

Rating: Buy
 S&P 500: 1382

Encana Corporation

Beating Cost Inflation

<i>Symbol</i>	ECA	<i>Ebitda Next Twelve Months ending 9/30/07 (US\$mm)</i>	8,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	77
<i>Price (US\$/sh)</i>	48.54	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/25/06	<i>Adjusted Reserves/Production NTM</i>	8.7
<i>Shares (mm)</i>	824	<i>EV/Ebitda</i>	5.9
<i>Market Capitalization (US\$mm)</i>	40,000	<i>PV/Ebitda</i>	7.6
<i>Debt (US\$mm)</i>	7,600	<i>Undeveloped Reserves (%)</i>	47
<i>Enterprise Value (EV) (US\$mm)</i>	47,600	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	5.17
<i>Present Value (PV) (US\$mm)</i>	61,100	<i>Present Value Proven Reserves(US\$/boe)</i>	20.71
<i>Net Present Value (US\$/share)</i>	65	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.45
<i>Debt/Present Value</i>	0.12	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.12
<i>McDep Ratio - EV/PV</i>	0.78	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	0.8	<i>Indicated Annual Dividend (US\$/sh)</i>	0.40

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\$60 a barrel and natural gas, \$10 a million btu.

Summary and Recommendation

Buy-recommended **Encana (ECA)** at a McDep Ratio of 0.78 offers unlevered appreciation potential of 29% to estimated present value. Futures prices for oil averaging \$67 a barrel for delivery over the next six years and buy-recommended **Royal Dutch Shell (RDS)**'s offer to buy the minority interest in Shell Canada (SHC.TO) seem to validate estimated present value. Oil and gas production volume adjusted for shares and debt has been advancing sharply through the third quarter reported on October 25 (see chart). Sensitive to the rapidly rising cost of new supply development, Encana has been buying back stock to acquire resources at a low price. Correlating the rate of production relative to reserves with present value as a multiple of cash flow makes our estimate for ECA look comparable to that for some thirty natural gas and oil producers (see table on page 2). Stock price at the 200-day average implies that ECA may be returning to favor with investors. We favor ECA stock at a double weighting in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean energy to support global growth.

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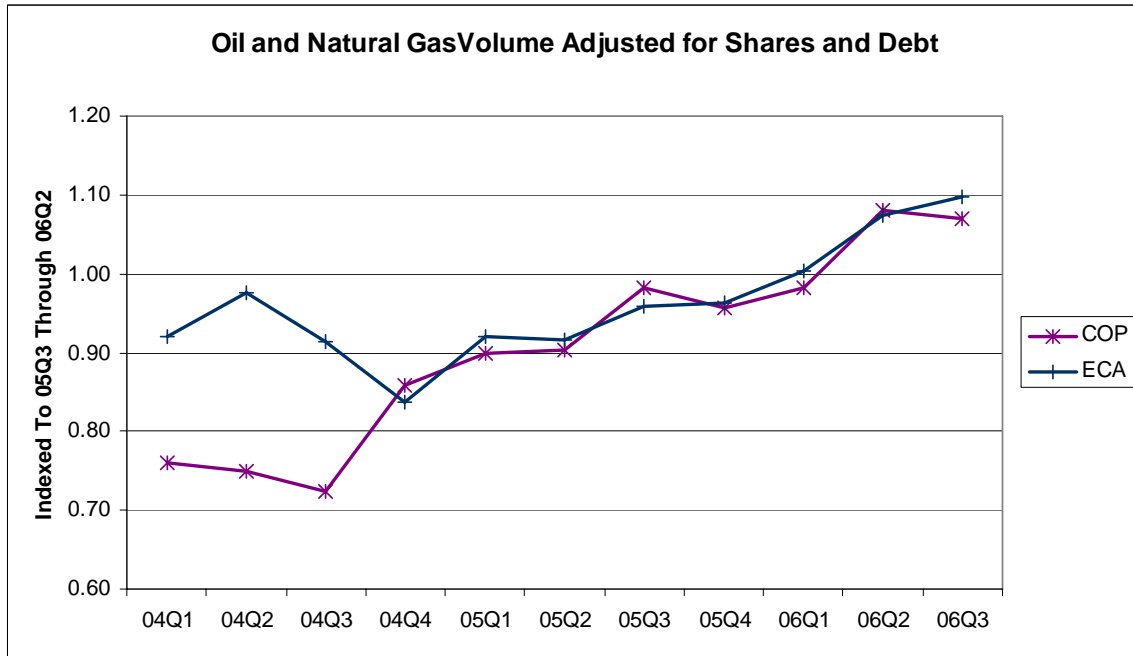
Encana Corporation
Functional Cash Flow and Present Value

