



Independent Stock Idea

July 24, 2008

rating: buy
s&p 500: 1253

Encana Corporation (ECA) Two Growth Companies in One

| | | | |
|---------------------------------------------------------------------------------------------------------------------|---------|----------------------------------------------------------|--------|
| <i>Symbol</i> | ECA | <i>Ebitda Next Twelve Months ending 6/30/09 (US\$mm)</i> | 14,700 |
| <i>Rating</i> | Buy | <i>North American Natural Gas/Ebitda (%)</i> | 68 |
| <i>Price (US\$/sh)</i> | 72.29 | <i>Natural Gas and Oil Production/Ebitda (%)</i> | 100 |
| <i>Pricing Date</i> | 7/24/08 | <i>Adjusted Reserves/Production NTM</i> | 8.6 |
| <i>Shares (mm)</i> | 751 | <i>EV/Ebitda</i> | 4.9 |
| <i>Market Capitalization (US\$mm)</i> | 54,300 | <i>PV/Ebitda</i> | 6.3 |
| <i>Debt (US\$mm)</i> | 17,300 | <i>Undeveloped Reserves (%)</i> | 46 |
| <i>Enterprise Value (EV) (US\$mm)</i> | 71,600 | <i>Natural Gas and Oil Ebitda (US\$/mcfe)</i> | 8.75 |
| <i>Present Value (PV) (US\$mm)</i> | 92,400 | <i>Present Value Proven Reserves(US\$/boe)</i> | 29.39 |
| <i>Net Present Value (US\$/share)</i> | 100 | <i>Present Value Proven Reserves(US\$/mcfe)</i> | 4.90 |
| <i>Debt/Present Value</i> | 0.19 | <i>Earnings Next Twelve Months (US\$/sh)</i> | 6.31 |
| <i>McDep Ratio - EV/PV</i> | 0.77 | <i>Price/Earnings Next Twelve Months</i> | 11 |
| <i>Dividend Yield (%/year)</i> | 2.2 | <i>Indicated Annual Dividend (US\$/sh)</i> | 1.60 |
| 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\$100 a barrel and natural gas, \$14 a million btu. | | | |
| For historical analysis of ECA since 2001 see www.mcdep.com/3eca.htm | | | |

Summary and Recommendation

Buy-recommended **Encana Corporation (ECA)** offers unlevered appreciation potential of 29% to estimated net present value (NPV) of \$100 a share. On May 13 we raised NPV from \$75 a share on the basis of a long-term oil price assumption of \$100 a barrel, up from \$80. However, patience may be necessary as ECA stock price has entered a downtrend defined by current quote below the 200-day average of \$76. Released today, second quarter results displayed strength in production driven by higher crude oil and natural gas price. Projected volumes along with current futures prices promise a continuing high level of unlevered cash flow (Ebitda) (see table Next Twelve Months Operating and Financial Estimates). Projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) supports NPV (see table Functional Cash Flow and Present Value). In early 2009, subject to shareholder approval expected in late 2008, ECA will create a separate company to hold oil sands resources, refineries shared with ConocoPhillips, and conventional natural gas in Canada. The new company with about 40% of ECA's value today aims for 25% a year oil volume growth to 2016. The remaining company looks for 10% a year volume growth focused on unconventional natural gas, perhaps more in the U.S. than Canada. Meanwhile long-term crude oil price continues in an uptrend where the latest quote of \$124 a barrel for delivery over the next six years is above the 40-week average of \$103 (see chart Six-Year Commodity Price Meter).

