



Contrarians Can Make 100% Returns With Encana (TSX:ECA) Stock

Description

Investing in natural gas has been a losing proposition for years. Negative sentiment has created a *huge* opportunity for investors willing to take a bit of risk. Over the next few years, shares of **Encana** (TSX:ECA)(NYSE:ECA) could rise by 100% or more.

The chance to buy this stock at a bargain valuation is now. Let's dive in.

Play the sentiment

Baron Rothschild once said that "the time to buy is when there's blood in the streets." He put this advice into action, buying assets following Napoleon's Battle of Waterloo. Rothschild made a fortune.

If you're looking for blood in the streets, look no further than the natural gas industry. From 2000 to 2008, natural gas prices averaged roughly US\$8, adjusted for inflation. At points, prices hit \$12 or even US\$14. Over the past decade, however, prices have been on a perpetual slide. Today, they're down to just US\$2.50. That's pushed many producers to the brink of collapse. In fact, many have done just that. It's difficult to find a natural gas company that hasn't seen its shares fall by 70% or more.

That's exactly what makes Encana so compelling. Expectations are as close to rock bottom as you can get. In fact, sentiment is so low that the stock market is ignoring some pretty compelling evidence for a business turnaround. Others are ignoring this information, but you shouldn't.

Turbocharged turnaround

In 2015, Encana posted a \$6.8 billion loss. To put that in perspective, the current market cap is just \$6 billion. In 2016, Encana experienced another loss of \$1.2 billion. At this point, investors threw in the towel. By 2017, however, the company had returned to profitability, generating net income of \$1.1 billion. In 2018, it repeated this success with a profit of \$1.4 billion. Still, the stock price remains at all-time lows.

Clearly, the market can't respect the turnaround that's already in place. That's why management is buying back stock hand over fist. The company is wrapping up a \$1.25 billion repurchase program and has indicated it would consider another using internally generated cash flows.

"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 believe Encana's net asset value to be between \$10 and \$15 per share. This is setting the stage for a turbocharged turnaround. If management is correct, it's investing shareholder capital at an immediate 100-200% return.

Once the market recognizes the value of Encana shares, the share price will rise not only to match the underlying asset value but also the returns Encana made by investing in itself by repurchasing stock. If the market never recognizes the value, then so be it — management can continue buying back shares using free cash flow until it forces the market's hand. In either scenario, expect the stock to rise dramatically over time.

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