Should Encana Corp. Be in Your Portfolio?

Description

Few would argue that there's no shortage of energy companies on the market to invest in. The oil and gas sector in particular includes some of the largest companies on the market, but the sector is still largely volatile thanks to a variety of factors.

Where are oil prices heading?

Nearly a year ago, OPEC, the cartel of oil-producing companies, agreed on a set of production limits that would shave off 1.8 million barrels of oil per day being produced. That agreement was set to expire last month, but it has since been extended into next year.

The reasoning behind the cut was simple. OPEC nations that are highly reliant on oil revenue were struggling because the market was flooded with cheap oil. A production cut could address the supply issue and steadily drive prices higher.

The U.S. is largely responsible for that increased supply. Oil production in the U.S. is up nearly 10% year over year, which may have made the OPEC cuts a moot point on the market.

While prices did rise a bit after the production cuts were announced, they've since returned to former levels, hovering just over the US$45 mark, erasing many of the gains previously made.

Should you invest in the sector?

Despite the relatively flat growth in oil prices, there are plenty of options for investors seeking an oil and gas investment. Several companies have already announced favourable results over the past few weeks. One such company is **Encana Corp.** (TSX:ECA)(NYSE:ECA).

Encana is the second-largest gas producer on the continent. It posted better than expected results recently.

Second-quarter results for the Calgary-based oil and gas producer from last week revealed a US$331 million, or US$0.34 per share, profit. Revenues were US$1,083 million, far exceeding what many had forecasted would come in below US$800 million.

Those profit numbers represent a massive improvement over the US$601 million, or US$0.71 per share, loss recorded in the same quarter last year. As part of the quarterly update, Encana updated production numbers for the remainder of the year, noting that 2017 production will now exceed production from last year by 25-30%, bettering the previous estimate of just 20%.

Operating costs and expenses saw significant improvement in the quarter. Encana reduced total operating expenses by over 40% over the same period last year, coming in at just US$762 million. Encana noted that the primary reason for the decline was a reduction in impairment charges.

From an operating costs perspective, Encana finished the quarter US$113 million lower than the same quarter last year.

Encana is trading at just over $12, and the stock is down over 20% year to date, but it's still in the black when looking at the previous 12-month period. Investors that believe an oil price increase is coming may want to consider Encana while the stock is still down.

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