McDep LLC

Meter Reader

A Weekly Analysis of Large Cap Oil and Gas Stocks

January 15, 2013

Encana (ECA - Hold)
Eresman Exits

Symbol	ECA	*Ebitda Next Twelve Months ending 12/31/13 (US$mm)*	2,600
Rating	Hold	*North American Natural Gas/Ebitda (%)*	78
Price (US$/sh)	19.36	*Natural Gas and Oil Production/Ebitda (%)*	100
Pricing Date	1/14/13	*Adjusted Reserves/Production NTM*	8.5
Shares (mm)	736	*EV/Ebitda*	9.2
Market Capitalization (US$mm)	14,200	*PV/Ebitda*	12.2
Debt (US$mm)	9,500	*Undeveloped Reserves (%)*	47
Enterprise Value (EV) (US$mm)	23,800	*Natural Gas and Oil Ebitda (US$/boe)*	12.71
Present Value (PV) (US$mm)	31,600	*Present Value Proven Reserves(US$/boe)*	13.90
Net Present Value (US$/share)	30	*Ebitda Margin NTM (%)*	50
Debt/Present Value	0.30	*Earnings Next Twelve Months (US$/sh)*	0.26
McDep Ratio - EV/PV	0.75	*Price/Earnings Next Twelve Months*	74
Dividend Yield (%/year)	4.1	*Indicated Annual Dividend (US$/sh)*	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$100 a barrel and natural gas, $6 a million btu.			
For historical analysis of ECA since 2001 see www.mcdep.com/3eca.htm			

Summary and Recommendation

Hold-rated **Encana (ECA)** becomes a more obvious takeover target with the abrupt resignation of Chief Executive Officer Randy Eresman announced in a Friday night stunner on January 11. Estimated Net Present Value (NPV) of $30 a share would be the most likely deal price. The most prospective buyers may be the companies with whom ECA has recently done billion dollar transactions, **Chevron (CVX)**, **PetroChina (PTR)** and Mitsubishi Corporation. The selection of Mr. Clayton Woijtas as interim chief executive puts in place a person who sold natural gas producer Renaissance Energy to Husky when the environment for Renaissance changed. Mr. Eresman's legacy is the bold step he took to spin off pure play oil sands producer, **Cenovus (CVE)**, which left Encana as a pure play natural gas producer. CVE became a success while ECA suffered as natural gas price fell to a record low compared to oil. We supported the spinoff strategy and cannot blame Mr. Eresman for the natural gas price surprise. ECA Chairman David O'Brien, chairman of Canadian Pacific when we recommended that stock some twenty years ago, has a long record of presiding over corporate restructurings that create value, one way or another. Unfortunately, we also adjusted our expectations for ECA at year end by changing the rating from Buy and reducing NPV from $37 a share (see *Meter Reader*, January 1, 2013). With a new CEO taking charge, investors might prepare for possible reduced reported earnings initially as is often the case with leadership change. Yet, underlying cash flow, the real value indicator, at four times the dividend readily supports the currently indicated rate (see table Operating and Financial Estimates on page 2). At a McDep Ratio of 0.75, stock price for Encana is low relative to estimated value of oil and gas resources as it is for well-managed, financially strong oil and gas companies (see Table 1 through Table 4 on pages 3-6).

