Aabar Petroleum Investments
1Q2007 Results

22 May 2007

UAE | Oil and Gas

ST Rec. : Buy **Current Price*: AED 2.56**
LT Rec. : Accumulate **LT Fair Value : AED 3.22**

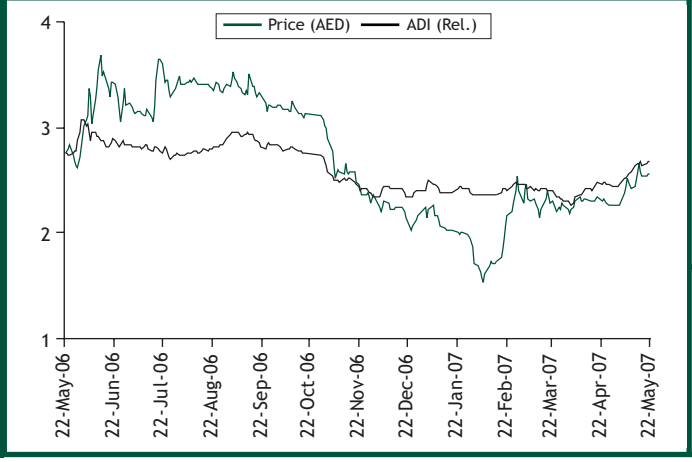
• Aabar reported 1Q2007 revenues of AED378.9 million, which were in line with our expectations and mostly reflected the contribution of Aabar's E&P business Pearl (AED290.4 million) and in particular its 70%-owned Jasmine field. Drilling subsidiary Dalma's revenues were also strong, up 34% to AED88.5 million.

• While higher than expected depreciation & depletion expenses were largely offset by lower than anticipated exploration expenses, minority interests of AED32 million were higher than expected, driven both by a step up in production and higher margins at Pearl's 70%-owned Jasmine Field and lower margins at Pearl's other wholly owned subsidiaries. This, together with margin weakness at Dalma, meant that attributable net income for the period came in at AED2.0 million.

• These first quarter results reflect the inherent nature of an E&P business, which is characterised by volatility in revenues and costs, with fluctuations between quarters. Thus, despite seeing lower than anticipated exploration expenses but higher than expected depreciation & depletion and minority interests, at this stage we maintain our FY2007 forecasts.

• We maintain our ST Buy/ LT Accumulate recommendation. Our ST Buy is driven by strong forecast earnings growth of 104% in 2007, which will materialize in the rest of the year, and we believe will be positively received by Aabar's investor base. However, we believe the long-term uncertainties inherent in the E&P and drilling sectors warrant a more cautious LT recommendation of Accumulate.

Flash Note



	2006a	2007e	2008e
EPS*	0.11	0.22	0.23
PER (x)	24.2	11.8	11.2
DPS	0.05	0.05	0.05
Div. Yield	1.9%	1.9%	1.9%
CFPS	0.4	0.4	0.5
PCF (x)	5.8	5.7	5.5
BVPS	1.8	2.0	2.2
PBV (x)	1.4	1.3	1.2

Attributable

Stock Data:	
Last Ex-Div Date	*N/A*
Mkt. Val. (Local mn)	*2,304*
Shares (mn)	*900*
Av. Mthly Liqd. (mn)	*AED300.6*
52-Week High / Low	*AED3.69 / 1.54*
Bloomberg / Reuters	*AABAR UH / AABAR.AD*
Est. Free Float	*77%*

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As of 22 May 2007

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REVIEW OF FINANCIALS

A. 1Q2007 Results- In Line with Expectation

Revenues

Aabar reported 1Q2007 revenues broadly in line with our expectation at AED378.8 million against AED65.9 million in the same quarter last year, reflecting the inclusion of Aabar's E&P business; Pearl Energy. Aabar's drilling subsidiary, Dalma increased its rig count from 18 to 19 during the quarter, which helped to produce a 34% Y-o-Y increase in the top line number to AED88.5 million. Meanwhile, Pearl's revenues were boosted by the significant increase in production at its 70% owned Jasmine field in Thailand (February 2007), with Pearl's total production going from 11,229 bopd to 17,275 bopd at the end of the first quarter.

