

Parent: EnCana Corporation

Sector: Oil & Gas

Spinoff: Cenovus Energy Inc

Sector: Oil Company- Integrated

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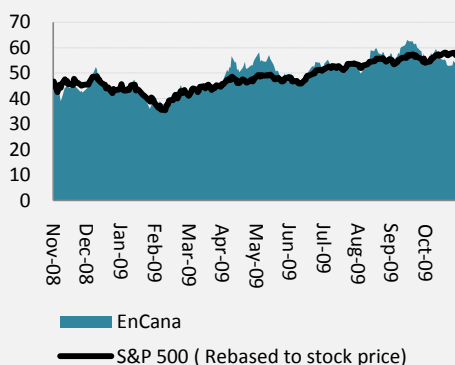
Global Spinoff Report

Valuations of Corporate Divestitures

Target price & risk

Target price	\$64 (\$41 Post Spinoff)
Share price	\$53.5
Horizon (months)	12
Risk	Low

Stock performance



Return 5d/YTD/1Y (%)	1/9/14
Volatility 30d/90d/200d (%)	36/34/45
High/Low 1Y (\$)	63/35
Avg d turn 30d/90d (\$ m)	157/134
Market Cap (\$ bn)	40.1
Net IB Debt (\$ bn)	13.2
Enterprise value (\$ bn)	53.3

Miscellaneous

Spinoff announcement date	Sept 09
Forthcoming Event Date	Dec 2, 2009
Majority shareholder	RBC Asset Mgm
Listing Exchange	TSX / NYSE
Ticker/Bloomberg	ECA US Equity
O/S shares m	750
Div Yield in %	2.99%
Free float in %	99%

Pure Play Natural Gas Strategy to Pay Off Well

On 25 Nov 09, EnCana Shareholders voted to Spinoff the Canadian Oil & Gas Company into two publicly traded companies, one focused on natural gas, the other on the Alberta oilsands. Post Spinoff, EnCana will focus exclusively on gas, while oil and refinery assets will be spun off into a separate company, Cenovus Energy, valued at an EV of \$23bn. The company had planned the move last year in Sept 08 until the world recession saw it halt the proposed Spinoff in October citing uncertainty in the global debt and equity markets. The move was revived in Sept 09 when EnCana saw global markets begin to stabilize. The arrangement will become effective on Nov 30, 09 and the Cenovus and post-Spinoff EnCana shares will begin regular trading on the Toronto Stock Exchange on Dec 3, 09 and on the New York Stock Exchange on Dec 9, 09 under the symbols CVE and ECA, respectively.

Why the Spinoff is so attractive?

Since its formation in 2002, EnCana has struggled to differentiate its two core assets. That struggle has especially hurt its oilsands interests, and has resulted in a share price that underperformed rivals. We believe the spinoff event will act as a positive catalyst enhancing shareholders value. **We have an Absolute Buy rating on the parent (EnCana) and Buy rating on the Spinoff entity (Cenovus).** Also an earlier Spinoff transaction of a Canadian company "Bankers Petroleum" operating in Oil & Gas sector which was done with a similar Spinoff rationale has performed exceedingly well. The Bankers Petroleum stock on which we had an Absolute Buy rating has generated 507% return since YTD. When we draw a parallel between the two spinoff stories, we are confident that this spinoff will also add value to shareholders.

Whether Spinoff makes both companies vulnerable to takeover?

Yes, we do not rule this out and agree with critics who fear that the Spinoff makes both companies vulnerable to a takeover, especially the natural gas assets. In our opinion, we see this as a major positive for the shareholders as it would attract more interest from financial institutions who would be interested in the M&A upside. From the recent comments from the Chairman David O'Brien **"there's no better protection against a takeover than a fully valued share"**. We believe the management also understands this fact, as the undervalued EnCana share will attract more M&A interest. However, this in our view is speculation and we have not considered the M&A scenario in our valuation.

Key figures and ratios (US\$ m)	EnCana (Parent Post Spinoff)			Cenovus (Spinoff Entity)		
	2009E	2010E	2011E	2009E	2010E	2011E
Turnover	7,943	8,889	10,203	9,751	14,082	15,452
EBITDA	4,155	4,984	6,344	2,722	3,609	4,096
EBIT	1,412	2,034	3,087	1,443	2,463	2,990
Net Profit	928	1,586	2,416	725	1,555	1,924
Revenue growth – Y-o-Y (%)	-41%	12%	15%	-41%	44%	10%
EBITDA growth – Y-o-Y (%)	-56%	20%	27%	-38%	33%	13%
EBIT growth – Y-o-Y (%)	-78%	44%	52%	-53%	71%	21%
EBITDA Margin	52%	56%	62%	28%	26%	27%
EBIT Margin	18%	23%	30%	15%	17%	19%
Net profit Margin	12%	18%	24%	7%	11%	12%
P/ B	1.3x	1.2x	1.0x	2.7x	2.2x	1.8x
EV/EBITDA	6.4x	5.3x	4.2x	8.2x	6.2x	5.4x