Encana Corp (TSX:ECA) Is Down 60% in 60 Days: Time to Buy or Sell?

Description

It's been a tough few months for Canadian energy producers, particularly those with heavier exposures to crude oil. While WTI crude prices for U.S. oil have averaged more than $50 per barrel in October and November, both Edmonton Mixed Sweet and Western Canada Select prices have dropped under $30 per barrel, sometimes falling below $20 a barrel. This huge price differential has made it incredibly difficult to make money, causing large names like **Encana** (TSX:ECA)(NYSE:ECA) to fall by 50% or more.

On December 3, the government of Alberta ordered oil producers to cut production by 8.7% (starting January 1) to stave off the price crisis. According to the government, oil producers are making 190,000 barrels of oil per day *more* than can be shipped out of Alberta. Limited pipeline capacity has caused producers to fight aggressively on price to carry their production to refineries and abroad.

Since the announcement, Canadian crude oil prices have more than doubled, but Encana stock hasn't recovered, recently hitting a two-and-a-half-year low. Is it time to buy or sell?

Encana's management doesn't inspire much hope

While many energy investors are simply betting on commodity prices, it's been clear so far this year that choosing the correct company is also important to your investing success. Look at Encana, for example: Canadian oil prices have rocketed in recent weeks, yet the company's shares remain depressed.

From regulations and pipeline restrictions to trade wars and refinery outages, being an oil producer has grown increasingly complex, especially for Canadian producers. Choosing a savvy management team has never been more critical. How do Encana's executives fare?

Over the past decade, shareholders have lost 90% of their investment. Over the last five years, you would have lost 70% as a long-term holder. But what about more recently? Have they turned the corner? Unfortunately, many questionable decisions suggest Encana's management team continues to be inept.

In the third quarter of this year, management opted to buy back about seven million shares for $89 million, or roughly $12.70 per share. Even worse, most of the company's $400 million share-buyback plan was executed at much higher prices. With shares now under $6, management has burned through hundreds of millions of shareholder dollars just through inept financial transactions.

Risky acquisitions raise more management questions

In November, Encana announced that it would acquire **Newfield Exploration** for an estimated $5.5 billion in stock. In addition, Encana would assume $2.2 billion of Newfield's debt. Since the announcement, Encana's stock is down around 30%, yet the level of expected debt assumption remains the same at $2.2 billion.

Curiously, Encana's management plans to boost its dividend by 25% and spend $1.5 billion in share repurchases after the Newfield acquisition closes. Why issue billions in stock just to buy it back shortly after? Clearly, the company is more interested in asset growth than long-term shareholder value.

Trusting Encana's management isn't a plan for long-term wealth

Time and time again, Encana's management has proven that it doesn't have your best interests at heart. While they've collected millions in salaries, stock options, and bonuses, investors have been stuck holding the bag of their growth-at-all-costs strategy. If oil prices strengthen, there should be plenty of ways to profit. Encana's stock shouldn't be on your list of opportunities at these prices.

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