

Target Price	Market Price	Recommendation	Upside Potential	Investment Grade
AED0.90	AED0.54	Strong Buy	66 %	Growth

Share Data

Report Date	February 8, 2009
Company Abbreviation	Dana
Sector	Energy
Traded Market	ADX
Report Reason	FY2008 Update
Valuation Methodology	DCF
Previous Report Date	October 2008
Previous Target	AED1.82
Exchange Rate	AED3.67US\$
Stock Currency	AED
Reuters Code	DANA.AD
Outstanding Shares (mn)	6,000
Par Value/Share (AED)	AED1
Financial Year Ending	December
Mkt. Cap (AED mn)	3,240
Weight to (PEMI)	1.86%
Price Low – High (AED) (52Wk.)	0.52 - 2.74
Relative Performance (52Wk.)	-12.72%

Dana Gas reported its FY2008 preliminary results early this week with annual gross revenues of AED1,139 million, a 10% y-o-y growth as compared to revenues of AED1,036 million in FY2007. Operations in Egypt remained at the forefront with several new gas discoveries increasing the company's 2P reserves by 41% to 94 mmboe as of December 2008, which is expected to significantly enhance commercial gas production in 2010e and beyond.

Commissioning of the UAE Gas Project still remains in the making with the management stating that the start-up of the project is now imminent and expects the gas imports from Iran to begin in 2009e. Although we expect gas imports to eventually begin at some point, we continue to remain skeptical on the timing and hence exclude this project from our conservative base-case valuation of the company.

The start-up of the Khor Mor Project in Iraq, which commissioned in October 2008, as well as the development of the Sharjah Western Offshore Project in the UAE (beginning 2H2010) have recently gained momentum, with the former expected to significantly boost Dana's current cash position of AED789 million once capital recovery begins in 2009e for an estimated pay-back period of between two to three years.

Given that Dana currently generates over 90% of its revenues from Egypt, over 45% of which comes from fixed-priced gas sales to the Egyptian government, the ongoing volatility in crude oil prices is expected to have less severe impact on Dana's top-line, which we expect will grow by 13% and 46% in 2009e and 2010e, respectively. However, until there are sustainable signs of recovery from the current financial crisis, we expect Dana to adopt a slower pace in commercializing its recent gas discoveries, which require significant capital investments in LPG plant and other related infrastructure.

To sum up, an expected slowdown in production growth in Egypt combined with negative effects of lower crude oil price on LPG and condensate realizations and excluding any contributions from the UAE Gas Project, our revised DCF model yields a fair value of AED0.90 per share, down 50% from our earlier estimate of AED1.82 per share, which still offers an upside of 66% over the current market price of AED0.54 per share. We therefore reiterate our STRONG BUY recommendation on Dana Gas.

Alternatively, if we were to include free cash flows from the UAE Gas Project starting 2010e, we arrive at a fair value estimate of AED1.99 per share, with 270% upside over the current price and 123% more than our target price of AED0.90 per share.

Shareholders

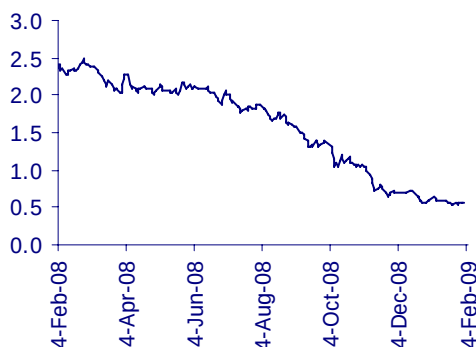
Ownership Stake

Free Float	34.3%
Founding Shareholders	32.7%
Others	33.0%

Prime Research Department

Phone	+971 2 6910800
	+971 4 4070100
Email	research@primegroup.org

Stock Performance Chart (AED / Share)

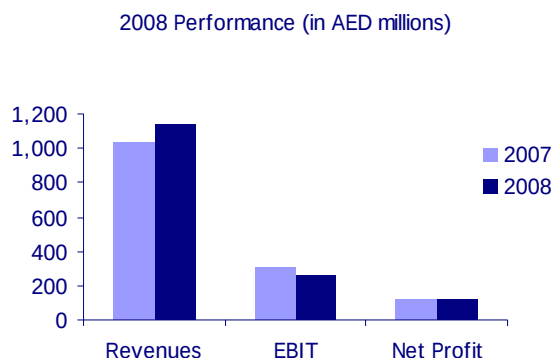


Fiscal Year	2007a	2008e	2009f	2010f	2011f
Revenues	1,036	1,139	1,286	1,879	2,455
Growth		9.9%	12.9%	46.1%	30.6%
EBITDAX Margin	45.1%	50.4%	54.3%	55.4%	49.9%
Net Income	111	119	51	140	215
Net Attributable Income	102	109	39	128	201
EPS (AED)	0.017	0.018	0.006	0.021	0.033
EPS Growth		7.14%	-63.87%	224.18%	57.31%
Book Value / Share (AED)	1.18	1.20	1.21	1.23	1.26
P/E (x)	31.76	29.65	82.07	25.32	16.09
P/BV (x)	0.46	0.45	0.45	0.44	0.43

