



Should You Buy Shares of This Troubled Energy Company?

Description

The past 12 months have been very good for Canadian energy. Over this time, the **S&P/TSX Energy Index** is up over 30%. It's left many investors happy to reap some nice gains, but those who have missed out are now wondering if now is too late to get in.

But not every energy company has participated in the rally, and one stands out in particular for missing out: **Talisman Energy** (TSX: TLM)(NYSE: TLM). The shares have returned only 2.2% over the past 12 months, including a -5% return so far in 2014. So what has held the company back? And is this an opportunity for contrarian investors?

Global ambitions

While many energy companies in Canada have focused operations in Canada, Talisman has had greater ambitions, with operations in Canada, the United States, Colombia, the North Sea, Algeria, Kurdistan, and the Asia Pacific region. More than half of the company's assets are outside of North America. And like many companies with global ambitions, there have been plenty of painful experiences for Talisman.

The worst problems have occurred in the North Sea, through acquisitions dating back to the 1990s. There have been project delays, production cuts, and asset write-downs. The worst has been the Yme project in Norway, which likely will never reach commercial production.

Trying to scale back

Ever since former CEO John Manzonni was ousted in 2012, Talisman has ferociously tried to scale back in an effort to simplify the company. New CEO Hal Kvisle has also said he is open to selling Talisman outright. Both have proved difficult.

Again, one of the main problems has been the North Sea, which has scared off potential buyers. Talisman did manage to sell 49% of its UK business to Sinopec two years ago, but that came with a commitment to spend \$2.5 billion over five years in the region. That's proven to be a bitter pill to swallow.

As Mr. Kvisle put it, "it's primarily the North Sea, both the Norway side and the UK side, that's been a big burden. We continue to work to get out of it, but it also slows things down."

So is there an opportunity?

When billionaire Carl Icahn bought a 6% stake in Talisman late last year, people took notice. So that begs the question: Does Talisman hold significant value?

According to the most recent Annual Information Form, Talisman's total reserves are worth \$13.2 billion (discounted at 10% after tax). This compares to an enterprise value of roughly \$17 billion. So you have to pay a premium for Talisman's assets, even though the company is struggling to rid itself of unwanted projects.

Compare this with a company like **Canadian Natural Resources** ([TSX: CNQ](#))([NYSE: CNQ](#)), a company that is firing on all cylinders, but is still only trading at about the value of its reserves.

It appears that Talisman is trading at a premium either because investors want to follow Carl Icahn or because they think the company will be sold soon. But that is not worth paying such a premium for. You're much better off paying a fair price for a proven winner like CNRL.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. TSX:CNQ (Canadian Natural Resources Limited)

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Date

2025/07/26

Date Created

2014/05/14

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