



Independent Stock Idea

July 27, 2015

Encana Corporation (ECA) Depressed Stock Price

<i>Symbol</i>	ECA	<i>Ebitda Next Twelve Months ending 6/30/16 (US\$mm)</i>	1,500
<i>Rating</i>	Neutral	<i>North American Natural Gas/Ebitda (%)</i>	42
<i>Price (US\$/sh)</i>	7.88	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	7/24/15	<i>Adjusted Reserves/Production NTM</i>	6.6
<i>Shares (mm)</i>	841	<i>EV/Ebitda</i>	10.0
<i>Market Capitalization (US\$mm)</i>	6,600	<i>PV/Ebitda</i>	12.8
<i>Debt (US\$mm)</i>	8,800	<i>Undeveloped Reserves (%)</i>	33
<i>Enterprise Value (EV) (US\$mm)</i>	15,500	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	9.59
<i>Present Value (PV) (US\$mm)</i>	19,800	<i>Present Value Proven Reserves(US\$/boe)</i>	15.50
<i>Net Present Value (US\$/share)</i>	13	<i>Ebitda Margin NTM (%)</i>	36
<i>Debt/Present Value</i>	0.45	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.10
<i>McDep Ratio - EV/PV</i>	0.78	<i>Price/Earnings Next Twelve Months</i>	78
<i>Dividend Yield (%/year)</i>	3.6	<i>Indicated Annual Dividend (US\$/sh)</i>	0.28
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\$70 a barrel and natural gas, \$4.50 a million btu			
For historical analysis of ECA since 2001 see www.mcdep.com/3eca.htm			

Summary and Recommendation

The outlook for Encana stock is positive in our \$70 oil case, but the road from here to there is more uncertain because of financial leverage and the challenge of delivering on a high growth forecast. Holding a moderate position or perhaps harvesting for a tax loss makes sense we think. Cash flow (Ebitda) declined in the second quarter reported on July 24 as oil growth from new properties has not been enough to offset natural gas production given up from properties sold. Looking to the next twelve months and taking our cue from management guidance we see stable natural gas production and rapidly rising oil production driving cash flow higher (see table Operating and Financial Estimates on page 2). Estimated Net Present Value (NPV) of \$13 a share is sensitive to cash flow and the factors that determine it (see table Present Value on page 2). Emphasizing the positive, management believes that the four core areas where it is spending 80% of its capital program are economic at \$50 oil and \$3 gas. Specifically, the Permian, Eagle Ford and Duvernay can deliver cash margin of more than \$25 a barrel equivalent and the Montney can deliver \$1.15 a thousand cubic feet equivalent. Highlighting the volatility of stock price, Encana's Enterprise Value to Market Cap at 2.3 times and ratio of Debt to Present Value at 0.45 are second highest among the 24 stocks in our coverage (see Tables 1-2 on pages 3-4). Unlevered cash flow multiple (EV/Ebitda) is at the Grand Median of 10 times (see Table 3 on page 5). Finally, Unlevered Total Return of negative 24% in 2015 already reflects most of the known risks (see Table 4 on page 6).

