



## What Does Repsol's Interest in Talisman Mean for Investors?

### Description

Struggling global oil explorer and producer **Talisman Energy's** (TSX: TLM)(NYSE: TLM) shares surged on Wednesday on news that Spanish integrated energy major Repsol was taking a closer look at the company and its assets. Whether this portends a potential takeover of Talisman by Repsol or that it's solely interested in acquiring some of Talisman's far-flung assets is unknown.

### Why is Repsol interested in Talisman?

Talisman has been trying to shed a substantial number of assets and attempted to refocus its operations and rebuild its shattered balance sheet for some time now. This has seen the company refocus on its more profitable North American and Colombian crude liquids assets while seeking to divest itself of a range of non-core assets, including its troubled ones in the North Sea. It also commenced reviewing its portfolio of Asian assets in June 2014, which are valued at over \$4 billion, with a view to divesting itself of some or all of those as well.

Meanwhile, Repsol has been in the market to acquire liquid-rich oil assets with solid exploration upside since receiving compensation from the Argentine government for its expropriation of **YPF S.A.** ([NYSE: YPF](#)). This compensation amounted to U.S.\$5 billion and left Repsol cashed up to acquire oil and gas assets to replace those lost with the expropriation of YPF.

There were some initial rumors it would acquire **Pacific Rubiales** (TSX: PRE), Colombia's largest independent oil producer, but these amounted to nothing as Repsol is determined to invest in OECD countries and reduce its exposure to frontier markets. This will allow it to better manage geopolitical risk, with OECD jurisdictions perceived to have lower levels of risk.

### What assets will Repsol acquire?

The assets Repsol is looking to acquire from Talisman are unknown, but it is unlikely that Repsol would make a tilt to acquire all of Talisman. Talisman has an enterprise value of over U.S.\$15 billion, making it a significant acquisition to digest. It would also be a risky move because a takeover would see Repsol inherit all of Talisman's existing problems, including its problem assets and production weighting towards natural gas.

This suggests that Repsol will seek to cherry-pick those assets that are a good fit for its existing operations. The jewels in Talisman's crown are its North American and Colombian assets, which may be a good fit for Repsol as it already has extensive operations on both continents.

Any asset sales will be beneficial for Talisman, but it does appear the company will be unable to divest itself of its more troublesome assets, including those in the North Sea, that are hampering its overall operational and financial performance. Talisman's North Sea assets continue to generate thin profit margins for the company, with a netback for the first quarter 2014 of \$21.80 per barrel compared to \$44.97 to \$49.60 for the remainder of its operations.

The key assets in which Repsol is interested are the key drivers of growing crude production, margins, cash flow, and profitability for Talisman, and the loss of those assets will have a direct impact on its financial performance. All of these factors make this interesting news for shareholders, but the overall long-term impact for Talisman investors may not be as positive as first thought, making now not the best time to invest until there are clearer signs of Repsol's intent.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:YPF (YPF Sociedad Anónima)
2. TSX:FEC (Frontera Energy Corporation)

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## Author

mattsmith

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