Table 1: 1Q2006 versus 1Q2007

(AED mn)	1Q2006	1Q2007a	Y-o-Y
Dalma	65.9	88.5	34%
Pearl	0.0	383.1	N/A
Turnover	**65.9**	**471.6**	**615%**
Net Profit	0.0	(92.8)	N/A
Net Revenues	**65.9**	**378.9**	**475%**
Gross Profit	**22.0**	**235.7**	**973%**
EBITDA	**15.5**	**353.5**	**2182%**
Dalma Operating Profit	3.3	1.8	
Pearl Operating Profit	0.0	108.2	
Net Operating Profit	**3.3**	**110.0**	**3226%**
Gain on Sale of investments	37.4	0.0	-100%
Profit before Tax	**44.9**	**76.3**	**70%**
Income Tax	0.0	(42.3)	
Profit after Taxes	**44.9**	**34.0**	**-24%**
Minority Interest	0.1	32.0	
Net Profit	**44.8**	**2.0**	**-96%**

Sources: Company finnacials and EFG-Hermes estimates

Dalma

While Dalma has seen a strong increase in revenues of 34% Y-o-Y due to rig additions, its operating profit disappointed with AED1.8 million vs. AED3.3 million a year ago. This disappointment was due to a higher depreciation charge of AED24.8 million vs. AED12.2 million last year, which reflects higher rig utilisation rates, coupled with higher operating costs associated with the construction of rigs that have not yet come on stream. We expect profitability to increase over the remainder of 2007 as three further new rigs are added to Dalma's fleet and start to contribute.

Analysis of Consolidated Income Statement

Depreciation & depletion of AED85.2 million for the quarter was higher on an annualized basis than our full year forecasts, which aside from the higher number at Dalma, was due to i) the increased production from Pearl's Jasmine field (depreciation is based on the units of production method), with the higher depreciation charge reflecting higher production levels and ii) the fact that additional reserves have not been booked in the financials due both to current ongoing exploration activity and no commercial contracts having been attached to these reserves. This implies that existing (smaller) reserves are depleted at a faster rate. We expect to see a decrease in the depreciation and depletion charge in subsequent quarters as new reserves are added to Pearl's portfolio.

An exploration charge of AED20.5 million was lower on an annualized basis than our full year forecast, with the bulk of the exploration activity expected to occur from 2Q2007 onwards. In particular, a series of seismic projects are scheduled to take place in Indonesia, Vietnam and the Philippines over the remainder of the year, which means that exploration expenses will increase substantially as we go through 2007.

Meanwhile, minority interests of AED32 million came in higher than we had expected, driven by a step up in production and higher profitability than expected at Pearl's 70% owned Jasmine Field together with lower profitability than expected at Pearl's other, wholly owned operations (Dalma is 100% owned by Aabar and has no minorities). This, coupled with the variances in operating expenses discussed above has meant that net income for the period came in at AED2.0 million.

Despite 1Q2007 earnings being lower than our expectations, at this early point in the year we make no changes to our forecasts and wait for 2Q2007 results for a clearer picture of Aabar and in particular its E&P business Pearl, which is at an early stage of its development.

A further source of uncertainty is the level of oil prices: Our forecasts are based on an assumption of an average oil price of USD56, with the current YTD average being USD61. Assuming all other elements of our forecasts are held constant, a USD5 increase in our oil price assumption leads to a 24% rise in our LT Fair Value, and an 18% increase to our earnings forecast in 2007.

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We, Abid Riaz and Sana Kapadia hereby certify that the views expressed in this document accurately reflect our personal views about the securities and companies that are the subject of this report. We also certify that neither we nor our spouses or dependants (if relevant) hold a beneficial interest in the securities that are the subject of this report.

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