

Rating: Buy  
 S&P 500: 1280

## **Encana Corporation (ECA)** **Buying Opportunity**

<i>Symbol</i>	ECA	<i>Ebitda Next Twelve Months ending 12/31/06 (US\$m)</i>	9,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	79
<i>Price (US\$/sh)</i>	40.97	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/15/06	<i>Adjusted Reserves/Production NTM</i>	8.7
<i>Shares (mm)</i>	873	<i>EV/Ebitda</i>	5.0
<i>Market Capitalization (US\$m)</i>	35,700	<i>PV/Ebitda</i>	6.0
<i>Debt (US\$m)</i>	9,500	<i>Undeveloped Reserves (%)</i>	47
<i>Enterprise Value (EV) (US\$m)</i>	45,300	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	5.74
<i>Present Value (PV) (US\$m)</i>	54,000	<i>Present Value Proven Reserves(US\$/boe)</i>	18.31
<i>Net Present Value (US\$/share)</i>	51	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.05
<i>Debt/Present Value</i>	0.18	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.98
<i>McDep Ratio - EV/PV</i>	0.84	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	0.7	<i>Indicated Annual Dividend (US\$/sh)</i>	0.30

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.

### **Summary and Recommendation**

Buy-recommended **Encana (ECA)** hit by a particularly sharp bout of “profit-taking” in recent months has stronger numbers in our framework after reporting year-end results. Higher reserves, lower debt and fewer shares improve the comparison of our ongoing net present value estimate to that implied by a simplified correlation with 30 producers. In other words, the company’s operating and financial performance is translating a rich resource position into proven quantities at a high rate. Meanwhile investors are understandably nervous about short-term natural gas price after a run of warm weather. The well-worn expression “buying opportunity” seems to fit the situation where short-term factors may be depressing the stock price of a company with enviable resources. We see 24% appreciation to net present value that presumes the natural gas equivalent of a long-term oil price of \$50 a barrel. Current six-year oil futures are \$63 a barrel.

Kurt H. Wulff, CFA

### **Rank by McDep Ratio: Market Cap and Debt to Present Value**

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(\$/sh)</i>	<i>Shares</i>	<i>Market</i>	<i>Net</i>	<i>Debt/</i>	<i>McDep</i>
			<i>15-Feb</i>	<i>(mm)</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>Ratio</i>
			<i>2006</i>		<i>(\$mm)</i>	<i>Value</i>	<i>Value</i>	
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
CNOOC Limited (29%)	CEO	B	81.99	119	9,780	84.00	0.00	0.98
XTO Energy Inc.	XTO	B	41.35	372	15,380	48.00	0.17	0.88
Encana Corporation	ECA	B	40.97	873	35,700	51.00	0.18	0.84
Burlington Resources	BR	B	87.68	378	33,200	115.00	-	0.76
Occidental Petroleum Corp.	OXY	B	86.04	432	37,200	120.00	0.12	0.75
Devon Energy Corporation	DVN	B	58.29	451	26,300	94.00	0.12	0.67
Anadarko Petroleum Corp.	APC	B	97.20	234	22,700	160.00	0.10	0.65
			<i>Total or Median</i>		<i>180,000</i>		<i>0.12</i>	<i>0.76</i>

**Please see disclosures on the final page.**

**Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.**

	Symbol/ Rating		Price (\$/sh) 15-Feb 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
XTO Energy Inc.	XTO	B	41.35	10.7	7.5	6.6	12	0.5
CNOOC Limited (29%)	CEO	B	81.99	9.2	5.2	5.1	9	2.8
Encana Corporation	ECA	B	40.97	8.7	6.0	5.0	10	0.7
Occidental Petroleum Corp.	OXY	B	86.04	11.3	6.3	4.8	8	1.7
Anadarko Petroleum Corp.	APC	B	97.20	12.7	7.3	4.7	9	0.7
Devon Energy Corporation	DVN	B	58.29	8.6	6.0	4.0	8	0.5
Burlington Resources	BR	B	87.68	-	-	-	-	-
	<i>Median</i>			9.2	6.0	4.8	9	0.7