Kurt H. Wulff, CFA



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Encana Corporation										
Next Twelve Months Operating and Financial Estimates										
										<i>Next</i>
	<i>Q2</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Months</i>
	<i>6/30/13</i>	<i>2014</i>	<i>3/31/15</i>	<i>6/30/15</i>	<i>9/30/15</i>	<i>12/31/15</i>	<i>2015E</i>	<i>3/31/16</i>	<i>6/30/16</i>	<i>6/30/16</i>
Volume										
Natural Gas (mmcf)	2,541	2,349	1,857	1,568	1,584	1,600	1,651	1,616	1,616	1,604
Oil (mbd)	68	87	121	127	145	165	140	188	188	171
Total (bcf)	268	1,047	232	212	226	238	908	252	250	966
Total (mmcfed)	2,950	2,870	2,581	2,330	2,452	2,590	2,488	2,744	2,744	2,632
Price										
Henry Hub (US\$/mmbtu)	4.67	4.43	2.99	2.66	2.85	3.05	2.88	3.28	3.10	3.07
Differential	0.21	(0.35)	(0.54)	0.29	0.13	0.06	(0.04)	0.06	(0.04)	0.05
EnCana (\$/mcf)	4.46	4.78	3.53	2.37	2.71	2.99	2.93	3.22	3.14	3.02
WTI Cushing (US\$/bbl)	102.98	93.04	48.62	57.94	50.53	51.93	52.25	53.62	54.85	52.73
Differential	31.75	25.79	14.49	14.11	12.30	12.64	13.31	13.66	13.98	13.05
EnCana (\$/bbl)	71.23	67.25	34.13	43.83	38.22	39.29	38.94	39.96	40.88	39.68
Total (\$/bbl)	32.93	35.68	24.81	23.90	24.06	26.09	24.75	27.81	27.91	26.54
Revenue (\$mm)										
Natural Gas	1,031	4,101	590	338	395	440	1,763	479	462	1,776
Oil	442	2,127	371	507	509	597	1,983	692	700	2,497
Total	1,473	6,229	961	845	905	1,036	3,746	1,170	1,162	4,273
Expense	653	2,504	588	604	635	671	2,498	711	711	2,728
Ebitda (\$mm)	820	3,724	373	241	269	365	1,249	459	451	1,545
Deprec., Deplet., & Amor	400	1,745	466	394	394	394	1,648	394	394	1,576
Hedging and other	71	(18)	(228)	(207)	(224)	(131)	(790)	(41)	(49)	(445)
Interest	122	654	125	278	75	75	553	75	75	300
Ebt	227	1,344	10	(224)	24	28	(162)	31	31	114
Income tax	57	336	3	(56)	6	7	(41)	8	8	28
Net Income (\$mm)	170	1,008	8	(168)	18	21	(122)	23	23	85
Per share (\$)	0.23	1.36	0.01	(0.20)	0.02	0.02	(0.14)	0.03	0.03	0.10
Shares (millions)	741	741	758	841	841	841	820	841	841	841
Ebitda margin	56%	60%	39%	29%	30%	35%	33%	39%	39%	36%
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	640	8.0	17.2	11,000	56%
Oil	900	4.5	9.7	8,700	44%
	1,540	6.6	12.8	19,700	100%
Debt					8,800
Net Present Value (\$mm)					10,900
Shares					841
Net Present Value - Standard Estimate (US\$/sh)					13
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					13



