



## Which Oil Company Could Be the Next Acquisition Target?

### Description

Flash back to December 2014. **Talisman Energy Inc.** (TSX:TLM)(NYSE:TLM) shares are trading at close to \$4 per share. Then all of a sudden, Spanish giant **Repsol** agreed to acquire Talisman for US\$8.3 billion. Talisman's shares more than doubled in response.

Repsol's takeover was a major relief for Talisman, which had been looking to sell itself for quite some time. Declining oil prices only put more pressure on Talisman, which had some undesirable assets and a big debt load on its books.

Fast forward to today, with oil prices remaining depressed, and unlikely to recover for at least a few months. This is putting plenty of energy producers under the same kind of pressure that Talisman was under.

So will any of these companies be the next Talisman? The *Financial Post* asked that very question in an article on Tuesday. Below we take a look.

### A couple of potential candidates

There are plenty of energy producers that could be looking to sell out. Two in particular are worth highlighting.

One is **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE), a company that has gone through plenty of problems. Burdened by \$2.2 billion in debt, an accounting scandal, underperforming assets, and plummeting oil prices, Penn West has seen its shares fall by over 75% in the last year alone. With oil prices so low, the company remains under serious financial pressure, and does not have the capital to develop all of its assets.

It's been a similar story for **Lightstream Resources Ltd.** (TSX:LTS), whose shares have declined by over 80% in the last 12 months. And like Penn West, Lightstream is burdened by a big debt load, which now stands at \$1.6 billion (over eight times the company's market value). Lightstream hopes to sell its Bakken assets to pay this debt down, but will have trouble getting a good price for these assets. If a potential suitor came along with enough capital, Lightstream could easily be snapped up for a bargain.

### A losing game

This does not mean you should be buying Penn West or Lightstream shares. In fact, it means quite the opposite. Think about it. These companies are perfect takeover candidates, but only because they're in serious financial trouble. And is that really the kind of company you want in your portfolio? Making matters worse, this is clearly a buyer's market. There are tons of companies looking to sell assets – including Penn West and Lightstream – and relatively few buyers.

Looking back, Talisman clearly got very lucky. Repsol certainly had other ways to spend that US\$8.3 billion. And if it had waited, it probably could have gotten some very sweet deals today. So you don't want to be chasing the next Talisman – if you do, then you'll need to get very lucky too.

### Better alternatives

Instead, if you're looking to bet on an oil price recovery, you should be investing in one of the potential buyers.

For example, **Canadian Natural Resources Ltd.** ([TSX:CNQ](#))([NYSE:CNQ](#)) has a history of exploiting downturns to pick up cheap assets. A perfect example occurred last year when it bought \$3.1 billion of natural gas assets from **Devon Energy Corp** ([NYSE:DVN](#)) when no one else wanted them. And CNRL is well-positioned to make history repeat itself.

### CATEGORY

1. Energy Stocks
2. Investing

### TICKERS GLOBAL

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