

Rating: Buy  
S&P 500: 1457

## **Encana Corporation** **Home-Grown, Clean Energy in the Stock Market**

<i>Symbol</i>	ECA	<i>Ebitda Next Twelve Months ending 12/31/07 (US\$mm)</i>	7,800
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	80
<i>Price (US\$/sh)</i>	49.22	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/15/07	<i>Adjusted Reserves/Production NTM</i>	9.2
<i>Shares (mm)</i>	806	<i>EV/Ebitda</i>	6.1
<i>Market Capitalization (US\$mm)</i>	39,700	<i>PV/Ebitda</i>	7.7
<i>Debt (US\$mm)</i>	8,100	<i>Undeveloped Reserves (%)</i>	49
<i>Enterprise Value (EV) (US\$mm)</i>	47,700	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	4.97
<i>Present Value (PV) (US\$mm)</i>	60,500	<i>Present Value Proven Reserves(US\$/boe)</i>	18.89
<i>Net Present Value (US\$/share)</i>	65	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.15
<i>Debt/Present Value</i>	0.13	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.11
<i>McDep Ratio - EV/PV</i>	0.79	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	1.6	<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\$60 a barrel and natural gas, \$10 a million btu.

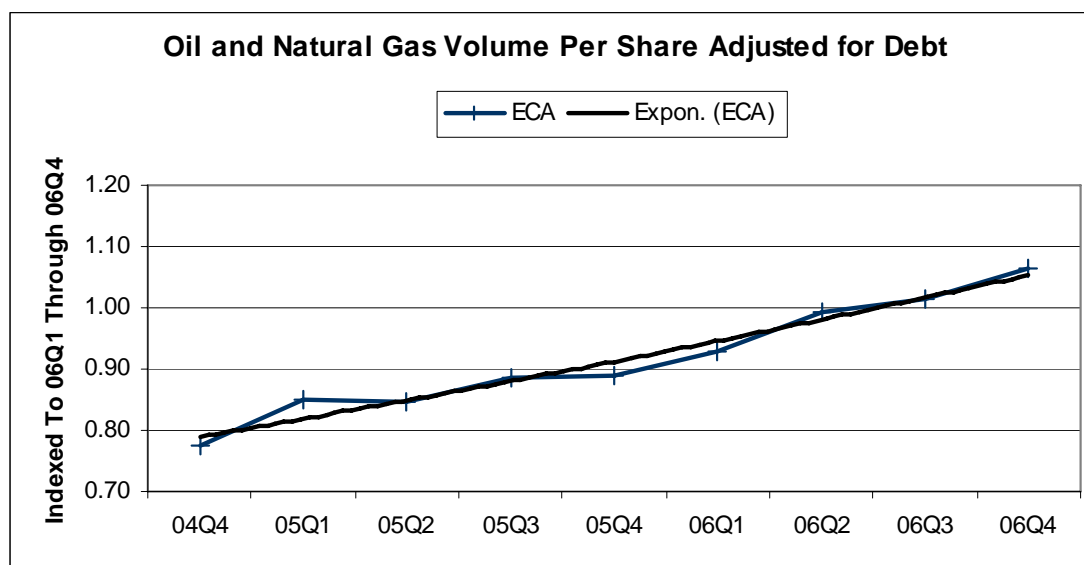
For historical analysis of ECA since 2001 see [www.mcdep.com/3eca.htm](http://www.mcdep.com/3eca.htm)

### **Summary and Recommendation**

Energy for economic growth, North American for security, and clean for our well-being is readily available cheap in the stock of buy-recommended **Encana (ECA)**, the continent's largest independent producer concentrated on natural gas. The company's positive financial record continues with real growth of 15% a year for the past eight quarters (see chart [Oil and Natural Gas Volume per Share Adjusted for Debt](#)). Volume grew further and shares outstanding declined further in the fourth quarter of 2006 reported on February 15 (see table [Next Twelve Months Operating and Financial Results](#)). Estimated net present value (NPV) of \$65 a share is concentrated 73% on natural gas and 27% on oil and oil sands (see table [Functional Cash Flow and Present Value](#)). A new Integrated Oil Sands Partnership formed with buy-recommended **ConocoPhillips (COP)** as of January 2, 2007 producing refined liquid products from North American oil is growing toward 400,000 barrels daily by 2014. 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 for global growth.

