



Talisman Energy

Recommendation: **Strong Buy**

Target Price: **\$14.00**

Risk Rating: **Moderate**

Symbol(s):	TLM
Exchange(s):	Toronto
Industry:	Oil Producer
Price (C\$/share):	\$11.84
Market Cap(\$bn):	\$12.22
Cash (\$mm):	\$379
Debt (\$mm):	\$5,139

Div Yield (Last 12M):	2.40%
Div Yield (Indicated):	2.50%

	2014E	2015E
EPS:	\$0.24	\$0.22
P/E:	49.7x	54.3x
CFPS:	\$2.39	\$2.47
P/CF:	4.9x	4.8x
Debt/EBITDA:	1.6x	1.6x

Implied Upside: From Target	18.2%
Total Implied Upside:	20.7%

Company Description

Talisman Energy is a global upstream oil and gas company. Its two core operating areas – the Americas (North America and Colombia) and Asia-Pacific – account for 90% of its production and 95% of 2P reserves. Talisman reports financial results in USD.

Elvis Picardo, CFA
Gint Austrins

Reiterate Strong Buy, target unchanged at \$14

Investment Thesis

Talisman continues its evolution toward core two-region company (Americas and Asia-Pacific) as it works to reduce exposure to North Sea and other non-core areas. Significant upside possible as asset sales continue (US\$2B targeted) and debt is reduced.

Financial Results

- TLM reported an unexpected loss of US\$237 mm in Q2 or US\$0.23 per share, primarily due to adverse impact of US\$171 mm relating to cash settlements and a non-cash mark-to-market loss on commodity derivatives. It also recorded an after-tax impairment charge of US\$62 mm after lowering the discount rate on its asset retirement obligation liabilities by 100 bps.
- Adjusted loss ex-items was US\$9 mm, compared with year ago operating earnings of US\$79 mm, due to lower N. American gas prices, partly offset by higher liquids volumes.
- Q2 cash flow rose 8% y/y to US\$567 mm, but was down 8% from Q1 due to the impact of the sale of 123 mmcf/d dry gas production from the Montney and Monkman assets, and lower N. American gas prices.
- Q2 total production rose 4% y/y to 375,000 boe/d (61% nat-gas). Production from ongoing operations in core regions rose 12% y/y and 4% from Q1 to 330,000 boe/d (50% nat-gas). Liquids production output from core areas rose 20% y/y to 115,000 boe/d.
- Net debt at end-Q2 rose to US\$4.2B, from US\$3.8B at end-Q1. Capex of US\$724 mm was in line with full-year guidance of US\$3.2B.

Outlook

- TLM reiterated that it aims to divest US\$2B of non-core, capital intensive assets over next 12-18 months, with proceeds used to reduce debt.

Catalysts

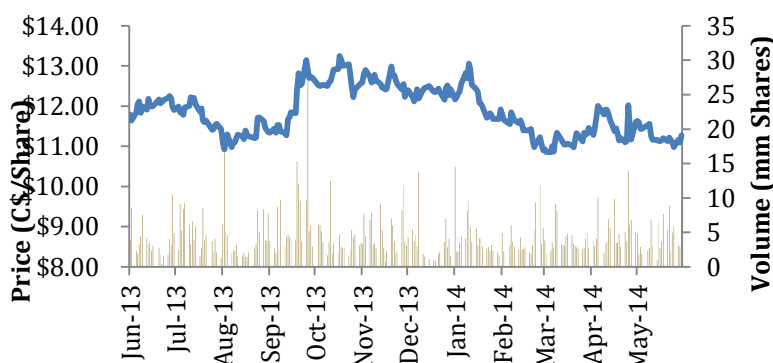
- Stock trades at significant discount relative to its peers.
- Attractive asset portfolio may lure buyers. Talisman said on July 23 that it has been approached by Spain's Repsol SA regarding potential deals.

Valuation

- Trades at ~5.0x est. FY14 CFPS of \$2.39. Target price, based on 6x EV/EBITDA multiple applied to est. FY14 EBITDA of \$3.12, is \$14.

Risks

- Failure to divest assets and reduce debt may stress balance sheet.
- Dividends may be at risk if operational performance does not improve.





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Research Rating System

Strong Buy: Expected total returns of 20% or more over the next 6 – 12 months.

Buy: Expected total returns of 10% to 20% over the next 6 – 12 months.

Speculative Buy: Significant gains expected over the next 6 – 12 months, but entire investment may be at risk.

Hold: Expected total returns of 0% to 10% over the next 6 – 12 months.

Reduce: Expected total returns of up to -10% over the next 6 – 12 months.

Sell: Expected total returns of over -10% over the next 6 – 12 months.

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