**Home Country and Business Segments**

	Symbol/ Rating		North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	Total Present Value (US\$mm)	
<b>Independent Natural Gas and Oil - Large Cap and Mid Cap</b>								
Occidental Petroleum Corp.	OXY	B	14	2	74	11	59,000	
Encana Corporation	ECA	B	Canada	81	-	19	-	54,000
Devon Energy Corporation	DVN	B		64	-	36	-	48,100
Anadarko Petroleum Corp.	APC	B		60	-	40	-	41,700
CNOOC Limited	CEO	B	China	-	12	88	-	34,600
XTO Energy Inc.	XTO	B		82	-	18	-	21,600
Burlington Resources	BR	B						
	<i>Median</i>			62	-	38	-	259,000

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

	NTM Ebitda	Adjusted R/P	PV/ Ebitda	Present Value	
North American Natural Gas	7,120	7.8	6.2	44,000	81%
Oil	1,850	11.5	5.4	10,000	19%
	8,970	8.7	6.0	54,000	100%
Debt					9,500
Net Present Value (\$mm)					44,500
Shares					873
Net Present Value - Standard Estimate (US\$/sh)					51
Net Present Value - Approximation by Correlation (US\$/sh)					58

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

	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Next Twelve Months</i>
	<i>12/31/04</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>12/31/06</i>
<b>Volume</b>									
Natural Gas (mmcf)	3,087	3,222	3,326	<b>3,227</b>	3,326	3,326	3,326	3,326	<b>3,326</b>
Oil (mbd)	159	150	159	<b>156</b>	159	159	159	159	<b>159</b>
Total (bcf)	372	379	394	<b>1,519</b>	385	389	394	394	<b>1,562</b>
Total (mmcfed)	4,041	4,122	4,280	<b>4,161</b>	4,280	4,280	4,280	4,280	<b>4,280</b>
<b>Price</b>									
Henry Hub (US\$/mmbtu)	7.10	8.56	13.00	<b>8.65</b>	9.01	7.57	7.91	8.92	<b>8.35</b>
Differential	1.02	1.27	2.71	<b>1.19</b>	1.24	1.04	1.09	1.23	<b>1.15</b>
Encana (\$/mcf)	6.08	7.29	10.29	<b>7.46</b>	7.77	6.53	6.82	7.69	<b>7.20</b>
WTI Cushing (US\$/bbl)	48.31	62.52	60.02	<b>56.31</b>	63.02	63.13	64.83	65.68	<b>64.17</b>
Differential	17.57	16.36	22.86	<b>20.15</b>	24.00	24.04	24.69	25.01	<b>24.43</b>
Encana (\$/bbl)	30.74	46.16	37.16	<b>36.16</b>	39.02	39.09	40.14	40.67	<b>39.73</b>
Total (\$/bbl)	35.12	44.27	56.26	<b>42.81</b>	44.92	39.15	40.75	44.92	<b>42.43</b>
<b>Revenue (\$mm)</b>									
Natural Gas	1,727	2,161	3,149	<b>8,781</b>	2,326	1,976	2,087	2,353	<b>8,741</b>
Oil	450	637	544	<b>2,056</b>	558	566	587	595	<b>2,306</b>
Total	2,176	2,798	3,692	<b>10,837</b>	2,884	2,541	2,674	2,948	<b>11,047</b>
<b>Expense</b>	317	690	535	<b>2,077</b>	550	464	498	566	<b>2,078</b>
<b>Ebitda (\$mm)</b>	1,860	2,108	3,157	<b>8,760</b>	2,334	2,077	2,176	2,382	<b>8,969</b>
Deprec., Deplet., & Amort.	641	677	751	<b>2,789</b>	751	751	751	751	<b>3,004</b>
Hedging	226	135	342	<b>612</b>	38	57	58	58	<b>210</b>
Interest	113	218	104	<b>523</b>	104	104	104	104	<b>416</b>
<b>Ebt</b>	880	1,078	1,960	<b>4,837</b>	1,441	1,165	1,264	1,469	<b>5,339</b>
Income tax	308	377	686	<b>1,693</b>	504	408	442	514	<b>1,869</b>
<b>Net Income (\$mm)</b>	572	701	1,274	<b>3,144</b>	937	757	821	955	<b>3,470</b>
Per share (\$)	0.62	0.80	1.46	<b>3.56</b>	1.07	0.87	0.94	1.09	<b>3.98</b>
<b>Shares (millions)</b>	930	876	873	<b>883</b>	873	873	873	873	<b>873</b>
Ebitda margin	85%	75%	86%	<b>81%</b>	81%	82%	81%	81%	<b>81%</b>
Tax rate	35%	35%	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>

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