# Encana Corporation: The Choice

Agenda
- Introduction
- Encana
- Joint Ventures
- Canadian Industry
- PetroChina
- Chinese Market
- Evaluation of The Project
- Conclusion

## Introduction

"We are interested in your Douvernay oil gas field in Alberta, and we would like to invest $2.18 billion in the project and ask for a 49.9 per cent project revenue in return.

-- PetroChina

## Encana Corporation

- North Amercian energy producer of natural gas, oil and NGLs.
- Land eara: Western Canada 9.1million; US 2.6million
- Objectives: maintain financial strength, optimize capital investments, low-cost production growth
- liquefied Natural Gas Export Development (Mar, 2011)

Joint Ventures

## Canadian Industry

Canada is the sixth largest oil producing industry
- an average of 438,000 cubic meters per day
- most of canadian petroleum is production for export
- major product construction
  - Conventional crude oil: 45%
  - Bitumen from oil sand: 49.5%
  - Natural gas: 5.5%
- Globalization trend
- Competitive environment

PetroChina

- Regrouped from the previous China National Petroleum Corporation (Rank 6 of Global 500, 2011 and 2012) who holds 86.35% of its shares.
- It is a state-owned super larger energy corporation which focused on each process of natural gas and oil production and sales. The total sales revenue in 2011 was ¥2003.84 billion (c$306.84 billion)
- An employee number of half million
- Multinational business area including Republic of Costa Rica, Australia, Singapore, Russia, Cuba, Kazakhstan, and Great Britain, etc.

## Chinese Market

- Fast-growing economy with an increasing number of vehicles, heating market and industrial needs.
- New environmental policy: 2013 is the first year when natural gas starts to replace the traditinal fuel-- coal.
- 32% of gas consumption relies on importing, however, there was still a 22billion cubic meters requirement in 2013. Also, there was a 26% increase in gas price this year.
- Total oil import in 2012 was 271 million tons, which was a 6.8% increase compared to 2011. ( The United States was reducing its oil import, and started to export)

## Evaluation Process

Readers can use the assumptions outlined in the case to create a cash flow analysis ,discount rate and then compute a present value.

### CFs Analysis

A) We calculate average rate of retum according to use the revenue and cost in the consolidate satement:

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue (m) | 6,276 | 10,216 | 10,640 | 14,049 | 16,399 | 21,446 | 21,053 | 11,114 | 8,870 | 8,467 | 5,160 |
| Cost (m) | 5,175 | 7,604 | 7,552 | 10,149 | 9,456 | 16,625 | 11,834 | 9,175 | 5,676 | 8,463 | 9,991 |

The average rate of return = 3%

B) Forecast revenue and cost in 2013
-revenue: impact by foreign exchange rate, customer demand, government policy
Revenue of 2013 = 5160*[1+ (16.72%- 15.84%)]*(1+26%)*3%*1/4 + 5160
= 5,211.47 million

## Evaluation Process

### CFs Analysis

Cost = 9,991 - 2960 = 6921 million

Net Income of 2013 =5,211.471- 6921 = -1709.529million

## Evaluation Process

### Present Value

We use weigthed average cost of capital to calculate the discount rate:

**WACC = E/V * Re + D/V * Rd * (1-Tc)**

*Re = cost of equity*
*Rd = cost of debt*
*E = market value of the firm's equity*
*D = market value of the firm's debt*
*V = E + D*
*E/V = percentage of financing, i.e., equity*
*D/V = percentage of financing, i.e.,debt*
*TC = corporate tax rate*

We got the discount rate: 7.14%

To calculate the PV, we had NI of 2013 divided by 1+ 7.14%

PV = NI of 2013/ ( 1+ 7.14%)
= -$1,595.603 million

## Evaluation Process

NI of 2012 = - $4,381M
PV = -$1,595.60M

Increased by 66.98%

Conclusion

encana
natural gas

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- Is it the right time to let the Chinese enter?

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- **Exaro Enery III LLC** ( March 2012): $380 million with a 32.5% working interest
- **Mitsubishi** ( February 2012): $2.9 billion with 40% partnership interest
- **Nucor** ( November 2012): expects to invest $542 million over 3 years
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