



Independent Stock Idea

February 12, 2009

rating: buy
s&p 500: 834

Encana Corporation (ECA) Steady Production and Reserves

<i>Symbol</i>	ECA	<i>Ebitda Next Twelve Months ending 12/31/09 (US\$mm)</i>	6,200
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	73
<i>Price (US\$/sh)</i>	43.10	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/11/09	<i>Adjusted Reserves/Production NTM</i>	9.1
<i>Shares (mm)</i>	751	<i>EV/Ebitda</i>	7.2
<i>Market Capitalization (US\$mm)</i>	32,400	<i>PV/Ebitda</i>	11.0
<i>Debt (US\$mm)</i>	12,300	<i>Undeveloped Reserves (%)</i>	45
<i>Enterprise Value (EV) (US\$mm)</i>	44,700	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	3.70
<i>Present Value (PV) (US\$mm)</i>	68,600	<i>Present Value Proven Reserves(US\$/boe)</i>	20.88
<i>Net Present Value (US\$/share)</i>	75	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.48
<i>Debt/Present Value</i>	0.18	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.78
<i>McDep Ratio - EV/PV</i>	0.65	<i>Price/Earnings Next Twelve Months</i>	24
<i>Dividend Yield (%/year)</i>	3.7	<i>Indicated Annual Dividend (US\$/sh)</i>	1.60
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\$75 a barrel and natural gas, \$10 a million btu.			
For historical analysis of ECA since 2001 see www.mcdep.com/3eca.htm			

Summary and Recommendation

Estimated Net Present Value (NPV) of \$75 a share is more than 70% higher than stock price for moderate-debt, buy-recommended **Encana Corporation (ECA)**. Released today, fourth quarter results displayed lower unlevered cash flow (Ebitda) driven by crude oil and natural gas prices (see table Next Twelve Months Operating and Financial Estimates). Differentials between industry benchmark prices and the company's natural gas and oil prices widened beyond our expectations of three months ago. Hedging mitigated that impact though our estimates of cash flow are before price insurance. We include the current market value of hedges in estimating debt. Our valuation capitalizes cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) for natural gas and oil. Final reported reserves for 2008 indicate that production volumes were replaced at low cost. Latest calculations result in NPV concentrated 69% on natural gas and 26% on oil (see table Functional Cash Flow and Present Value). Pointing to expected oil price recovery, futures prices for the next six years averaged US\$63 a barrel recently (see charts Six-Year Commodity Price Meter and Six-Year and One-Year Natural Gas and Oil Futures).

Kurt H. Wulff, CFA



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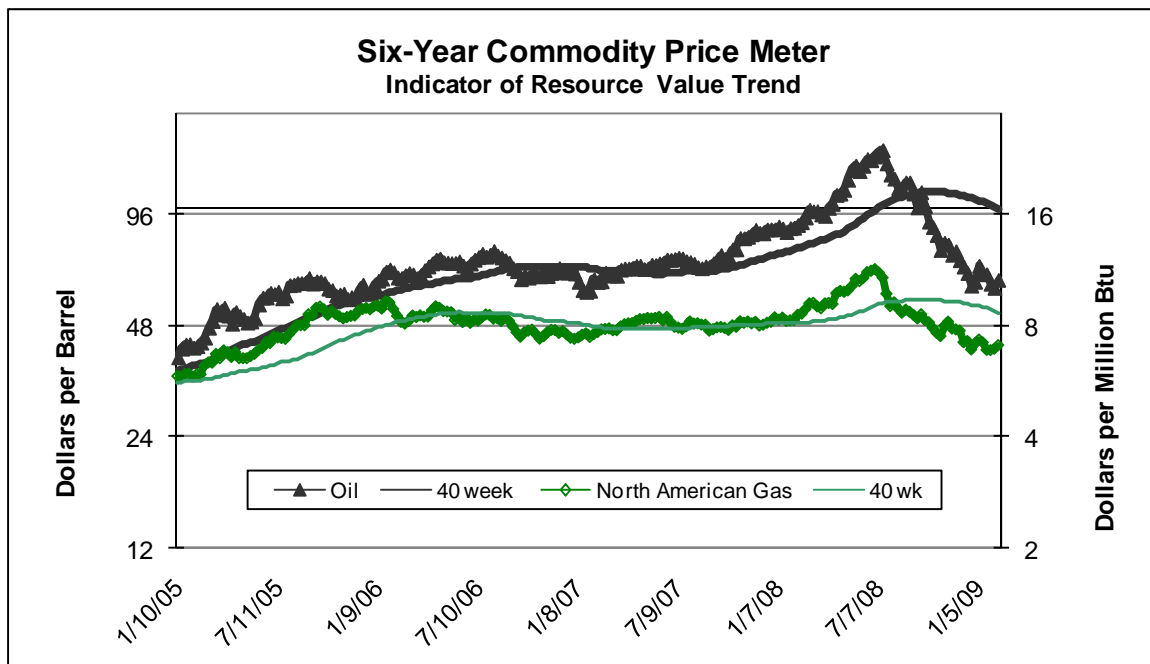
Encana Corporation									
Next Twelve Months Operating and Financial Estimates									
									Next
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Twelve
	12/31/07	9/30/08	12/31/08	2008	3/31/09	6/30/09	9/30/09	12/31/09	Months
	12/31/07	9/30/08	12/31/08	2008	3/31/09	6/30/09	9/30/09	12/31/09	12/31/09
Volume									
Natural Gas (bcf)	342	360	355	1,405	342	346	350	350	1,389
Natural Gas (mmcf)	3,722	3,917	3,858	3,838	3,805	3,805	3,805	3,805	3,805
Days	92	92	92	366	90	91	92	92	365
Oil (mmb)	12.5	12.3	12.5	49	12.0	12.1	12.2	12.2	49
Oil (mbd)	136	134	136	134	133	133	133	133	133
Total (bcf)	417	434	430	1,698	414	419	423	423	1,680
Total (mmcf)	4,538	4,721	4,674	4,640	4,603	4,603	4,603	4,603	4,603
Price									
Henry Hub (US\$/mmbtu)	6.97	10.25	6.95	9.04	5.14	4.96	5.28	5.95	5.33
Differential	1.14	0.71	1.51	0.86	1.12	0.47	0.50	0.56	0.66
Encana (\$/mcf)	5.83	9.54	5.44	8.18	4.02	4.49	4.78	5.38	4.67
WTI Cushing (US\$/bbl)	90.67	117.99	58.45	99.59	40.80	48.26	52.41	54.67	49.03
Differential	31.07	11.17	24.64	20.74	8.50	10.05	10.92	11.39	10.18
Encana (\$/bbl)	59.60	106.82	33.81	78.84	32.30	38.21	41.49	43.28	38.86
Total (\$/bbl)	39.41	65.68	32.84	54.23	25.55	28.90	30.91	34.21	29.92
Revenue (\$mm)									
Natural Gas	1,996	3,438	1,931	11,491	1,378	1,555	1,674	1,885	6,492
Oil	746	1,317	423	3,860	387	462	508	530	1,886
Other	3,059	6,011	4,005	14,437	4,005	4,005	4,005	4,005	16,020
Total	5,801	10,766	6,359	29,788	5,769	6,023	6,187	6,419	24,399
Expense	3,708	7,035	4,662	17,935	4,444	4,520	4,570	4,639	18,174
Ebitda (\$mm)									
Natural Gas and Oil	1,919	3,571	1,697	10,994	1,235	1,412	1,527	1,690	5,865
Other	173	160	-	859	90	90	90	90	360
Total	2,093	3,731	1,697	11,853	1,325	1,502	1,617	1,780	6,225
Deprec., Deplet., & Amort	1,086	1,095	996	4,223	996	996	996	996	3,984
Hedging and other	58	271	(150)	736	(150)	(150)	(150)		(450)
Interest	131	147	158	586	158	158	158	158	632
Ebt	818	2,218	693	6,307	321	498	613	626	2,059
Income tax	(28)	776	243	1,896	112	174	215	219	721
Net Income (\$mm)	846	1,442	451	4,411	209	324	399	407	1,338
Per share (\$)	1.12	1.92	0.60	5.87	0.28	0.43	0.53	0.54	1.78
Shares (millions)	755	751	751	751	751	751	751	751	751
Ebitda margin	70%	75%	72%	72%	70%	70%	70%	70%	70%
Tax rate	-3%	35%	35%	30%	35%	35%	35%	35%	35%