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						Present Value by Segment (%)						
		Price	EV/	Enterprise	North	Rest of				Dist.		
		(US\$/sh)	Market	Value	Amer.	World				Yield		
Symbol/Rating		24-Jul	Cap	(\$mm)	Natural	Natural	Oil	Down-	NTM	McDep		
		2015			Gas	Gas	Prod'n	stream	(%)	Ratio		
Global Integrated												
Exxon Mobil Corporation	XOM	79.94	1.24	419,000	8	12	60	20	3.7	0.89		
Royal Dutch Shell (BG pro form)	RDS-A	54.38	1.58	335,000					6.9	0.86		
Chevron Corporation	CVX B	90.60	1.33	226,000	3	8	68	21	4.7	0.86		
Total S.A.	TOT B	47.88	1.51	166,000		14	61	25	5.5	0.76		
<i>Total or Median</i>			<i>1.42</i>	<i>1,146,000</i>			<i>61</i>	<i>21</i>	<i>5.1</i>	<i>0.86</i>		
Large Independent												
EOG Resources, Inc.	EOG	75.16	1.15	47,300	16	2	82		0.9	0.95		
Occidental Petroleum Corp.	OXY	68.40	1.13	59,600	5	1	79	15	4.4	0.87		
Devon Energy Corporation	DVN	49.39	1.87	37,900	32		55	14	1.9	0.85		
ConocoPhillips	COP B	52.08	1.57	102,000	16	11	74		5.6	0.84		
Marathon Oil Corporation	MRO B	21.41	1.61	23,300	9	1	90		3.9	0.73		
<i>Total or Median</i>			<i>1.57</i>	<i>270,000</i>	<i>16</i>		<i>79</i>		<i>3.9</i>	<i>0.85</i>		
Small Independent												
Cimarex Energy Company	XEC	103.13	1.19	10,800	41		59		0.6	0.96		
California Resources	CRC	4.24	5.26	8,500	14		86		0.9	0.74		
Range Resources	RRC	42.32	1.57	11,000	75		25		0.4	0.71		
Continental Resources (32%)	CLR B	34.46	1.56	6,400	20		80		-	0.70		
Whiting Petroleum Corporation	WLL B	22.89	1.71	9,300	6		94		-	0.57		
<i>Total or Median</i>			<i>1.57</i>	<i>46,000</i>	<i>20</i>		<i>80</i>		<i>0.4</i>	<i>0.71</i>		
Income												
San Juan Basin Royalty Trust	SJT	10.81	1.00	500	100		-		4.7	0.72		
Sabine Royalty Trust	SBR	34.35	1.00	500	43		58		7.7	0.62		
Dorchester Minerals, L.P.	DMLP	17.01	1.00	520	37		63		5.1	0.61		
Permian Basin RT	PBT B	6.68	1.00	310	23		77		6.9	0.56		
Cross Timbers Royalty Trust	CRT B	15.20	1.00	90	56		44		6.8	0.49		
<i>Total or Median</i>			<i>1.00</i>	<i>1,900</i>	<i>43</i>		<i>58</i>		<i>6.8</i>	<i>0.61</i>		
Canada												
Imperial Oil Limited (30%)	IMO	35.04	1.30	11,600	1		67	33	1.1	0.90		
EnCana Corporation	ECA	7.88	2.34	15,400	56		44		3.6	0.78		
Enovus Energy Inc.	CVE	13.42	1.19	13,100	10		78	11	6.1	0.62		
Birchcliff Energy Ltd.	BIREF B	4.51	1.80	1,200	77		23		-	0.52		
Canadian Oil Sands Limited	COSWF B	5.59	1.98	5,400			100		2.8	0.52		
<i>Total or Median</i>			<i>1.80</i>	<i>47,000</i>			<i>67</i>		<i>2.8</i>	<i>0.62</i>		

Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.50 a million btu.
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses



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Table 2								
McDep Energy Stocks								
Net Present Value and McDep Ratio								
			Price (US\$/sh)	Shares	Market Cap (US\$m)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
	Symbol/Rating		24-Jul 2015	(mm)				
	B = Buy							
Global Integrated								
Exxon Mobil Corporation	XOM		79.94	4,211	337,000	92.00	0.18	0.89
Royal Dutch Shell (BG pro forma)	RDS-A		54.38	3,900	212,000	68.00	0.32	0.86
Chevron Corporation	CVX	B	90.60	1,876	170,000	111.00	0.21	0.86
Total S.A.	TOT	B	47.88	2,285	109,000	71.00	0.26	0.76
	<i>Total or Median</i>				828,000		0.23	0.86
Large Independent								
EOG Resources, Inc.	EOG		75.16	545	41,000	80.00	0.13	0.95
Occidental Petroleum Corp.	OXY		68.40	770	52,700	80.00	0.10	0.87
Devon Energy Corporation	DVN		49.39	410	20,200	65.00	0.40	0.85
ConocoPhillips	COP	B	52.08	1,246	65,000	68.00	0.30	0.84
Marathon Oil Corporation	MRO	B	21.41	675	14,450	34.00	0.28	0.73
	<i>Total or Median</i>				193,400		0.28	0.85
Small Independent								
Cimarex Energy Company	XEC		103.13	88	9,000	108.00	0.15	0.96
California Resources	CRC		4.24	382	1,600	12.00	0.60	0.74
Range Resources	RRC		42.32	166	7,000	69.00	0.26	0.71
Continental Resources (32%)	CLR	B	34.46	118	4,100	58.00	0.25	0.70
Whiting Petroleum Corporation	WLL	B	22.89	237	5,400	52.00	0.24	0.57
	<i>Total or Median</i>				27,000		0.25	0.71
Income								
San Juan Basin Royalty Trust	SJT		10.81	47	500	15.00	-	0.72
Sabine Royalty Trust	SBR		34.35	15	500	55.00	-	0.62
Dorchester Minerals, L.P.	DMLP		17.01	31	520	28.00	-	0.61
Permian Basin RT	PBT	B	6.68	47	310	12.00	-	0.56
Cross Timbers Royalty Trust	CRT	B	15.20	6	90	31.00	-	0.49
	<i>Total or Median</i>				1,900		-	0.61
Canada								
Imperial Oil Limited (30%)	IMO		35.04	255	8,900	40.00	0.21	0.90
EnCana Corporation	ECA		7.88	841	6,600	13.00	0.45	0.78
Cenovus Energy Inc.	CVE		13.42	825	11,100	23.00	0.10	0.62
Birchcliff Energy Ltd.	BIREF	B	4.51	154	700	12.00	0.23	0.52
Canadian Oil Sands Limited	COSWF	B	5.59	485	2,700	16.00	0.26	0.52
	<i>Total or Median</i>				30,000		0.23	0.62
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.50 a million btu.								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								



