



After Talisman Energy Inc. Doubled, Are More Such Deals on the Horizon?

Description

Most people who held **Talisman Energy Inc.** (TSX: TLM)(NYSE: TLM) stock have not done very well this year. After all, the shares traded for more than \$13 in late January, and bottomed out at roughly \$4. But if you had perfect timing, and bought the shares last Thursday, you would have more than doubled your investment. The key of course was Spanish giant **Repsol S.A.**'s US\$8.3 billion acquisition of Talisman.

And there are reasons to believe that Repsol got a great deal. The timing certainly is very fortuitous, with the Talisman's shares having declined so much. Repsol is also paying significantly less for Talisman's stock than billionaire activist investor Carl Icahn did last year.

So that brings about an obvious question: Are other big takeovers on the horizon? Below we explore the possibility.

Did Repsol actually get a good deal?

If Repsol got such a good deal, then its shareholders are having a tough time realizing it. On its conference call, no one was congratulating management on the acquisition.

The mood was much brighter at Talisman HQ. As said by CEO Hal Kvisle, "I think it would be hard not see that shareholders would be happy with this deal. Our stock was priced at the \$4 or \$5 level for a reason and that was that with lower commodity prices, people could see that our cash flow per share was going to go down significantly." Mr. Kvisle also said that the "overwhelming majority" of the company's largest shareholders were supportive of the deal.

So it's easy to see why Repsol's shareholders are skeptical, especially since the company really wasn't bidding against anyone else.

There are plenty of options

As can be seen, other oil major executives should feel no need to emulate Repsol's actions. Megamergers are hard enough in normal times, and in today's oil price environment, it's hard to

know what any company is worth anymore.

If oil executives have cash to spare, and want to bet on an oil recovery, there are better options. First of all, many smaller producers are looking to sell individual assets. Many of these companies likely have overstretched balance sheets, and may be desperate enough to sell assets at a big discount.

Alternatively, an oil major could make a similar bet by repurchasing its own shares.

Fundamentals still matter

When looking at the big picture, Talisman's shareholders got quite lucky. And if you're looking for more such deals, you're likely to be disappointed. So instead of hoping for more takeovers, you should evaluate these companies on their individual merits.

With oil prices this low, these companies remain incredibly risky. A wait-and-see approach is likely your best bet in this sector.

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