

Rating: Buy  
 S&P 500: 1495

## Encana Corporation Buy for Natural Gas

<i>Symbol</i>	ECA	<i>Ebitda Next Twelve Months ending 3/31/08 (US\$mm)</i>	8,800
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	78
<i>Price (US\$/sh)</i>	54.25	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	4/25/07	<i>Adjusted Reserves/Production NTM</i>	9.5
<i>Shares (mm)</i>	780	<i>EV/Ebitda</i>	5.9
<i>Market Capitalization (US\$mm)</i>	42,300	<i>PV/Ebitda</i>	6.8
<i>Debt (US\$mm)</i>	9,300	<i>Undeveloped Reserves (%)</i>	49
<i>Enterprise Value (EV) (US\$mm)</i>	51,600	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	5.76
<i>Present Value (PV) (US\$mm)</i>	60,000	<i>Present Value Proven Reserves(US\$/boe)</i>	18.73
<i>Net Present Value (US\$/share)</i>	65	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.12
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.77
<i>McDep Ratio - EV/PV</i>	0.86	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	1.5	<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

Reporting first quarter 2007 results on April 25, buy-recommended **Encana (ECA)** delivered progress that justifies our estimate of Net Present Value (NPV) of US\$65 a share. The single most important characteristic may be 73% concentration on the clean fuel (see table [Functional Cash Flow and Present Value](#)). Then at more than \$40 billion in market cap the company is large enough to be important to almost any investor. For the politically risk-averse it can be consoling that ECA is domiciled in Canada and has all of its assets in North America. Environmentalists can take heart that every btu from coal displaced with one from natural gas cuts the related carbon dioxide emissions by a half. Momentum investors can be encouraged that stock price and six-year natural gas price look like they have formed bases and embarked on new advances with current quotes above the 200-day or 40-week average. For extra potential, natural gas as a commodity could appreciate 70% relative to oil in a strong demand situation (see chart [Oil/Natural Gas Futures Ratio](#)). Liking the strategic appeal, the valuation and the performance, 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

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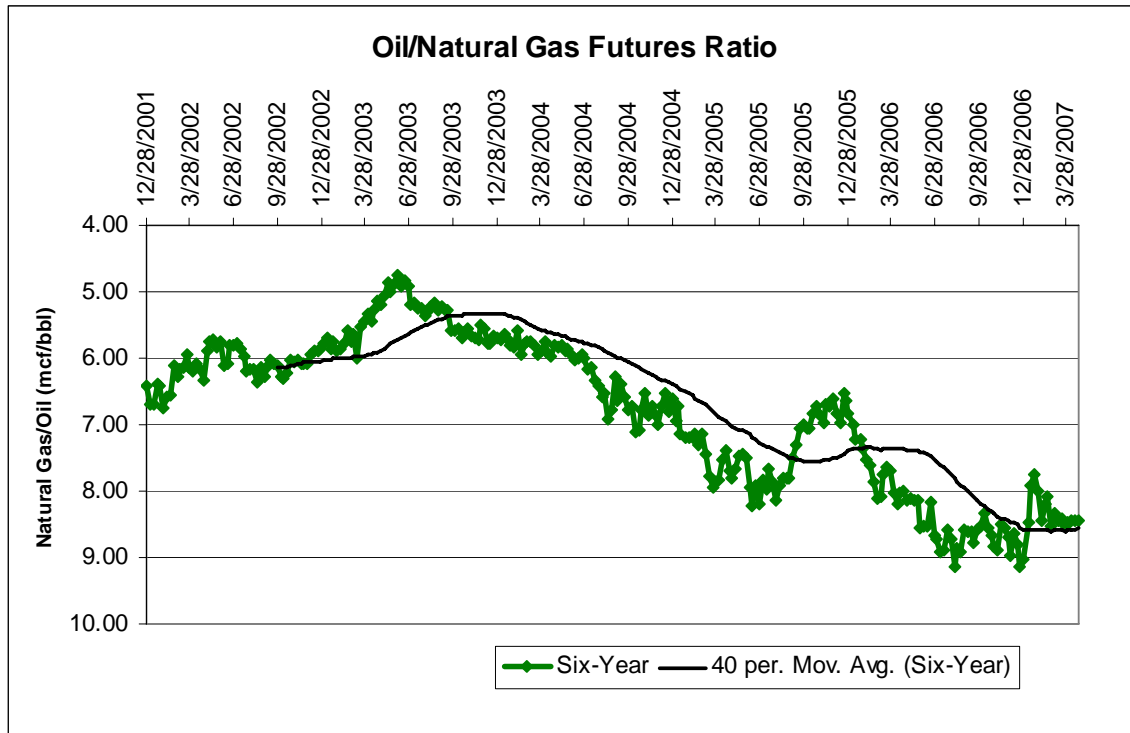
**Functional Cash Flow and Present Value**

