

February 02, 2010

DANA GAS (DANA.AD)

12-Month Fair Value: AED 1.20

Last Close (01 February, 2010): AED 0.90

Recommendation: Buy - Risk Level: 4

- **DANA's reported FY2009 results, for the most part, are in line with our forecasts.** (1) Gross revenue of AED 1.28 billion grew 12% year-over-year (YoY) and was less than 1% below our forecast of AED 1.29 billion. While revenue from Egypt remained flattish as lower liquids realizations offset higher volumes, DANA benefited from its first full year of condensate sales from the Kurdistan region of Iraq versus just 3 months in FY2008. (2) Reported gross profit (including DD&A) of AED 436 million increased 69% from 2008 and was almost in line with our AED 434 million forecast. (3) EBITDAX (including other income) of AED 1.44 billion increased 150% primarily driven by the sale of a 10% net stake in DANA's Iraqi Kurdish subsidiary in May 2009 and a 50% farm out of the company's interest in the Egyptian Komombo oil concession in December 2009 (more details below). (4) The company's balance sheet remains strong, in our view. Cash and bank balances stood at AED 781 million as of December 31, 2009, marginally lower than the AED 798 million level in 2008. We estimate DANA's 2009 net debt-to-shareholders' equity at 0.3x.
- **However significant exploration expenses and certain impairment expenses contribute to limit net income to AED 88 million, down 27% YoY.** While the preliminary results do not provide us with the breakdown of these expenses, we estimate their total impact at more than AED 300 million in 4Q2009. Essentially during the fourth quarter of 2009, DANA had to record exploration charges given its two non-operated wells in Block-4 (Nigeria/Sao Tome JDZ) were deemed dry holes. Moreover, the company recorded net asset revisions in Nigeria/Tunisia, along with a reduction in inventory and land values. *We note that we had never ascribed any impact from the company's operations in Nigeria/Tunisia in our estimates and fair value.* Disappointing results from these two small non-core/non-operated regions should prompt the company to exit Nigeria and Tunisia shortly, in our opinion. We do point out that DANA's total 2009 comprehensive income of AED 458 million almost quadrupled versus AED 120 million in 2008 due to the AED 370 million in unrealized gains recorded on its ~3% stake in the publicly traded equity of MOL.
- **Major projects continue to remain on track.** (1) Egypt: Dana Gas's daily production exited last year at more than 40,000 boe/d, while averaging in excess of 34,700 boe/d during 2009. Compared to 2008, this represented a 27% (YoY) increase in the company's end of year production rate and a 20% YoY increase in its average daily production rate. The company's Egyptian volumes remain in line with our estimates. After a string of eight successes in 2009 (out of 12 wells drilled), DANA has already reported two commercial discoveries in 2010. Gross proved reserves declined 15% YoY to 47 mmbob, but 2P reserves increased 40% to 132 mmbob (production replacement rate of 397%). The company also farmed out a 50% interest in its Komombo oil concession (reassigned from Kuwait International Oil and Environmental Services or KIOEC) to Sea Dragon Energy for a gain of AED 130 million in December 2009. (2) Kurdistan region of Iraq: Progress remains in line with our model, with the company supplying gas to the Erbil power station and selling condensate at market rates. (3) UAE gas project: Despite a delay of almost 4 years, DANA continues to keep hope alive regarding the eventual startup of gas exports. However visibility into the timing of this project has not changed since our initiation report on the company. *For more details on the dynamics impacting DANA's individual projects, please refer to our report, Dana Gas – Growing in the Gas Patch (December 9, 2009).*

- **Full financials are not yet available for us to formulate a final opinion on the performance of DANA in 2009; however, we generally view the preliminary figures positively.** We plan on issuing an update once we receive the final detailed financial results for 2009. We maintain our “Buy” recommendation with a 12-month fair value target of AED 1.20 per share. Our fair value target is 33% above DANA's latest closing price of AED 0.90.

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Related Research

- Dana Gas Initiation of Coverage - 09 December 2009

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