



## No Quick Fixes For Talisman

### Description

Investors are like dieters; they're always looking for a quick fix to their problems. It's no wonder headlines like 'How to Lose 30 Pounds in 30 Days' are staples of today's health magazines. It speaks to our desire for big results fast.

For months, **Talisman** (TSX: TLM, NYSE: TLM) has been under pressure to slim down operations in order to lift its share price. But Chief Executive Hal Kvisle is no T.V. pitchman hawking magic pills. On Wednesday, he gave it to shareholders straight: There are no quick fixes for the company. Investors need to be more patient.

#### No quick fixes

After almost a decade of disappointing returns, Talisman shareholders are growing impatient. Lately, they have been putting pressure on management to sell assets, simplify operations, or split the company. [And the pressure to do so only increased last month when activist investor Carl Icahn disclosed a 6.9% stake in the company.](#)

To their credit, Talisman's management team has responded to shareholder concerns by beginning the process of unloading non-core and low-quality assets. Last year, the company sold a 49% stake in its North Sea and U.K. operations to China's **Sinopec** for \$1.5 billion. Talisman has also slashed its CapEx budget and begun a major cost cutting initiative. But investors are demanding more.

However on Wednesday, Mr. Kvisle convincingly rebutted most of their suggestions.

How about more asset sales? Some activists are pushing to speed up divestments to complete the turnaround faster.

Talisman is clearly trying and management sees one or two more deals coming by the end of the year. However, asset sales in this environment are difficult to pull off. There's a glut of dry gas properties on the market and few buyers looking to bid.

The company had aimed for an outright sale of its North Duvernay properties. A number of international firms expressed interest in the play, but balked at the idea of developing the shale gas

resource on their own without the technical expertise of a Canadian partner. Talisman is now setting its sights on a joint venture deal instead.

Kvisle did not specifically address the Montney shale gas play, another asset that the company is looking to unload. However, buyers are reluctant to pay for gas deposits until the British Columbia government unveils its tax plan for liquified natural gas exports.

Yes, deals can be made. The turnaround could be completed faster. But probably not at a price that's acceptable for shareholders.

How about splitting up the company? Many armchair investment bankers have suggested that such a maneuver could unlock some value.

But once again Mr. Kvisle brushed off this idea explaining that a split would threaten the company's investment grade credit rating. Talisman also has obligations to bondholders that would get in the way of such a transaction.

### **Investors need patience**

Watching the turnaround play out at Talisman resembles a fashion fiesta updating their wardrobe for the latest style. Black is out this winter. Colour is in. But don't expect to be paid a premium at the consignment shop when you try to sell last year's must-have item.

Talisman has the right strategy on paper. Transitioning away from dry gas to an oilier production mix is exactly what's needed to improve the company's fortunes. But the reality of actually implementing that plan is a different matter altogether. Talisman isn't the only company that sees the opportunity in liquids and few buyers are looking to invest in natural gas.

Wednesday's call was also a warning for **Encana** (TSX: ECA, NYSE: ECA) shareholders. Earlier this week, [Encana unveiled a new strategy](#) to ramp up liquids production while divesting the company's huge dry gas holdings. It's the right move. But investors may be surprised at how little these asset sales will actually fetch at auction.

### **Foolish bottom line**

Shareholders pushing for a faster turnaround at Talisman need to be patient. It's like the dieter looking to lose 30 pounds in 30 days. Is it possible? Sure. Is it healthy? Nope.

Talisman has committed to slimming down. They're already looking a little leaner. But rushing the process is not the most profitable strategy nor is it in the long term interests of the company.

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Disclosure: Robert Baillieul has no positions in any of the stocks mentioned in this article.

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