

## Case 1 (EnCana) Helpful hints: Financial Management for Engineers

### **General notes on case writing**

- Do not re hash what is written in the case, focus on analysis of information
- Give your own analysis and opinions based on what is contained in the case, backing up your argument with solid finance theory concepts learnt in the course
- Report should be broken down into four parts. A. Objective and problem identification. Explain to the reader why you are writing this case. B. Methodology, what methods will you use to solve the problem? C. Analysis of information. Generally provide three alternative solutions that will solve the problem identified in A above. D. Conclusions. In this part the conclusions should naturally flow from your analysis. Which of three alternatives did you choose as the ideal solution, explain why. The recommendations should state just that, the rationale for your argument is already contained in your analysis and conclusions.
- Do include tables' charts and relevant calculations in the main body of the report.
- Make sure your report "flows", that is one idea must link to the next one
- Make sure your report is professionally presented, including table of contents and page number. Make sure your report is bound.
- Print only on one side of the paper
- Leave "white" space. 12 Font and double space
- Always bring out your main points first
- Ensure good grammar and sentence construction
- The report must be no longer than 8 to 10 pages
- Appropriate use of paragraphs. Go to the next paragraph, when you go from one concept to the next
- Focus on logical progression of ideas rather than simply stating facts. Put some analytical thinking behind your ideas
- Avoid bombastic jargon, write your report in plain simple English
- No bullets in your report. Bullets tend to hide concepts linking one idea to the next
- If you must include material in the Appendix, make sure you refer to it in the main body of the report
- Write briefly and concisely, avoid repetition

### **Points specific to the case**

- Explain the relevance of calculating cost of capital. You may want to include this information in the Introduction section of the report
- Briefly critique some of the fallacies used in the case, for instance “so their cost is zero” (page 2 line 3). Always back up your argument with sound theory. This section to be included in the analysis part of the report.
- When calculating Cost of Capital always look into the future, not the past. Markets are forward looking and so must be the company’s cost of capital
- What proportion of debt and equity (D/E ratio) should EnCana use in its future financing? Look at the past EnCana D/E ratios for your answer. This addresses the question what should the optimal capital structure be for EnCana?
- Cost of financing( brokerage costs) must be included in calculating cost of capital
- Explain why you should use either short term or long term debt in calculating cost of debt for EnCana. Provide rationale for your argument
- When calculating cost of equity, use the following three methods: A. CAPM B. Dividend growth model( rate at which dividends have grown in the past in calculating g) and C. Internal growth rate method where  $g = ROE \times \text{retention ratio}$
- Compare the results of the above three methods. Explain which method (or a combination of methods) you prefer and why?
- Based on all of the above, what is the company’s overall WACC? Explain how you arrived at the answer