



Independent Stock Idea

October 25, 2013

Encana Corporation (ECA) San Juan Oil Upgraded to Commercial from Emerging

<i>Symbol</i>	ECA	<i>Ebitda Next Twelve Months ending 9/30/14 (US\$m)</i>	2,500
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	62
<i>Price (US\$/sh)</i>	18.24	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/24/13	<i>Adjusted Reserves/Production NTM</i>	7.0
<i>Shares (mm)</i>	736	<i>EV/Ebitda</i>	8.7
<i>Market Capitalization (US\$m)</i>	13,400	<i>PV/Ebitda</i>	12.1
<i>Debt (US\$m)</i>	8,600	<i>Undeveloped Reserves (%)</i>	39
<i>Enterprise Value (EV) (US\$m)</i>	22,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	13.10
<i>Present Value (PV) (US\$m)</i>	30,700	<i>Present Value Proven Reserves(US\$/boe)</i>	18.32
<i>Net Present Value (US\$/share)</i>	30	<i>Ebitda Margin NTM (%)</i>	45
<i>Debt/Present Value</i>	0.28	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.39
<i>McDep Ratio - EV/PV</i>	0.72	<i>Price/Earnings Next Twelve Months</i>	13
<i>Dividend Yield (%/year)</i>	4.4	<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\$90 a barrel and natural gas, \$6 a million btu.			
For historical analysis of ECA since 2001 see www.mcdep.com/3eca.htm			

Summary and Recommendation

Buy-recommended natural gas producer **Encana (ECA)** manages through a low-price environment with rapid growth in oil and a streamlined organization under a new chief executive officer. Oil volumes grew 90% from a year ago in the third quarter as reported on October 23 (see table Operating and Financial Estimates on page 2). Yet, Net Present Value (NPV) may be a few dollars ahead of what recent results might justify (see table Present Value on page 2). Low natural gas price reinforces the urgency to be more efficient; long-time executives have been released to be effective at the end of the year. CEO Doug Suttles is combining separate U.S. and Canada organizations into one. Before year-end the company will unveil a new strategy to concentrate on the most valuable opportunities. Among those, chief operating officer Mike McAlister called attention to a strong well in the Duvernay emerging play which achieved an initial rate of 1,100 barrels daily (bd) of condensate, a premium product that sells for a higher price than light crude oil in Canada. We are pleased to see that the San Juan Basin, a play especially significant in McDep research, has been upgraded by ECA to commercial from emerging (see slides Liquids Growth in 2013 and San Juan Basin on page 3). Of 23 producing wells, the four most recent each delivered 30-day volumes of 400 to 500 bd. Estimated ultimate recovery is 550 thousand barrels a well for an efficient drilling and completion cost of \$4 million. Mr. Suttles promises more detail for investors as the company rolls out its plans for the future. We think Encana has reasonable potential to make money for patient investors looking for a stock that has not yet participated in the market upswing.

Kurt H. Wulff, CFA



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Encana Corporation										
Next Twelve Months Operating and Financial Estimates										
										<i>Next Twelve Months</i>
	<i>Q3</i>	<i>Year</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>9/30/14</i>
	<i>9/30/12</i>	<i>2012</i>	<i>6/30/13</i>	<i>9/30/13</i>	<i>12/31/13</i>	<i>2013E</i>	<i>3/31/14</i>	<i>6/30/13</i>	<i>9/30/14</i>	<i>9/30/14</i>
Volume										
Natural Gas (mmcf)	2,905	2,981	2,766	2,723	2,700	2,766	2,700	2,600	2,600	2,650
Oil (mbd)	30	31	48	58	70	55	81	94	109	89
Total (bcf)	284	1,159	278	283	287	1,130	287	288	300	1,161
Total (mmcf)	3,087	3,168	3,052	3,072	3,120	3,095	3,187	3,165	3,256	3,182
Price										
Henry Hub (US\$/mmbtu)	2.80	2.79	4.10	3.58	3.65	3.67	3.88	3.84	3.91	3.82
Differential	0.03	(0.04)	0.11	0.32	0.32	0.18	0.19	0.19	0.20	0.23
EnCana (\$/mcf)	2.77	2.83	3.99	3.26	3.33	3.48	3.69	3.65	3.71	3.59
WTI Cushing (US\$/bbl)	92.22	94.16	94.22	105.83	100.06	98.63	99.47	97.71	95.69	98.23
Differential	20.05	19.04	27.12	36.23	34.25	31.29	31.56	31.00	30.36	31.86
EnCana (\$/bbl)	72.17	75.12	67.10	69.60	65.81	67.34	67.91	66.71	65.33	66.38
Total (\$/bbl)	19.89	20.37	27.98	25.25	26.15	25.84	29.12	29.88	30.93	29.04
Revenue (\$mm)										
Natural Gas	740	3,083	1,004	817	827	3,516	896	863	887	3,473
Oil	201	853	291	373	424	1,350	496	572	657	2,149
Total	941	3,936	1,295	1,189	1,251	4,865	1,392	1,434	1,544	5,622
Expense	612	2,451	652	675	687	2,690	764	787	847	3,085
Ebitda (\$mm)	329	1,485	643	515	565	2,175	628	647	697	2,537
Deprec., Deplet., & Amor	452	1,956	394	388	388	1,565	388	388	388	1,552
Hedging and other	(606)	(2,328)	(226)	(213)	(270)	(1,026)	(241)	(232)	(209)	(951)
Interest	130	522	141	143	143	567	143	143	143	572
Ebt	353	1,335	334	197	304	1,069	338	348	375	1,364
Income tax	88	334	83	49	76	267	84	87	94	341
Net Income (\$mm)	265	1,001	250	147	228	802	253	261	281	1,023
Per share (\$)	0.36	1.36	0.34	0.20	0.31	1.09	0.34	0.35	0.38	1.39
Shares (millions)	736	736	736	737	737	737	737	737	737	736
Ebitda margin	35%	38%	50%	43%	45%	45%	45%	45%	45%	45%
Tax rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%

