TFSA Investors: Buy Encana (TSX:ECA) for Explosive Tax-Free Gains in 2020

Description

TFSA investors have much to be excited for when looking to the year 2020. The Canadian oil and gas sector remains unsustainably cheap, and it seems like the tide may be (slowly) turning. The recent attacks on Saudi Arabia's Abqaiq facility resulted in the loss of 5.7 million barrels a day of production, and highlighted the extent of geopolitical risk out there and the value of Canadian oil and gas.

While the Canadian oil and gas industry continues to suffer from structural issues such as a lack of takeaway capacity, the slow grind to alleviate this pressure is gaining steam. Capacity expansions are being made, with $9 billion worth of expansion programs underway on **TC Energy's** NGTL system, which will have a positive effect on natural gas prices. Also, the third toll cut on TC Energy's natural gas Mainline is coming in November. These will strengthen Canadian natural gas companies' realized prices and economics.

In the case of natural gas, an unfavourable supply/demand balance driven by excess supply from the Marcellus and Utica shale resource plays has plagued the commodity. While 2020 looks like it won't be much different in this respect, as production continues to hit record levels and outpace demand growth, there is now more upside than downside, as expectations can't seem to get any lower. And positive developments are slowly building.

Gain exposure to a well-diversified energy stock

With 30% of its total production being oil, almost 24% liquids, and 45% natural gas, **Encana** (TSX:ECA)(NYSE:ECA) is a nicely diversified energy stock. This is key, as it allows the company to be profitable today while also having exposure to natural gas upside. While the outlook for natural gas remains bleak, what we do know is that this fuel is in strong demand, Canada is slowly paving the way for a better future for the commodity, and natural gas stocks are really trading at ultra-cheap valuations.

According to the IEA, natural gas demand increased 4.8% in 2018, with China showing the biggest increase (18%). LNG Canada, which is expected to export LNG to Asia as early as 2024, represents an extremely important piece of Canada's natural gas puzzle.

With Encana delivering solid financial results today, even with continued record low natural gas prices, we can expect the company to survive and ultimately make it big. Encana is focused on three core growth assets that are all free cash flow positive, as the company is ensuring that costs are falling dramatically and efficiencies are rising impressively.

At Encana today, higher-return liquids production significantly increased in the latest quarter and market diversification strategies have increased price realizations and added to cash flows. Realized prices for Encana's natural gas was 87% of NYMEX prices in the latest quarter, which is quite impressive given the fact that Canadian natural gas prices have been trading at a huge discount to NYMEX prices.

So, at this time, we can see that profitability and returns are rising, while debt is falling. These are all good qualities to look for in a stock, regardless of its industry.

A dirt-cheap stock means big, tax-free capital gains

To be sure, investing in Encana is not without its risks. But we know this, as we have seen the dramatic declines that have hit energy stocks in the last few years. At this point, though, the risk in buying Encana stock has greatly diminished, and the potential return has greatly increased. Trading at a price-to-cash-flow multiple of three times this year's expected cash flow, the stock has rarely been so cheap.

The company is free cash flow positive, which mitigates downside risk and allows it breathing room to withstand depressed natural gas prices and receive the windfall when the commodity strengthens.

Foolish bottom line

With its highly diversified production profile and its prolific resources plays, Encana presents TFSA investors with a very cheap way to get exposure to the big upside that exists in the energy space today. When the cycle turns, it will turn hard, and having this exposure can give your TFSA portfolio some much-needed torque.

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