



Does Encana's (TSX:ECA) U.S. Move Spell Doom for Canada's Oil Industry?

Description

The Canadian government was taken by surprise by [one of the country's oil and gas companies](#). **Encana** (TSX:ECA)(NYSE:ECA), or short for Energy Canada, made a startling announcement on October 31, 2019. The company is relocating to the U.S., which is nothing short of a declaration that Encana is now American.

Will this sudden move spell doom for the entire oil industry of Canada? For Alberta and Calgary, the decision of Encana to pack relocate is a big blow. Industry groups are still in denial mode, trying to make sense of the company's action.

Disappointment is evident on the part of the federal government. According to a spokesperson, Ottawa will take "the necessary steps to ensure Canada and Alberta remain competitive, and that our energy sector remains a source of good, middle-class jobs."

Sudden impact

Canada's oil industry is struggling at present and desperate to see [positive signs](#). Ben Brunnen from the Canadian Association of Petroleum Producers is not optimistic for 2020. The group predicts that total investment in oil sands, conventional oil, and natural gas production will be flat, at best.

Others say that the move of Encana makes financial sense, as the sector continued to reel from the oil price crash five years ago. The move could also trigger more relocation. Many drilling and other companies are moving crews and equipment to Texas and other southern states after Encana's bold announcement.

Encana believes that moving to the U.S. won't have a material impact on jobs in Alberta. The company will still proceed with its spending plans, despite the depressed oil and gas prices in Western Canada. For the past few years, the oil price in Alberta remains stagnant at less than \$2, which is alarming.

Defending the move

The founder and former CEO of Encana, Gwyn Morgan, said the vision then was to build the biggest, strongest oil and gas company based in Canada. During that time, foreign companies and investors were taking over Canadian oil companies. Only Encana would stand a chance of being taken by an outsider.

Doug Suttle, Encana's CEO at present, maintains that the decision has nothing to do with the current political climate in Canada. The primary objective is to improve Encana's profile with investors and attract more investment.

Some observers believe otherwise. The business climate in the home country is no longer conducive. Investments are coming to the U.S., and therefore, the shift south of the border is necessary.

Change in identity

So far this year, Encana is underperforming. Its shares are down 21.35% year to date, coming from \$7.82 last December. The price, however, has risen by 19.18% since the announcement.

People are waiting for the action of the federal government. Critics are saying the government is responsible for the poor investment climate in the energy sector. There are too many regulations and few new export pipelines.

Encana is moving to a less-hostile environment and opening its doors to American investors. As part of the move, the company would be changing its name to Ovintiv. This decision is adding insult to injury in Canada, but it will attract larger investments in the U.S.

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