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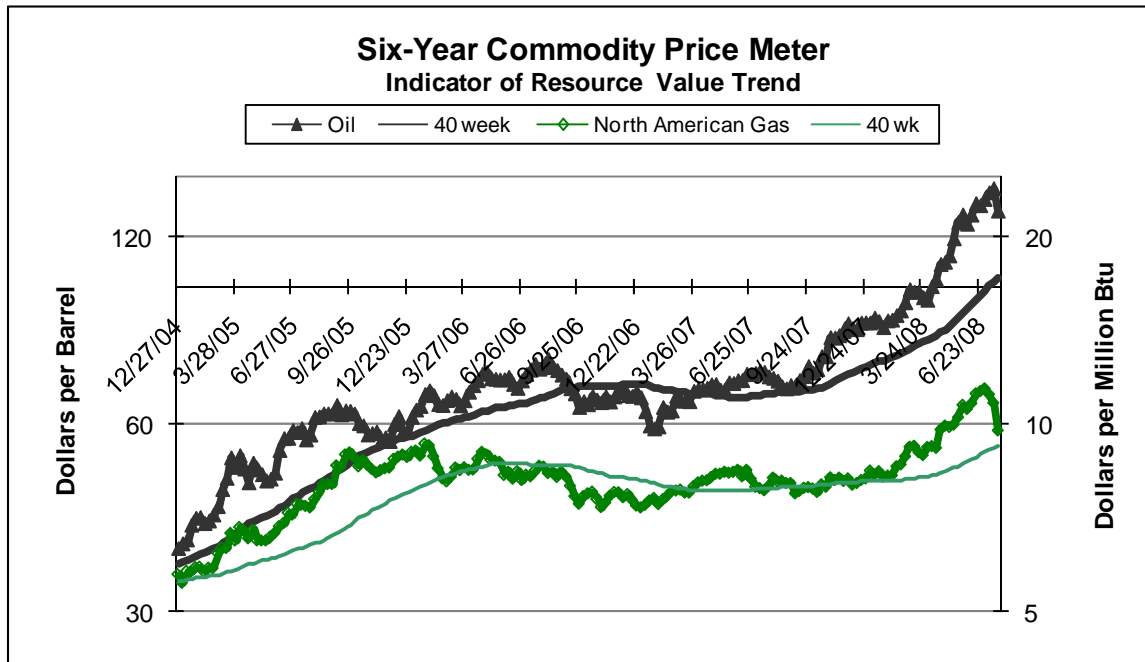
| Encana Corporation | | | | | | | | | |
|------------------------------------------------------|----------------|----------------|----------------|----------------|-----------------|---------------|----------------|----------------|----------------|
| Next Twelve Months Operating and Financial Estimates | | | | | | | | | |
| | | | | | | | | | <i>Next</i> |
| | <i>Q2</i> | <i>Q1</i> | <i>Q2</i> | <i>Q3E</i> | <i>Q4E</i> | <i>Year</i> | <i>Q1E</i> | <i>Q2E</i> | <i>Months</i> |
| | <i>6/30/07</i> | <i>3/31/08</i> | <i>6/30/08</i> | <i>9/30/08</i> | <i>12/31/08</i> | <i>2008E</i> | <i>3/31/09</i> | <i>6/30/09</i> | <i>6/30/09</i> |
| Volume | | | | | | | | | |
| Natural Gas (mmcf) | 3,506 | 3,733 | 3,841 | 3,841 | 3,841 | 3,814 | 3,841 | 3,841 | 3,841 |
| Days | 91 | 91 | 91 | 92 | 92 | 366 | 90 | 91 | 365 |
| Oil (mbd) | 133 | 137 | 128 | 128 | 128 | 130 | 128 | 128 | 128 |
| Total (bcf) | 392 | 415 | 419 | 424 | 424 | 1,682 | 415 | 419 | 1,682 |
| Total (mmcfed) | 4,304 | 4,555 | 4,609 | 4,609 | 4,609 | 4,596 | 4,609 | 4,609 | 4,609 |
| Price | | | | | | | | | |
| Henry Hub (US\$/mmbtu) | 7.56 | 8.02 | 10.93 | 11.40 | 11.05 | 10.35 | 11.54 | 10.78 | 11.19 |
| Differential | 0.71 | 0.18 | 1.04 | 1.08 | 1.05 | 0.82 | 1.09 | 1.02 | 1.06 |
| Encana (\$/mcf) | 6.85 | 7.84 | 9.90 | 10.32 | 10.00 | 9.53 | 10.44 | 9.75 | 10.13 |
| WTI Cushing (US\$/bbl) | 64.91 | 97.94 | 123.97 | 132.68 | 132.66 | 121.82 | 133.52 | 132.25 | 132.78 |
| Differential | 19.44 | 23.78 | 21.35 | 22.85 | 22.85 | 23.08 | 23.00 | 22.78 | 22.87 |
| Encana (\$/bbl) | 45.47 | 74.16 | 102.62 | 109.83 | 109.81 | 98.74 | 110.52 | 109.48 | 109.91 |
| Total (\$/bbl) | 41.91 | 51.93 | 66.58 | 69.90 | 68.31 | 64.25 | 70.62 | 67.01 | 68.96 |
| Revenue (\$mm) | | | | | | | | | |
| Natural Gas | 2,185 | 2,663 | 3,459 | 3,647 | 3,535 | 13,303 | 3,609 | 3,409 | 14,199 |
| Oil | 550 | 925 | 1,195 | 1,293 | 1,293 | 4,706 | 1,273 | 1,275 | 5,135 |
