



## Where Will Encana (TSX:ECA) Stock Be in 10 Years?

### Description

**Encana Corp** (TSX:ECA)(NYSE:ECA) stock is a roller coaster.

Since 2001, shares have doubled in value nearly a dozen times. In each case, shares ultimately gave up the gains.

Today, the stock price is back to 2003 levels.

While expectations are at rock bottom, there's reason to believe a huge turnaround is about to occur. Costs have come down dramatically and management expects to generate positive free cash flow for several years; a sizeable stock buyback could accelerate returns rapidly.

A number of futures await Encana, but what should investors bet on? This could be your chance to profit big, so pay close attention.

### Gaining control

Many energy companies today don't control their own future. Debt loads from the last bull market have been weighing on the industry's balance sheets.

With huge interest payments to service, not to mention sprawling projects acquired during the last boom, many of Encana's competitors are fighting for survival.

While Encana hasn't been immune to pressure, it has handled the downturn quite well, even if the share price hasn't reflected its efforts.

From 2013 to 2018, management reduced long-term debt from \$7.1 billion to just \$4.2 billion. Overall, Long-term commitments fell from \$9.8 billion to \$5.5 billion. Its debt profile is now spread over a number of years, giving it more flexibility to use its \$4 billion in credit lines.

In recent years, Encana has reduced well costs faster than most of its peers. Corporate costs have

also been reduced by more than \$150 million. Note that it still expects 15% annual production growth at its key projects.

Falling costs and rising production have been a boon for Encana's cash flow statement. 2019 should be the second year in a row with positive free cash flow. As you'll see, this is helping the company bet on itself in a big way.

## Going all-in

Since 2016, Encana has grown liquids production by 30% annually at its Permian, Andarko, and Montney sites. More than three-fourths of capital investment is focused on these projects, so anticipate output to continue growing rapidly.

With 2 billion barrels of oil left in reserves, Encana shouldn't need to acquire additional properties for at least a decade, although it will likely begin slowly over the next few years. In the meantime, Encana is using its excess cash to leverage its progress for shareholders.

This year, the company has already repurchased 10% of all shares. A \$1.25 billion buyback program should see accelerated repurchases towards the back half of 2019. If free cash flow is maintained again in 2020, management could opt for an even larger buyback program.

"We see compelling value in Encana's stock today," says CEO Douglas Suttles. "In fact, we strongly believe that buying our own equity is an incredible value."

Some estimates peg Encana's net asset value at \$10 to \$15 per share. If true, that means Encana is investing shareholder capital at an instant 100% to 200% return. Talk about compelling.

As long as oil prices play along, Encana stock will look like a steal in 10 years. Management is doing everything right to position the company for success.

Many of the company's projects have attractive economics above US\$60 per barrel. If you believe oil prices will average above that price point over the next decade, Encana should be at the top of your buy list.

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