Kurt H. Wulff, CFA

Encana Corporation Next Twelve Months Operating and Financial Estimates									
									Next Twelve Months
	Q4	*Q3*	*Q4E*	***Year***	*Q1E*	*Q2E*	*Q3E*	*Q4E*	
	12/31/11	*9/30/12*	*12/31/12*	***2012E***	*3/31/13*	*6/30/13*	*9/30/13*	*12/31/13*	***12/31/13***
Volume									
Natural Gas (mmcfd)	3,459	2,905	3,020	**3,000**	3,100	3,100	3,100	3,100	**3,100**
Oil (mbd)	24	30	34	**30**	40	40	40	40	**40**
Total (bcf)	331	284	297	**1,165**	301	304	307	307	**1,219**
Total (mmcfed)	3,602	3,087	3,224	**3,182**	3,340	3,340	3,340	3,340	**3,340**
Price									
Henry Hub (US$/mmbtu	3.55	2.80	3.40	**2.79**	3.37	3.47	3.59	3.78	**3.55**
Differential	(0.18)	0.03	0.04	**(0.02)**	(0.02)	(0.02)	(0.03)	(0.03)	**(0.03)**
EnCana ($/mcf)	3.73	2.77	3.36	**2.81**	3.39	3.49	3.62	3.80	**3.58**
WTI Cushing (US$/bbl)	94.06	92.22	88.18	**94.16**	94.11	95.32	95.59	94.98	**95.00**
Differential	8.62	20.05	19.17	**18.23**	18.22	18.45	18.50	18.39	**18.39**
EnCana ($/bbl)	85.44	72.17	69.01	**75.93**	75.89	76.87	77.08	76.60	**76.61**
Total ($/bbl)	24.89	19.89	23.27	**20.24**	24.35	24.96	25.70	26.68	**25.43**
Revenue ($mm)									
Natural Gas	1,187	740	934	**3,082**	946	985	1,032	1,085	**4,048**
Oil	188	201	216	**847**	273	280	284	282	**1,119**
Other				-					
Total	1,375	941	1,150	**3,929**	1,220	1,265	1,316	1,367	**5,167**
Expense	656	612	575	**2,418**	610	632	658	683	**2,583**
Ebitda ($mm)	719	329	575	**1,510**	610	632	658	683	**2,583**
Deprec., Deplet., & Amor	881	452	452	**1,963**	452	452	452	452	**1,808**
Hedging and other	(347)	(606)		**(1,906)**					-
Interest	122	130	130	**518**	130	130	130	130	**520**
Ebt	63	353	(7)	**935**	28	50	76	101	**255**
Income tax	19	88	(2)	**234**	7	13	19	25	**64**
Net Income ($mm)	44	265	(5)	**701**	21	38	57	76	**192**
Per share ($)	0.06	0.36	(0.01)	**0.95**	0.03	0.05	0.08	0.10	**0.26**
Shares (millions)	739	736	736	**736**	736	736	736	736	**736**
Ebitda margin	52%	35%	50%	**38%**	50%	50%	50%	50%	**50%**
Tax rate	30%	25%	25%	**25%**	25%	25%	25%	25%	**25%**
Dividends	0.2	0.2	0.2	**0.80**	0.2	0.2	0.2	0.2	**0.80**

Encana Corporation Functional Cash Flow and Present Value					
	NTM Ebitda	*Adjusted R/P*	*PV/ Ebitda*	*Present Value*	
North American Natural Gas	2,020	8.7	13.7	27,600	87%
Oil	560	6.7	7.1	4,000	13%
	2,580	8.5	12.2	31,600	100%
Debt					9,500
Net Present Value ($mm)					22,100
Shares					736
Net Present Value - Standard Estimate (US$/sh)					30
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US$/sh)					31

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Table 1

McDep Large Cap Energy Stocks

Enterprise Value, Business Segments and McDep Ratio

			Price			*Present Value by Segment (%)*				
			(US$/sh)	*EV/*	*Enterprise*	*North Amer.*	*Rest of World*			
	Symbol/Rating		*14-Jan*	*Market*	*Value*	*Natural*	*Natural*	*Oil*	*Down-*	*McDep*
	B = Buy, CB (see below)		*2013*	*Cap*	*($mm)*	*Gas*	*Gas*	*Prod'n*	*stream*	*Ratio*
Global Integrated										
Exxon Mobil Corporation	XOM	B	89.58	1.17	482,000	7	19	57	16	0.84
PetroChina Company Ltd (14%)	PTR	H	141.81	1.38	50,300		14	77	8	0.74
Royal Dutch Shell plc	RDS-A	H	69.66	1.28	279,000	3	22	56	18	0.73
Chevron Corporation	CVX	H	112.85	1.13	250,000	3	11	76	10	0.69
Total S.A.	TOT	H	53.00	1.36	163,000		19	67	14	0.61
Petrobras	PBR	H	19.70	1.61	206,000		6	81	13	0.56
Gazprom (50%)	OGZPY	H	9.89	1.38	78,000		12	18	69	0.51
Lukoil Oil Company	LUKOY	B	66.59	1.03	53,000			77	23	0.45
Total or Median				*1.32*	*1,561,000*			*72*	*15*	*0.65*
U.S. Independent										
EOG Resources, Inc.	EOG	H	124.66	1.18	40,000	31	5	64	-	0.88
Occidental Petroleum Corp.	OXY	H	82.67	1.14	76,100	8	1	81	10	0.72
ConocoPhillips	COP	H	58.47	1.56	110,000	14	12	74	-	0.71
Marathon Oil Corporation	MRO	B	32.06	1.45	33,000	8	3	90	-	0.62
Devon Energy Corporation	DVN	CB	53.81	1.41	30,700	48		52	-	0.61
Total or Median				*1.41*	*290,000*	*14*		*74*		*0.71*
Canada/Norway/Australia										
Woodside Petroleum Ltd.	WOPEY	H	36.73	1.25	37,000		66	34	-	0.85
Cenovus Energy Inc.	CVE	H	33.94	1.29	33,300	10		72	18	0.76
Imperial Oil Limited (30%)	IMO	B	44.54	1.18	13,500	2		84	14	0.75
EnCana Corporation	ECA	H	19.36	1.67	23,700	87		13	-	0.75
Statoil ASA (33%)	STO	H	25.74	1.51	40,800		35	65	-	0.68
Suncor Energy	SU	B	34.35	1.27	67,000	2		79	19	0.59
Canadian Oil Sands Limited	COSWF	H	20.54	1.24	12,300			100	-	0.51
Total or Median				*1.27*	*228,000*			*72*		*0.75*

CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average. H = Hold

Estimated present value presumes a long-term price for oil of US$100 a barrel and natural gas, $6 a million btu.

McDep Ratio = **M**arket **c**ap and **De**bt to **p**resent value of oil and gas and other businesses

Table 2

McDep Large Cap Energy Stocks
Net Present Value and McDep Ratio

			Price			*Net*		
			(US$/sh)		*Market*	*Present*	*Debt/*	
	Symbol/Rating		*14-Jan*	*Shares*	*Cap*	*Value*	*Present*	*McDep*
B = Buy, CB (see below)			*2013*	*(mm)*	*(US$mm)*	*(US$/sh)*	*Value*	*Ratio*
Global Integrated								
Exxon Mobil Corporation	XOM	B	89.58	4,597	412,000	110.00	0.12	0.84
PetroChina Company Ltd (14%)	PTR	H	141.81	256	36,300	210.00	0.21	0.74
Royal Dutch Shell plc	RDS-A	H	69.66	3,137	219,000	102.00	0.16	0.73
Chevron Corporation	CVX	H	112.85	1,960	221,000	170.00	0.08	0.69
Total S.A.	TOT	H	53.00	2,261	120,000	100.00	0.16	0.61
Petrobras	PBR	H	19.70	6,522	128,500	45.00	0.21	0.56
Gazprom (50%)	OGZPY	H	9.89	5,735	56,700	23.00	0.14	0.51
Lukoil Oil Company	LUKOY	B	66.59	775	51,600	150.00	0.01	0.45
Total or Median					*1,245,000*		*0.15*	*0.65*
U.S. Independent								
EOG Resources, Inc.	EOG	H	124.66	271	33,800	145.00	0.14	0.88
Occidental Petroleum Corp.	OXY	H	82.67	810	67,000	120.00	0.09	0.72
ConocoPhillips	COP	H	58.47	1,207	71,000	96.00	0.25	0.71
Marathon Oil Corporation	MRO	B	32.06	709	22,730	60.00	0.19	0.62
Devon Energy Corporation	DVN	CB	53.81	405	21,800	102.00	0.18	0.61
Total or Median					*216,300*		*0.18*	*0.71*
Canada/Norway/Australia								
Woodside Petroleum Ltd.	WOPEY	H	36.73	808	29,700	45.00	0.17	0.85
Cenovus Energy Inc.	CVE	H	33.94	758	25,700	48.00	0.17	0.76
Imperial Oil Limited (30%)	IMO	B	44.54	255	11,400	62.00	0.12	0.75
EnCana Corporation	ECA	H	19.36	736	14,200	30.00	0.30	0.75
Statoil ASA (33%)	STO	H	25.74	1,050	27,000	44.00	0.23	0.68
Suncor Energy	SU	B	34.35	1,538	52,800	64.00	0.13	0.59
Canadian Oil Sands Limited	COSWF	H	20.54	485	10,000	45.00	0.10	0.51
Total or Median					*171,000*		*0.17*	*0.75*

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Estimated present value presumes a long-term price for oil of US$100 a barrel and natural gas, $6 a million btu.

