



## Encana Corp. (TSX:ECA) Releases 1st-Quarter Report: Is This Energy Stock a Buy Today?

### Description

**Encana** (TSX:ECA)(NYSE:ECA) has certainly been through the fire in the last decade, with a seemingly constant change in focus from oil to natural gas and back to oil again.

At this point, 55% of Encana's production is from natural gas, so it's a pretty diversified energy play.

Why do I think Encana stock looks good this morning after an earnings report that was less than impressive, at least on a headline basis?

Although adjusted EPS came in better than expected at \$0.14 per share versus \$0.08 expected, cash flow came in well below expectations, production came in slightly below expectations, and capex came in slightly higher than expectations.

### Dig deeper

But digging deeper, we can actually see a lot of good things from the quarter.

- Production growth was reiterated, with the company expecting 15% liquids growth from core assets.
- Newfield acquisition synergies are expected to be higher than initially thought, with annual synergies now expected to come in at \$150 million (\$25 million higher).
- There were significantly lower well costs on the Anadarko acquisition: a \$1 million reduction with significant more savings to come.

### Low, low, and lower expectations

When expectations are so low, it really doesn't take much to get a stock going. Reiterating guidance can do it. Better-than-expected cost efficiencies can do it.

Encana had both this quarter, plus more.

## Quality asset base

Let's remind ourselves that Encana has exposure to various prolific resource plays, such as the Permian basin, the Duvernay, and the Montney regions.

## Returning cash to shareholders

While the Newfield acquisition brought shareholder dilution and execution risk to the table for Encana, it is expected to be financially accretive to the tune of up to a 10% addition to cash flow.

Encana repurchased 55.9 million shares at an average price of \$7.16 as of the end of the quarter (the stock currently trades at approximately \$9.57). Year to date, 91 million shares have been repurchased and the share-buyback program is roughly 52% complete.

## Final thoughts

In 2019, we should see a sharp rise in operating cash flow as the company benefits from rising production (+50%) from its acquisitions and declining costs.

Given the company's progress thus far on its five-year plan for maximizing cash flow and increasing margins as well as its enviable asset base, we can expect good times for Encana in the years ahead.

As investor sentiment changes, as natural gas prices begin firming as [LNG](#) project completion dates approach, and as Encana continues to cut costs and look for solutions to combat the difficult [oil and gas](#) market, we should see investor confidence in this stock return.

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