



## Is Encana Corp. (TSX:ECA) an Attractive Play on Higher Oil?

### Description

Despite weaker natural gas and its poor outlook, oil and gas driller **Encana** (TSX:ECA)(NYSE:ECA) has been able to successfully boost cash flow over the first half of 2018. This has created considerable conjecture that the driller, which is down by 14% for the year to date, in spite of crude gaining 21%, is an attractively valued play on higher oil.

### Now what?

Encana reported some solid second-quarter 2018 results when combined oil and natural gas production shot up by a healthy 7% year over year to 338,000 barrels daily. Notably, Encana's production weighting to oil and natural gas liquids as a proportion of total output rose by 6% compared to the equivalent quarter in 2017 to represent 43% of its total fossil fuel output. That can be attributed to a 24% year-over-year lift in overall petroleum liquids production.

It was Encana's ability to expand its oil and natural gas liquids output along with firmer oil, which was a key reason for the company reporting significant cash flow growth. Second-quarter cash flow from operations shot up by a whopping 120% compared to a year earlier, while Encana's cash flow margin soared by an impressive 57% to US\$19.09 per barrel of oil equivalent.

A crucial driver of Encana's solid production growth was its focus on expanding Permian basin operations. The driller's Permian production for the second quarter came to 88,200 barrels daily, which was a remarkable 43% greater than a year earlier. That oil output was 63% weighted to oil, giving Encana's earnings a solid lift because Permian light crude trades at only a slight discount to the North American benchmark West Texas Intermediate (WTI).

Because of Encana's hedging and transportation management activities, it was able to achieve an average second-quarter sale price of US\$70.30 a barrel for its Permian production, which represents 103% of the average price for WTI over that period. This highlights how important Encana's Permian oil operations are to its financial performance.

Nonetheless, regardless of those impressive operating results, Encana announced a US\$151 million net loss for the second quarter. That can be blamed on Encana reporting a US\$317 million loss on its

risk-management contracts, of which US\$312 million related to hedges established to protect against weaker crude, while the remainder was triggered by foreign exchange hedges.

Like many of its peers, Encana did not expect oil during 2018 to rally as strongly as it has which saw the company establish a range of commodity price hedges to protect itself from the financial impact associated with weaker oil.

A number of those risk-management contracts covering around 146,000 barrels daily of production, which is roughly 94% of Encana's total oil production, will expire at the end of 2018. That will position Encana to fully enjoy the benefit of higher WTI prices, which are expected to remain firm for the foreseeable future.

The recent spike in natural gas, because of an increase in seasonal demand will also give the Encana's earnings a healthy lift for the second half of 2018. Encana's natural gas hedges will mitigate the impact of the [anticipated poor outlook](#) for natural gas once seasonal increases in consumption come to an end.

### **So what?**

Encana is not the most appealing energy company to play higher oil but solid production growth, reduced dependence on natural gas, [firmer crude](#), and the unwinding of its commodity hedges will give earnings a notable lift over the coming year. When this is considered in conjunction with Encana's market value having fallen despite oil rallying, it does appear attractively valued at this time.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **PARTNER-FEEDS**

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

### **Category**

1. Energy Stocks
2. Investing

### **Date**

2025/09/29

### **Date Created**

2018/10/22

### **Author**

mattdsmith

default watermark