McDep Ratio = **M**arket **c**ap and **De**bt to **p**resent value of oil and gas and other businesses

Table 3

McDep Large Cap Energy Stocks

Value Multiples and Dividend Yield

			Price (US$/sh)	*Adjustd Resrvs/*				
	Symbol/Rating		*14-Jan*	*Prod*	*PV/ Ebitda*	*EV/ Ebitda*	*P/E*	*Dividend NTM*
	B = Buy, CB (see below)		*2013*	*NTM*	*NTM*	*NTM*	*NTM*	*(%)*
Global Integrated								
Exxon Mobil Corporation	XOM	B	89.58	13.6	8.0	6.7	12	2.5
PetroChina Company Ltd (14%)	PTR	H	141.81	12.8	7.5	5.5	11	3.6
Chevron Corporation	CVX	H	112.85	9.5	7.4	5.1	10	3.2
Petrobras	PBR	H	19.70	13.4	8.8	4.9	6	5.3
Royal Dutch Shell plc	RDS-A	H	69.66	10.1	6.6	4.9	9	4.9
Total S.A.	TOT	H	53.00	10.3	7.7	4.7	8	5.9
Lukoil Oil Company	LUKOY	B	66.59	16.4	6.2	2.8	5	3.7
Gazprom (50%)	OGZPY	H	9.89	31.2	5.1	2.6	3	6.0
Median				*13.1*	*7.4*	*4.9*	*9*	*4.3*
U.S. Independent								
EOG Resources, Inc.	EOG	H	124.66	8.5	7.1	6.2	20	0.5
Devon Energy Corporation	DVN	CB	53.81	10.7	10.1	6.2	14	1.5
ConocoPhillips	COP	H	58.47	12.5	8.1	5.7	10	4.5
Occidental Petroleum Corp.	OXY	H	82.67	9.9	7.8	5.6	12	2.6
Marathon Oil Corporation	MRO	B	32.06	8.7	7.3	4.5	9	2.1
Median				*9.9*	*7.8*	*5.7*	*12*	*2.1*
Canada/Norway/Australia								
EnCana Corporation	ECA	H	19.36	8.5	12.2	9.2		4.1
Imperial Oil Limited (30%)	IMO	B	44.54	18.5	10.5	7.9	10	1.1
Woodside Petroleum Ltd.	WOPEY	H	36.73	13.0	8.9	7.6	12	3.5
Cenovus Energy Inc.	CVE	H	33.94	12.4	9.4	7.1	17	2.6
Canadian Oil Sands Limited	COSWF	H	20.54	20.7	11.8	6.0	9	6.9
Suncor Energy	SU	B	34.35	17.3	9.9	5.9	11	1.5
Statoil ASA (33%)	STO	H	25.74	6.3	6.2	4.3	8	4.4
Median				*13.0*	*9.9*	*7.1*	*10*	*3.5*

CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average. H = Hold
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended December 31, 2013; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

