



EFG - Hermes

Dana Gas

1Q2007 Results - 80 Days of Centurion

22 May 2007

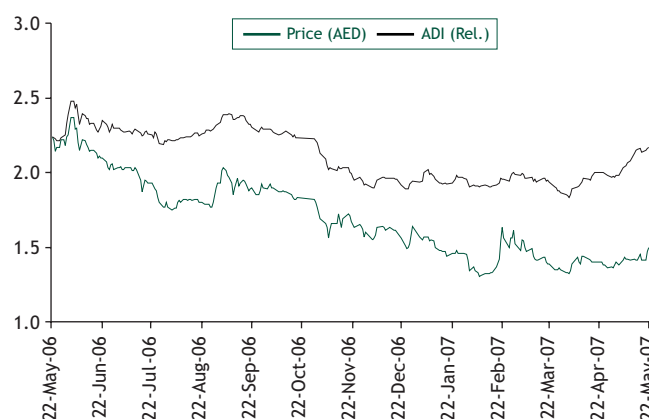
UAE | Utilities

ST Rec. : Neutral
LT Rec. : Neutral

Current Price*: AED 1.50
LT Fair Value : AED 1.80

- Dana Gas reported 1Q2007 results reflecting the incorporation of the company's recent acquisition: Canadian-based E&P firm Centurion Energy. Revenues (net of royalties) came in at AED123 million, with EBITDA of AED79 million, net profit of AED21 million. Centurion is Dana's only revenue generating business to date and has been consolidated since 10 January.
- The company's Iranian deal has been the subject of negative press over the past few weeks, highlighting the contract's prolonged delay. However, given the investment already committed to the pipeline by both sides, as well as the fact that construction is more than 95% complete, we maintain our assumption that Dana will obtain the Iranian gas this year, albeit at a higher price than originally agreed upon.
- In other developments, Dana recently entered into a strategic agreement entitled the 'Strategic Alliance Protocol' with the Kurdistan government in Iraq. This alliance consists of the building of a gas-powered industrial complex as well as development, processing and transportation of natural gas from the Khor Mor gas field to power plants.
- Given that Dana Gas is at the early stages of its development, with several acquisitions and contracts that may or may not happen, we maintain our current estimates for FY2007 with revenue of AED1.6 billion, EBITDA of AED889 million and net profit of AED312.8 million, which assumes that the cornerstone Iranian contract materializes.
- In the meantime, based on our current and very uncertain full year estimates, Dana Gas's valuation multiples look high, with the company trading on a 2007e PE of 28.8x, although its price to book ratio is a more reasonable 1.2x 2007e, a reflection of its relative youth. We reiterate our ST/LT Neutral recommendation and await further developments.

Flash Note



	2006a	2007e	2008e
EPS*	0.04	0.05	0.09
PER (x)	39.5	28.8	16.8
DPS	0.00	0.00	0.00
Div. Yield	0.0%	0.0%	0.0%
CFPS	0.04	0.11	0.17
PCF (x)	34.7	13.4	9.0
BVPS	1.15	1.20	1.29
PBV (x)	1.3	1.2	1.2

*Attributable

Stock Data:

Last Ex-Div Date	N/A
Mkt. Value (Local mn)	AED 9,000
Shares (mn)	6,000
Av. Mthly Liqd. (mn)	AED 326.6
52-Week High/ Low	AED2.37/1.30
Bloomberg/ Reuters	DANA UH / DANA.AD
Est. Free Float	35%

Sana Kapadia
+971 4 363 4007
skapadia@efg-hermes.com

Abid Riaz
+971 4 363 4005
ariaz@efg-hermes.com

*As of 22 May 2007

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REVIEW OF FINANCIALS

A. 1Q2007 Results - Centurion and Exceptional Gain Bolster Results

Dana Gas reported 1Q2007 results with revenues (net of royalties) coming in at AED123 million, with net profit of AED21 million. These numbers reflect the incorporation of the company's recent AED3.7 billion acquisition of Canadian-based E&P firm Centurion Energy.

