Encana Corp.’s Stock Down on Disappointing Q3 Results: Buy the Dip?

Description

Encana Corp. (TSX:ECA)(NYSE:ECA) released its third-quarter results today. Revenues for the period totaled $861 million and were down 12% from last year, while net income for the quarter was $294 million and also declined more than 7%. As a result, investors were disappointed with the results and sent the share price down more than 3%.

However, let’s take a closer look at the company’s results to see what was behind the earnings and if it is a good stock to buy on the dip today.

Risk management continues to add variability to the company’s earnings

Across most of its revenue, Encana saw little to no change from the prior year. It was losses on risk management of $35 million that dragged sales down from the prior year.

This is a risk that I mentioned when the company had and incredible Q2, which saw sales nearly triple from the prior year and earnings shoot up as well. In that quarter, the company’s risk-management gains of $129 million were a big increase from the $330 million loss that Encana incurred in the prior year.

This quarter, the pendulum swung the other way; losses of $35 million were a far cry from the $96 million gain that Encana recorded from its risk management a year ago.

The result was an unfavourable variance of $131 million, which was the main reason for the drop in sales and offset the small growth the company would have otherwise achieved in its top line.

Gains salvage earnings

With operating expenses slightly up this quarter, and revenues seeing a big drop, Encana recorded an operating loss of $4 million. It was gains totaling $627 million that helped dig the company’s financials out of the red and into the black.

The biggest gain was on the company’s sale of its Piceance natural gas assets in Colorado, which allowed Encana to add $406 million in pre-tax earnings to its financials. Another $210 million worth of gains came from foreign exchange.

What this means for investors

A few months ago, I pointed out that the oil and gas industry was starting to stabilize and that it could be a good investment again. However, the one danger for investors is that many companies have undergone divestitures, acquisitions, and also engaged in hedging activities to offset volatile oil prices.

Unfortunately, as a result of all those activities, financial statements are less comparable, and it's important for investors to actually dig into an income statement rather than just look at revenues and profits, which may not tell the whole story.

Should you buy Encana?

Encana's stock has been flat year to date, but in the past three months the share price has climbed over 26%, and more could be on the way if oil prices continue to rise.

With production cuts from OPEC expected to continue, we definitely see some eagerness from big oil producers to drive up the price of oil, and that's a good sign for Canadian producers like Encana.

The company's financials disappointed, but the results were impacted heavily by non-operating items. Over the long term, Encana presents a stable investment in the oil and gas industry.

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