Table 4

McDep Large Cap Energy Stocks
Total Return and Enterprise Value Momentum

			Price	*Equity Total*	*Enterprise Value/*				
			($/sh)	*Return*					
	Symbol		*14-Jan*	*YTD*	*52Wk*	*52Wk*	*50 Day*	*200 Day*	*McDep*
		Rating	*2013*	*(%)*	*High*	*Low*	*Avg.*	*Avg.*	*Ratio*
Global Integrated									
Lukoil Oil Company	LUKOY	B	66.59	(1)	0.99	1.31	1.05	1.12	0.45
Total S.A.	TOT	H	53.00	2	0.95	1.18	1.04	1.07	0.61
PetroChina Company Ltd (14%)	PTR	H	141.81	(1)	0.94	1.15	1.02	1.05	0.74
Chevron Corporation	CVX	H	112.85	4	0.96	1.16	1.05	1.04	0.69
Exxon Mobil Corporation	XOM	B	89.58	4	0.96	1.13	1.01	1.03	0.84
Royal Dutch Shell plc	RDS-A	H	69.66	1	0.95	1.11	1.02	1.02	0.73
Gazprom (50%)	OGZPY	H	9.89	2	0.79	1.11	1.05	1.00	0.51
Petrobras	PBR	H	19.70	1	0.71	1.08	1.00	0.96	0.56
Median				*1*	*0.95*	*1.14*	*1.03*	*1.03*	*0.65*
U.S. Independent									
EOG Resources, Inc.	EOG	H	124.66	3	0.99	1.40	1.04	1.13	0.88
Marathon Oil Corporation	MRO	B	32.06	5	0.93	1.24	1.03	1.09	0.62
ConocoPhillips	COP	H	58.47	1	0.98	1.09	1.01	1.03	0.71
Occidental Petroleum Corp.	OXY	H	82.67	8	0.80	1.12	1.06	0.99	0.72
Devon Energy Corporation	DVN	CB	53.81	3	0.77	1.04	1.00	0.93	0.61
Median				*3*	*0.93*	*1.12*	*1.03*	*1.03*	*0.71*
Canada/Norway/Australia									
Suncor Energy	SU	B	34.35	4	0.94	1.24	1.03	1.07	0.59
Woodside Petroleum Ltd.	WOPEY	H	36.73	3	0.92	1.18	1.03	1.05	0.85
Statoil ASA (33%)	STO	H	25.74	3	0.92	1.11	1.03	1.02	0.68
Cenovus Energy Inc.	CVE	H	33.94	1	0.88	1.13	1.01	1.01	0.76
Imperial Oil Limited (30%)	IMO	B	44.54	4	0.91	1.14	1.02	1.01	0.75
Canadian Oil Sands Limited	COSWF	H	20.53	1	0.84	1.13	1.00	1.00	0.51
EnCana Corporation	ECA	H	19.36	(2)	0.87	1.08	0.95	0.95	0.75
Median				*3*	*0.91*	*1.13*	*1.02*	*1.01*	*0.75*

CB=Contrarian Buy, Stock Price may be in downtrend compared to 200-day average. H = Hold

Index of Recent Research

Stock Ideas			
Date	*Symbol*	*Subject*	*Theme*
11-Jan	PDCE	PDC Energy	Mancos (Niobrara) Winner (Income and Small Cap Weekly)
8-Jan	DVN	Devon Energy	Quality North American Oil and Gas Supplier (Meter Reader)
28-Dec	FRHLF	Freehold Royalties Ltd.	Advantaged Ride on North American Oil Growth (ISCW)
18-Dec	STO	Statoil	Profitable Reinvestment (Meter Reader)
11-Dec	CVE	Cenovus	Canada Approves CNOOC and Petronas Deals (Meter Reader)
7-Dec	PBT	Permian Basin Royalty Trust	New Volume from Horizontal Fracking (ISCW)
30-Nov	SJT	San Juan Basin Royalty Trust	Unlocking the Mancos Shale (Income and Small Cap Weekly)
27-Nov	XOM	Exxon Mobil	Making Money One Way or Another (Meter Reader)
20-Nov	MRO	Marathon Oil	Raise NPV to $60 from $54 on Volume (Meter Reader)
16-Nov	ERF	Enerplus Corporation	Bakken Sleeper (Income and Small Cap Weekly)
15-Nov	BIREF	Birchcliff Energy	Record Production, Raise Guidance
13-Nov	EOG	EOG Resources	Raise NPV to $145 from $130 on Eagle Ford Monster Wells (MR)
9-Nov	HK	Halcón Resources	Growing at Hawk Speed (Income and Small Cap Weekly)
6-Nov	HGT	Hugoton Royalty Trust	Interim Legal Ruling in Favor of Trust
6-Nov	ECA	Encana Corporation	Stock Trending with Natural Gas Price (Meter Reader)
2-Nov	RRC	Range Resources	Natural Gas Comeback Amplifies Volume Growth (ISCW)
30-Oct	COSWF	Canadian Oil Sands Limited	Discounted Pure Play on North American Oil with Income (MR)
23-Oct	PBR	Petrobras	Stock Price Recovering (Meter Reader)
19-Oct	DMLP	Dorchester Minerals, L.P.	Top Line Core (Income and Small Cap Weekly)
16-Oct	RDS	Royal Dutch Shell	Clean Energy for Global Growth (Meter Reader)
12-Oct	CLR	Continental Resources	New Buy on Bakken Growth (ISCW)
9-Oct	IMO	Imperial Oil	Kearl, Downstream and Syncrude (Meter Reader)
2-Oct	CVX	Chevron	Top Performer Shows Further Promise (Meter Reader)
25-Sep	COP	ConocoPhillips	Thriving Shale Oil, Potential Shale Gas (Meter Reader)
21-Sep	WLL	Whiting Petroleum	Growing, Secure, Price-Sensitive, Light Oil (Inc and Small Cap Wkly)
7-Sep	PEYUF	Peyto Exploration and Developmer	Canada Deep Basin Fracker (Income and Small Cap Weekly)
4-Sep	LUKOY	Lukoil	Proven Competitor, Uncommon Value (Meter Reader)
28-Aug	PTR	PetroChina	Pent-Up Profits (Meter Reader)
21-Aug	TOT	Total	Buy $100 NPV for $50 Stock Price (Meter Reader)
14-Aug	APC	Anadarko Petroleum	Raise NPV to $100 as Growth Trumps Legal Issues (Meter Reader)
7-Aug	SU	Suncor Energy	New CEO, New Focus on Shareholder Return (Meter Reader)
3-Aug	XEC	Cimarex Energy	West Texas Wolfcamp Shale Oil (ISCW)
31-Jul	OXY	Occidental Petroleum	California Oil Growth Accelerates (Meter Reader)
24-Jul	CEO	CNOOC Ltd.	60% Premium in $21 Billion Deal (Meter Reader)
20-Jul	BRY	Berry Petroleum	Momentum Resuming (Income and Small Cap Weekly)
	For historical research by stock, go to mcdep.com, click on Stock Ideas, click on stock by name.		
Meter Reader			
8-Jan	DVN	Devon Energy	Quality North American Oil and Gas Supplier (Meter Reader)
1-Jan			Review Energy Weighting after 2012 Underperformance
25-Dec			Valuation Rankings
18-Dec	STO	Statoil	Profitable Reinvestment
	For earlier editions, go to mcdep.com, click on Meter Reader.		
Income and Small Cap Weekly			
11-Jan	PDCE	PDC Energy	Mancos (Niobrara) Winner
4-Jan			Oil Price Perks Up - Six-Year Strip Touches 40-Week Average
28-Dec	FRHLF	Freehold Royalties Ltd.	Advantaged Ride on North American Oil Growth
21-Dec	CRT, PBT, SJT		Last Chance for Opportunistic Year-End Buys
	For earlier editions, go to mcdep.com, click on Energy Income.		

