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Marin Katusa: Get—and Stay—Ahead of the Herd

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Back for another enlightening interview with The Energy Report, Marin Katusa, Chief Investment Strategist for Casey Research's Energy Division, shares some timely investing strategies for the ever-changing energy markets. Ultra-bullish on uranium, Marin foresees a great shakeout in the sector. "The key is being with just the right select players," he says. The seasoned strategist also covers oil, natural gas, coalbed methane (CBM) and geothermal, emphatically encouraging investors to get—and stay—ahead of the herd.

TER: Marin, can you give us your thoughts about natural gas in the U.S., both short term and long term. Thumbs up or thumbs down?

MK: Short term, thumbs down. There is a paradigm shift between the ratio of natural gas to oil. Historically, the ratio is 10:1, right now we're over 25:1. Those who are shorting oil and going long natural gas in the short term will lose that bet. We're at an all-time high with supply of natural gas. It's surprising how many storage facilities came back on-line, and people did not calculate these into their numbers. Unless there's an extremely cold winter, it's going to be a tough go for the next six months for natural gas in North America.

When it comes to natural gas, I am more bullish on the coalbed methane (CBM) potential in Asia. And my top pick for an investment for exposure to the Asian gas market is CBM Asia Development Corp. (TSX.V:TCF) (OTCBB:CBMDF). We think that this stock has the potential of being well over \$1.00. They've added a new huge property in the South Sumatra, which has some of the best CBM potential in the world. CBM Asia is definitely

a company your readers will want to look into and think about owning, I own a lot of it, and will be buying a lot more soon.

TER: What about oil, and in particular, the oil sands? I think you're covering that at the Casey Conference that's coming up in Denver. (Casey Research Energy & Special Situations Conference, Sept. 18-20, Westin Tabor Center, Denver, Colorado)

MK: There's a big story coming up—we'll be writing about it and I'll be talking about it in Denver—and it's who will Total SA (NYSE:TOT) buy? They're going to buy a company, and we think we know who it's going to be. We've already made a +50% gain on this company.

When oil is over \$100, you have everyone in the oil patch bringing in money, exploring and drilling, producing and creating valuation, but oil at \$80 is a different story. Oil right now is around \$68.00; that's the WTI spot. Brent spot is a couple of dollars lower differential, which is interesting because the Brent is a little bit better. A lot of these juniors can't even make money at \$68 oil.

Basically, in our report we have talked about how existing oil production works at \$40 oil in the Canadian oil sands. Anything new to come on-line will need about \$65 to \$70 oil to make it work in the oil sands.

We said in December or January to buy Suncor Energy (NYSE:SU) under \$20, and we had a buy under \$16 on Nexen Inc. (TSX:NXY) (NYSE:NXY). We have had good moves in both, and we've now sold both out of our portfolio because of their big moves.

With that said, I would be lining up to buy Nexen for under \$16, but it will be well worth it at anywhere under \$20 because of its exposure to production in the oil sands and in existing production and also the North Sea, which has the Brent. So they've got exposure to the North Sea and the oil sands. That to me is the best-positioned company in the oil sands to be bought out because of their exposure.

Suncor merged with PetroCanada, and at that point we closed our position on it. So, those were our two picks in the oil sands.

TER: What's your take on the recent press release about BP (NYSE:BP) finding a massive discovery in the Gulf of Mexico?

MK: Yes, that release moved the stock 3%, a big move for a big, big company. It's a great find, a world-class deposit. But now they have to develop the project.

TER: One of the managers was quoted as saying that finding a project this big will ease the concerns about peak oil. Do you think that's true?

MK: No. If you look at how many of these types of deposits that have been found, that's not true.. It will increase their reserve numbers quite significantly. But to say that it will ease global peak oil—nah, that's just rubbish.

TER: Are there certain areas that you think are more conducive to successful oil investing?

