



EFG - Hermes

## Dana Gas A Timely Sidestep

05 December 2006

UAE | Utilities

ST Rec. : Neutral  
LT Rec. : Neutral

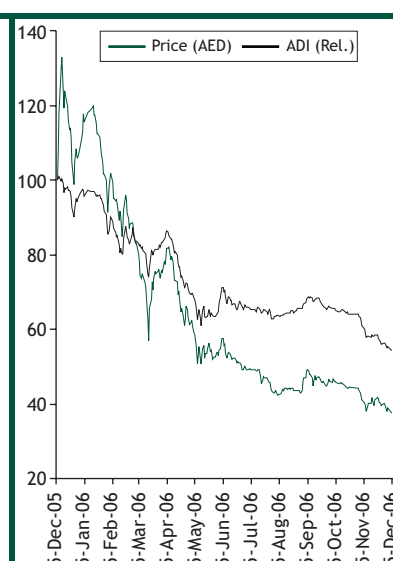
Current Price\*: AED 1.55  
LT Fair Value : AED 1.75

- Dana gas has entered into agreement to acquire all outstanding shares in Centurion Energy International, a Canadian-based oil and gas exploration & production company with assets in the MENA region. The offer values the company at CAD1.15 billion (includes CAD100 million debt), which equates to AED3.7 billion.
- In our opinion, the offer price of CAD12 per share which represents a 36% premium over the last trading price before the announcement, is an acceptable one for Centurion shareholders, and would put the company on the following valuation multiples for 2006e: P/E of 21.8x, EV/EBITDA of 7.2x and PCF of 11.1x. Furthermore, the deal seems reasonably priced when compared against a recent similar acquisition within the gas sector in Canada.
- We believe that this acquisition is a suitable strategic fit for Dana Gas, representing the company's entry into the upstream gas sector. Centurion assets include a combination of existing producing fields in Egypt, complemented by exploration assets in Egypt, Tunisia and the Sao Tome/Nigeria JDZ.
- The acquisition would clearly have positive implications for our current forecasts (beyond 2006). We would expect to see an increase in our earnings estimates for Dana Gas of 32% in 2007 and 54% in 2008. Obviously, subsequent forecasts would also be positively impacted.
- Meanwhile, this acquisition may help Dana to mitigate concerns regarding the delay of its cornerstone Iranian contract. While we have every indication to believe that Iranian gas imports will commence in 1H2007, any possible delays in the contract and hence revenues will be balanced by flow of revenues and profits from Centurion's operations.
- Based on our current estimates, Dana Gas's valuation multiples look high, with the company trading on a 2007e P/E of 38.8x, although its price to book ratio is a more reasonable 1.3x. Therefore, we maintain our ST/LT Neutral recommendation.

| December year end         | 20/11/05<br>31/03/06 | 2006e   | 2007e | 2008e |
|---------------------------|----------------------|---------|-------|-------|
| Operating Income (mn)     | -5.0                 | -16.4   | 108.5 | 289.5 |
| Net Attrib. Income (mn)   | 689.0                | 228.0   | 239.7 | 346.9 |
| ROE                       | 10.3%                | 3.3%    | 3.3%  | 5.0%  |
| EPS                       | 0.11                 | 0.04    | 0.04  | 0.06  |
| EPS Growth                | N/A                  | -66.9%  | 5.1%  | 44.7% |
| PER                       | 13.5                 | 40.8    | 38.8  | 26.8  |
| DPS                       | 0.0                  | 0.0     | 0.0   | 0.0   |
| Dividend Yield            | 0.0%                 | 0.0%    | 0.0%  | 0.0%  |
| BVPS                      | 1.11                 | 1.15    | 1.19  | 1.25  |
| P/BV                      | 1.39                 | 1.34    | 1.30  | 1.24  |
| CFPS (Operating CF)       | 0.11                 | 0.04    | 0.08  | 0.12  |
| P/CF                      | 13.5                 | 35.9    | 20.1  | 13.1  |
| EBITDA (mn)               | (5.0)                | 15.1    | 331.0 | 650.5 |
| EBITDA Margin             | N/A                  | 26.3%   | 34.5% | 14.5% |
| EV/EBITDA                 | N/A                  | 453.8   | 30.8  | 16.6  |
| Net Debt (Cash) (mn)      | (4,750)              | (2,468) | 906   | 1,514 |
| Net Debt (Cash) / BV      | -71%                 | -36%    | 13%   | 20%   |
| Net Debt (Cash) / Mkt Cap | -51%                 | -27%    | 10%   | 16%   |

