المجموعة المالية - هيرميس
EFG HERMES

AABAR PETROLEUM INVESTMENTS

Puzzling Transaction and Unclear Future

15 JANUARY 2008

UAE | OIL AND GAS

ST Rec. : Reduce	Current Price*: AED 4.76
LT Rec. : Reduce	LT Fair Value : AED 3.40

• Aabar (AABAR.AD) announced on Monday that it has signed a heads of agreement with Mubadala Development Company for the sale of a 90% stake in its Pearl Energy unit for USD877.5 million.

• The offer price of USD877.5 million, with Mubadala assuming no debt, suggests that Pearl Energy is worth USD975 million (AED3.6 billion). According to our forecasts, we have an estimated equity value for Pearl Energy of AED4.5 billion (based on a long-term oil price of USD56) assuming no debt or cash. While we estimate Aabar will have a cash balance of AED1.5 billion at the end of 2007 (boosted by the completion of its sale of Dalma in 4Q2007), the company has an outstanding convertible bond of AED1.6 billion, assuming redemption at par.

• However, a covenant in the company's convertible bond states that in the event of a significant/ substantial change in control of the assets of Pearl Energy, bond holders are given the right to early redemption in cash, and at a lower strike price. We estimate the strike price falls from AED4.00 to AED3.87 and estimate that it will cost the company AED2.0 billion to pay back this debt at the current share price.

• The company had originally acquired Pearl Energy for AED2.02 billion back in July 2006. Since then, under Aabar's management, Pearl has doubled its production to just under 20,000 barrels of oil per day (bopd) and the oil price has risen significantly. Therefore, while Mubadala's offer represents a tidy profit for Aabar, it means that the company will be left with i) cash of AED4.7 billion (current cash balance plus cash from sale of Pearl), ii) debt of AED2.0 billion (the cost to pay back its convertible bond) and 10% of the Pearl business (valued at AED360 million at the acquisition price). This suggests to us that the resulting value of Aabar is AED3.1 billion or AED3.40 per share.

• It is also worth mentioning that Mubadala along with Abu Dhabi Investment Company currently own a 45% stake in Aabar. What is unclear is why Mubadala is not increasing its stake in Aabar, or indeed acquiring the parent company completely, rather than taking over its subsidiary. Moreover, this leads to question marks as to the future of Aabar. Only a few months ago, the company sold its drilling service business Dalma, and this divestment represented a repositioning and a tightening of Aabar's long term strategy, allowing the company to focus on the upstream oil and gas sector. This deal, therefore, would appear be a huge step backwards for Aabar and goes against the company's vision, and thus strikes us as confusing.

• Therefore, if the deal is to go ahead, which seems likely, this implies an unclear future for Aabar. Indeed, as yet, the company is not willing to comment in any detail as to the future of Aabar. With Aabar in effect becoming a cash shell (besides its 10% stake in Pearl) with a residual value of AED3.40 per share, which is considerably less than the current share price of AED4.76, we reduce our recommendation to ST/LT Reduce from ST Neutral/ LT Accumulate and reduce our LTFV to AED3.40 from AED3.75 per share.

FLASH NOTE



*Prices as of 15 January 2008

	2007e	2008e	2009e
EPS*	0.82	0.12	0.21
PER (x)	5.8	39.0	23.1
DPS	0.19	0.19	0.19
Div. Yield	4.0%	4.0%	4.0%
CFPS	1.1	0.4	0.5
PCF (x)	4.2	11.0	9.2
BVPS	2.6	2.7	2.8
PBV* (x)	1.8	1.8	1.7

* Attributable

Stock Data:	
Last Ex-Div Date	*AED0.05 on 13 May 2007*
Mkt. Val. (Local mn)	*4,284*
Shares (mn)	*900*
Av. Mthly Liqd. (mn)	*AED914.4*
52-Week High / Low	*AED4.76 / 1.54*
Bloomberg / Reuters	*AABAR UH / AABAR.AD*
Est. Free Float	*55%*

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