MK: Joe Hung, one of our Research Analysts, and I have broken down the royalty scheme for oil for every oil-producing country in the world, and we're coming out with a ranking of where you want to be in oil. You want to be investing your dollars in the best royalty rates. For example, in Canada there's a huge, huge difference between Alberta and Saskatchewan. Saskatchewan's got a very ugly royalty system compared to Alberta, which has a decent royalty structure at lower oil costs. That's something very important for people to understand—the royalty rates in the jurisdiction of where your company lies.

For example, some of the best oil in the world comes from Libya. However, the royalty rates in the price just don't work. They just don't work for a junior company, and royalty rates are up to 92% to 93% in certain parts of the world, like Libya. So, you have to be very careful when you suddenly start talking about production costs and all, and consider what the actual cost of that oil is. That's important to understand, and it's something we're going to be talking about at the energy conference.

TER: The last time we spoke we spoke a lot about nuclear. What's your thinking is now on that?

MK: I think you're seeing a great shakeout, a consolidation. You have to get ahead of the herd, and you have to understand herd mentality. In North America, you want to stick with the top geologists who've been doing this for a long time. I'm ultra-bullish on uranium, and the key is being with just the right select players. In the U.S., it's who's going to consolidate developed assets.

Uranium Energy Corp. (NYSE.A:UEC), one of the companies we wrote up in the November 2008 issue, is one we're inducting into the Casey 10-bagger club, which means our subscribers got a +1,000% gain. It's been fantastic run for our subscribers, and the company just raised a lot of money at \$2.40 range. CEO/President Amir Adnani runs Uranium Energy. We first met at University (we were in the same organic chemistry class); we've known each other for a long time, and Amir Adnani is a name you want to watch. In November, I said, "Buy his company." So far, it's been a great investment.

TER: Yes, and it's also on the Casey Free Ride List right now.

MK: Exactly. That's right. The "Casey Free Ride Formula" is about mitigating risk. Holding junior stocks for free is a no-brainer way for our subscribers to have big gains. Doug Casey is a strong believer in mitigating risk exposure; therefore, always take your initial investment off the table when you have the chance, and then the rest is playing

with the house's money, so it's a bonus. Own these stocks for free; you're guaranteed to win.

Doug Casey's close friend Rick Rule has a saying, "you only make money when you sell," and it's very important in our newsletter to guide our subscribers about when to sell and make profits because this is a very, very risky sector, especially when you get into the juniors. It's easy for someone to tell you when to buy, but the key is when you sell, so that is something we spend a lot of time on in the Casey Energy Report. In giving guidance to our subscribers, our portfolio is doing fantastically. Now, with that said, we also have our losers. We're not perfect. We don't pretend to be perfect. But our returns are ahead of the index.

TER: The last sector I want to talk about is geothermal. Can you kind of give us a summary of geothermal?

*MK: Sure, the geothermal world changed this past summer. We've been reporting on the geothermal sector for a long time. Ross Beaty, who's a legend in the copper and silver sectors, started Magma Energy Corp. (TSX:MXV). He did a \$100 million IPO. Then Hezy Ram, one of the ex-studs of the company called Ormat Technologies Inc. (NYSE:ORA), left to build his own geothermal company, **RAM Power, Inc. (TSX:RPG)** He had over \$200 million offered to him, double the IPO size of Magma.. So, you had these two very solid people coming into the geothermal sector and gathering assets.*

*The center of the chessboard in the geothermal world is Ormat. It's our low risk recommendation for the sector. Then you have Magma, **Ram Power** and all these juniors. Nevada Geothermal Power Inc. (TSX:NGP) (OTCBB:NGLPF) is a pick of ours; we've done well with it. The question is their debt structure. Do I see them being around in 12 months to 18 months? No, I think a bigger company will come and buy them out because unfortunately they don't have the muscle of Ross Beaty or Hezy Ram. They're run by a bunch of very good engineers but don't have the market leverage and that's a key element with the juniors—do they have the market leverage? Investors will follow Ross Beaty, because he is a proven winner. Magma is definitely a company you want to have on your radar. We've taken a Casey Free Ride on the company already in the Casey Energy Confidential alert service, and we would love to buy more on market weakness under C\$1.50. Perhaps it will never go back down to C\$1.50, but if it ever did, I would buy all I could.*