Fig in AED unless otherwise stated

| Estimate Changes   |                      | 2006e |       | 2007e |       |
|--------------------|----------------------|-------|-------|-------|-------|
| (AED mn)           | 20/11/05<br>31/03/06 | Old   | New   | Old   | New   |
| Revenues           | -                    | N/A   | 57.3  | N/A   | 959.5 |
| EBITDA             | (5.0)                | N/A   | 15.1  | N/A   | 331.0 |
| EBITDA Margin      | N/A                  | N/A   | 26.3% | N/A   | 34.5% |
| Net Attrib. Income | 689.0                | N/A   | 228.0 | N/A   | 239.7 |



### Stock Data:

|                      |                   |
|----------------------|-------------------|
| Last Ex-Div Date     | N/A               |
| Mkt. Val. (mn)       | 9,300             |
| Shares (mn)          | 6,000             |
| Av. Mthly Liqd. (mn) | AED168.2          |
| 52-Week High / Low   | AED 5.48 / 1.55   |
| Bloomberg / Reuters  | DANA UH / DANA.AD |
| Est. Free Float      | 35%               |

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

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

\*As at 05 December 2006

KINDLY REFER TO THE IMPORTANT DISCLOSURES AND DISCLAIMER ON PAGE 06.

---

### The Announcement

Dana gas announced on the 13th November that it had entered into agreement to acquire all outstanding shares in Centurion Energy International, a Canadian-based oil and gas exploration & production company with assets in the MENA region (operating principally in the Egyptian Nile Delta). The offer price was CAD12 per share, which represented a 36% premium over the trading price of the shares before the announcement of an approach, and valued the company at CAD1.15 billion (including debt of CAD100 million), which equates to AED3.7 billion.

### The Requirements of the Deal

The deal requires approval of no less than two-thirds of Centurion's shareholders, with a special meeting expected to be held in early January 2007. Given that Centurion's Board of Directors, who represent shareholders owning 18% of the company's share capital, have already unanimously approved the offer, we believe there is a high probability of success of Dana Gas completing this acquisition.

### Strategic Fit

Centurion assets include a combination of existing producing fields in Egypt, complemented by exploration assets in Egypt, Tunisia and the Sao Tome/Nigeria JDZ. Dana Gas's long term strategy involves undertaking projects across all stages of the gas value chain including venturing into a range of upstream, midstream and downstream activities. Therefore, we believe that this acquisition is a suitable strategic fit, representing Dana Gas' entry into the upstream gas sector.

### The Offer

The offer price of CAD12 per share represents a 36% premium over the last trading price before the announcement, and is a substantial 56% above the volume weighted average share price for the last 20 trading days up to 30th October 2006 (the date at which Centurion announced that it had received an approach from a third party). In our opinion, this represents an acceptable premium for Centurion shareholders, and would put the company on the following valuation multiples for 2006e: PE of 21.8x, EV/EBITDA of 7.2x and PCF of 11.1x and for 2007e: P/E of 20.0x, EV/EBITDA of 6.2x and PCF of 9.8x.

### Comparable Deals

In order to put this acquisition into context with the kind of prices that have been achieved for similar deals within the gas industry in Canada, we have chosen to look at the acquisition of four subsidiaries of Burlington Resources Limited. These subsidiaries consist of Canadian oil and gas producing properties and land, and were collectively sold for USD1.0375 billion in November 2006. Since deals in the energy sector are largely a function of the level of reserves of oil and natural gas that the company has access to, we have chosen to compare the Centurion acquisition with this deal using various transaction metrics as in table 1.