FY2008 results in line with expectations:

Dana Gas reported its FY2008 preliminary results recently with annual gross revenues of AED1,139 million, a 10% y-o-y growth as compared to revenues of AED1,036 million in FY2007. We calculate 4Q2008 revenues of AED238 million, down 25.6% q-o-q due to declining prices of LPG and condensates (linked to crude oil prices) during 4Q2008.

Overall, FY2008 saw improvement in margins with annual EBITDAX (EBITDA before exploration expenses) of AED575 million and was in line with our expectations of AED571 million, resulting in EBITDAX margin of 50.4% in FY2008 (45.3% in FY2007) mainly due to higher LPG and condensate price realizations in 1H2008.



Source: Dana Gas

Net operating profit, however, decreased 16% y-o-y to AED258 million, slightly below our expectations of AED262 million, presumably due to higher depreciation and exploration costs associated with Dana's Egyptian assets, resulting in a net income of AED120 million (8.1% rise y-o-y) and EPS of AED0.019 (5.3% rise y-o-y).

Major gas discoveries in Egypt to support future revenue growth:

As expected, Dana's upstream operations in Egypt remained at the forefront during 2008 with three new significant gas discoveries potentially increasing 2P reserves by 41% to 94 mmboe and should result in higher commercial gas production starting 2010e. With production agreement and infrastructure already in place, this should help provide visible growth in future revenues from gas sales alone, which we estimate will increase to AED560 million in 2009e (8% y-o-y) and AED678 million in 2010e (21% y-o-y), from an estimated AED518 million in 2008e.

Selection of a commissioning contractor indicates a positive step towards the start-up of the UAE Gas Project.

UAE Gas Project showing progress:

Dana's cornerstone project in the UAE, which involves importing Iranian gas for processing and distributing the same domestically, still remains in the making with the management stating that the start-up of the project is now imminent with the selection of a commissioning contractor having taken place on the Iranian side and expects the project to commission in 2009e. Although we expect gas imports to eventually begin at some point, we continue to remain skeptical on the timing and hence exclude this project from our base-case valuation of the company.

Khor Mor Gas Project capital recovery to boost cash position:

During the past 18 months, via a capital recovery program, Dana in a 50:50 JV with Sharjah's Crescent Petroleum, invested close to USD600-650 million in the Kurdistan Region of Iraq for developing the region's substantial gas resources, namely the Khor Mor and Chemchemal Gas Fields. With the start-up of the Khor Mor Gas Project in October 2008, we expect Dana to begin earning a contractually-agreed return on its investment, which we conservatively estimate at 10%, in addition to recovering its 50% share of the total capital costs of USD600-650 million. Assuming a three year payback period, we expect Dana to recover large cash flows in 2009e, 2010e and 2011e, significantly boosting its current cash position of AED789 million. Post the capital recovery period, we expect Dana to retain a conservative 10% of net revenues after costs, which should flow directly to the bottom line.

Expected capital recovery from investments in Iraq to significantly boost cash position in 2010e and 2011e.

Strong liquidity and low leverage to maintain financial stability:

Dana successfully raised AED3.67 billion via a convertible sukuk issue (maturing 2012) prior to the onset of the current credit crisis. Despite of high cash outflows associated with the company's exploration programme in Egypt, Dana ended the year with a strong cash position of AED789 million and an acceptable D/E ratio of 0.46. Going forward, minimal financing needs as well as expected capital recovery from the Khor Mor project in Iraq, combined, should provide Dana Gas with utmost financial stability in the medium term.

Major Changes to our assumptions:

Downward revision to crude price estimate:

Price of crude oil has experienced a significant decline since we initiated coverage on Dana Gas in October 2008. Consistent with market expectations, we have revised downward our estimate for crude oil price to USD50 per barrel in 2009e and USD62 in 2010e and expect prices to gradually increase to USD84 per barrel by 2012e. Although the decline in LPG and condensate prices should keep Dana's revenues and margins under pressure in the medium term until prices begin to recover, the impact is likely to be cushioned by Dana's fixed-priced gas sales to the Egyptian Government, which make up little less than 50% of Dana's gross revenues in Egypt.