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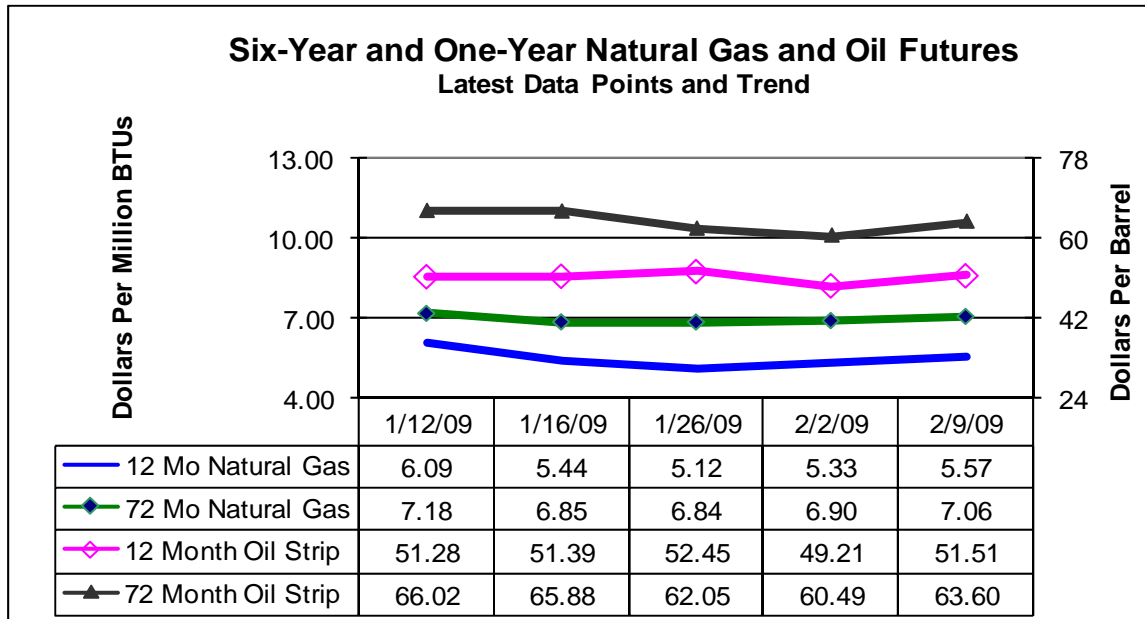
Encana Corporation					
Functional Cash Flow and Present Value					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>Ebitda</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
North American Natural Gas	4,530	8.0	10.5	47,600	69%
Oil	1,330	14.2	13.5	18,000	26%
Downstream	360		8.3	3,000	4%
	6,220	9.1	11.0	68,600	100%
Debt					12,300
Net Present Value (\$mm)					56,300
Shares					751
Net Present Value - Standard Estimate (US\$/sh)					75
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					75





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