#### Head of Research

Philip Khoury  
+971 4 363 4002  
+20 2 336 9539  
pkhoury@efg-hermes.com

#### Head of UAE Brokerage

Seif Fikry  
+971 4 363 4055  
seif@efg-hermes.com

#### UAE Institutional Sales

Amro Diab  
+971 4 306 9210  
adiab@efg-hermes.com

#### UAE Retail Sales

Reham Tawfik  
+971 4 306 9202  
rtawfik@efg-hermes.com

#### US/UK Sales

Mohamed Ebeid  
+20 2 337 1447  
mebeid@efg-hermes.com

#### Gulf Sales

Mohsen Mansour  
+20 2 337 0257  
mohsenm@efg-hermes.com

Table 1: Comparable Deal Transaction Metrics

|                                                           | Centurion | Comparable Transaction |
|-----------------------------------------------------------|-----------|------------------------|
| Proved Reserves (millions of barrels of oil equivalent)   | 54.0      | 51.4                   |
| Probable Reserves (millions of barrels of oil equivalent) | 43.0      | 14.4                   |
| Total (millions of barrels of oil equivalent)             | 97.0      | 65.8                   |
| Price of Acquisition (USD Billion)                        | 1.020     | 1.037                  |
| Price Per Proved Reserve (USD per boe)                    | 18.9      | 20.2                   |
| Price Per Total Reserve (USD per boe)                     | 10.5      | 15.8                   |

Source: EFG-Hermes estimates

We have compared the price of the acquisition on the basis of the quantity of reserves that each company possesses and the associated transaction metrics that are derived from these. Therefore, on a proved reserves basis, Centurion looks in line with our comparable transaction.

Meanwhile, since Centurion is undertaking greater exploration projects, this activity is not without its risks, particularly given the location of Centurion's operations (the MENA region) and the size of its probable reserves compared to its proven ones. Therefore, while the price of the Centurion acquisition appears cheaper on a total reserve basis (at USD10.5 per boe) compared to our comparable transaction (at USD15.8 per boe), the associated risks of converting probable reserves into proved reserves can, in our mind, justify this and therefore we believe the deal to be reasonably priced.

## Centurion Energy Results and Consensus Estimates

### Third Quarter Results

Centurion produced strong 3Q2006 numbers. Revenues for the nine-month period were up over 100% Y-o-Y to CAD137.4 mn (AED455 mn), while net income (before taxes) came in at CAD85.6 mn (AED277 mn). With a tax rate of around 40%, net income after tax was CAD45.2 mn (AED146.5 mn). These results were buoyed by the company's discovery, earlier this year, of further gas reserves in its El Wastani field in Egypt. Table 2 shows current consensus estimates for Centurion Energy over the next few years.

Table 2: Consensus Forecasts for Centurion in CAD and AED Equivalent

| Estimates | CAD (mn) |         | AED (mn) |         |
|-----------|----------|---------|----------|---------|
|           | Revenues | Profits | Revenues | Profits |
| 2006      | 188      | 46.7    | 609      | 151     |
| 2007      | 218      | 54.5    | 707      | 177     |
| 2008      | 232      | 58.0    | 752      | 188     |

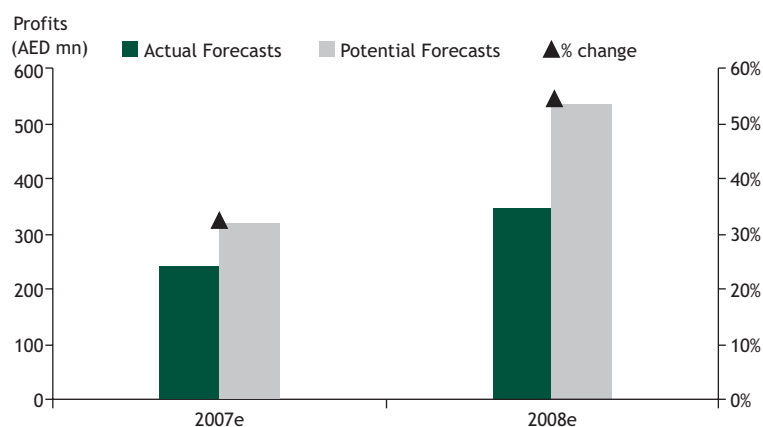
Source: Reuters Knowledge

## The Impact to Forecasts For Dana Gas

If the deal is approved and goes ahead, the acquisition would clearly have positive implications for our current forecasts (beyond 2006). For the full year 2007, we expect Centurion to generate revenues of some AED700 million, and expect a profit contribution of around AED177 million. If we were to simply add these numbers to our current earnings forecasts for Dana Gas, we would see upside of some 74% in 2007.

