

Talisman Shifts Focus to Gas Liquids

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Talisman ([TLM-T](#)19.05-0.06-0.31%), joining an industry pullback from aggressive development of shale gas projects, reported promising third-quarter results that its chief executive officer calls "the start of a new phase."

Led by John Manzone for the past three years, Talisman has staked much of its future on hot shale gas plays, such as the Marcellus in Pennsylvania, where the company has a significant position.

However, the strategy came at a time of plunging natural gas prices, with booming production of natural gas from the Marcellus and other shale gas plays helping to sink prices, which have dropped about 50 per cent in the past year.

So Talisman plans to ease back on development of the Marcellus and place more focus on assets such as the Eagle Ford in Texas, where it recently paid \$485-million (U.S.) to increase its holdings in the region. The shale gas in Eagle Ford is rich in liquids such as butane and propane used by the petrochemical industry and presently more valuable than natural gas.

Talisman's shift reflects a broader move by oil and natural gas companies to step back from gas and reallocate cash to oil and gas liquids. While some large firms such as Royal Dutch Shell PLC have committed to gas over oil as their longer-term focus, leading industry names such as Encana Corp., the second-biggest producer of natural gas in North America, are pulling back right now.

"Given the current environment that we see this year, and the equally challenging environment that we foresee for next year, we're clearly going to make some choices," said Talisman executive vice-president Paul Smith on a conference call Tuesday to discuss quarterly earnings.

"We'll be slowing down from where we are today in the Marcellus."

In the Marcellus, Talisman output has surged to 270 million cubic feet a day, the equivalent of 45,000 barrels of oil. Production is seven times greater than the average of 38 million cubic feet a day in the July-September third quarter of 2009.

The long-term goal for the Marcellus is one billion cubic feet a day, but the company said Tuesday the pace at which it gets there is not certain.

Talisman has been aggressively reorganizing its assets, and said its third-quarter production of oil and gas from continuing operations was 389,000 barrels a day, up 12 per cent from a year ago. It said a growth rate between 5 and 10 per cent would be sustainable.

However, overall production growth remains stalled. The company produced 425,000 barrels a day in 2009 and this year expects 415,000 barrels a day, a prediction it increased on Tuesday from an earlier estimate of 400,000 barrels a day.

"I believe this quarter reflects the start of a new phase for Talisman," Mr. Manzoni said in a statement with the earnings. "I am very confident we can maintain this momentum of increasing profitability and production into next year."

The company on Tuesday began to win over some skeptics. Stock of Talisman jumped 3.6 per cent on Tuesday, the third-largest gain of the 47-member S&P/TSX energy index. Talisman shares have generally traded in line with the index in the past year but in recent weeks began to slightly outpace it.

Pawel Rajszel, an analyst at **Veritas Investment Research**, has rated the stock a "sell" for the past year but is encouraged by Talisman's strategy shift to liquids from gas.

"Their aggressive push into shale gas seemed to come at the wrong time," **Mr. Rajszel** said.

Phil Skolnick, an analyst at Canaccord Genuity, said "they're made themselves an interesting story."

"They're moving in the right direction," Mr. Skolnick told Reuters on Tuesday.