



Don't Overlook Talisman Energy

Description

Investors don't seem to care much about **Talisman Energy** (TSX: TLM)(NYSE: TLM). The stock has vastly underperformed the market over the past few years, as sinking natural gas prices had a big impact on the company's bottom line. That has caused the company to fall off the radar of investors. However, those investors are missing something very important, because Talisman Energy is loaded with potential.

Two big value drivers

Talisman Energy's North American operations are anchored by its position in the dry gas Marcellus Shale, its heavy oil position in Chauvin, and its liquids-rich position in Greater Edison. However, beyond that, the company has a developing opportunity in the Eagle Ford Shale as well as the potential for exceptional upside in the Duvernay Shale.

Those last two areas are spots where fellow Canadian producer **EnCana** (TSX: ECA)(NYSE: ECA) also sees big potential. In fact, EnCana recently spent US\$3.1 billion to buy **Freeport-McMoRan's** ([NYSE: FCX](#)) position in the Eagle Ford Shale. While Freeport-McMoRan would rather take the time and spend the money on massive projects like the deepwater Gulf of Mexico, it didn't want to be drilling the rapidly declining liquids-rich shale wells. On the other hand, these same shale wells really move the needle for companies like EnCana and Talisman.

In Talisman's case, its Eagle Ford Shale position is just about to hit its stride. The company sees the position becoming cash-flow positive by 2016. While that's a few years behind EnCana's position, that's only because Freeport-McMoRan was using the Eagle Ford Shale as a cash cow instead of a growth engine. By 2016, the Eagle Ford Shale will deliver both cash and growth for Talisman Energy, which is something investors likely are not realizing.

Meanwhile, Talisman Energy's position in the Duvernay Shale is very, very compelling. As the following slide shows, the company is sitting on a massive resource base.

[talisman resource potential](#)

Source: Talisman Energy May 2014 Investor Presentation

As this slide notes, there is enough prospective resource potential in the Duvernay to rival the company's combined position in the Marcellus and Eagle Ford plays. It's a play that Talisman sees having a core fairway being twice as big as the Eagle Ford Shale and capable of producing 50,000 barrels of oil equivalent per day for the company.

The turning point is coming

As a whole, Talisman Energy is about to hit a turning point. By the end of next year the company will be cash-flow positive, as its capital program will be completely self-funding. The following year the Eagle Ford Shale will also turn cash-flow positive, which will provide another boost to the company's bottom line.

What investors need to realize is that this shift isn't happening because Talisman Energy is toning down its capital spending program. It's actually quite the opposite, as the company will grow its investments as its cash flow grows; however, its cash flow will be growing faster than its capital spending. Add it all up and Talisman is on a pathway to sustainable and profitable growth. Production is expected to grow from about 160,000 barrels of oil equivalent per day this year to nearly 220,000 barrels of oil per day by 2018.

Talisman Energy really is making some great strides. The company is on the pathway to profitable growth, with its cash flow expected to exceed its spending by the end of next year. That shift should help fuel a rise in the company's stock price and might finally end its years of underperformance.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:FCX (Freeport-McMoRan Inc.)

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