However, within our current estimates for Dana, we have assumed non-operating income (coming from investments) of AED100 million in 2007e, and this will be derived from the company's current cash balances. Undoubtedly, if Dana is successful in completing this acquisition using its cash (either partly or entirely), then this non-operating income item would either be reduced or eliminated. Taking this factor into consideration, we expect to see an increase in our bottom line estimates for Dana Gas of 32% for 2007 and 54% for 2008. Obviously, subsequent forecasts would also be positively impacted.

Figure 3: Potential Impact to Forecasts for 2007e and 2008e



Source: EFG-Hermes estimates

## Impact of Acquisitions on Dana's Capital Structure

Given the size of the Centurion Energy acquisition at around AED3.7 billion and the fact that Dana Gas could affectively use up all of its cash balance (of AED3.5 billion as at 30 September 2006) if it chooses to finance the entire deal through cash, we believe there will be less urgency for the company to complete further acquisitions in the short term. Furthermore, the Centurion acquisition will give Dana Gas upstream capabilities and operations within the region and as such, will satisfy one of its key strategic criteria and give rise to revenues, cash flows and profits.

Meanwhile, we stick with our assumption that Dana Gas will acquire the Pakistani Sui Southern Gas Company, given that the bidding process is still underway. Thus, we expect this deal to be completed during the course of next year with contributions expected to start in 2008. However, we would be mindful of the fact that the company will have to finance any further deals either through debt, or a secondary (equity) issue.

---

**Acquisition May Substantiate Dana's Value Proposition**

A final point to make regarding the Centurion acquisition is that it may help to mitigate concerns over the delay of Dana Gas's cornerstone Iranian contract. While we have every indication to believe that gas imports will commence in 1H2007, any possible delays in the contract and hence revenues, will be balanced by the flow of revenues and profits from Centurion's operations. This should put at bay some investor concerns about the fact that Dana has yet to record any operating revenues and income. Thus, we believe that this acquisition, which appears likely to be completed within the next few months pending shareholder approval, will prove to be positive for Dana. Moreover, the span of Centurion's operations in Egypt and Africa further substantiate Dana's objective of becoming a leading regional player in the energy sector.

However, in the meantime, based on our current estimates Dana Gas's valuation multiples look high, with the company trading on a 2007e PE of 38.8x, although its price to book ratio is a more reasonable 1.3x (for 2007e), a reflection of its relative youth. Therefore, we maintain our ST/LT Neutral recommendation.

---

## DISCLOSURES

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.

EFG-Hermes Holding hereby certifies that neither it nor any of its subsidiaries owns any of the securities that are the subject of this report. Funds managed by EFG-Hermes Holding and its subsidiaries for third parties may own the securities that are the subject of this report. EFG-Hermes may own shares in one or more of the aforementioned funds or in funds managed by third parties. The authors of this report may own shares in funds open to the public that invest in the securities mentioned in this report as part of a diversified portfolio over which they have no discretion.

The Investment Banking division of EFG-Hermes may be in the process of soliciting or executing fee earning mandates for companies that are either the subject of this report or are mentioned in this report.

