

June 23, 2010

DANA GAS (DANA.AD)

12-Month Fair Value: AED 1.01

Last Close (21 June, 2010): AED 0.69

Recommendation: Buy - Risk Level: 4

- **10% share buyback approved.** On June 22, DANA's board of directors approved a buyback of up to 10% of the company's share capital, which translates into 660 million shares. While the company's press release did not provide additional details, typically these buybacks are spread over a period of a year and 10% is the maximum annual limit for buybacks allowed by ESCA (the Emirates Securities and Commodities Authority).
- **This buyback announcement should be perceived positively by investors especially in light of the recent weakness in DANA's share price.** We believe this share buyback program is the first of its kind in the company's history. DANA stock has been weak recently, hitting a 52-week low of AED 0.61 on June 15, given investor confusion about the company's liquidity position. This buyback announcement sends a strong signal to the market that DANA management is confident about the company's liquidity and believes the stock is a good buy at current price levels. We tend to agree with both of these points and highlight our view on DANA's liquidity position below.
- **In our opinion, DANA's liquidity position remains adequate with or without a partial farm-out in Egypt.** (1) As of 1Q2010, the company's leverage position remains strong with a net debt-to-shareholders' equity ratio of 0.33x. DANA's CFO has made comments as recently as June 16, stating that the company's current cash exceeds USD 185 million. Moreover, DANA has another USD 266 million held as available-for-sale investments representing its approximate 3% stake in MOL, the Hungarian oil and gas company. We note that in terms of debt, the company primarily has a USD 1 billion convertible debt outstanding, which is not due until October 2012. We believe that DANA should be able to refinance this debt at similar terms given that by 2012 DANA's Kurdish operations should reach critical mass, along with continued growth in Egypt. (2) We forecast operating cash flows of roughly USD 140 million this year, followed by USD 360 million in 2011 and USD 370 million in 2012; we also expect the company to turn free cash flow positive next year. (3) In terms of major uses of cash, DANA pays roughly USD 75 million in annual interest expenses on its convertible debt and has earmarked overall capex of USD 340 million in 2010 (USD 52 million already spent in 1Q2010), followed by USD 175 million and USD 100 million in 2011 and 2012, respectively. We note that our 2010/2011 capital spending estimates includes a USD 125 million spending program in Sharjah, where DANA will not spend any money unless the company signs a gas agreement. *We highlight the fact here that although our revenue estimates do not include any contribution from Sharjah, we are factoring in capex for that region making our valuation very conservative.* (4) Net-net, we expect net-debt-to-shareholders' equity to drop from 0.31x in 2009 to 0.23x by 2012.
- **We reiterate our "Buy" recommendation for DANA with a 12-month fair value target of AED 1.01 per share.** We continue to remind investors that our fair value does not include any impact from the UAE gas contract (the Iran deal) and the Sharjah project. Our fair value represents a 46% upside from DANA's latest close price (June 21, 2010) of AED 0.69.

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Related Research

- Dana Gas Update - 27 May 2010

RISK AND RECOMMENDATION GUIDE

RECOMMENDATION		UPSIDE (DOWNSIDE) POTENTIAL		
BUY		MORE THAN 20%		
ACCUMULATE		BETWEEN 5% AND 20%		
HOLD		BETWEEN -10% AND 5%		
REDUCE		BETWEEN -25% AND -10%		
SELL		LESS THAN -25%		
RISK LEVEL				
LOW RISK			HIGH RISK	
1	2	3	4	5

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