

Rating: Buy  
S&P 500: 1519  
Intraday

## Encana Corporation Political Cloud over Canada

<i>Symbol</i>	ECA	<i>Ebitda Next Twelve Months ending 9/30/08 (US\$mm)</i>	9,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	64
<i>Price (US\$/sh)</i>	66.76	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/25/07	<i>Adjusted Reserves/Production NTM</i>	8.9
<i>Shares (mm)</i>	756	<i>EV/Ebitda</i>	7.0
<i>Market Capitalization (US\$mm)</i>	50,500	<i>PV/Ebitda</i>	7.4
<i>Debt (US\$mm)</i>	12,500	<i>Undeveloped Reserves (%)</i>	49
<i>Enterprise Value (EV) (US\$mm)</i>	63,000	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	5.57
<i>Present Value (PV) (US\$mm)</i>	66,900	<i>Present Value Proven Reserves(US\$/boe)</i>	20.89
<i>Net Present Value (US\$/share)</i>	72	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.48
<i>Debt/Present Value</i>	0.19	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.06
<i>McDep Ratio - EV/PV</i>	0.94	<i>Price/Earnings Next Twelve Months</i>	13
<i>Dividend Yield (%/year)</i>	1.2	<i>Indicated Annual Dividend (US\$/sh)</i>	0.80

Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Estimated present value presumes a long-term price for oil of US\$66 a barrel and natural gas, \$11 a million btu.

For historical analysis of ECA since 2001 see [www.mcdep.com/3eca.htm](http://www.mcdep.com/3eca.htm)

### Summary and Recommendation

Buy-recommended **Encana (ECA)** offers currently estimated net present value (NPV) of \$72 a share concentrated 67% on natural gas, 25% on oil production and 8% on downstream refining/marketing. Third quarter results reported today display record natural gas volume sold at a price half of the oil equivalent (see table [Next Twelve Months Operating and Financial Estimates](#)). Estimated NPV presumes some narrowing of that price gap as illustrated by a higher cash flow multiple (PV/Ebitda) relative to reserve life for natural gas compared to oil (see table [Functional Cash Flow and Present Value](#)). Estimates do not reflect any adverse impact from possible tax increases following the outrageous recommendations of an Alberta government-appointed royalty review panel on September 18. Premier Ed Stelmach may give his specific recommendations later today that may then take longer to be digested and implemented. Canada proves that no government is without risk to investors. Taxes are a large part of the driving force behind the rising trend in oil price (see chart [Six-Year Commodity Price Meter](#)).

Kurt H. Wulff, CFA

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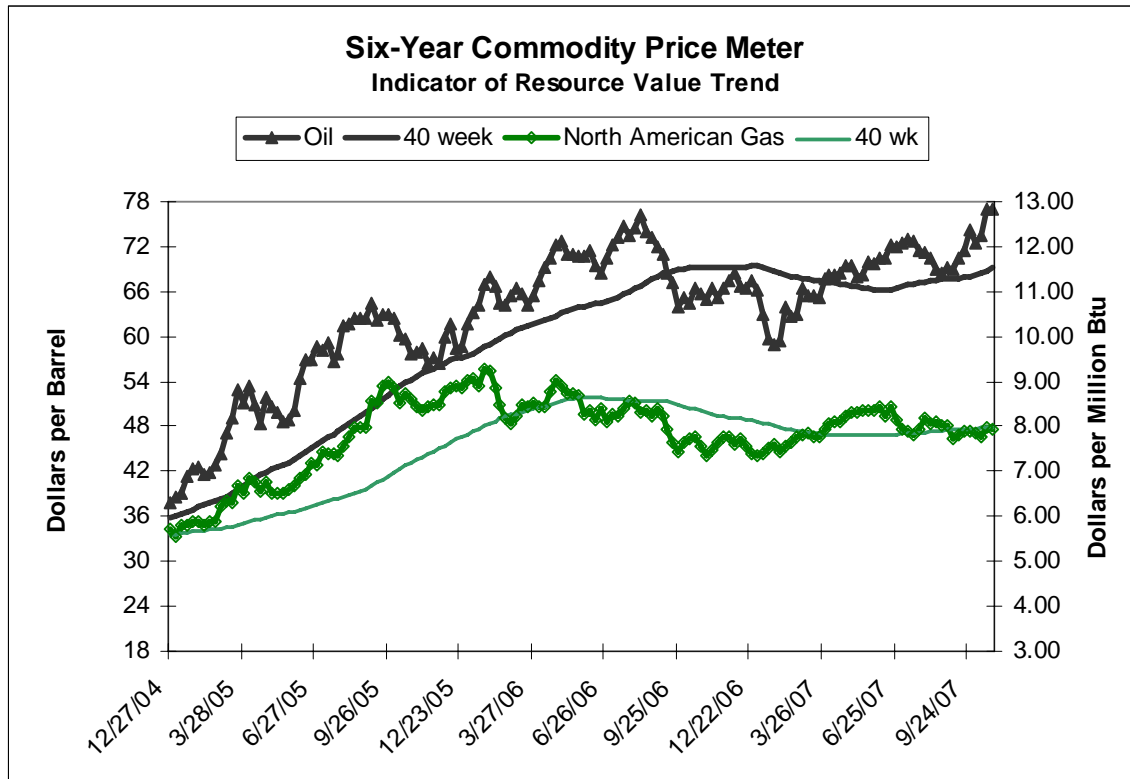
**Encana Corporation**  
**Next Twelve Months Operating and Financial Estimates**

