

Rating: Buy
S&P 500: 1412

Encana Corporation

Buy on the News

<i>Symbol</i>	ECA	<i>Ebitda Next Twelve Months ending 12/31/07 (US\$mm)</i>	7,600
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	76
<i>Price (US\$/sh)</i>	45.28	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	1/9/07	<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>	37,300	<i>PV/Ebitda</i>	8.1
<i>Debt (US\$mm)</i>	7,600	<i>Undeveloped Reserves (%)</i>	47
<i>Enterprise Value (EV) (US\$mm)</i>	44,900	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	4.87
<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>	3.88
<i>McDep Ratio - EV/PV</i>	0.73	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	0.9	<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.

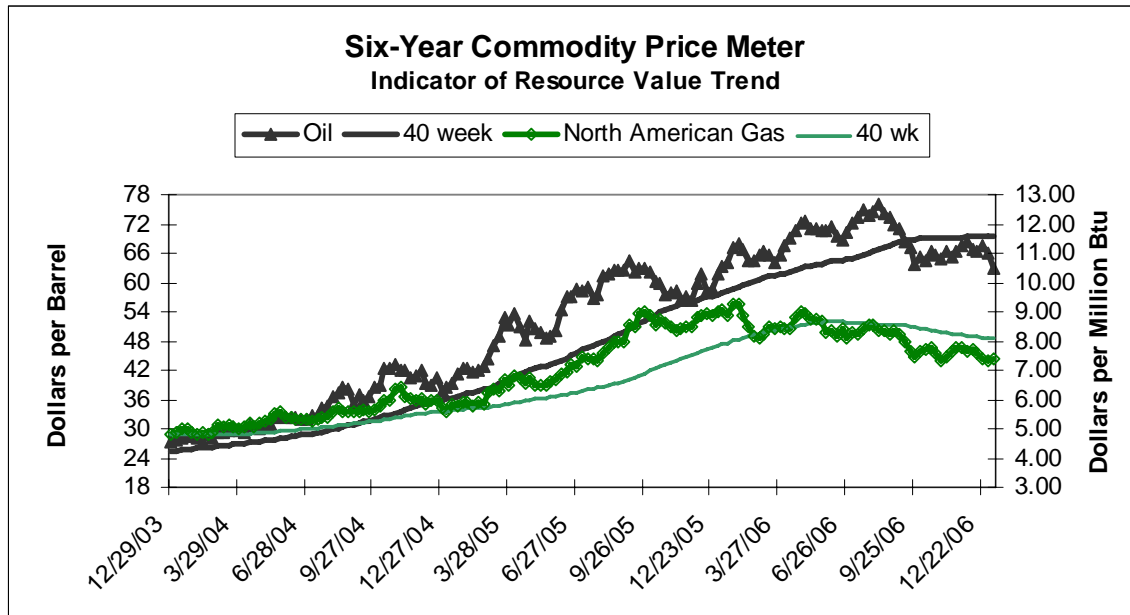
For historical analysis of ECA since 2001 see www.mcdep.com/3eca.htm

Summary and Recommendation

Concentrated 72% on the clean fuel by value, buy-recommended **Encana (ECA)** offers the largest, high-quality, publicly-traded participation in the resilience of North American natural gas commodity price. Having declined for a year, the natural gas price for delivery over the next six years may have bottomed out just when the winter weather was the warmest as in the old investment saw, "Sell on the rumor and buy on the news". The remaining 28% of value is in oil including the 50/50 oil sands partnership with buy-recommended **ConocoPhillips (COP)** that aims for an integrated production/upgrading margin on 400,000 barrels daily by 2014. While the widely quoted near-month oil price has experienced the exaggerated volatility in 2007 that traders love, the price for delivery over the next six years at \$63 a barrel is a more relevant indicator for determining equity value. Meanwhile at a McDep Ratio of 0.73, ECA stock offers unlevered appreciation potential of 36% to estimated present value. 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.

Kurt H. Wulff, CFA

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Encana Corporation
Next Twelve Months Operating and Financial Estimates

	Q4	Q3	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	12/31/05	9/30/06	12/31/06	2006E	3/31/07	6/30/07	9/30/07	12/31/07	12/31/07
Volume									
Natural Gas (mmcf)	3,326	3,359	3,359	3,356	3,359	3,359	3,359	3,359	3,359
Oil (mbd)	159	151	151	154	151	151	151	151	151
Total (bcf)	394	392	392	1,563	384	388	392	392	1,556
Total (mmcfed)	4,280	4,263	4,263	4,281	4,263	4,263	4,263	4,263	4,263
Price									
Henry Hub (US\$/mmbtu)	13.00	6.58	6.57	7.23	6.26	6.73	7.02	7.90	6.98
Differential	2.71	0.83	0.83	0.99	0.79	0.85	0.89	1.00	0.88
Encana (\$/mcf)	10.29	5.75	5.74	6.24	5.46	5.88	6.13	6.90	6.10
WTI Cushing (US\$/bbl)	60.02	70.42	59.99	66.05	56.55	59.22	61.22	62.59	59.89
Differential	22.86	20.05	17.08	21.31	16.10	16.86	17.43	17.82	17.04
Encana (\$/bbl)	37.16	50.37	42.91	44.75	40.45	42.36	43.79	44.77	42.85
Total (\$/bbl)	56.26	37.86	36.21	39.03	34.41	36.78	38.27	42.12	37.92
Revenue (\$mm)									
Natural Gas	3,149	1,777	1,772	7,646	1,652	1,798	1,895	2,132	7,476
Oil	544	698	595	2,519	548	580	607	620	2,356
Total	3,692	2,475	2,367	10,166	2,200	2,378	2,502	2,753	9,832
Expense									
	535	569	542	2,319	500	545	576	639	2,260
Ebitda (\$mm)									
	3,157	1,906	1,825	7,847	1,699	1,833	1,926	2,114	7,572
Deprec., Deplet., & Amort.	751	804	804	3,163	804	804	804	804	3,216
Hedging and other	342	(642)	(248)	(838)	(292)	(245)	(213)	(147)	(898)
Interest	104	83	83	337	83	83	83	83	332
Ebt									
	1,960	1,661	1,186	5,185	1,105	1,191	1,252	1,374	4,922
Income tax	686	581	415	1,815	387	417	438	481	1,723
Net Income (\$mm)									
	1,274	1,079	771	3,370	718	774	814	893	3,199
Per share (\$)	1.46	1.31	0.94	4.03	0.87	0.94	0.99	1.08	3.88
Shares (millions)									
	873	824	824	837	824	824	824	824	824
Ebitda margin	86%	77%	77%	77%	77%	77%	77%	77%	77%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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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	5,780	7.8	7.6	44,000	72%
Oil	1,390	12.2	9.1	12,700	21%
Downstream	400		11.3	4,500	7%
	7,570	8.7	8.1	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)					62

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