

BN            Repsol's Talisman Price Makes Other Oil Deals Look Extravagant  
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By Rebecca Penty

(Bloomberg) -- Repsol SA's takeover of Talisman Energy Inc. is making the rest of North America's big energy purchases of 2014 look extravagant.

The Spanish company's \$13 billion deal to buy the Canadian producer was the cheapest among the five largest oil and natural gas purchases on the continent this year, including debt. With crude prices close to the lowest since 2009, Repsol avoided a lofty offer as oil plunged.

The 47 percent drop in crude prices since June is crimping returns and has probably lowered selling prices for oil-producing land by about a quarter, according to Morningstar Investment Services Inc. The \$7.1 billion that Encana Corp. agreed to pay for Athlon Energy Inc. in September is five times more per barrel than Repsol's offer for Talisman.

"There's no doubt about it, some of these deals look terrible in hindsight," said John Stephenson, co-founder and chief executive officer of Stephenson & Co. in Toronto, which manages C\$50 million (\$43 million). "They look like total top of the market, top-tick embarrassments."

Frenetic drilling by energy producers across North American shale deposits drove many of the \$99 billion in exploration and production acquisitions this year. That's almost double the value of 2013, according to data compiled by Bloomberg.

The shale boom is also partly to blame for oil's collapse, with a global glut keeping a lid on prices. That erodes cash flow for North American producers as they battle for market share with the Organization of Petroleum Exporting Countries.

#### Falling Expectations

Six months ago, traders were betting West Texas Intermediate crude would stay above \$90 a barrel until 2017, according to oil futures contract data. They're now putting their money on assumptions it won't top \$70 until 2019.

"The value of deals ought to be falling at least in line with those shifts in oil price expectations," said Timothy Parker, a Baltimore-based portfolio manager at T. Rowe Price Group Inc., which oversees \$731 billion in assets.

In a deal scheduled to close by mid-2015, Repsol is paying about \$47,000 per equivalent barrel of oil production for Talisman, including the assumption of the company's debt, according to data compiled by Bloomberg. That's the lowest among the five biggest oil and gas deals this year and compares with \$237,000 for Athlon's output.

Other notable purchases included Whiting Petroleum Corp.'s takeover of Kodiak Oil & Gas Corp. for \$6 billion and Breitburn Energy Partners LP \$3 billion acquisition of QR Energy LP, both announced in July, as well as three acquisitions in June together worth \$4.25 billion by Aubrey McClendon's American Energy Partners LP.

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                  Barrel Price

The typical deal price of about \$100,000 per barrel in recent years has probably fallen to \$75,000 along with crude's drop, said David Meats, an analyst at Morningstar in Chicago.

Repsol, which announced the offer to pay \$8 a share for Talisman on Dec. 16, would have needed to put up \$13 in August, based on Talisman's higher stock valuation when the companies were in talks, Meats said.

While Repsol avoided the crash in oil, it's also buying a company that can't generate as much cash as it could four months ago, Meats said.

When Talisman and Repsol were in discussions in July and August, the Spanish company didn't present an offer, Hal Kvisle, chief executive officer of the Calgary-based company, said in a briefing the day the deal was announced. Talks stopped in August and restarted the next month and Repsol did lengthy analysis to determine the value of Talisman's North Sea properties, he said.

#### Cash Flow

Repsol's offer is the best option for Talisman shareholders, because low oil prices would otherwise make it difficult to expand production from the company's assets with the cash flow they generate, Kvisle said.

Repsol declined to comment. In a Dec. 16 presentation on the acquisition, the company said the takeover was "the right deal at the right time" and there was a disconnect between financial markets and the value of assets.

Encana's purchase of Athlon was announced when U.S. crude was at about \$95, Doug Suttles, the Canadian company's CEO, said on a Dec. 16 conference call with analysts. Encana can profit from its Athlon acreage even with oil prices of less than \$50 a barrel, he said last month in an interview.

Encana's acreage in the Permian Basin from the Athlon acquisition is "one of the best parts of one of the best plays in North America," Jay Averill, a company spokesman, said in a Dec. 22 phone interview. The estimated 3 billion barrels of equivalent recoverable oil resources on the lands are largely poised to be developed at future prices that are expected to be higher, Averill said.

No one predicted the price crash and if Encana hadn't bought oil-producing properties, Canada's second-largest gas company would have been worse off, Suttles said.

"Any deal you made in 2014 will probably be viewed as a high cost deal in the future," said Parker of T. Rowe Price.

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--With assistance from Rodrigo Orihuela in Madrid.

To contact the reporter on this story:  
Rebecca Penty in Calgary at +1-587-702-3025 or  
rpenty@bloomberg.net  
To contact the editors responsible for this story:  
Tina Davis at +1-212-617-7679 or  
tinadavis@bloomberg.net  
Robin Saponar

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