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Table 3								
McDep Energy Stocks								
Value Multiples and Dividend								
Ranked by EV/Ebitda								
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	Dividend	
	Symbol/Rating		24-Jul 2015	NTM	NTM	NTM	NTM	
	B = Buy							
Global Integrated								
Exxon Mobil Corporation	XOM		79.94	14.2	9.7	8.7	18	2.92
Chevron Corporation	CVX	B	90.60	8.9	8.8	7.5	26	4.28
Total S.A.	TOT	B	47.88	9.7	8.2	6.2	14	2.65
Royal Dutch Shell (BG pro forma)	RDS-A		54.38					3.76
	<i>Median</i>			9.7	8.8	7.5	18	
Large Independent								
EOG Resources, Inc.	EOG		75.16	9.3	13.0	12.3	27	0.67
Devon Energy Corporation	DVN		49.39	10.1	12.1	10.4	73	0.96
ConocoPhillips	COP	B	52.08	11.3	12.0	10.0		2.92
Occidental Petroleum Corp.	OXY		68.40	9.1	11.1	9.6	43	3.00
Marathon Oil Corporation	MRO	B	21.41	12.8	12.2	8.9		0.84
	<i>Median</i>			10.1	12.1	10.0	43	
Small Independent								
Range Resources	RRC		42.32	14.9	21.0	15.0	66	0.16
California Resources	CRC		4.24	12.1	18.3	13.6		0.04
Cimarex Energy Company	XEC		103.13	8.2	14.1	13.5		0.64
Continental Resources (32%)	CLR	B	34.46	11.4	15.5	10.8	138	-
Whiting Petroleum Corporation	WLL	B	22.89	10.9	14.1	8.1		-
	<i>Median</i>			11.4	15.5	13.5	102	
Income								
San Juan Basin Royalty Trust	SJT		10.81	8.3	22.3	16.1	21	0.51
Sabine Royalty Trust	SBR		34.35	9.0	20.7	12.9	13	2.66
Dorchester Minerals, L.P.	DMLP		17.01	7.7	18.2	11.1	23	0.87
Cross Timbers Royalty Trust	CRT	B	15.20	12.6	20.3	9.9	15	1.03
Permian Basin RT	PBT	B	6.68	9.9	16.0	8.9	14	0.46
	<i>Median</i>			9.0	20.3	11.1	15	
Canada								
Imperial Oil Limited (30%)	IMO		35.04	27.4	12.2	11.0	16	0.40
EnCana Corporation	ECA		7.88	6.6	12.8	10.0	78	0.28
Cenovus Energy Inc.	CVE		13.42	15.5	13.5	8.4		0.82
Birchcliff Energy Ltd.	BIREF	B	4.51	12.6	14.9	7.7		-
Canadian Oil Sands Limited	COSWF	B	5.59	17.4	14.8	7.6	57	0.15
	<i>Median</i>			15.5	13.5	8.4	57	
	<i>Grand Median</i>			11	14	10		

