



Wall Street Loves Encana Corp.'s New 5-Year Plan

Description

Encana Corp.'s (TSX:ECA)(NYSE:ECA) management recently outlined a new five-year growth plan, complete with updated 2016 guidance. Since then, both **Barclays PLC** and **Macquarie Group Ltd.** have upgraded the stock.

How does the future look? Should you believe the hype?

Here are the numbers

In its latest five-year growth plan, Encana expects a whopping 300% increase in cash flow, a doubling of corporate margins, a 60% increase in total production, and the achievement of a balanced production mix of oil and liquids and natural gas.

If that seems impressive, it is. But the most important driver may be that final point: a balanced production mix of oil and liquids and natural gas.

In just three years oil has grown from 5% of production to over 20%. Oil generally has better market conditions and, based on Encana's cost of production, would come with higher profit margins. So far, the company is making all the right moves.

The transition towards oil will help drive the impressive financial gains outlined in its forecast.

Looking at just this year, Encana now says 2016 total production will hit 340,000-360,000 boe per day. Capital expenditures should be \$1.4-1.8 billion versus prior guidance of \$1.1-1.2 billion. The increase isn't too concerning given impressive early results on new projects and acquisitions. Additionally, upstream operating costs should be only \$3.96-4.10 per boe of production, lower than an earlier forecast of \$4.15-4.35 per boe.

For once, Wall Street is right

When Barclays upgraded Encana's stock, it set a new \$14 price target—raised from \$10. The bank cited the company's strong execution and quality "core four" assets in the Permian, Eagle Ford,

Montney, and Duvernay. That pretty much means Barclays has become a believer in Encana's ongoing business transformation.

"Use of Encana's 2018 capital spending and production indications lead us to infer a very strong return in 2018 on new spending of ~30% on the corporate level," Barclays' Tom Driscoll writes.

Macquarie Group also forecasted higher production growth and lower costs, saying the stock could rally further as investors increasingly look ahead to 2018.

Encana remains in a tough transition period, but if energy prices continue to rebound, expect Encana stock to continue following suit.

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.

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1. Editor's Choice

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