

January 05, 2010

## DANA GAS (DANA.AD)

- **Recent news of Egyptian drilling results validates our positive thesis on DANA; reiterate “Buy” recommendation with a 12-month fair value target of AED 1.20 per share.** Our fair value target is 26% above DANA's latest closing price of AED 0.95.
- **In Egypt, DANA achieves its targeted production rate of more than 40,000 boe/d by YE2009 and announces its first gas discovery in 2010.** According to the company's press release dated January 5, 2010: (1) Dana Gas's daily production from Egypt exited last year at more than 40,000 boe/d, while averaging 34,750 boe/d during 2009. Compared to 2008, this represented a 27% year-over-year (YoY) increase in the company's end of year production rate and a 20% YoY increase in its average daily production rate. (2) After a string of eight successes in 2009, DANA reported that its Orchid-1 well in the West Manzala block of the Nile Delta was a commercial success. The company estimates that, pending further appraisal, this discovery could hold preliminary recoverable reserves between 10-50 bcf of dry gas.
- **We had predicted such positive drilling news from Egypt in our initiating coverage report for DANA.** Our bull thesis on DANA included, “Continued drilling success in Egypt could act as positive news catalysts. So far in 2009, DANA has already announced seven successful discoveries (out of 11 exploration wells), representing a success rate of 64%. Announcements of these discoveries have thus far acted as positive catalysts for the share price. Going forward, similar news flow of drilling successes could boost the stock, in our view.” (Page 9, *Dana Gas – Growing in the Gas Patch*, December 9, 2009) Moreover, our financial model on the company already accounts for a 2009 exit daily production rate in excess of 40,000 boe/d from Egypt.
- **Our long term outlook for DANA remains favorable and accordingly we did not change our fair value estimate of AED 1.20 per share.** Our valuation is based on sum-of-the-parts using the discounted cash flow for each major operation in Egypt, Kurdistan (Iraq), the Gulf of Suez liquefied petroleum gas (LPG) plant, and the Common User Pipeline (CUP). Given that our fair value target is 26% above the latest close for DANA, our recommendation on the stock remains as “Buy.”

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## Related Research

- Dana Gas Initiation of Coverage - 09 December 2009

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