



Independent Stock Idea

February 10, 2011

rating: buy
s&p 500: 1321

Encana Corporation (ECA) C\$5.4 Billion Joint Venture Demonstrates NPV

<i>Symbol</i>	ECA	<i>Ebitda Next Twelve Months ending 12/31/11 (US\$m)</i>	3,300
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	90
<i>Price (US\$/sh)</i>	30.83	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Price Date</i>	2/9/11	<i>Adjusted Reserves/Production NTM</i>	12.5
<i>Shares (mm)</i>	736	<i>EV/Ebitda</i>	9.8
<i>Market Capitalization (US\$m)</i>	22,700	<i>PV/Ebitda</i>	14.2
<i>Debt (US\$m)</i>	9,700	<i>Undeveloped Reserves (%)</i>	38
<i>Enterprise Value (EV) (US\$m)</i>	32,400	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	2.71
<i>Present Value (PV) (US\$m)</i>	47,200	<i>Present Value Proven Reserves(US\$/boe)</i>	13.62
<i>Net Present Value (US\$/share)</i>	51	<i>Present Value Proven Reserves(US\$/mcfe)</i>	2.27
<i>Debt/Present Value</i>	0.21	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.13
<i>McDep Ratio - EV/PV</i>	0.69	<i>Price/Earnings Next Twelve Months</i>	27
<i>Dividend Yield (%/year)</i>	2.6	<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\$100 a barrel and natural gas, \$8 a million btu.			
For historical analysis of ECA since 2001 see www.mcdep.com/3eca.htm			

Summary and Recommendation

Buy-recommended **Encana Corporation (ECA)** announced a multi-billion dollar joint venture that demonstrates the value of natural gas resources we estimate are worth at least Net Present Value (NPV) of \$51 a share. Buy-recommended **PetroChina (PTR)** would pay C\$5.4 billion for a 50% interest in ECA's Cutbank Ridge assets which include a majority of the company's Montney formation play along the border of Alberta and British Columbia. The value of C\$5.4 billion would be 11% of our total Encana Present Value for resources that may be 8% of Encana's total resources. The 50% interest would represent proven reserves of about 1 trillion cubic feet (Tcfe), 7% of ECA total, and production of 255 million cubic feet equivalent daily, about 8% of Encana total, and 635,000 net acres of land. On the follow up call, management was clear that C\$5.4 billion represented the present value of those resources. Meanwhile, second quarter results released today were consistent with our estimates for unlevered cash flow (Ebitda) in today's low natural gas price environment (see table [Next Twelve Months Operating and Financial Estimates](#)). Preliminary disclosures of year-end reserves lead us to an adjusted life index of 14.2 years, including proven reserves by U.S. protocol and three-tenths of probable reserves (see table [Functional Cash and Present Value](#)). Though values of resources that are mostly undeveloped are inherently speculative, the PetroChina deal highlights undervaluation in Encana stock.

Kurt H. Wulff, CFA



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Encana Corporation									
Next Twelve Months Operating and Financial Estimates									
									<i>Next Twelve Months</i>
	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>12/31/11</i>
	<i>6/30/10</i>	<i>9/30/10</i>	<i>12/31/10</i>	<i>2010</i>	<i>3/31/11</i>	<i>6/30/11</i>	<i>9/30/11</i>	<i>12/31/11</i>	<i>12/31/11</i>
Volume									
Natural Gas (bcf)	291	293	297	1,162	291	294	297	297	1,179
Natural Gas (mmcf)	3,202	3,181	3,230	3,184	3,230	3,230	3,230	3,230	3,230
Days	91	92	92	365	90	91	92	92	365
Oil (mmb)	2.2	2.1	1.9	8.3	1.8	1.9	1.9	1.9	7.5
Oil (mbd)	24	23	21	23	21	21	21	21	21
Total (bcf)	304	305	308	1,212	302	305	308	308	1,224
Total (mmcf)	3,346	3,319	3,353	3,321	3,353	3,353	3,353	3,353	3,353
Price									
Henry Hub (US\$/mmbtu)	4.09	4.38	3.80	4.40	4.22	4.21	4.35	4.61	4.35
Differential	(0.14)	0.19	(0.13)	(0.07)	-	-	-	-	(0.00)
EnCana (\$/mcf)	4.23	4.19	3.93	4.46	4.22	4.21	4.35	4.61	4.35
WTI Cushing (US\$/bbl)	77.85	76.08	85.10	79.43	90.99	92.87	96.41	97.83	94.52
Differential	11.12	13.93	14.05	12.69	15.02	15.33	15.91	16.15	15.58
EnCana (\$/bbl)	66.73	62.15	71.05	66.74	75.97	77.54	80.50	81.68	78.94
Total (\$/bbl)	27.16	26.68	25.32	28.44	27.17	27.19	28.08	29.63	28.03
Revenue (\$mm)									
Natural Gas	1,233	1,226	1,168	5,189	1,226	1,238	1,292	1,370	5,126
Oil	146	132	134	557	140	145	152	154	591
Other				-					
Total	1,378	1,358	1,302	5,746	1,366	1,383	1,444	1,524	5,716
Expense									
	604	566	619	2,366	574	581	606	640	2,401
Ebitda (\$mm)									
	774	792	682	3,381	793	802	837	884	3,316
Deprec., Deplet., & Amort	814	810	818	3,242	663	663	663	663	2,652
Hedging and other	(287)	(274)	(351)	(1,309)	(322)	(316)	(250)	(211)	(1,099)
Interest	131	119	121	501	121	121	121	121	484
Ebt									
	116	137	95	947	330	334	303	311	1,279
Income tax	35	41	28	284	116	117	106	109	448
Net Income (\$mm)									
	81	96	66	663	215	217	197	202	831
Per share (\$)	0.11	0.13	0.09	0.89	0.29	0.29	0.27	0.27	1.13
Shares (millions)									
	738	736	736	744	736	736	736	736	736
Ebitda margin	56%	58%	52%	59%	58%	58%	58%	58%	58%
Tax rate	30%	30%	30%	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	2,980	12.5	14.7	43,700	93%
Oil	340	13.7	10.3	3,500	7%
	3,320	12.5	14.2	47,200	100%
Debt					9,700
Net Present Value (\$mm)					37,500
Shares					736
Net Present Value - Standard Estimate (US\$/sh)					51

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