



Why Encana Corp. Is One Canadian Oil Company to Keep on Your Watch List

Description

Encana Corp. (TSX:ECA)(NYSE:ECA) is one Canadian company I'm keeping on my watch list as we witness how the recent Canadian oil sands transportation and [discount](#) debacle play out. With Canadian heavy crude trading at a steep discount to lighter oil arising from fracking operations in Canada and the United States, oil sands producers have begun to feel the pinch of investors looking for better opportunities in the oil & gas sector.

One of the Canadian companies that has led the way in developing “tight” oil operations, or fracking, in regions such as the Duvernay and Montney formations is Encana Corp., a company oil producer that has seen its share price boom and bust over the past two years following declining commodities prices. Since [bottoming out](#) at the beginning of 2016, shares of Encana have more than doubled as investors consider the long-term potential of the company's tight oil opportunities — a huge asset for the company in comparison with its Canadian peers.

With an estimated 4.5 billion barrels of oil and approximately 500 trillion cubic feet of natural gas trapped in the Montney formation alone, its size is approximately half that of the entire oil sands operation, representing a staggering amount of oil that has remained trapped in this formation and thus largely untapped. With Canadian expertise in fracking operations beginning to “seep” (excuse the pun) northward, the rise of Encana and other companies intent on developing and producing oil from these two rich formations are likely to be well rewarded in the long-run, given the increased price these companies will be able to receive for their raw material relative to comparable companies in the oil sands.

Bottom line

The total amount of shale oil production in Canada remains a very small percentage of what is produced in the U.S., and a fraction of oil sands production currently (shale oil represents less than 10% of total oil production in Canada), making Encana a very interesting play in this space. The room for production and profitability growth in shale oil has increased the appetite of many companies to invest in the technology necessary to extract this oil, and I anticipate Encana's lead in developing some of these formations will eventually be priced much more richly into the company's valuation as

investors realize the long-term benefit of Encana's operations when compared with other major oil sands producers.

Stay Foolish, my friends.

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