	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>9/30/06</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>9/30/08</i>
<b>Volume</b>									
Natural Gas (mmcf)	3,359	3,506	3,630	3,630	<b>3,542</b>	3,630	3,630	3,630	<b>3,630</b>
Oil (mbd)	151	133	136	136	<b>134</b>	136	136	136	<b>136</b>
Total (bcf)	392	392	409	409	<b>1,586</b>	405	405	409	<b>1,627</b>
Total (mmcfed)	4,263	4,304	4,446	4,446	<b>4,346</b>	4,446	4,446	4,446	<b>4,446</b>
<b>Price</b>									
Henry Hub (US\$/mmbtu)	6.58	7.56	6.16	6.95	<b>6.87</b>	7.87	7.53	7.76	<b>7.53</b>
Differential	0.83	0.71	1.06	1.19	<b>0.88</b>	1.35	1.29	1.33	<b>1.29</b>
Encana (\$/mcf)	5.75	6.85	5.10	5.76	<b>5.99</b>	6.52	6.24	6.43	<b>6.24</b>
WTI Cushing (US\$/bbl)	70.42	64.91	75.48	86.12	<b>71.15</b>	84.42	82.44	80.91	<b>83.47</b>
Differential	20.05	19.44	22.11	25.22	<b>20.97</b>	24.73	24.15	23.70	<b>24.45</b>
Encana (\$/bbl)	50.37	45.47	53.37	60.90	<b>50.18</b>	59.69	58.30	57.21	<b>59.03</b>
Total (\$/bbl)	37.86	41.91	34.78	39.38	<b>38.57</b>	42.91	41.27	41.98	<b>41.38</b>
<b>Revenue (\$mm)</b>									
Natural Gas	1,777	2,185	1,703	1,923	<b>7,745</b>	2,155	2,061	2,146	<b>8,285</b>
Oil	698	550	668	762	<b>2,455</b>	739	721	716	<b>2,938</b>
Other		2,878	3,225	3,225	<b>11,355</b>	3,225	3,225	3,225	<b>12,900</b>
Total	2,475	5,613	5,596	5,910	<b>21,555</b>	6,119	6,008	6,087	<b>24,123</b>
<b>Expense</b>	569	3,125	3,522	3,711	<b>13,015</b>	3,967	3,625	3,765	<b>15,067</b>
<b>Ebitda (\$mm)</b>									
Natural Gas and Oil		2,053	1,755	1,879	<b>7,373</b>	2,025	1,948	2,003	<b>7,856</b>
Other		435	319	319	<b>1,200</b>	126	435	319	<b>1,200</b>
Total	1,906	2,488	2,074	2,198	<b>8,539</b>	2,152	2,383	2,322	<b>9,056</b>
Deprec., Deplet., & Amort	804	899	988	988	<b>3,718</b>	988	988	988	<b>3,952</b>
Hedging and other	(642)	(246)	(392)	(321)	<b>(1,167)</b>	(337)	(256)	(277)	<b>(1,190)</b>
Interest	83	94	102	102	<b>399</b>	102	102	102	<b>408</b>
<b>Ebt</b>	1,661	1,741	1,376	1,429	<b>5,589</b>	1,399	1,549	1,510	<b>5,886</b>
Income tax	581	364	416	500	<b>1,465</b>	490	542	528	<b>2,060</b>
<b>Net Income (\$mm)</b>	1,079	1,377	960	929	<b>4,124</b>	909	1,007	981	<b>3,826</b>
Per share (\$)	1.31	1.80	1.27	1.23	<b>5.40</b>	1.20	1.33	1.30	<b>5.06</b>
<b>Shares (millions)</b>	824	765	756	756	<b>764</b>	756	756	756	<b>756</b>
Ebitda margin	77%	75%	74%	70%	<b>72%</b>	70%	70%	70%	<b>70%</b>
Tax rate	35%	21%	30%	35%	<b>26%</b>	35%	35%	35%	<b>35%</b>

**Encana Corporation**  
**Functional Cash Flow and Present Value**

	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>Ebitda</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
North American Natural Gas	5,830	7.6	7.7	45,000	67%
Oil	2,030	14.9	8.1	16,500	25%
Downstream	1,200		4.5	5,400	8%
	9,060	8.9	7.4	66,900	100%
Debt					12,500
Net Present Value (\$mm)					54,400
Shares					756
Net Present Value - Standard Estimate (US\$/sh)					72
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					73

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