



This Contrarian Bet Could Give Canadian Investors a 150% Gain in 2020

Description

What do you do when a company's stock has fallen almost 70% since July 2018? Or when the company is planning to move incorporation out of its home country of Canada to the United States? Or the company is going to change its name?

This is the predicament **Encana** (TSX:ECA)(NYSE:ECA) finds itself in today. Once a darling of the stock market, this \$5.7 billion-dollar energy giant has fallen a long way from grace since its glory days.

The company plans to change its name to Ovintiv and will trade under the symbol TVV in both Canada and U.S. markets.

These changes are likely to be completed in early 2020, subject to shareholder approvals, as well as approval from the concerned regulatory bodies.

The proposed move to the U.S. is hotly debated with Canadian investment manager Letko, Brosseau & Associates Inc, who owns a 4% stake in the company, saying that it would vote against Encana's planned headquarters move to Denver.

Doug Suttles, Encana CEO and a Texan who lives in Denver issued a strong response to Letko's announcement, outlining the benefits of the proposed move.

As of December 2019, more than 80% of Encana's capital investments, 75% of revenues and approximately 70% of proved reserves are located in the US.

The Encana management team wants to make sure that the company has access to increasingly larger pools of investment in US index funds and passively managed accounts.

Suttles said, "We deeply believe this move ultimately will be positive for ALL shareholders as exposure to the significantly larger U.S. market and funds is estimated to create more than \$1 billion of additional demand for our shares."

Encana shareholders will vote on the move in a special shareholder meeting in January 2020. Existing

investors will get one share of the new company for every five shares of Encana they currently hold.

Encana raised 2019 production outlook

While the debate on the U.S. move rages on, Encana reported results for the third quarter of 2019. Encana posted net earnings of \$149 million for the same period.

At the end of the third quarter, [Encana had nearly](#) \$3.4 billion of total liquidity including approximately \$138 million in cash and cash equivalents.

Encana's third-quarter capital investments totalled \$566 million. The company also completed the sale of the Arkoma assets and the exit of operations in China in the same period.

The company raised its production outlook for 2019 while maintaining its capital expenditure and operating costs. Encana also increased annualized G&A synergies forecast to \$200 million, up from its prior forecast of \$125 million.

Analysts tracking the stock are bullish on the stock and Encana's ability to navigate tough winds. The company has beaten earnings estimates in the last four quarters.

It's still paying out a dividend, although the stock market is not rewarding it. Analysts have given an average target price of \$13.7 which is 146% over its current price at just under \$5.6 at writing.

The stock is trading at a forward price-to-earnings ratio of 8. Despite an earnings decline in 2019 and 2020, its five-year estimated PEG ratio stands at 0.61.

A low price-to-book ratio of 0.58 and a price-to-sales ratio of 0.86 makes the stock an enticing bet for contrarian investors.

It's no secret that Canada is a lot stricter when it comes to the oil industry than the U.S. A move to the US could unlock a lot of value in Encana.

The real question is whether the company be able to ride out the storm it has been caught in for the better part of the decade. If you feel it can, go for it.

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Author

araghunath

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