



Talisman Energy Is Hitting New Lows; Is Now the Time to Buy?

Description

Lackluster global oil explorer and producer **Talisman Energy** (TSX:TLM)(NYSE:TLM) continues to see its share price slide. It's now down 16% for the year-to-date despite the company's turnaround strategy remaining on track.

It was only this week that Talisman confirmed it had completed the sale of approximately 127,000 net acres of its Montney position in northeast British Columbia to Progress Energy Canada Ltd, a wholly owned subsidiary of Malaysia's Petronas for \$1.5 billion. With these funds earmarked for the repayment of debt, Talisman's shattered balance sheet will continue to strengthen.

Will Talisman bounce back in 2014?

Overall in hindsight, it is easy to see why Talisman claims 2013 was a foundational year for the company. During the course of the year Talisman not only completed a number of crucial asset sales but it was able to drive significant operational improvements.

Key among these was driving higher oil liquids production in North America, which jumped a healthy 30% in comparison to 2012 as well as improving North American operating performance through reduced drilling and completion costs. It also produced its first oil at offshore block 15-2/01 in Vietnam, ahead of schedule and under budget.

More impressively, Talisman reduced its overall cost structure in 2013 by cutting capital expenditures 20% in comparison to 2012 and reducing general and administrative costs by 20% for the same period. It also cleared the decks for 2014 by taking impairment charges totaling U.S. \$946 million against its exploration and oil producing assets.

These moves have left the company well positioned to unlock further value for investors over the longer term. But it may be some time before the turnaround strategy rewards investors because the ongoing divestment of non-core assets will continue to see both oil production and reserves fall. That negatively impacts revenue, cash flow and profitability as well as the company's core underlying value.

The asset sales completed in 2013 alone saw average daily oil production fall 5% and oil reserves 11% in comparison to 2012. The additional asset sales targeted for 2014 and 2015, totaling \$2 billion, will

further negatively impact oil production and reserves, potentially causing a further drop in Talisman's financial performance and underlying asset value.

Talisman has provided 2014 production guidance of an average of 350,000 barrels of oil being produced daily, which while a moderate increase of 1% on 2013, is a 4% decrease in comparison to 2012. When coupled with a netback per barrel – an important indicator of an oil company's core profitability – that has fallen by 24% since 2011, it will be some time before Talisman's financial performance improves.

Is now the time to invest with Talisman flirting with new 52-week lows?

Talisman's share price has plunged by over 28% in the last two years and is now flirting with new 52-week lows. Is now the time to take a long-term contrarian bet on the turnaround succeeding?

Despite the implementation of the turnaround strategy, Talisman — unlike **Penn West Petroleum** (TSX:PWT)(NYSE:PWE) which has seen its netback plunge to \$29.69 per barrel — has been able to maintain a credible netback of U.S. \$35 per barrel of oil. This bodes well for its ability to maintain core profitability and compares favorably with **Crescent Point Energy's** (TSX:CPG)(NYSE:CPG) \$47.65 and **Husky Energy's** (TSX:HSE) \$37.72 per barrel.

At this time Talisman is also starting to appear attractively priced when a range of key valuation metrics for valuing oil explorers and producers are considered. It has an enterprise value of only 12 times its oil reserves and an enterprise value as a ratio to average daily production of \$44,000 per barrel of oil produced. These are considerably lower than many of its peers as the chart shows.

[Talisman Val Ratios 130314](#)

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Clearly Talisman now appears attractively priced after having shed 16% from its share price for the year-to-date, leaving it with some low valuation ratios in comparison to its peers.

Foolish bottom line

Talisman's share price continues to founder with investors having lost confidence in the company and the ability of its management team to turn it around. But there are promising signs for contrarian investors who have the stomach to take a bet on the turnaround strategy succeeding — especially with Talisman now flirting with new 52-week lows and trading with some attractive valuation ratios.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:VRN (Veren Inc.)

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