	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<u><i>Ebitda</i></u>	<u><i>R/P</i></u>	<u><i>Ebitda</i></u>	<u><i>Value</i></u>	
North American Natural Gas	6,120	7.8	7.2	44,000	72%
Oil	1,520	12.2	8.4	12,700	21%
Downstream	400		11.3	4,500	7%
	8,040	8.7	7.6	61,200	100%
Debt					7,600
Net Present Value (\$mm)					53,600
Shares					824
Net Present Value - Standard Estimate (US\$/sh)					65
Net Present Value - Approximation by Correlation (US\$/sh)					63

Encana Corporation
Next Twelve Months Operating and Financial Estimates

	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next</i>
	<i>9/30/05</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>Twelve</i>
									<i>Months</i>
Volume									
Natural Gas (mmcf)	3,222	3,361	3,359	3,359	3,356	3,359	3,359	3,359	3,359
Oil (mbd)	150	153	151	151	154	151	151	151	151
Total (bcf)	379	389	392	392	1,563	384	388	392	1,556
Total (mmcfed)	4,122	4,279	4,263	4,263	4,281	4,263	4,263	4,263	4,263
Price									
Henry Hub (US\$/mmbtu)	8.56	6.81	6.58	6.30	7.17	8.19	7.61	7.81	7.48
Differential	1.27	0.97	0.83	0.80	0.98	1.04	0.96	0.99	0.95
Encana (\$/mcf)	7.29	5.84	5.75	5.50	6.18	7.16	6.64	6.82	6.53
WTI Cushing (US\$/bbl)	62.52	70.47	70.42	58.64	65.71	61.56	63.85	65.29	62.34
Differential	16.36	18.03	20.05	16.70	21.20	17.53	18.18	18.59	17.75
Encana (\$/bbl)	46.16	52.44	50.37	41.94	44.51	44.03	45.67	46.70	44.59
Total (\$/bbl)	44.27	38.77	37.86	34.92	38.71	43.17	41.09	42.15	40.31
Revenue (\$mm)									
Natural Gas	2,161	1,786	1,777	1,701	7,575	2,163	2,030	2,108	8,002
Oil	637	730	698	581	2,506	597	626	647	2,451
Total	2,798	2,516	2,475	2,282	10,081	2,760	2,656	2,755	10,453
Expense	690	523	569	521	2,297	641	615	639	2,415
Ebitda (\$mm)	2,108	1,993	1,906	1,761	7,783	2,120	2,042	2,116	8,038
Deprec., Deplet., & Amort.	677	790	804	804	3,163	804	804	804	3,216
Hedging and other	135	(154)	(642)	(271)	(861)	(145)	(172)	(147)	(735)
Interest	218	83	83	83	337	83	83	83	332
Ebt	1,078	1,274	1,661	1,145	5,144	1,378	1,327	1,375	5,225
Income tax	377	446	581	401	1,800	482	464	481	1,829
Net Income (\$mm)	701	828	1,079	744	3,344	895	863	894	3,396
Per share (\$)	0.80	0.98	1.31	0.90	3.99	1.09	1.05	1.08	4.12
Shares (millions)	876	845	824	824	837	824	824	824	824
Ebitda margin	75%	79%	77%	77%	77%	77%	77%	77%	77%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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