

Rating: Buy  
S&P 500: 1518

## Encana Corporation Downstream Blessing

<i>Symbol</i>	ECA	<i>Ebitda Next Twelve Months ending 6/30/08 (US\$mm)</i>	9,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	68
<i>Price (US\$/sh)</i>	62.06	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	7/25/07	<i>Adjusted Reserves/Production NTM</i>	9.2
<i>Shares (mm)</i>	765	<i>EV/Ebitda</i>	6.3
<i>Market Capitalization (US\$mm)</i>	47,500	<i>PV/Ebitda</i>	7.2
<i>Debt (US\$mm)</i>	9,300	<i>Undeveloped Reserves (%)</i>	49
<i>Enterprise Value (EV) (US\$mm)</i>	56,700	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	5.70
<i>Present Value (PV) (US\$mm)</i>	64,300	<i>Present Value Proven Reserves(US\$/boe)</i>	20.08
<i>Net Present Value (US\$/share)</i>	72	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.35
<i>Debt/Present Value</i>	0.14	<i>Earnings Next Twelve Months (US\$/sh)</i>	4.95
<i>McDep Ratio - EV/PV</i>	0.88	<i>Price/Earnings Next Twelve Months</i>	13
<i>Dividend Yield (%/year)</i>	1.3	<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\$66 a barrel and natural gas, \$11 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

Buy-recommended **Encana (ECA)** offers unlevered appreciation potential of 13% to estimated net present value (NPV) of \$72 a share revised up from \$65 a share on May 29 when we raised long-term oil price to \$66 a barrel from \$60. Second quarter results reported on July 25 were blessed with outstanding downstream unlevered cash flow (Ebitda) in only the second three months of adding refining exposure through a joint venture with buy-recommended **ConocoPhillips (COP)** (see table [Next Twelve Months Operating and Financial Estimates](#)). Yet NPV remains concentrated 70% on natural gas for the continent's number 2 producer (after COP) (see table [Functional Cash Flow and Present Value](#)). Chief Executive Randy Eresman can take further satisfaction from a volume gain of 3% in the second quarter over the first for the clean fuel. Though challenged again as it was a year ago, long-term natural gas price is holding its up trend as oil races ahead (see chart [Six-Year Commodity Price Meter](#)). Finally, ECA stock may be timely as its price is on the 60-day average while retaining positive momentum above the 200-day average.

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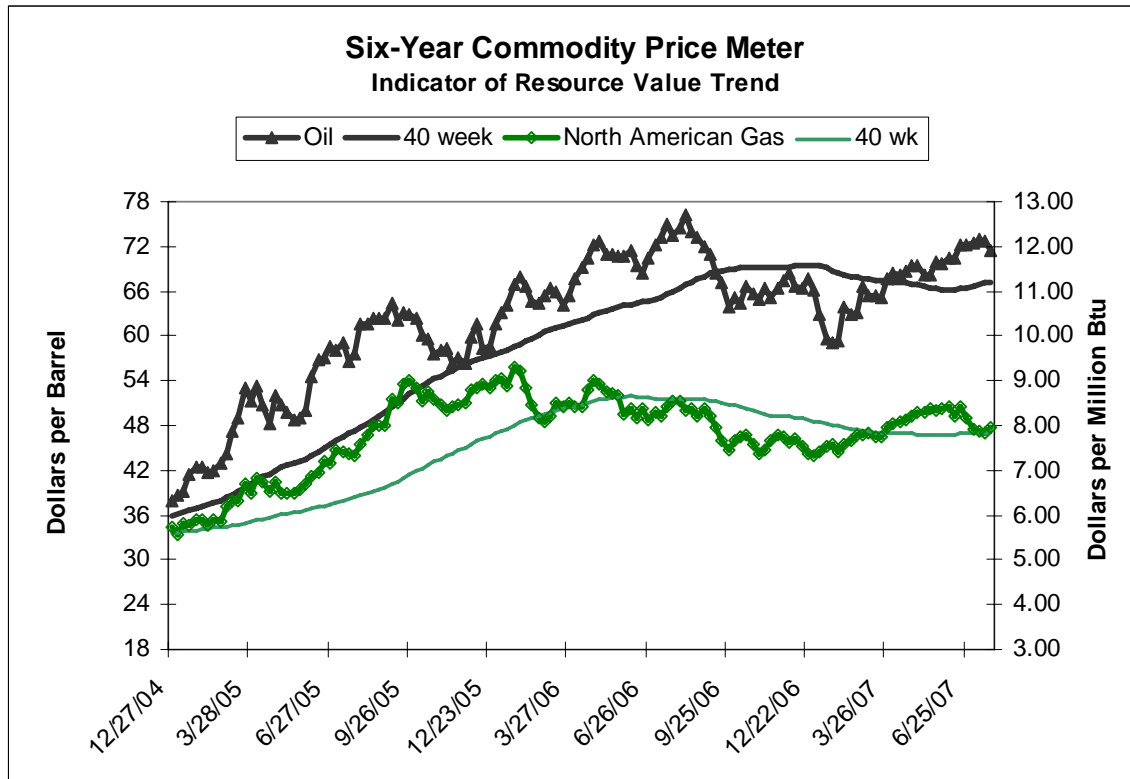
**Encana Corporation**  
**Next Twelve Months Operating and Financial Estimates**

