Is Another Rally on the Horizon for Encana Corp.?

Description

Encana Corp. (TSX:ECA)(NYSE:ECA) is an energy producer which underwent a transition from natural gas to oil. This move was poorly timed considering the fact that the company spent a great deal to acquire oil assets right before oil prices tanked.

More recently, the management team has been offloading its natural gas assets to increase the health of its balance sheet through the difficult times. Shares of ECA crashed hard following the rout in oil prices by nearly 84% from peak to trough. Last year, shares of ECA started to rally, but this year, shares have returned to their negative trajectory.

I believe shares of ECA are ridiculously cheap, and if you're an opportunistic contrarian investor, now may be the time to start loading up on shares before the stock can form another sustained rally higher thanks to fundamental improvements and a potential tailwind of the improving U.S. oil inventory issue.

Where is oil heading from here?

Nobody knows for certain when oil will start forming a sustained rally higher, but falling U.S. crude inventory is a reason to be optimistic. Although many pundits still believe oil prices will remain lower for a longer than expected period of time, there are reasons to believe an oil surge may catch everyone off guard.

Second-quarter earnings were very promising

Last month Encana reported a solid Q2 earnings report. Revenues tripled compared to the same period last year. Earnings surged to $331 million, which was way better than the $601 million loss the company suffered a year earlier.

The company is well hedged from volatile price movements thanks to derivatives. The management team stated that over three-quarters of its oil production is protected thanks to its solid risk-management strategy. I think the Q2 results were very promising and could be the start of a rally to much higher levels.

Bottom line

It’s difficult to own a stock that has lost most of its value over the last decade, but if you’re bullish on oil and you’ve got a strong stomach, then it’s probably time to start buying shares of Encana, because things are starting to look up thanks to the management team’s recent efforts, which are slowly starting to pay off.

Shares currently trade at a 11.45 price-to-earnings multiple and a 1.4 price-to-book multiple, both of which are considerably lower than the company’s five-year historical average multiples of 36.9 and 1.9, respectively. Shares are dirt cheap, so if you want to make a contrarian bet, now may be the time.

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