



Talisman: Is There Hope or is it Time to Pull the Plug?

Description

Talisman (TSX:TLM, NYSE:TLM) has been struggling with lackluster production growth, inefficient operations and a high cost profile for years. Recently, the company released its second quarter 2013 results, disappointing investors yet again with more of the same.

Second Quarter 2013 results

Second quarter profit fell over 50% on lower revenue and output, mostly hurt by production issues at its North Sea operations. Cash flow decreased more than 34% and production declined 17%. Production from ongoing operations was also disappointing and came in at 2% lower than last year. The following chart shows the breakdown of Talisman's production by region.

Segmented Production	
North America	48.0%
Southeast Asia	35.2%
Colombia	4.8%
Algeria	2.9%
North Sea	9.1%

North American production accounted for 48% of total production and decreased 17.6% as compared to last year. North Sea production was the other big disappointment, with production declining almost 65% due to the sale of the UK fields but also due to weaker than expected production in the British North Sea. In March the company expected 2013 North Sea production to average 41,000 to 46,000 barrels of equivalent oil per day (boe/d). Now it expects the region to average 34,000 boe/d in 2013. The North Sea is a mature, expensive area with declining production so it will probably continue to be a challenge.

Negative Free Cash Flow and Increasing Debt

Not surprisingly, free cash flow has been negative for years and the company has been increasing its debt position to fund this. To deal with this quickly deteriorating situation, management has started a

sales process for its Norway, Montney, North Duvernay assets and for its Ocesa oil pipeline in Columbia. The CEO has said in March that he wants to raise as much as \$3 billion from asset sales or joint ventures over 12 to 18 months to reduce debt and streamline the company. Deal flow has slowed so it remains to be seen whether the company will be able to attract the right offers.

Running out of Options

Although this kind of a turnaround takes time, given that Talisman has been trying to turn around its operations for many years now, credibility has been lost. The company is obviously not in a good state and I do not see a clear, well thought out strategy. What I see much more resembles desperation.

The other option is for the company to put itself for sale on the market and hope for a nice takeover offer. While the sum of the parts valuation is higher than where the stock is currently trading at, with the passage of time, more value is being destroyed.

Shell (NYSE: RDS) would be a logical buyer, as it has a 40% stake in Kitimat, the liquefied natural gas project in British Columbia, where Talisman operates and will export gas from fields such as the Montney. Shell also has fields in the North Sea so there is more of an overlap there as well.

Company Guidance

Talisman revised its 2013 production outlook to the lower end of the 375,000 to 395,000 boe/d. Cash flow guidance for 2013 was reduced to \$2.1 to \$2.3 billion versus prior guidance of \$2.5 billion.

Final Thoughts

If Talisman is not able to be profitable in an environment of \$100+ oil, it's clear that the problems run deep. While the stock is certainly cheap at this time, it's cheap for a very good reason. Will it continue be a value trap or will a take-over finally happen and monetize some of the value that is left in the company? Time will tell.

More expert advice

Talisman continues to struggle and there is a question mark about whether or not it will ever bounce back. Uranium – the key ingredient in nuclear power – is also currently mired in a struggle, however, this resource has the chance to be *the* fuel of the next 100 years. This is why the Motley Fool has prepared a special **FREE** report that outlines the opportunity that uranium provides, and profiles two companies that are poised for the boom. [Click here now](#) to download this report – at no charge!

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Fool contributor Karen Thomas owns shares of Talisman. The Motley Fool doesn't own shares in any of the companies mentioned.

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