	<i>NTM</i> <i>Ebitda</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i>	
North American Natural Gas	6,860	8.1	6.4	44,000	73%
Oil	1,580	15.5	8.9	14,000	23%
Downstream	360		5.6	2,000	3%
	8,800	9.5	6.8	60,000	100%
Debt					9,300
Net Present Value (\$mm)					50,700
Shares					780
Net Present Value - Standard Estimate (US\$/sh)					65
Net Present Value - Approximation by Correlation (US\$/sh)					67

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

	<i>Q1</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next</i>
	<i>3/31/06</i>	<i>12/31/06</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>3/31/08</i>	<i>Twelve</i>
									<i>Months</i>
<b>Volume</b>									
Natural Gas (mmcf)	3,343	3,406	3,400	3,400	3,400	3,400	<b>3,400</b>	3,400	<b>3,400</b>
Oil (mbd)	163	152	131	131	131	131	<b>131</b>	131	<b>131</b>
Total (bcf)	389	397	377	381	385	385	<b>1,528</b>	377	<b>1,528</b>
Total (mmcf)	4,321	4,318	4,186	4,186	4,186	4,186	<b>4,186</b>	4,186	<b>4,186</b>
<b>Price</b>									
Henry Hub (US\$/mmbtu)	8.97	6.57	6.81	7.60	7.95	8.80	<b>7.79</b>	9.71	<b>8.52</b>
Differential	1.29	0.78	0.49	0.55	0.57	0.63	<b>0.56</b>	0.70	<b>0.62</b>
Encana (\$/mcf)	7.68	5.79	6.32	7.06	7.38	8.17	<b>7.24</b>	9.01	<b>7.90</b>
WTI Cushing (US\$/bbl)	63.33	59.99	58.08	65.07	67.85	69.47	<b>65.12</b>	70.42	<b>68.20</b>
Differential	29.46	21.30	17.83	19.97	20.83	21.32	<b>19.96</b>	21.61	<b>20.94</b>
Encana (\$/bbl)	33.87	38.69	40.25	45.10	47.02	48.15	<b>45.16</b>	48.80	<b>47.27</b>
Total (\$/bbl)	43.32	35.57	38.36	42.85	44.78	48.85	<b>43.74</b>	53.09	<b>47.37</b>
<b>Revenue (\$mm)</b>									
Natural Gas	2,311	1,814	1,934	2,183	2,307	2,555	<b>8,980</b>	2,758	<b>9,804</b>
Oil	497	541	475	538	567	580	<b>2,159</b>	575	<b>2,260</b>
Other			2,028	2,028	2,028	2,028	<b>8,110</b>	2,028	<b>8,110</b>
Total	2,808	2,355	4,436	4,748	4,902	5,163	<b>19,249</b>	5,361	<b>20,174</b>
<b>Expense</b>	684	589	2,660	2,754	2,800	2,878	<b>11,092</b>	2,938	<b>11,369</b>
<b>Ebitda (\$mm)</b>									
Natural Gas and Oil			1,686	1,905	2,012	2,195	<b>7,797</b>	2,333	<b>8,445</b>
Other			90	90	90	90	<b>360</b>	90	<b>360</b>
Total	2,124	1,767	1,776	1,995	2,102	2,285	<b>8,157</b>	2,423	<b>8,805</b>
Deprec., Deplet., & Amort.	765	766	843	843	843	843	<b>3,372</b>	843	<b>3,372</b>
Hedging and other	206	(139)	(488)	(246)	(208)	(144)	<b>(1,087)</b>	(96)	<b>(694)</b>
Interest	88	97	101	101	101	101	<b>404</b>	101	<b>404</b>
<b>Ebt</b>	1,065	1,042	1,320	1,296	1,366	1,485	<b>5,468</b>	1,575	<b>5,723</b>
Income tax	373	365	462	454	478	520	<b>1,914</b>	551	<b>2,003</b>
<b>Net Income (\$mm)</b>	692	677	858	843	888	965	<b>3,554</b>	1,024	<b>3,720</b>
Per share (\$)	0.80	0.84	1.10	1.08	1.14	1.24	<b>4.56</b>	1.31	<b>4.77</b>
<b>Shares (millions)</b>	865	806	780	780	780	780	<b>780</b>	780	<b>780</b>
Ebitda margin	76%	75%	70%	70%	70%	70%	<b>42%</b>	70%	<b>44%</b>
Tax rate	35%	35%	35%	35%	35%	35%	<b>35%</b>	35%	<b>35%</b>

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