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Interview with Angelos Damaskos

Ross Westgate

Small and midcap oil stocks have outperformed the broader market and the rest of the sector in recent years. As in the case of Cairn, small oil companies tend to get a meteoric boost from major discoveries without the infrastructure costs of their larger peers. The potential of these companies, and the growing demand for oil, have led to the creation of the first unit trust, specialising in small and medium sized energy stocks. The Junior Oils Trust begins trading today and Angelos Damaskos is CEO of Sector Investment Managers. He's also the trust's Principal Advisor. He joins us now to tell us more. Thank you very much indeed for coming in. Good to see you.

Angelos Damaskos

Thank you for inviting me.

Ross Westgate

Congratulations on the launch of the new trust. What was the idea for this trust? Why launch it?

Angelos Damaskos

Yes, well, the idea was principally of Jim Slater's, who is a very renowned investor in small and medium sized companies - particularly in growth companies - with whom I have a personal and business relationship. And he suggested to me, about a year ago – together with my partner, Terry Bond – that we should launch this unit trust. Because it will be a product that will be in high demand among private investors and institutional investors as they seek to gain a diversified approach to this re-rating of the smaller oil and gas exploration companies.

Ross Westgate

Well, let's talk about the diversifying approach and diversifying the risk, I guess, as well, because it's a risky area. I mean, not all, in the light of Cairn when you get it right, offer great returns. But for every Cairn there's quite a few others who don't make it.

Angelos Damaskos

Absolutely. But I think it is important to examine the back-cloth of the re-rating of these small companies. It is widely accepted that the city – that is the brokers, the analysts - are still working on the basis of \$25 to \$28 long-term oil price assumptions for valuing the reserves of oil companies. Therefore, for these companies, as their expectations for long term oil prices gradually shift to a higher level, there is a massive impact on the valuation of reserves in the ground. Now, as you rightly pointed out earlier, these valuation impacts will be diluted in the case of the majors because of the investment in infrastructure and associated investments they have made to produce the oil and bring it to the final consumers. Whereas, in the case of the smaller companies, who specialise exclusively on finding new reserves and adding on their existing reserve base, there is a multiplier effect as the expectations reach a higher level

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Ross Westgate

- yes, the reports from Wood Mackenzie Energy Consultants say that commercial value of oil and gas discovered by the ten largest listed energy groups is running well below the amount that they've spent on exploration and is that the reason, actually, why they're not spending more?

Angelos Damaskos

Absolutely. And what I find astonishing, in this climate, is that BP for example is trying to woo its shareholders by buying back its shares and increasing the dividend payout instead of allocating more capital to find additional reserves, realising that the oil price is going to be sustainably higher over the next few years. Jim Rogers, as you pointed out earlier, appeared in your programme this morning, suggesting that oil price could reach \$70 or even \$100 a barrel and this would have a massive effect on the valuation of reserves in the ground.

Ross Westgate

Okay. The question, I suppose, is how easy are these reserves to find, to get out of the ground and how much experience is there, actually, in the sort of companies we're talking about? Presumably, experience is a limited commodity in itself?

Angelos Damaskos

Absolutely. But it's also worthwhile noting that technology for identifying reserves and producing – bringing them out of the ground - has evolved massively over the last few years. So, fields that were potentially marginal a decade ago could be very much profitable today. And there are many companies that are buying old fields from the majors – as the case was in Cairns, a success story, for example – at knock down prices. And, by utilising these improved techniques, we are able to add on the proved reserves and increase the level of confidence we have, that they wouldn't be able to extract them and bring them to the market place.

Ross Westgate

Okay. Who will be deciding the investments then in the Junior Oil Trust?

Angelos Damaskos

I'm the Principal Advisor.

Ross Westgate

Okay, so viewers will want to know – “well, if we're going to put money into this, tell us what's your experience at finding companies to invest in?”

Angelos Damaskos

Well, I think, it is important to know that we will have a fairly diversified approach. We have to bear in mind that we have a universe of companies of about 38. So if we intend to have a portfolio of between 20 and 25, we are covering 60% of the sector. So, first of all, we are trying to ride on the overall trend of increasing expectations in oil price and the re-rating that most of these companies will benefit from. Going on from there, I will be looking elsewhere in companies that have a successful track record in identifying reserves, have a very active drilling programme and can consistently generate a positive news flow that will improve their valuation. The key is, what are the reserves in the ground that they can possibly bring out to the marketplace and at what price per barrel we can value those after allowing for certain risk factors –

Ross Westgate

- We're going to – sorry, was there one more thing?

Angelos Damaskos

I was just going to say that my experience is primarily in investment banking for about 14 years in the City, specialising, to a large extent, in natural resources companies, not only in the exploration of production but also on the services, storage, transportation etc. So I have a fairly broad view of the market and we believe that we will be able to identify the companies that have superior prospects. For more information about the trust, potential investors could visit our website which is junioroils.com –

Ross Westgate

Okay, well you got that in. We'll let you do that. Okay. Angelos, thanks a lot for that.

Angelos Damaskos

Thank you. Thank you for inviting me.

Ross Westgate

Angelos Damaskos, [from] Sector Investment Managers, there, on the launch of Junior Oils Trust.

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