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2016; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses



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Table 4										
McDep Energy Stocks										
Total Return Year-to-Date 2015										
Ranked by Unlevered Total Return										
			Price	Price	Price	Cash	Equity	Unlevered		
	Symbol/Rat		(\$/sh)	(\$/sh)	Change	Distrib.	Total	Debt	Return	McDep
			24-Jul	29-Dec	(%)	(%)	(%)	(\$/sh)	(%)	Ratio
			2015	2014	(%)	(%)	(%)	(%)	(%)	(%)
Global Integrated										
Total S.A.	TOT	B	47.88	52.74	(9)	1	(8)	25	(5)	0.76
Exxon Mobil Corporation	XOM		79.94	93.07	(14)	1	(13)	20	(10)	0.89
Royal Dutch Shell (BG pro forma)	RDS-A		54.38	68.31	(20)	1	(19)	32	(12)	0.86
Chevron Corporation	CVX	B	90.60	113.32	(20)	1	(19)	30	(14)	0.86
	<i>Median</i>				(17)		(16)		(11)	0.86
Large Independent										
Devon Energy Corporation	DVN		49.39	61.15	(19)	0	(19)	43	(11)	0.85
Occidental Petroleum Corp.	OXY		68.40	81.71	(16)	1	(15)	9	(13)	0.87
Marathon Oil Corporation	MRO	B	21.41	28.58	(25)	1	(24)	13	(16)	0.73
ConocoPhillips	COP	B	52.08	70.11	(26)	1	(25)	30	(17)	0.84
EOG Resources, Inc.	EOG		75.16	94.33	(20)	0	(20)	12	(18)	0.95
	<i>Median</i>				(20)		(20)		(16)	0.85
Small Independent										
Cimarex Energy Company	XEC		103.13	110.27	(6)	0	(6)	20	(5)	0.96
California Resources	CRC		4.24	5.77	(27)	0	(26)	18	(6)	0.74
Continental Resources (32%)	CLR	B	34.46	38.26	(10)	-	(10)	19	(7)	0.70
Range Resources	RRC		42.32	56.00	(24)	0	(24)	24	(17)	0.71
Whiting Petroleum Corporation	WLL	B	22.89	34.09	(33)	-	(33)	16	(22)	0.57
	<i>Median</i>				(24)		(24)		(7)	0.71
Income										
Sabine Royalty Trust	SBR		34.35	36.68	(6)	3	(4)	-	(2)	0.62
Cross Timbers Royalty Trust	CRT	B	15.20	18.07	(16)	2	(14)	-	(12)	0.49
San Juan Basin Royalty Trust	SJT		10.81	13.97	(23)	1	(22)	-	(21)	0.72
Permian Basin RT	PBT	B	6.68	9.12	(27)	1	(26)	-	(25)	0.56
Dorchester Minerals, L.P.	DMLP		17.01	25.16	(32)	2	(30)	-	(29)	0.61
	<i>Median</i>				(23)		(22)		(21)	0.61
Canada										
Imperial Oil Limited (30%)	IMO		35.04	43.49	(19)	0	(19)	11	(15)	0.90
Birchcliff Energy Ltd.	BIREF	B	4.51	6.75	(33)	-	(33)	4	(22)	0.52
Canadian Oil Sands Limited	COSWF	B	5.59	9.20	(39)	0	(39)	6	(24)	0.52
EnCana Corporation	ECA		7.88	13.94	(43)	1	(43)	11	(24)	0.78
Cenovus Energy Inc.	CVE		13.42	20.95	(36)	1	(35)	3	(30)	0.62
	<i>Median</i>				(36)		(35)		(24)	0.62
	<i>Grand Median</i>				(22)		(21)		(16)	0.74
Natural Gas (\$/mmbtu)			2.78	3.19	(13)					
Oil - West Texas Intermediate (\$/bbl)			47.99	53.69	(11)					

Source: McDep LLC, Yahoo, CME Group, Bloomberg



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