	<i>Q2</i>	<i>Q3</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next Twelve Months</i>
	<i>6/30/06</i>	<i>9/30/06</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>2007E</i>	<i>6/30/08</i>
<b>Volume</b>									
Natural Gas (mmcf)	3,361	3,359	<b>3,367</b>	3,400	3,506	3,506	3,506	<b>3,480</b>	<b>3,506</b>
Oil (mbd)	153	151	<b>155</b>	131	133	133	133	<b>133</b>	<b>133</b>
Total (bcf)	389	392	<b>1,568</b>	377	392	396	396	<b>1,560</b>	<b>1,571</b>
Total (mmcfed)	4,279	4,263	<b>4,295</b>	4,186	4,304	4,304	4,304	<b>4,275</b>	<b>4,304</b>
<b>Price</b>									
Henry Hub (US\$/mmbtu)	6.81	6.58	<b>7.23</b>	6.81	7.56	6.36	7.22	<b>6.99</b>	<b>7.49</b>
Differential	0.97	0.83	<b>0.98</b>	0.49	0.71	0.60	0.68	<b>0.62</b>	<b>0.71</b>
Encana (\$/mcf)	5.84	5.75	<b>6.26</b>	6.32	6.85	5.77	6.54	<b>6.37</b>	<b>6.78</b>
WTI Cushing (US\$/bbl)	70.47	70.42	<b>66.05</b>	58.08	64.91	74.48	74.58	<b>68.01</b>	<b>74.07</b>
Differential	18.03	20.05	<b>22.36</b>	17.83	19.44	22.30	22.33	<b>20.40</b>	<b>22.18</b>
Encana (\$/bbl)	52.44	50.37	<b>43.70</b>	40.25	45.47	52.17	52.25	<b>47.61</b>	<b>51.89</b>
Total (\$/bbl)	38.77	37.86	<b>38.86</b>	38.36	41.91	37.86	41.67	<b>39.96</b>	<b>42.75</b>
<b>Revenue (\$mm)</b>									
Natural Gas	1,786	1,777	<b>7,688</b>	1,934	2,185	1,860	2,111	<b>8,090</b>	<b>8,674</b>
Oil	730	698	<b>2,466</b>	475	550	638	639	<b>2,303</b>	<b>2,519</b>
Other				2,028	2,878	2,878	2,878	<b>10,660</b>	<b>11,510</b>
Total	2,516	2,475	<b>10,154</b>	4,436	5,613	5,376	5,628	<b>21,053</b>	<b>22,704</b>
<b>Expense</b>									
	523	569	<b>2,365</b>	2,657	3,125	3,346	3,422	<b>12,550</b>	<b>13,745</b>
<b>Ebitda (\$mm)</b>									
Natural Gas and Oil				1,686	2,053	1,749	1,925	<b>7,413</b>	<b>7,835</b>
Other				126	435	281	281	<b>1,123</b>	<b>1,123</b>
Total	1,993	1,906	<b>7,789</b>	1,779	2,488	2,030	2,206	<b>8,503</b>	<b>8,959</b>
Deprec., Deplet., & Amort.	790	804	<b>3,125</b>	843	899	899	899	<b>3,540</b>	<b>3,596</b>
Hedging and other	(154)	(642)	<b>(729)</b>	(208)	(246)	(283)	(221)	<b>(958)</b>	<b>(836)</b>
Interest	83	83	<b>351</b>	101	94	94	94	<b>383</b>	<b>376</b>
<b>Ebt</b>	<b>1,274</b>	<b>1,661</b>	<b>5,041</b>	<b>1,043</b>	<b>1,741</b>	<b>1,319</b>	<b>1,434</b>	<b>5,537</b>	<b>5,823</b>
Income tax	446	581	<b>1,764</b>	185	364	462	502	<b>1,513</b>	<b>2,038</b>
<b>Net Income (\$mm)</b>	<b>828</b>	<b>1,079</b>	<b>3,277</b>	<b>858</b>	<b>1,377</b>	<b>858</b>	<b>932</b>	<b>4,025</b>	<b>3,785</b>
Per share (\$)	0.98	1.31	<b>3.93</b>	1.10	1.80	1.12	1.22	<b>5.24</b>	<b>4.95</b>
<b>Shares (millions)</b>									
Ebitda margin	79%	77%	<b>77%</b>	70%	75%	70%	70%	<b>71%</b>	<b>70%</b>
Tax rate	35%	35%	<b>35%</b>	18%	21%	35%	35%	<b>27%</b>	<b>35%</b>

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

	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>Ebitda</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
North American Natural Gas	6,100	7.9	7.4	45,000	70%
Oil	1,737	15.3	8.1	14,000	22%
Downstream	1,123		4.8	5,400	8%
	8,960	9.2	7.2	64,400	100%
Debt					9,300
Net Present Value (\$mm)					55,100
Shares					765
Net Present Value - Standard Estimate (US\$/sh)					72
Net Present Value - Approximation by Correlation (US\$/sh)					77

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