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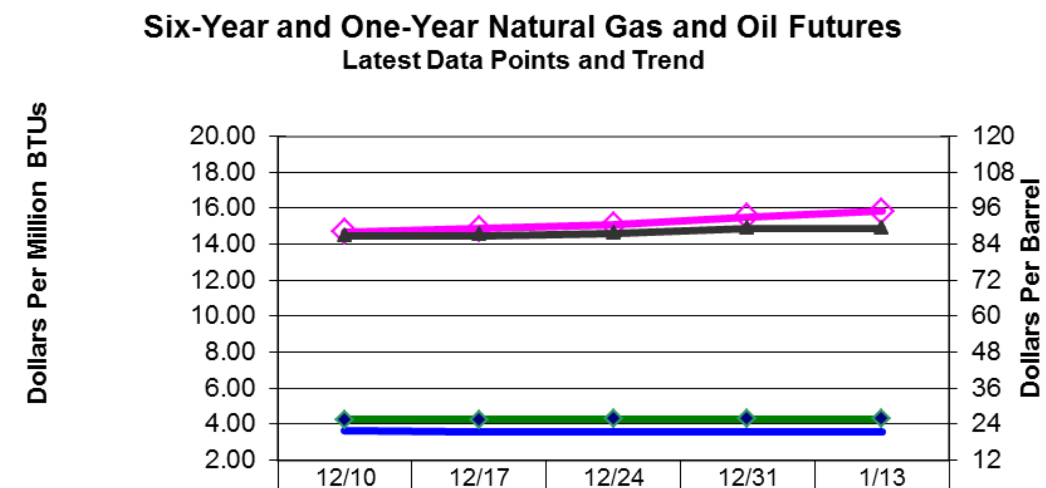

	12/10	12/17	12/24	12/31	1/13
12 Mo Natural Gas	3.64	3.56	3.57	3.60	3.61
72 Mo Natural Gas	4.27	4.26	4.30	4.31	4.30
12 Month Oil Strip	88.07	89.15	90.36	93.10	95.07
72 Month Oil Strip	86.77	86.98	87.58	89.27	89.15

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