Kurt H. Wulff, CFA

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



**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</i>
	<i>12/31/05</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>Months</i>
									<i>12/31/07</i>
<b>Volume</b>									
Natural Gas (mmcf)	3,326	3,359	3,406	<b>3,367</b>	3,406	3,406	3,406	3,406	<b>3,406</b>
Oil (mbd)	159	151	152	<b>155</b>	152	152	152	152	<b>152</b>
Total (bcf)	394	392	397	<b>1,568</b>	389	393	397	397	<b>1,576</b>
Total (mmcfed)	4,280	4,263	4,318	<b>4,295</b>	4,318	4,318	4,318	4,318	<b>4,318</b>
<b>Price</b>									
Henry Hub (US\$/mmbtu)	13.00	6.58	6.57	<b>7.23</b>	6.70	7.42	7.71	8.46	<b>7.57</b>
Differential	2.71	0.83	0.78	<b>0.98</b>	0.79	0.88	0.91	1.00	<b>0.89</b>
Encana (\$/mcf)	10.29	5.75	5.79	<b>6.26</b>	5.91	6.54	6.80	7.46	<b>6.68</b>
WTI Cushing (US\$/bbl)	60.02	70.42	59.99	<b>66.05</b>	56.73	59.33	60.97	62.13	<b>59.79</b>
Differential	22.86	20.05	21.30	<b>22.36</b>	20.14	21.07	21.65	22.06	<b>21.22</b>
Encana (\$/bbl)	37.16	50.37	38.69	<b>43.70</b>	36.59	38.26	39.32	40.07	<b>38.57</b>
Total (\$/bbl)	56.26	37.86	35.57	<b>38.86</b>	35.69	39.06	40.48	43.76	<b>39.77</b>
<b>Revenue (\$mm)</b>									
Natural Gas	3,149	1,777	1,814	<b>7,688</b>	1,811	2,029	2,130	2,337	<b>8,307</b>
Oil	544	698	541	<b>2,466</b>	500	529	550	560	<b>2,140</b>
Total	3,692	2,475	2,355	<b>10,154</b>	2,312	2,558	2,680	2,897	<b>10,447</b>
<b>Expense (\$mm)</b>	535	569	589	<b>2,365</b>	578	639	670	724	<b>2,612</b>
<b>Ebitda (\$mm)</b>	3,157	1,906	1,767	<b>7,789</b>	1,734	1,918	2,010	2,173	<b>7,835</b>
Deprec., Deplet., & Amort.	751	804	766	<b>3,125</b>	766	766	766	766	<b>3,064</b>
Hedging and other	342	(642)	(139)	<b>(729)</b>	(256)	(192)	(160)	(102)	<b>(710)</b>
Interest	104	83	97	<b>351</b>	97	97	97	97	<b>388</b>
<b>Ebt</b>	1,960	1,661	1,042	<b>5,041</b>	1,127	1,247	1,306	1,412	<b>5,093</b>
Income tax	686	581	365	<b>1,764</b>	394	436	457	494	<b>1,783</b>
<b>Net Income (\$mm)</b>	1,274	1,079	677	<b>3,277</b>	733	810	849	918	<b>3,310</b>
Per share (\$)	1.46	1.31	0.84	<b>3.93</b>	0.91	1.01	1.05	1.14	<b>4.11</b>
<b>Shares (millions)</b>	873	824	806	<b>834</b>	806	806	806	806	<b>806</b>
Ebitda margin	86%	77%	75%	<b>77%</b>	75%	75%	75%	75%	<b>75%</b>
Tax rate	35%	35%	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>

Please see disclosures on the final page.

**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	6,200	8.1	7.1	44,000	73%
Oil	1,240	13.4	9.7	12,000	20%
Downstream	400		11.3	4,500	7%
	7,840	9.2	7.7	60,500	100%
Debt					8,100
Net Present Value (\$mm)					52,400
Shares					806
Net Present Value - Standard Estimate (US\$/sh)					65
Net Present Value - Approximation by Correlation (US\$/sh)					63

**Disclaimer:** This analysis was prepared by Kurt Wulff doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

**Certification:** I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

**Research Methodology/Ratings Description:** McDep Associates is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.

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