Egypt production to increase at a slower pace:

Dana Gas's USD170-180 million exploration programme resulted in three new gas (& liquids) discoveries in Egypt, with the discovery of Salma-I being the largest of the three and is expected to add 230 billion feet of gas (38 mmboe) plus condensates to Dana's 2P reserves. Although we initially estimated Egypt's total production in 2009e to increase 11% to 38,000 boe due to Dana's continued exploration success in the region, we note that Dana may not be able to commercialize these new discoveries at least before 1H2010 for two reasons:

- To bring new discoveries, specifically the Salma-I field, on stream will require capital investments to the tune of USD150-200 million in an LPG plant for extracting liquids, something that may not be viable amid the current commodity price environment
- Dana's present LPG plant in Egypt, which has a capacity to process up to 36,000 boe of inlet raw gas, is currently operating at utilization levels of ca. 80% and can be tapped for increase in inlet raw gas from smaller discoveries, but with insufficient spare capacity to process gas from the Salma-I field

As a result, we now expect average daily production in 2009e to remain in the range of 30,000-32,000 boe and increase by 15% in 2010e versus our earlier estimate of 20% for the year. The decline in LPG and condensate prices as well as an expected slower progress in bringing new discoveries on stream should result in a decline in revenues from Egypt from AED1,072 million in 2008e to AED973 million in 2009e, before recovering to AED1,075 million in 2010e. Revenues, thereafter, are expected to follow an upward trajectory and are estimated to gradually increase to AED2,572 million in 2012e.

Delay in Khor Mor production increase:

We initially expected Khor Mor project to operate at its full capacity of 300 mmcf by 1H2009, with the expected commissioning of an LPG plant in the area. However, phase 1 (150 mmcf) is now expected to be operational by 1H2009 with full capacity utilization not expected before the end of the year. This results in a lower estimated production of LPG and condensates at Khor Mor and consequently lower revenues of AED314 million from Iraq in 2009e versus our earlier estimate of AED821 million.

Our lower production and revised crude oil price assumptions translate into lower overall revenues of AED1,287 million in 2009e and AED1,879 million in 2010e versus our earlier estimate of AED2,138 million and AED2,486 million in 2009e and 2010e, respectively.

Figures in AED million except for production data, which is in thousand barrels of oil equivalent.

Old Revenue Breakdown	2007a	2008e	2009f	2010f	2011f
Production Breakdown	29.01	30.70	66.07	79.51	100.25
Dana Gas Egypt	1,036	1,236	1,316	1,562	2,329
Khor Mor	0	78	821	823	422
Danagaz Bahrain	0	0	0	34	113
Sharjah Offshore	0	0	0	68	134
Aggregate	1,036	1,314	2,138	2,486	2,997
New Revenue Breakdown	2007a	2008e	2009f	2010f	2011f
Production Breakdown	29.01	30.70	47.99	71.85	92.17
Dana Gas Egypt	1,036	1,072	973	1,075	2,056
Khor Mor	0	67	314	759	144
Danagaz Bahrain	0	0	0	11	121
Sharjah Offshore	0	0	0	34	134
Aggregate	1,036	1,139	1,286	1,879	2,455

Source: Dana Gas, Prime Estimates

Valuation:

We have decided to lower our perpetual growth rate to 3% from 4% used earlier in order to factor in a lower demand growth expected in world energy consumption in addition to a slower pace of Dana's activities in Egypt and Kurdistan Region of Iraq.

*Figures in AED million
except for per share data.*

Base Scenario - Excluding UAE Gas Project	2008e	2009f	2010f	2011f
Revenues	1,139	1,286	1,879	2,455
Net Income	119	51	140	215
Capex	1,678	609	252	402
Free Cash Flows	-1,103	-13	325	440
Total Shareholder Value (Net of Debt)				5,380
Value per share				0.90

Source: Dana Gas, Prime Estimates

Assuming no cash flows from the UAE Gas Project and using a WACC of 10.97%, we arrive at a revised fair value estimate of AED0.90 per share, with a 66% upside potential from the current market price of AED0.54 per share. We therefore *reiterate our **Strong Buy*** recommendation on Dana's stock.

Alternatively, if we were to include expected free cash flows from the UAE Gas Project starting 2010e, we arrive at a fair value estimate of AED1.99 per share, indicating a 270% upside over Dana's current price and 123% more than our current target price of AED0.90 per share.

