

# The Best Energy Investments in the World

An interview with Marin Katusa, [Casey Research](#)

*In the past three years, Marin Katusa, senior energy analyst at Casey Research, has become one of the most respected and listened-to authorities in the investment advisory business. He spends the bulk of his time on airplanes and in far-off places studying the future of energy... and the best ways to make money from it.*

*Brian Hunt, editor in chief of Stansberry's free online investment digest, The Daily Crux, interviewed Marin to get his take on where oil prices are headed for the long-term... the regions where investors and traders should focus their dollars... and some of his favorite energy companies with massive upside.*

**The Daily Crux:** Marin... we noticed you guys at Casey Research are bullish on energy. Can you explain to us why?

**Marin Katusa:** Well, as we've mentioned in our *Casey Energy* letters, we're short-term bears but long-term bulls.

I think there's a very good chance oil will be knocked back down along with other markets in the short term, but I'd consider that a rare opportunity to buy the best companies at a steep discount. Long term, I'm very bullish on oil because I think the supply of cheap oil is running out.

The days of cheap and easy oil are over. Oil is getting harder and harder to extract because most of the easy-to-find deposits have already been found and extracted.

The best remaining deposits are deep underwater like in the Gulf of Mexico or offshore of Brazil, in state-controlled or politically unstable areas like Iran and Venezuela, or experiencing dramatically falling production like Mexico. There are also huge oil-sands deposits in Canada, but these are more expensive to extract – anywhere from \$35-\$40 per barrel for existing production, up to \$65 or more for new production.

The simple fact is oil prices will eventually rise due to the increased costs involved in meeting existing demand.

On top of that, you've got developing countries beginning to significantly increase their own demand. Right now, you've got just 30 or so of the world's most developed countries, known as the OECD, that consume about half of all the oil produced.

As emerging countries like China and India begin to increase their standard of living, they'll start using a lot more oil. As you guys know, oil consumption per capita is tied very closely to GDP per capita of the country. So this means these emerging countries could be using multiples of the oil that they use now.

Today, China uses just under six barrels of oil per day for every thousand people. In India, it's about two and a half barrels for every thousand. In the U.S., it's just under 70 barrels for every thousand. Even if you figure just a 20% increase in China and India per person – those are huge, huge numbers. China alone has over a billion people. This is going to add tremendous upward pressure on prices.

And of course, I'm sure your readers are aware of the long-term threats to the U.S. dollar. Dollar depreciation will only make the problems I just mentioned that much worse.

That said, in the short term, I think oil is very vulnerable to pullbacks in the general stock market. So we've been telling our subscribers to be very cautious. In fact, a year ago, I decided to use \$40 oil as the basis for all of our analyses for our newsletter. If a company we were looking at wouldn't be profitable at \$40 oil, then we wouldn't go any further. The logic behind \$40 was to provide a real margin of safety should we get the correction in oil I'm expecting.

But it also pushed me to look a lot deeper and be more selective, and it's really paid off in our results – over 90% of my recommendations over the last year have delivered significant profits for our subscribers.

The funny thing is that by not using \$70 or \$80 oil, I started getting hate mail from people, saying, "Don't you know oil's at \$73 and you're using \$40?" It was hilarious, but that's exactly my point. If a company cannot be profitable at \$40 per barrel of oil, it will underperform its peers even when oil is higher. When I use \$40 oil and I like the financials – it's gold.

A good example of this is what we did with Nexen. When I first wrote it up, it was trading at C\$23 per share. After doing my analysis, I thought its intrinsic value was less. I said, "Buy under C\$16 per share." Of course, I got people writing in saying I was out of my mind for setting the buy price so low. Just over a month later, it was trading down below C\$16 per share, and my subscribers ended up making about 50% within four months on a low-risk company.

So by using \$40 oil, I get my true value, rather than the market value. There's a difference between intrinsic value and the market value, and I go with intrinsic value. I don't care what people are paying in the market right now. You might not get it today, you might not get it next week. You have to be patient. It's what I call "stink bid investing."

**CruX:** What else do you look for?

**Katusa:** Another factor I like to look at is what I call game changers. An example of a game changer is what has recently happened to the natural gas sector in the United States. Companies were victims of their own success, because they were so successful in using new technologies to retrieve gas from the shales, they drove the natural gas price

down.

Using advanced technologies to discover big offshore deposits is an example of a game changer in oil. But what you're going to see is a lot of the big finds are going to be drilled by the major oil companies – what I call the super majors – because it's just so expensive to drill these targets.

**Crux:** Nobody else has the money.

**Katusa:** That's right. So the only frontiers left for conventional oil production that can be extracted easily and cheaply, like I mentioned before, are in politically unstable countries like Iran, Iraq, Libya.

These countries are fully aware of the potential of their resources locked within their borders. They're increasing the royalties they charge, including the gradual increase in the use of service fee contracts.

