



Encana Corp.: Upcoming Earnings Signal That the Company Is Still Hot

Description

Encana Corp. (TSX:ECA)(NYSE:ECA) was all the rage in 2016, rising over 100% over the course of the year, but there is plenty more where that came from.

While there are some analysts who have cut their price target and rating on the stock, all signs point to a strong fiscal 2017, marked by a first quarter that will come ahead of expectations. Encana last released its quarterly results on Nov. 3 when it revealed that lower costs aided the company's efficiency plans.

The Calgary-based company has been making moves to reduce its spending by selling non-core assets and maintaining its focus on its oil and gas products that will help to keep the company profitable into 2017. **Cormark** analyst echo the general sentiment that exists on ECA stock, which had eight-cent-per-share earnings for its first quarter of the new fiscal year.

Earnings are slated to continue going up throughout the course of the year, rising to 40 cents per share by the end of fiscal 2017. Encana's ongoing strong performance is dependent on the October plan laid out by the natural gas, oils, and natural gas liquids (NGLs) producer. In it, the company detailed plans to increase capital spending by 64%, spending \$1.4-1.8 billion on its capital program.

Last year, this figure was \$1.1-1.2 billion. The focus will be on its core assets, including the Permian Basin of west Texas and New Mexico which have plenty of oil that's ripe for the taking. Recently, Encana added to its five-year plan by noting that it is on track to surpass production and profit-margin projections this year.

In fact, the company said it expects a profit margin of US\$10 per barrel of oil, which is higher than the US\$8 a barrel it marked down in October. The increased margin is the result of costs being even lower than previously predicted, while production volumes are slated to surge in 2017. The year's production will help Encana offset high debt levels and the oil slump that's hit the industry hard for two years.

Overall, the company will increase production by about 60% between 2016 and 2021, and it will be more efficient and increase its cash flow. More details on the company's capital program will be unveiled when it releases its fourth-quarter and fiscal 2016 results on Feb. 16.

The Permian region is especially appealing as new fracking tools and techniques suggest there is plenty of oil available for companies with a presence there, such as Encana. Apart from being very prolific, the area requires low costs of production, making it especially profitable for exploration and production corporations.

There are 23 analysts covering ECA stock; three rate it a "Sell," six rate it a "Hold," and 14 rate it a "Buy" for an average rating of a "Buy." The company has an average target price of \$12.74.

Encana is doing more than simply piggybacking off its 2016 success as the oil, natural gas, and NGLs producer has trimmed its fat and turned its focus to where it can produce goods while reducing costs, positioning the company for a profitable first year of its five-year plan.

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