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## Dow Jones Newswires

### **CANADA TIP SHEET: Experienced Oil Co Management Key For Matco's Cheng**

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--Matco Energy Fund focuses on small oil & gas producers with experienced management

--Low debt levels also a priority to withstand downturns

--BlackPearl, Pinecrest among fund manager Cheng's top picks

By **Edward Welsch**  
Of DOW JONES NEWSWIRES

CALGARY (Dow Jones)--Picking companies with experienced management teams is the key to riding the up-and-down cycle in oil and gas prices, says Daniel Cheng of Matco Financial Inc.

"What we learned from the last meltdown is that management is the key, rather than good assets," Cheng said. "You can still mismanage good assets ... by issuing equity at the wrong time, issuing too much paper, spending money chasing plays with a low chance of success. That's the difference between experienced and inexperienced guys."

Cheng has managed the Matco Energy Fund since its inception in late 2007, focusing on small and intermediate-sized oil and gas explorers and producers. He says his focus on management teams with a track record of success has helped him outperform his peers during the recession in 2008 and 2009 that took oil prices to below \$40 a barrel.

Though Cheng says he's cautiously optimistic about good values in the energy sector after a brutal September pushed prices down, he says another criteria is becoming more important in his stock picks: low debt.

His reasoning is that if another financial crisis occurs, companies that don't need to access capital markets to fund their operations will do better than their peers.

"The model for junior oil and gas companies historically has been to lever themselves up to grow production and to add leverage as they grow," Cheng said.

But since the financial crisis, Cheng said companies are learning to grow without debt. "Deleveraging has impacted everyone, all companies, all industries and individuals as well. So you can actually find companies like BlackPearl and Pinecrest growing production 30% to 50% year-over-year with no debt," he said.

BlackPearl Resources Inc. (BLKPF) and Pinecrest Energy Inc. (PNCGF) are among the top holdings in the fund, which aims to focus on 30 to 35 small energy stocks, mostly in Canada, and to be fully invested with no more than 10% of its holdings in cash.

In addition to no debt, Cheng likes both companies for their management track records.

BlackPearl holds heavy oil and oil-sands land in Alberta and is run by the management team that headed BlackRock Ventures Inc., which successfully sold itself to Royal Dutch Shell Plc (RDSA) in 2006 for C\$2.4 billion.

Pinecrest focuses on light oil projects in Alberta and is run by the management that led Peerless Energy Inc., one of the first companies active in the Saskatchewan Bakken field, and which sold itself to Petrobank Energy & Resources Ltd. (PBG.T) in 2007 for C\$334 million.

Matco's location in Calgary, the headquarters of the Canadian energy industry, and its experience in the industry allows it to identify small up-and-coming companies with good managers, Cheng said. The fund, which manages C\$13.5 million in assets, also sets aside 15% of its portfolio for investment in private offerings.

The Matco Energy Fund has returned 3.05% over the last 12 months through Wednesday and an annualized 0.6% over three years, according to Morningstar Canada. By comparison, the S&P/TSX Capped Energy Index lost 11.6% over the 12 months through Wednesday and gained 3.9% annualized over a three-year period.

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