| Other | 2,878 | 1,754 | 2,667 | 2,667 | 2,667 | 9,755 | 2,667 | 2,667 | 10,667 |
| Total | 5,613 | 5,342 | 7,321 | 7,607 | 7,495 | 27,765 | 7,549 | 7,351 | 30,001 |
| Expense | | | | | | | | | |
| | 3,125 | 2,841 | 3,398 | 3,830 | 3,942 | 14,011 | 3,985 | 3,519 | 15,276 |
| Ebitda (\$mm) | | | | | | | | | |
| Natural Gas and Oil | 2,053 | 2,354 | 3,371 | 3,458 | 3,379 | 12,563 | 3,418 | 3,279 | 13,534 |
| Other | 435 | 146 | 553 | 319 | 173 | 1,191 | 146 | 553 | 1,191 |
| Total | 2,488 | 2,501 | 3,923 | 3,777 | 3,553 | 13,754 | 3,564 | 3,831 | 14,725 |
| Deprec., Deplet., & Amort. | 899 | 1,035 | 1,097 | 1,097 | 1,097 | 4,326 | 1,097 | 1,097 | 4,388 |
| Hedging and other | (246) | | 615 | 615 | 615 | 1,846 | 615 | 615 | 2,462 |
| Interest | 94 | 134 | 147 | 147 | 147 | 575 | 147 | 147 | 588 |
| Ebt | | | | | | | | | |
| | 1,741 | 1,332 | 2,064 | 1,918 | 1,693 | 7,007 | 1,705 | 1,972 | 7,287 |
| Income tax | 364 | 285 | 592 | 671 | 593 | 2,141 | 597 | 690 | 2,551 |
| Net Income (\$mm) | | | | | | | | | |
| | 1,377 | 1,047 | 1,472 | 1,246 | 1,101 | 4,866 | 1,108 | 1,282 | 4,737 |
| Per share (\$) | 1.80 | 1.39 | 1.96 | 1.66 | 1.47 | 6.48 | 1.48 | 1.71 | 6.31 |
| Shares (millions) | | | | | | | | | |
| | 765 | 753 | 751 | 751 | 751 | 751 | 751 | 751 | 751 |
| Ebitda margin | 75% | 66% | 72% | 70% | 70% | 70% | 70% | 70% | 70% |
| Tax rate | 21% | 21% | 29% | 35% | 35% | 31% | 35% | 35% | 35% |



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| 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 | 9,920 | 7.7 | 6.4 | 63,400 | 69% |
| Oil | 3,609 | 13.4 | 6.4 | 23,000 | 25% |
| Downstream | 1,191 | | 5.0 | 6,000 | 6% |
| | 14,720 | 8.6 | 6.3 | 92,400 | 100% |
| Debt | | | | | 17,300 |
| Net Present Value (\$mm) | | | | | 75,100 |
| Shares | | | | | 751 |
| Net Present Value - Standard Estimate (US\$/sh) | | | | | 100 |
| NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh) | | | | | 99 |





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