



What Should Billionaire Carl Icahn Do With His Talisman Energy Inc. Shares?

Description

Just over a year ago, billionaire activist investor Carl Icahn revealed that he had accumulated a 6% stake in **Talisman Energy Inc.** (TSX: TLM)(NYSE: TLM), and this year he topped up that stake to 7.3%. Unfortunately, Talisman shares are down nearly 60% over the past year. So Mr. Icahn is certainly feeling the pain.

Luckily, a man of Mr. Icahn's wealth can afford this. But that still leaves the all-important question: what should he do with his shares?

Some major problems for Talisman

First, let's establish some context. What's gone wrong for the company?

Well, Talisman was one of many companies that expanded too quickly, then ran into operational problems. And for the last couple of years, the company has been dealing with these mistakes, mainly by trying to sell down assets. A sale of the entire company would probably be ideal.

Unfortunately, this has proven to be very difficult. The main problems lie in the North Sea, where Talisman's assets are high-cost, face declining production, and come with big capital obligations. These assets have proven practically impossible to sell. Making matters worse, they have made a sale of the entire company that much harder.

So oil's decline is just the latest of Talisman's problems.

Oil prices likely to remain depressed

Making matters worse, there appears to be little relief in sight. The world's major producers seem determined not to cut production, and instead are playing a game of chicken.

On one side, the Saudis seem intent on destroying higher-cost producers, like U.S. shale oil companies. The country clearly does not have the sway that it used to, and realizes that a production cut would only result in reduced market share. Its actual strategy makes sense, even though it's a

break from history.

But U.S. shale producers have managed to lower costs dramatically, and these companies typically remain profitable, even at current prices. For example, data from North Dakota says that rig owners need only US\$42 oil to make a 10% return.

So don't expect any producers to turn off the taps just yet.

Talisman stands to lose more than most

So which companies will lose the most from oil's slide? Well, high-cost producers will certainly suffer. Those with high debt levels will run into financial difficulty. And companies looking to sell assets will have trouble doing so.

And Talisman falls into all three categories. Besides its high-cost North Sea assets, which the company is looking to sell, Talisman still has \$5 billion in debt. This is a big number for a company worth less than \$6 billion. So the perfect storm could easily get a lot worse for Talisman.

Thus Mr. Icahn should probably cut and run from his Talisman shares. But there's some good news for him: he can claim some pretty substantial capital losses on his tax return.

As for the rest of us, I'd say Talisman is a stock to avoid at all costs.

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