Alternative Scenario - Including UAE Gas Project	2008e	2009f	2010f	2011f
Revenues	1,139	1,286	2,039	2,614
Net Income	119	51	519	829
Capex	1,678	609	252	402
Free Cash Flows	-1,103	-13	704	1,055
Total Shareholder Value (Net of Debt)				11,999
Value per share				1.99

Source: Dana Gas, Prime Estimates

FINANCIAL SUMMARY

(Figures in AED million)

Income Statement	2007a	2008e	2009f	2010f	2011f
Revenues	1,036	1,139	1,286	1,879	2,455
Less: Royalty	(431)	(472)	(409)	(516)	(905)
Net Revenues	605	667	878	1,363	1,550
Growth		9.9%	12.9%	46.1%	30.6%
Gross Margin	53%	52%	61%	61%	54%
EBITDAX	467	574	699	1,041	1,225
EBITDAX Margin	45%	50%	54%	55%	50%
Exploration expenses	37	12	12	80	32
EBITDA	430	562	686	961	1,193
Growth		30.7%	22.1%	40.0%	24.1%
Depreciation & Amortization	241	301	321	415	471
Operating EBIT	189	261	366	546	722
Net Interest Income/(Expense)	(118)	(234)	(213)	(277)	(281)
Non-operating income	210	230	-	-	-
Pre Tax Income	281	257	153	269	441
Pre Tax Income Growth		-8.4%	-40.6%	76.2%	63.7%
Income Tax	170	138	102	129	226
NPAT	111	120	51	140	215
Growth		7.5%	-57.6%	177.0%	53.0%
Net Income	111	120	51	140	215
Profit Share to Employees & Board	9	10	11	12	13
Net Attributable Income - NAI	102	110	39	128	201
Growth		7.1%	-64%	224%	57%

Balance Sheet (in AED millions)	2007a	2008e	2009f	2010f	2011f
Cash & Marketable Securities	2,125	1,018	874	1,063	1,283
Trade Receivables-Net	286	315	415	644	733
Inventory	145	167	133	275	388
Total Current Asset	2,556	1,500	1,422	1,983	2,404
Net Fixed Assets	1,329	2,226	3,083	3,064	2,883
Other Assets	6,966	7,081	6,608	6,388	6,388
Total Assets	10,850	10,808	11,114	11,434	11,675
Short Term Bank Debt	2	2	2	2	2
Accounts Payable	360	190	418	584	598
Other Current Liabilities	8	-	-	-	-
Total Current Liabilities	370	192	420	586	600
Long-Term Debt	3,358	3,384	3,410	3,436	3,462
Provisions & Minority Interest	15	28	28	28	28
Total Shareholders' Equity	7,107	7,204	7,256	7,384	7,585
Total Liab. & Shareholders' Equity	10,850	10,808	11,114	11,434	11,675

Free Cash Flow Statement	2007a	2008e	2009f	2010f	2011f
NOPLAT	229	309	264	417	496
Non-Cash Items	241	301	321	415	471
Gross Cash Flow	470	610	584	832	966
Gross Investments	4,499	1,842	597	507	526
Non -Operating Cash Flow	0	44	0	0	0
Free Cash Flow	-4,029	-1,103	-13	325	440
Interest Income After-Tax	-35	-29	-60	0	0
Increase in Excess Cash & M. Sec.	-872	-1,123	-199	62	172
Change in Subsidiaries & Long Term Investments	282	-282	0	0	0
After-Tax Interest Expense	153	263	273	277	281
Decrease in Debt & Bonds	-3,360	-26	-26	-26	-26
Provisions Used	-15	-13	0	0	0
Non-Appropriation Items	9	10	11	12	13
Shareholders Equity	-191	7	-7	0	0
Total Financing Flow	-4,029	-1,103	-13	325	440

Source: Company Financials; Prime Estimates

Stock Recommendation Guidelines

Recommendation	Target-to-Market Price (x)
Strong Buy	$x > 25\%$
Buy	$15\% < x < 25\%$
Accumulate	$5\% < x < 15\%$
Hold	$-5\% < x < 5\%$
Reduce	$-15\% < x < -5\%$
Sell	$-25\% < x < -15\%$
Strong Sell	$x < -25\%$

Investment Grade	Explanation
Growth	3 Yr. Earnings CAGR > 20%
Value	Equity Positioned Within Maturity Stage of Cycle
Income	Upcoming Dividend Yield > Average LCY IBOR
Speculative	Quality Earnings Reflect Above Normal Risk Factor

PRIME EGYPT SALES TEAM

Yasmine Guindy		+202 3300 5666	✉	yguindi@egy.primegroup.org
Sandy Morcos	☎	(25 lines)	✉	smorcos@egy.primegroup.org
Ramy El Agamy			✉	relagamy@egy.primegroup.org

