Talisman Energy Inc vs. Canadian Natural Resources: Which Belongs in Your Portfolio?

Description

If you’re looking for companies with depressed stock prices, no doubt **Talisman Energy** (TSX: TLM)(NYSE: TLM) has crept onto your radar screen. Since early 2011, the energy company’s shares have fallen by more than half.

Talisman has emerged on many other radar screens as well. Last year, activist investor Carl Icahn took a stake in Talisman, and Spanish giant Repsol was in talks with the company earlier this year.

So with the shares trading just above $10, is this the time to add Talisman to your portfolio? Well, not necessarily. Below we take a look at two reasons to stay on the sidelines, and then suggest one stock to buy instead.

2 reasons to avoid Talisman

1. Problems with international assets

CEO Hal Kvisle has said that “if you could draw a ring around our North American business and operate it as a standalone company, it would look pretty good relative to a lot of our peers.” Unfortunately, that cannot be done. And that means the company must face the music with its international assets. The biggest issues are in the North Sea.

These North Sea properties are technically assets, but could also be looked at as liabilities. They are very mature, subject to declining production, and are very expensive to abandon. Worse still, a joint venture with China’s Sinopec comes with a five-year commitment to spend $2.5 billion, which Mr. Kvisle has acknowledged is a major burden.

Talisman also has assets in areas such as Malaysia, Vietnam, Papua New Guinea, and Iraq. This makes a sale of the company very difficult and may have been a reason why Repsol abandoned its takeover plan. It also makes the company’s turnaround that much harder.

2. The balance sheet

To Mr. Kvisle's credit, he has begun to sell some assets, such as those in the Duvernay and Montney region in Western Canada. Such efforts are a step in the right direction, and help repair the company's balance sheet.

But Talisman's debt level is still a major concern – as of the end of the second quarter, net debt stood at about $4.3 billion. This restricts the company's ability to pursue long-term projects – instead, assets with quicker turnarounds (such as the Eagle Ford and Marcellus) must be pursued. While these are not necessarily unwise decisions, it does emphasize how restrained the company is. And over time, that could hurt the company.

1 stock to buy instead: Canadian Natural Resources

Canadian Natural Resources (TSX: CNQ)(NYSE: CNQ) is arguably Canada's best-in-class energy company. More specifically, it has developed a reputation for smart capital allocation, ferocious cost control, and measured growth. As a result, shareholders have benefited tremendously, earning 16% per year over the last decade, compared to 2.4% for Talisman.

Today, CNRL has other advantages over Talisman. Almost all of its production is in Western Canada, which makes the company simpler to manage. It also has a much cleaner balance sheet, which gives the company more flexibility. In fact, while Talisman was selling assets into a buyer's market, CNRL was buying $3.1 billion worth of gas assets from **Devon Energy** at a bargain price.

So at this point, why take a chance on a struggling operator when you can buy a best-in-class company like CNRL? The choice should be clear.

CATEGORY

1. Investing

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

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