## DISCLAIMER

Our investment recommendations take into account both risk and expected return. We base our long-term fair value estimate on a fundamental analysis of the company's future prospects, after having taken perceived risk into consideration. We have conducted extensive research to arrive at our investment recommendations and fair value estimates for the company or companies mentioned in this report. Although the information in this report has been obtained from sources that EFG-Hermes believes to be reliable, we do not guarantee its accuracy, and such information may be condensed or incomplete. Readers should understand that financial projections, fair value estimates and statements regarding future prospects may not be realized. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice. This research report is prepared for general circulation and is intended for general information purposes only. It is not intended as an offer or solicitation with respect to the purchase or sale of any security. It is not tailored to the specific investment objectives, financial situation or needs of any specific person that may receive this report. We strongly advise potential investors to seek financial guidance when determining whether an investment is appropriate to their needs. No part of this document may be reproduced without the written permission of EFG-Hermes.

## Financial Statements (December year end)

| (AED mn)                                                | 20/11/05-30/09/06 | 2006e          | 2007e          | 2008e          | 2009e         |
|---------------------------------------------------------|-------------------|----------------|----------------|----------------|---------------|
| <b>Balance Sheet</b>                                    |                   |                |                |                |               |
| Cash & Liquid Assets                                    | 3,489             | 2,468          | 1,714          | 1,886          | 2,074         |
| Accounts Receivable                                     | 1.0               | 10.1           | 52.6           | 245.8          | 420.4         |
| Other Receivables                                       | -                 | 17.8           | 78.9           | 368.7          | 420.4         |
| <b>Net Accounts Receivable</b>                          | <b>1.0</b>        | <b>27.9</b>    | <b>131.4</b>   | <b>614.6</b>   | <b>840.7</b>  |
| Inventory                                               | -                 | 32.2           | 127.2          | 578.9          | 655.8         |
| Prepaid Expenses                                        | -                 | 6.7            | 79.9           | 373.5          | 425.8         |
| Revenues in Excess of Billings                          | -                 | -              | -              | -              | -             |
| <b>Total Current Assets</b>                             | <b>3,490</b>      | <b>2,534</b>   | <b>2,053</b>   | <b>3,453</b>   | <b>3,997</b>  |
| Net Plant                                               | 844.0             | 1,289          | 4,125          | 4,350          | 4,597         |
| Net Investments                                         | -                 | -              | -              | -              | -             |
| Total Intangibles                                       | 3,140             | 3,140          | 3,690          | 3,530          | 3,370         |
| <b>Total Assets</b>                                     | <b>7,474</b>      | <b>6,963</b>   | <b>9,868</b>   | <b>11,333</b>  | <b>11,963</b> |
| Accounts Payable                                        | 42.0              | 25.5           | 63.6           | 386.0          | 437.2         |
| Other Payables                                          | -                 | -              | -              | -              | -             |
| <b>Total Payables</b>                                   | <b>42.0</b>       | <b>25.5</b>    | <b>63.6</b>    | <b>386.0</b>   | <b>437.2</b>  |
| Accrued Expenses and Provisions                         | 1.0               | 20.9           | 28.0           | 43.0           | 35.5          |
| Dividends Payable                                       | -                 | -              | -              | -              | -             |
| Convertible Note                                        | 647.0             | -              | -              | -              | -             |
| <b>Total Current Liabilities</b>                        | <b>690.0</b>      | <b>46.4</b>    | <b>91.6</b>    | <b>429.0</b>   | <b>473</b>    |
| Loans                                                   | -                 | -              | 2,620          | 3,400          | 3,550         |
| Total Provisions                                        | -                 | -              | -              | -              | -             |
| Minority Interest                                       | -                 | -              | -              | -              | -             |
| Other Liabilities                                       | -                 | -              | -              | -              | -             |
