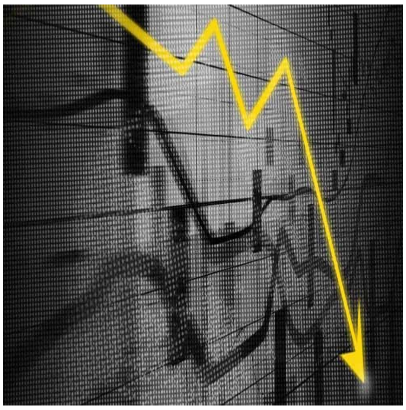

# Why Encana (TSX:ECA) Stock Fell by 2% in August

## Description

Volatility was the name of the game in August. The markets made major swings and twice the **TSX Index** fell by more than 1%. Although this may not seem like much, day-to-day market variations greater than 1% is a sign of considerable volatility.

The oil & gas industry has been particularly volatile as the price of commodities have struggled to find a footing. Case in point, **Encana Corp** (TSX:ECA)(NYSE:ECA). In 2019, the company has struggled, losing 23% of its value. Over the past year, its performance looks even worse as its value has been more than halved (-61%).



In August, Encana's downward momentum persisted as it lost 2.16% of its value. The unfortunate reality is that it could have been much worse for shareholders. On four occasions, it lost more than 2.5% of its value in a single day, trading at or near 52-week lows.

Why the considerable volatility?

## Natural gas prices

For starters, Encana's performance is closely linked to the price of natural gas and natural gas liquids (NGLs). True, the company is well diversified and is an oil-rich company with significant prospects for growth. However, it's still very much dependent on the price of natural gas and NGLs.

In the second quarter, natural gas and NGL accounted for 25% and 20% of total revenue. Almost half of the company's product revenue comes from these two commodities. Unfortunately for shareholders, these have been some of the hardest hit commodities on the market.

In August, natural gas prices hit multi-year lows. Prices were so depressed that they challenged the record lows experienced in 2016. NGLs suffered a similar fate.

With prices at their lowest in years, it's not surprising Encana's share price suffered. In the second quarter end June 30, Encana's realized natural gas price dropped from $3.30 per Mcf to $2.22, a 32%

drop. Similarly, NGL realized prices dropped by 38% from $23.77 per barrel to $14.75.

Given that commodity prices have continued to trend downward in August, the third quarter doesn't look much better for the company.

## Second-quarter results

The low commodity prices were offset by strong second quarter results. In the quarter, earnings of $0.21 beat by $0.03 and revenue of $2.06 billion beat by $70 million. This marked the seventh consecutive quarter that the company beat earnings estimates and only the second time in the past two years it beat on both the top and bottom lines.

The results were impressive considering the tough macro-economic backdrop. Revenue jumped by 109% over the second quarter of 2018, as higher realized oil prices (+3.6%) helped offset the lower prices from other liquids and natural gas.

Results were buoyed by record oil and condensate production. Total production of 592,000 MBOE per day jumped 75% and total costs fell to $12.78 per barrel, down from $13.62 previously. This also led to a 50% increase in cash flow per share to $0.64.

Another positive sign is the company's announcement of an expected additional $25 million in cost synergies from its Newfield Exploration acquisition. It remains on track to achieve guidance and has begun executing on its $1.25 billion share buyback announced earlier in the year.



## Foolish takeaway

Although it wasn't a great month for the company, there is plenty to look forward too.

Depressed commodity prices have since rebounded and a return to the norm will mean big things for Encana. A material improvement in prices will lead to significant cash flow and earnings.

Analysts have a one-year price target of $13.70 per share, which implies triple-digit upside. The future is bright for this undervalued energy producer.

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