We spent a whole issue talking about this in our *Casey Energy Report*, in the October issue. In countries where the governments hold the ownership of the oil – such as south central Iraq, Kuwait, even potentially Mexico – these are places that you want to watch out for, because they are constitutionally barred from giving foreign oil companies ownership of the oil in the ground. They're not as positive as people think they are.

A reliable and friendly oil source to the United States, such as the Alberta oil sands, is not cheap to produce. The oil sands require at least \$35-\$40 per barrel at the very minimum to extract, compared to less than \$5 per barrel in places like Saudi Arabia, Iraq, and Kuwait.

Proven reserves in politically stable parts of the world unfortunately will cost the U.S. consumer a lot more money per barrel. We spent a lot of time in our latest issue of *Casey's Energy Opportunities* looking at all of the national oil companies. Of those, you've really only got three you can possibly invest in, if you dare.

**Crux:** How about your take on the likelihood of big takeovers and buyouts? Do you see oil-hungry nations like China coming in to buy up a lot of reserves?

**Katusa:** Absolutely, but it's not just going to be the Chinese, it's also going to be big oil companies who want to replace their production with proven reserves in the ground.

An advantage the Chinese companies will have over the Western oil companies is the Chinese ability to leverage their political and economic muscle in places such as Africa, Venezuela, and Bolivia.

These countries potentially hold world-class oil deposits, but it's much riskier for a Western company to explore these regions than the powerful Chinese oil companies.

**Crux:** China is already in a bidding war with ExxonMobil for African oil...

**Katusa:** Right. What our angle is, if you're looking to invest in Africa, you're looking for elephant-size deposits – what they call "world class deposits."

The company needs to go in with a crew able to maneuver in politically unstable parts of the world. We had a big and fast win on a company called Tanganyika Oil, using just that concept. They went in, they built up production, then sold the company to the Chinese.

We're doing it again right now on a company called Africa Oil – ticker symbol is AOI on the Toronto Venture Exchange – that's partnering with the Chinese.

The man behind AOI is the same person behind Tanganyika Oil, Lukas Lundin.

Lukas Lundin, like his father before him, has a long record of going into politically unstable parts of the world and succeeding in developing world-class deposits and selling them at huge gains for the investors. So you're going to see a lot of this type of partnering going on where the Chinese want the North American expertise, and in return, the Chinese add value by political clout and financial clout, helping to pay the costs of development.

We wrote up Africa Oil as a buy under C\$1, and when it popped up to about C\$1.50, we told our subscribers to take a Casey Free Ride [a profit-taking strategy] when the stock was trading above C\$1.30, and it subsequently went as high as C\$1.70. Currently we have AOI as a buy under C\$1, and it's trading at C\$0.87, which we view as a very cheap cost for this stock.

**Crux:** Are there any other countries you're interested in right now? Are you interested in Iraq?

**Katusa:** In northern Iraq in the Kurdistan region, there are some good onshore blocks with decent royalty rates.

A company called ShaMaran (ticker symbol is SNM on the Venture Exchange) we think has huge potential. It's totally cashed up. I wrote it up as a buy under C\$0.20 and put two buy signals on it. It's trading at C\$0.57 now. It went as high as C\$0.80.

And they've got about C\$0.25 in cash per share. This was a company that was trading less than cash – they had more cash than the market cap. Our shareholders bought millions of shares, because we were the only ones writing it up. And it had zero interest – there was nothing going on with it. And they're now in northern Iraq in the area of Kurdistan, which has huge, huge potential.

I've also been looking at Colombia. I think that's a country that people have to pay attention to. In the last month, a lot of the smart money, the big, big players in Vancouver – Frank Giustra and Sam Magid – have been putting huge money, their own personal money, into a bunch of oil plays in Colombia. I would recommend your readers

take a look at some Colombia plays. One that I really like is Petroamerica, symbol PTA on the Venture Exchange.

**Crux:** Great. Any parting thoughts?

**Katusa:** I think what you have to emphasize to people is to buy at a discount to intrinsic value when it's unpopular, and sell at market value when it's popular.

That's not just being a contrarian. A contrarian is just buying something that's unpopular. Buy something unpopular that has a great discount to its intrinsic value, and when you sell, sell when it's popular and trading at the market value, not at its intrinsic value. So those are the two rules that I have.

**Crux:** Thanks for your time.

**Katusa:** My pleasure.

As mentioned above, Marin's track record for profiting in resources like crude oil, natural gas, and uranium is unmatched in the industry.

If you're interested in reading a monthly analysis on the trends and stocks Marin likes, you can get on board as a *Casey Energy Opportunities* subscriber for only \$39 per year. It's an incredible deal and completely risk-free, with our 3-month, 100% money-back guarantee. [You can learn more about a subscription here.](#)