| <b>Total Liabilities &amp; Provisions</b>               | <b>690.0</b>      | <b>46.4</b>    | <b>2,712</b>   | <b>3,829</b>   | <b>4,023</b>  |
| <b>Shareholder Equity</b>                               | <b>6,784</b>      | <b>6,917</b>   | <b>7,157</b>   | <b>7,504</b>   | <b>7,941</b>  |
| <b>Income Statement</b>                                 |                   |                |                |                |               |
| Revenues                                                | -                 | 57.3           | 959.5          | 4,486          | 5,114         |
| COGS                                                    | -                 | (37.2)         | (580.5)        | (3,522)        | (3,989)       |
| Gross Profit                                            | -                 | 20.1           | 379.0          | 964.6          | 1,125         |
| Gross Profit Margin                                     | -                 | 35.0%          | 39.5%          | 21.5%          | 22.0%         |
| SG and A                                                | (17.0)            | (5.0)          | (48.0)         | (314.0)        | (352.9)       |
| <b>EBITDA</b>                                           | <b>(17.0)</b>     | <b>15.1</b>    | <b>331.0</b>   | <b>650.5</b>   | <b>772.3</b>  |
| EBITDA margin                                           | -                 | 26.3%          | 34.5%          | 14.5%          | 15.1%         |
| Depreciation                                            | -                 | (31.4)         | (97.6)         | (201.0)        | (221.1)       |
| Amortization                                            | -                 | -              | (125.0)        | (160.0)        | (160.0)       |
| <b>Net Operating Profit</b>                             | <b>(17.0)</b>     | <b>(16.4)</b>  | <b>108.5</b>   | <b>289.5</b>   | <b>391.1</b>  |
| Net Interest Income/(Expense)                           | 171.0             | 144.4          | 31.2           | (30.4)         | (40.0)        |
| Non-operating Income (Inc. Investments)                 | 630.0             | 100.0          | 100.0          | 118.0          | 123.9         |
| Minority Interest                                       | -                 | -              | -              | -              | -             |
| <b>Earnings before Taxes</b>                            | <b>784.0</b>      | <b>228.0</b>   | <b>239.7</b>   | <b>377.1</b>   | <b>475.0</b>  |
| Exceptionals - Contribution from IPO Bank Deposits      | -                 | -              | -              | -              | -             |
| <b>NPAUI</b>                                            | <b>784.0</b>      | <b>228.0</b>   | <b>239.7</b>   | <b>346.9</b>   | <b>437.0</b>  |
| <b>Cash Flow Statement</b>                              |                   |                |                |                |               |
| Net Operating Profit                                    | 784.0             | 228.0          | 239.7          | 346.9          | 437.0         |
| Net Interest Income/(Expense) and Investments           | (801.0)           | (244.4)        | (131.2)        | (87.6)         | (83.9)        |
| Depreciation & Amortization                             | -                 | 31.4           | 222.6          | 361.0          | 381.1         |
| Change in Working Investment                            | (27.0)            | (84.3)         | (232.6)        | (902.4)        | (303.3)       |
| Other Current Liabilities                               | 1.0               | 0.3            | 0.3            | 0.4            | 0.4           |
| <b>Net Cash Flow from Operating Activities</b>          | <b>(43.0)</b>     | <b>(68.9)</b>  | <b>98.7</b>    | <b>(281.7)</b> | <b>431.3</b>  |
| CAPEX                                                   | (211.0)           | (350.0)        | (58.5)         | (121)          | (132.7)       |
| Acquisitions                                            | 217.0             | -              | (1,350)        | -              | -             |
| Investments                                             | (2,021)           | 100.0          | 100.0          | -              | -             |
| <b>Net Cash from Operating and Investing Activities</b> | <b>(2,058)</b>    | <b>(318.9)</b> | <b>(1,210)</b> | <b>(402.3)</b> | <b>298.6</b>  |
| Non-operating Cash Flow                                 | 775.0             | 144.4          | 83.6           | 208.0          | 222.9         |
| <b>Cash Flow before Financing</b>                       | <b>(1,283)</b>    | <b>(174.6)</b> | <b>(1,126)</b> | <b>(194.3)</b> | <b>521.5</b>  |
| Dividends Paid                                          | -                 | -              | -              | -              | -             |
| Net Financing                                           | 2,751             | (1,923)        | 2,574          | 674.3          | 3.0           |
| <b>Change in Cash</b>                                   | <b>1,468</b>      | <b>(2,098)</b> | <b>1,448</b>   | <b>480.0</b>   | <b>524.6</b>  |

Sources: Dana Gas and EFG-Hermes estimates

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](http://www.efg-hermes.com)  
Bloomberg: EFGH | Reuters pages: .EFGS .HRMS .EFGI .HFISMCA .HFIDOM