



Could Shareholders Block Encana's (TSX:ECA) Move to the U.S. in 2020?

Description

A former [oil giant in Canada](#) has filed the paperwork with the U.S. Securities and Exchange Commission as part of the plan to move its base across the border. **Encana** (TSX:ECA)(NYSE:ECA) made the filing even before securing shareholders' approval of the proposal to relocate to the United States.

A special shareholders' meeting is set for January 14, 2020, when a single reorganization resolution will be passed. The Encana Board highly recommends that shareholders vote in favour of the resolution; it needs two-third votes to win approval.

Three initiatives

The first of three initiatives the resolution seeks to accomplish is the establishment of Encana's corporate headquarters in the U.S. Management is justifying the move by claiming that it would attract larger pools of investment in U.S. index funds and passively managed accounts.

In any case, the majority of Encana's assets, manpower, and production are in America. The migration means better alignment of business operations with the corporate domicile, including U.S.-based peers.

The second initiative is a rebranding that entails the change in company name to Ovintiv Inc. Once stock exchange and court approvals are secured, the shares will begin trading on both the **Toronto Stock Exchange** (TSX) and the **New York Stock Exchange** (NYSE). The new ticker symbol would be "OVV."

The third and last initiative is the completion of consolidation and share exchange – one share of common stock of Ovintiv for every five common shares of Encana. Management believes that these strategic initiatives would further create shareholder value and recognize Encana's transformation over the last five years or so.

Opposition to the plan

Letko, Brosseau & Associates, which has about 4% stake in Encana, has said that it will vote against the proposal and that the move will cause significant losses for Canadian investors.

It said Encana's effort to relocate "...reflects a profound absence of concern for the protection and enhancement of shareholder value." However, Letko Brosseau is the only investor thus far to publicly oppose the plan.

Investment thesis

Management cited several company milestones. Encana has created a high-quality, liquids-rich, multi-basin portfolio. The nearly 1.3 million net acres in North America's premier resource plays are in Anadarko, Montney, and Permian. This year, about 80% of total capital investments are for development plays in the U.S.

Encana's oil and condensate production has grown seven-fold since 2013. In the most recent quarter, the average net daily production was approximately 605 MBOE/d, including 237 MBOE/d of oil and condensate.

Encana also highlights the competitive liquids growth and significant free cash flow in 2018 and 2019. The company also returned more than \$1.5 billion to shareholders through its stock buyback initiative and quarterly dividends.

Backlash in Canada

With only one voice in the wilderness opposing the plan, Encana is almost sure to set up its main domicile in Denver, U.S.A.

As of this writing, however, ECA is down by 27.3% year to date. It's still uncertain whether the move will attract more U.S. investors.

Some analysts, however, are forecasting a 266% climb in the next 12 months. In Canada, the [backlash](#) is likely to take longer because Encana is leaving its roots to become an American firm.

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