Table 1.1: 1Q2007 Results Versus 1Q2006

(AED mn)	1Q2006a	1Q2007a
Revenues	0.0	123.0
COGS	0.0	(18.0)
Gross Profit	0.0	105.0
SG&A	(4.0)	(12.0)
Exploration Expenses	0.0	(14.0)
EBITDA	(4.0)	79.0
Depreciation & Depletion	0.0	(54.0)
Amortisation	0.0	0.0
Net Operating Profit	(4.0)	25.0
Non-operating Income	55.0	13.0
Gain from Change in FV of Investment Property	0.0	59.0
Net Interest Income (Expense)	0.0	(46.0)
Earnings before Taxes	51.0	51.0
Income Taxes	0.0	(30.0)
NPAUI	51.0	21.0
EPS	0.009	0.004

Source: Dana Financial Statements

The inclusion of Centurion in Dana Gas's 1Q2007 results has had obvious positive implications. While 1Q2007 revenues (net of royalties) of AED123 are below our estimates on an annualised basis (our FY revenue forecasts look for AED700 million for Centurion), management has indicated that this shortfall is attributable to a delay in the commissioning of the company's LPG plant in Egypt in the first quarter. The company is confident that this plant will come on stream in 2Q2007.

Depreciation & depletion of AED54 million for the quarter was higher on an annualized basis than our full year forecast, as a result of a more rapid rate of production than anticipated and hence quicker depletion of Centurion's current reserves. Meanwhile, net interest expense came in at AED46 million for the quarter, reflecting debt of USD470 million assumed by Dana to (partly) fund the Centurion acquisition. This is in marked contrast to the situation at the end of 1Q2006 when the company received non-operating income of AED55 million from the investment of its net cash.

In addition, a significant exceptional item appeared in 1Q2007 further distorting earnings. This relates to a gain of AED59 million from the change in the fair value of an investment property which is located in the Sajaa industrial district in Sharjah. This has led to a net profit figure of AED21 million for 1Q2007.

B. Recent Developments: Strategic Alliances and Update on Key Contracts

Update on Cornerstone Iranian Contract

The Iranian contract remains under review, with final talks expected to be completed shortly. There has been a string of negative press lately suggesting that the National Iranian Oil Company (NIOC) is close to reneging on the deal or even selling the gas to an alternative UAE entity. However, all guidance from management continues to suggest that given the considerable investment already committed by both parties to the project, an agreement will be reached. Moreover, in terms of timing, the pipeline is complete from the UAE side, but labour shortages and contracting issues have resulted in some delays on the Iranian side. Management is confident that the gas will begin to flow by the beginning of 3Q2007 and therefore, we maintain our assumption that the outstanding issues will be solved shortly, albeit with Dana agreeing to pay a higher price, given that these supplies remain pivotal to the company's original contracts with end users.

Strategic Alliances and Update on Key Contracts

This past quarter, Dana Gas has entered a strategic agreement entitled the 'Strategic Alliance Protocol' with the Kurdistan government in Iraq. This alliance consists of the building of a gas-powered industrial complex as well as development, processing and transportation of natural gas from the Khor Mor gas field to power plants. The gas complex looks to provide gas for industrial usage, power generation and finally for export.

Also, the joint venture named Dana Gaz (Bahrain) which was created last year between Bahraini shareholders and Dana will soon begin construction of the planned gas liquids extraction and manufacturing plant in the Egyptian Gulf of Suez, with construction expected to last 24 months.

With respect to the agreement to develop a liquefied natural gas (LNG) terminal at Port Qasim in Karachi, Pakistan, there has been limited progress and we await further news. With respect to the anticipated acquisition of Sui Southern Gas, recent press has suggested that negotiations are still ongoing and we expect positive newsflow in the second half of the year.

C. Forecasts

Given that the company is at the early stages of developing its business, integrating the Centurion acquisition and attempting to mitigate public concern over the Iranian contract, we believe it would be more meaningful to wait for 2Q2007 results before we see a clearer picture of the make up of the overall business. Whilst Dana has acquired Centurion, which has positively contributed to results in the first quarter, there are still a number of outstanding acquisitions and contracts, especially the Iran contract, that will more likely than not happen by the end of the year. Therefore given a lack of visibility today, we maintain our current estimates for FY2007 with revenue of AED1.6 billion, EBITDA of AED889 million and net profit of AED312.8 million.

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EFG-Hermes (UAE), Level 6, The Gate, West Wing, DIFC , P.O. Box 30727, Dubai - UAE
Tel: +971 4 363 4000 | Fax: +971 4 362 1170 | Website: www.efg-hermes.com
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