



## Encana Corporation Just Tripled: Will it Happen Again?

### Description

Since the year began, **Encana Corporation** (TSX:ECA)(NYSE:ECA) has become one of the best-performing stocks on the TSX. From its lows of \$4 in February, shares just recently breached \$12. Armed with both rising natural gas and oil prices, investors are now expecting big things in the coming quarters.

Still, Zacks Research published a report on August 23 stating that “Encana could be positioned for a surge.” Is there truly more upside to go?

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### Just in time

Improving conditions are coming at a perfect time for Encana. Burdened by \$8 billion in debt, the company has engaged in a major operational pivot over the last 18 months, selling more than \$3 billion in assets. While long-term debt is now down to just \$6 billion, there’s still quite a bit to go. That’s why new regulations, which set stricter standards on the financial strength an acquirer must have to execute a business deal, could be deadly.

New rules now dictate that companies seeking to buy oil and gas properties will need assets twice the size of its liabilities after the purchase is complete. Previously, assets only needed to equal liabilities. According to *Reuters*, “More than 200 companies that met the prior standard were ruled out as buyers by the stricter financial solvency test, a move that industry reps say will limit the number of companies allowed to buy oil and gas assets.”

Given that Encana has been a serial seller of assets, investors worried that new regulations could limit potential suitors. So far, the company has proved everyone wrong.

### Encana is transforming quickly

In just three years oil has grown from 5% of production to nearly 20%. This is a notably positive trend considering oil comes with higher profit margins and better market dynamics than natural gas. This

summer Encana executed a deal that will ensure oil's growing contribution.

In June Encana announced a \$625 million deal to sell assets in northwestern Alberta. The sale includes wells producing 25,200 barrels of oil equivalent a day on about 22,000 hectares of land. Encana said the deal also means it can avoid future spending commitments of \$100 million on the property, allowing it to focus on other core areas in Canada and the United States.

Shedding assets in the Montney Basin helps considerably. Over 90% of the production at those wells was either natural gas or natural gas liquids. Just 9% stemmed from oil output. Compare this with the company's Duvernay property, which produces 48% oil. In Eagle Ford, oil production is even higher at 73% of output. Even Encana's 146,000 acres in the Permian Basin produces roughly 46% oil.

Fundamentally, Encana has continually improved as a business for years. While the stock price hasn't always reflected this, considering the historically weak commodities market, Encana's management team has proven itself to be incredibly savvy. So far, the company is making all the right moves.

## CATEGORY

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2. Investing

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