **Encana Corporation** (TSX:ECA)(NYSE:ECA) is preparing to sell an additional $1 billion in projects.

According to *Reuters*, the company is "weighing the sale of some of its shale assets in western Canada as part of an effort to bolster its balance sheet amid protracted low oil prices."

Sources now say that Encana is open to offers on every one of its non-core assets, although it's focused on its shale assets in western Canada. Potential divestitures could go a long way in achieving management's goal to have oil become the major driver of future profits.

Is Encana set to leave Canada by selling assets?

Part of a bigger plan

According to Zacks Research, Encana is likely targeting the sale of its Gordondale resources, which are situated in the Montney basin, located across British Columbia and Alberta. The assets are still in the early stages of development and would require onerous levels of capital expenditures to bring online. Offloading its interest there opens up cash flow to better manage the current downturn.

Still, as of last quarter the company had roughly $19 billion in assets. While its book value may have shifted a bit, selling its Gordondale resources for $1 billion won't do much in moving the company away from Canada. More likely the asset sale will help Encana focus on becoming an oil producer.

Today, 75% of production is natural gas, so earnings are still dominated by price swings of that commodity. Over the last three years, however, oil has grown from 5% of production to nearly 20%. Management hopes this transition will continue given that oil has better market conditions and would come with higher profit margins.

This year, management reduced its capital budget by 55% with 96% of spending now focused on just four core areas (Eagle Ford, Permian Basin, Montney, and Duvernay). Because those properties are largely oil producing, Encana's output should slowly shift away from natural gas. By 2018, natural gas will likely comprise less than 50% of production, down from 82% in 2014.

Times are changing

The rumoured asset sales won't pull Encana completely out of Canada, but that doesn't mean it's committed to the country. As the company moves away from natural gas, it may end up naturally increasing its exposure to the U.S.

This year, 75% of oil production is expected to come from outside Canada. That transition, along with a slew of operational changes made in the past 12 months, should continue to transform Encana into a more attractive long-term business. With $4.5 billion in fully committed credit lines and over 75% of long-term debt not due until at least 2030, it certainly has the firepower to pull off a major evolution.

Image Source: Encana Corporation Investor Presentation

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rvanzo