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	1,570	7.4	15.7	24,700	80%
Oil	970	4.6	6.2	6,000	20%
	2,540	7.0	12.1	30,700	100%
Debt					8,600
Net Present Value (\$mm)					22,100
Shares					736
Net Present Value - Standard Estimate (US\$/sh)					30
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					24

Sources of Liquids Growth in 2013

Conservative Approach Allows Time to Evaluate Profitability

- Currently commercial liquids plays – Driving growth in 2013:
 - DJ Basin - oil
 - Piceance – liquids rich gas
 - Cutbank Ridge – liquids rich gas
 - Peace River Arch – liquids rich gas
 - Bighorn – liquids rich gas
 - Clearwater – oil
 - Jonah – liquids rich gas
 - San Juan – oil
- 70 – 75 Mbbls/d expected total liquids 2013 exit rate
- Upside from emerging plays – greater impact in 2014/2015:
 - Duvernay – condensate
 - TMS – oil
 - Peace River Arch – oil

San Juan Basin

Asset Overview

Resource

- 168,000 net acres captured in oil window
- Primarily light oil with associated NGLs
- 80% NRI
- ~900 potential net locations

Strategy

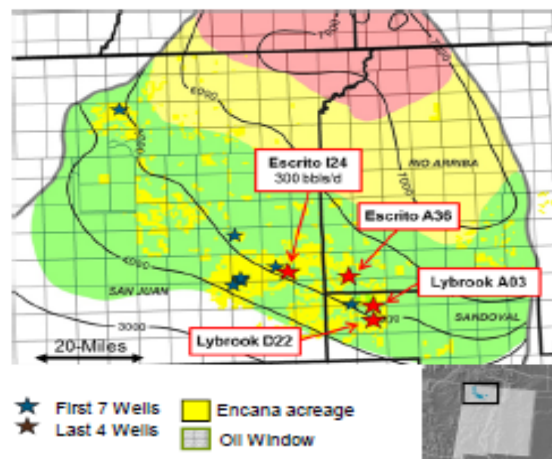
- Appraise oil window of the Gallup/Mancos formation
- Ramp-up to commercial development pace

Current Activity/Future Plans

- Drilled 11 gross wells in 2012
 - 1 rig program in 2012
- 27 gross/17 net wells planned for 2013
 - 19 gross wells drilled July YTD
 - 2 rig program in 2013

Target Well Parameters

- Well cost: \$4 – 5 million
- Lateral length: 5,000 feet
- EUR per well: 550 MBOE
- TVD 5,500 feet



Well Name	Lateral Length (ft.)	# of Stages	Current Status
Escrito I24	3,982	16	300 bbls/d
Lybrook A03	3,895	16	Waiting on tie-in
Escrito A36	3,966	16	Waiting on tie-in
Lybrook D22	4,501	18	Waiting on tie-in

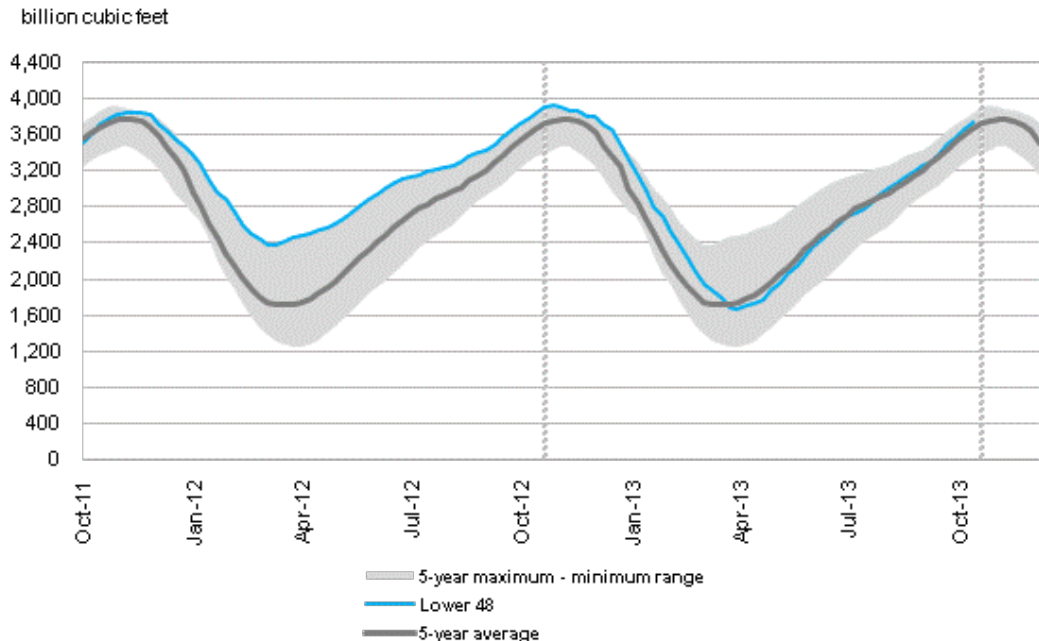
*GOR is approximately 1,500 scf/bbl



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Working gas in underground storage compared with the 5-year maximum and minimum



 Source: U.S. Energy Information Administration

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