Encana Corp. Is up Over 200%: This Is Just the Beginning

Description

Since hitting all-time lows earlier this year, **Encana Corp.** (TSX:ECA)(NYSE:ECA) has exploded higher by over 200%. The run has been fueled by higher energy prices and the company's continued execution of its long-term goals.

Shares have risen an incredible amount in a fairly short period of time. Still, many Wall Street analysts believe this could be just the beginning. Should you?

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Wall Street is falling in love

In early October, Encana 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. Zacks Research also published a report stating that "Encana could be positioned for a surge."

What's all the hype about?

When Barclays upgraded Encana's stock, it set a new $14 price target–raised from $10. The bank cited growing production at the company's lowest-cost projects. Macquarie Group also forecasted higher production growth and lower costs, saying the stock could rally further as investors increasingly look ahead to 2018.

Rosy expectations shouldn't surprise investors who have been banking on Encana's turnaround plan, which it has been putting into place for years. The main goal of its turnaround: becoming an oil company.

In just three years Encana has grown its oil output from 5% of production to over 25%. It has done this by redirecting nearly all of its spending to just its "core four" assets in the Permian, Eagle Ford, Montney, and Duvernay. This summer Encana executed a deal that will ensure oil's growing contribution.

Because oil comes with higher profit margins and better market dynamics than natural gas, Encana is starting to experience some major benefits.

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.

Wall Street expects this savvy spending to continue.

“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’s Tom Driscoll writes.

The run was incredible, but the true turnaround is still around the corner

Encana has continually improved as a business for years, but now that its long-term initiatives are bearing fruit, Wall Street and other investors are finally taking note. It hasn’t gotten much credit until now, but Encana’s management team has proven itself to be incredibly savvy.

So far, the company is making all the right moves.

Recently, Encana raised $1 billion in a new share offering. With the new funds, management can continue to lower its long-term cost base, boost oil production, and grow effectively as commodity prices improve.

If energy prices continue to rebound, expect Encana to continue following suit.

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1. Energy Stocks
2. Investing

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