



Why Talisman Investors Should Invest with 2015 in Mind

Description

We are witnessing a pretty remarkable trend reversing in the energy industry. For the past couple of decades North American energy producers have used the cash flows from production at home to invest in growth across the globe. This took them to places like the North Sea, the Middle East and Asia Pacific. Then a funny thing happened, technological advances were able to unlock new resources in North America. Now, investing international cash flows to grow production back home is all the rage.

Growth Comes Full Circle

Take **Talisman Energy** (TSX: TLM) (NYSE: TLM) for example. The Canadian energy producer used its North America cash flows to build out operations in the UK, Norway and Asia-Pacific in an effort to spread its wings and grow its oil and gas production. However, it's now reversing course in a way as it's monetizing some of those assets like the UK and Norway, while using the free cash flow of Asia-Pacific to fund its growth in North America. It's a strategy that's about to start paying some big dividends.

After investing more than a billion dollars per year to grow its North America liquids production, Talisman is about to start seeing some payback. If current trends hold steady, starting in 2015 its North American operations will start generating operating cash flow in excess of the capital it has been spending to grow production. The following slide shows that inflection point.

[talisman rising production](#)

Source: Talisman Investor Presentation

With production growing at a 30% annual clip, as well as growing cash flow, Talisman investors could find themselves in a pretty nice spot at some point down the line.

Plenty Left to Fuel its Future

A lot of that liquids growth will come from the Eagle Ford Shale in Texas. However, in looking at 2015 and beyond, Talisman has a promising position in the [Duvernay Shale](#) in Western Canada that could

be the next driver of growth. Talisman, along with **Encana** (TSX: ECA) (NYSE: ECA), are really helping to drive development of this play. Encana has already captured about half of the overall liquids rich acres in the play and is drilling 20 wells this year. Meanwhile, Talisman is finishing a three well program and initial results have confirmed the reservoir's quality as well as its high liquids yield. By 2015, Talisman could be diverting a healthy portion of its cash as it begins to really develop the Duvernay.

One final reason why 2015 could be a big year for the company is that it has a lot of upside to natural gas prices, especially at its Marcellus operations. Even with the low price of natural gas, Talisman is able to produce enough cash flow to self-fund its growth. If gas prices head higher the company will add cash flow, which could be used to fuel further growth or even be returned to investors through a bigger dividend.

This is actually the quandary that several low-cost Marcellus focused producers are beginning to find themselves in. For example, **Cabot Oil & Gas** (NYSE: COG) sees an extra \$278 million in free cash flow headed its way next year after spending about \$1.3 billion to grow production. The company could simply use the money to grow faster or boost its dividend. Clearly, it's a nice problem to have and one that Talisman will face if gas prices rise over the next few years.

Final Thoughts

Talisman has not only come full circle, but it's nearing an inflection point. Starting in 2015, its North American operations should start throwing off excess cash, which puts the company in a really nice spot as it has plenty of options to use that cash to keep growing as well as rewarding its investors. That's why investors really need to own this stock with a long-term mindset.

13 Stocks That Could Build Your Entire Portfolio

I really think a much higher dividend is in Talisman's future, but I know some can't wait that long for a big boost in income. That's why we're offering you our 13 best dividend stocks today. These will help you take the guesswork out of dividend investing. To access the Special **FREE** report that The Motley Fool assembled, "[13 High-Yielding Stocks to Buy Today](#)," just [click here](#) to receive a copy at no charge!

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Author

mdilallo

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