



Talisman Energy Inc.'s Deal With Repsol Is Failing; What Does That Mean for Investors?

Description

According to a report in the *Wall Street Journal* the other day, talks between **Talisman Energy Inc.** (TSX: TLM)(NYSE: TLM) and Spain's Repsol are as cold as ice. The *Journal's* sources aren't saying the deal is dead, but right now there is no telling when a deal might ever get done.

Meanwhile, the latest reports from Bloomberg suggest that a deal for the entire company is in fact dead and the two are now just discussing asset sales. Because of this, it's becoming apparent that Talisman Energy will stay independent. However, a doomed sale doesn't necessarily mean the entire company is doomed to fail.

Talisman is open to offers

Talisman Energy has made it no secret that it's open to offers for individual assets or even the entire company. The company has already disposed of \$6.6 billion worth of assets since 2011 and is targeting another \$2 billion in asset sales over the next 12-18 months. The assets it would love to unload are its oil assets in northern Iraq as well as its assets in the North Sea, which CEO Hal Kvisle has called a source of "intractable inertia" as it just can't overcome declining oil production no matter how much it spends.

The fact that Talisman Energy has had harsh words for these assets in the past certainly isn't helping the sales process. In fact, according to the Bloomberg report the reason Repsol is walking away from a complete takeover is that it couldn't find buyers to flip these assets to after it acquired Talisman. What it would like to do is buy some of Talisman's North American shale assets, but even if no deal made the company's future isn't bleak.

Turning point ahead

Talisman Energy is about to hit an inflection point in 2015. That's when the company's North American assets are projected to start producing free cash flow. That cash flow will be further bolstered in 2016 when its Eagle Ford Shale assets are projected to be free cash flow positive.

This free cash flow, when combined with the steady 5% production growth projected from the company's assets in Asia-Pacific, will put Talisman Energy on a steady course for the future. The company projects that it will be able to grow companywide production within its two core operating areas by a 5% compound annual growth rate through 2018 while its cash flow will grow at more than twice that rate. This will help the company get its debt back in line and give it the capacity to make small bolt on acquisitions in its core regions.

Further, Talisman Energy has a lot of upside due to its position in the liquids rich Duvernay Shale play in Canada. The company's prospective resource potential is close to two billion barrels of oil equivalent, which is nearly twice its potential in the Marcellus and nearly four times its Eagle Ford Shale potential. Because of this upside investors are likely lucky the company isn't selling out just yet.

Investor takeaway

Talisman Energy's deal with Repsol might be a cold as ice, but the company's future is heating up. This is why the company simply won't just give away its assets to Repsol or any other buyer as it knows that it doesn't have to deal them in order to create value for investors. So, while a deal with Repsol might have given investors a quick exit the company is not doomed as it has the makings of a compelling future.

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