I think you will see the rush in geothermal such as you see in lithium and rare earths right now. It's still early in the geothermal game, but it will be a very big bubble. It really is the cheapest source of "green energy" in the world. We're not in the bubble mania yet, but it will be within five years.

*TER: So, is the expectation that Ross Beaty from Magma and Hezy Ram from **Ram Power** will be the consolidators of the juniors in this industry?*

MK: Yes.

TER: *I assume we will be seeing that in the next year?*

MK: *It's already started. Ross has assets in North America; he's got assets in Chile. He's started purchasing the geothermal ownership in Iceland; he's going to focus in North America, Iceland, and Chile. I believe that **Ram** is going to focus on the U.S. and South America. The consolidation has started already.*

TER: *Is the plan here then to invest in the juniors that will be bought out or invest in these big companies?*

MK: *There are two ways to play it. Geothermals are very capital intensive up-front. What that means is it's very expensive at the beginning, going in. For example, when we wrote up Magma in our newsletter we said to wait for the IPO, and buy under \$1.50. It went below \$1.50, and then we put a sell above \$1.85 within 17 days. We would love to buy it back at a \$1.50. Will it get there? I believe at some point in time it will, but we have to be patient. That's one way to play it.*

Our lowest risk pick is Ormat. We think that it is the center of the chessboard. It's a great run company; they run, build, and develop geothermal plants. If you want to be in the geothermal game, you have to own some Ormat. And then, yes, you're right—the juniors are another great way to own it, but you have to be with the right one with actual assets that will be bought up. All these companies have a probability of 90% of 50 megawatts. That means nothing. You have to be very careful with what you're buying.

TER: *Can you give me an overview of what is going to be presented at the conference?*

MK: *We're going to have a section on all the different energies—uranium, oil in Canada and North America, off-shore oil, oil in Africa, natural gas in North America, natural gas in Europe, and then geothermal, all the different alternative energies. We're also going to be having a section on rare earths and one on potash. And then after every keynote speaker someone from our faculty will come up and give the best three picks on how to play this sector.*

TER: *Do you think your speakers will be in tandem on their energy viewpoints or would you expect some divergence?*

MK: *You never know what will happen. About three years ago I was on one of the panels and I strongly disagreed with one of the other well-respected individuals. One thing we can expect is that they're going to be 100% honest in their insights and their wisdom. And just being around those types of people is worth the price itself—you learn a lot hanging around proven veterans in the industry.*

TER: *Great. Marin, any closing remarks?*

MK: *The key is you have to be patient; don't rush to buy; avoid the herd; you make your money when you sell. So make sure you always take your profits when you have one. So, reduce your risk.*

TER: *That is definitely a Casey approach. So, thanks a lot for your time.*

Disclosure: Casey Research is a completely independent research firm, and never takes any money, stock, fees or any compensation in any form from any company for recommendations.

Marin Katusa and/or his family members own shares in the following companies mentioned in the interview: CBM Asia (TCF.VN).

Marin Katusa is Chief Investment Strategist for Casey Research's Energy Division, also serving as senior editor of Casey Energy Opportunities (CEO) and Casey Energy Confidential. Marin, who earned his Bachelor of Science degree from the University of British Columbia, obtained a degree in education and went on to pursue a successful teaching career before his attention shifted to analyzing and investing in junior resource companies. In addition, Marin participates in the Vancouver Angel Forum (whose members evaluate early-seed investment opportunities), manages a portfolio of international real estate projects and serves on the Copper Mountain Mining Corporation Board of Directors.

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