PRIME UAE SALES TEAM

Ahmad Hamdi	☎	+971-2-6910701	✉	ahamdi@uae.primegroup.org
Bilal Samad	☎	+971-2-6910700	✉	bsamad@uae.primegroup.org
Mohamed Kamal	☎	+971-4-4070108	✉	mkamal@uae.primegroup.org
Mohamed Khaled Hafez	☎	+971-4-4070102	✉	mkhaled@uae.primegroup.org

PRIME EGYPT RESEARCH

Mohamed Seddiek	Senior Analyst, Acting Head	☎	+202 3300 5720	✉	mseddiek@egy.primegroup.org
Rehab Taha, CFA	Senior Analyst	☎	+202 3300 5724	✉	rtaha@egy.primegroup.org
Monette Doss	Senior Analyst	☎	+202 3300 5726	✉	mdoss@egy.primegroup.org
Ahmed Hindawy	Analyst	☎	+202 3300 5719	✉	aelhindawy@egy.primegroup.org
Karim Osman	Analyst	☎	+202 3300 5716	✉	kosman@egy.primegroup.org
Radwa Abulnaga	Analyst	☎	+202 3300 5718	✉	rabulnaga@egy.primegroup.org
Hind Panicker	Junior Analyst	☎	+202 3300 5727	✉	hpanicker@egy.primegroup.org
Nihal Zaki, CFTE	Technical Analyst	☎	+202 3300 5725	✉	nzaki@egy.primegroup.org
Heba Monir	Database Administrator	☎	+202 3300 5722	✉	hmonir@egy.primegroup.org

PRIME UAE RESEARCH

Usman Rauf	Senior Analyst	☎	+971-2-6910 756	✉	urauf@uae.primegroup.org
Angad Rajpal	Senior Analyst	☎	+971-4-407 0119	✉	arajpal@uae.primegroup.org
Mostafa Maghraby	Junior Analyst	☎	+971-4-407 0116	✉	mmaghraby@uae.primegroup.org
Dheeraj Lakhwani	Junior Analyst	☎	+971-4-407 0117	✉	dlakhwani@uae.primegroup.org
Slaiman Aboulhosn	Junior Analyst	☎	+971-4-407 0118	✉	saboulhosn@uae.primegroup.org

HEAD OFFICE

PRIME SECURITIES S.A.E.

Regulated by CMA license no. 179
Members of the Cairo Stock Exchange
2 Wadi El Nil St., Liberty Tower,
7th-8th Floor, Mohandessin, Giza, Egypt
Tel: +202 33005700/770/650/649
Fax: +202 3760 7543

PRIME EMIRATES LLC. (UAE)

Members of the ADX and DFM
Shiekh Zayed 1st Street, Khaldiayah, Abu Dhabi, UAE, PO Box 60355
Tel: +971 2 6910800 Fax: +971 2 6670907
Email: research@primegroup.org

Disclaimer

Information included in this report has no regard to specific investment objectives, financial situation, advices or particular needs of the report users. The report is published for information purposes only and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Unless specifically stated otherwise, all price information is only considered as indicator.

No express or implied representation or guarantee is provided with respect to completeness, accuracy or reliability of information included in this report.

Past performance is not necessarily an indication of future results. Fluctuation of foreign currency rates of exchange may adversely affect the value, price or income of any products mentioned in this report.

Information included in this report should not be regarded by report users as a substitute for the exercise of their own due diligence and analysis based on own assessment and judgment criteria. Any opinions given are subject to change without notice and may significantly differ or be contrary to opinions expressed by other **Prime** business areas as a result of using different assumptions and criteria. **Prime** Group is under no obligation responsible to update or keep current the information contained herein.

Prime Group, its directors, officers, employees or clients may have or have had interests or long or short positions in the securities and/or currencies referred to herein, and may at any time make purchases and/or sales in them as principal or agent.

Prime Group, its related entities, directors, employees and agents accepts no liability whatsoever for any loss or damage of any kind arising from the use of all or part of these information included in this report. Certain laws and regulations impose liabilities which cannot be disclaimed. This disclaimer shall, in no way, constitute a waiver or limitation of any rights a person may have under such laws and/or regulations.

Furthermore, **Prime Group** or any of the group companies may have or have had a relationship with or may provide or have provided other services, within its objectives to the relevant companies.

Copyright 2009 **Prime Group** all rights reserved. You are hereby notified that distribution and copying of this document is strictly prohibited without the prior approval of **Prime Group**.