



EFG - Hermes

Dana Gas 3Q2006 - Still Much to Prove

01 November 2006

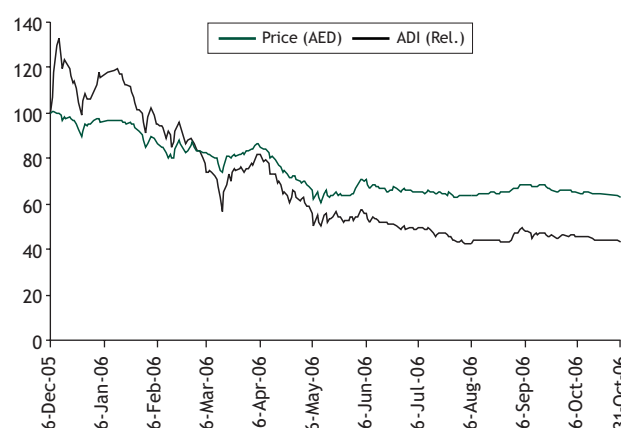
UAE | Utilities

ST Rec. : Neutral
LT Rec. : Neutral

Current Price*: AED 1.77
LT Fair Value : AED 1.75

- Dana Gas reported 3Q2006 net profits of AED46 million, while net income for the company's first ten months of operations amounted to AED784 million. Although there are no comparable figures given Dana's relative youth, these results are in line with our expectations at this stage of the year.
- While Dana has yet to commence its key contracts, these are expected to come on stream shortly. Indeed, while the company has reported no operating income over the last ten months, we believe that the company's cornerstone Iranian contract will commence operations in 1H2007 and we expect that the Emarat deal will be initiated by 4Q2006.
- At the same time, Dana has successfully entered into a series of strategic alliances over the past quarter, which has enabled the company to establish a strong footprint across the region. The first is a joint venture with a Bahraini company and Egyptian Natural Gas Holding Company (EGAS) to build, own and operate an LPG plant in Egypt. Second, is a deal that marks Dana's first foray into LNG activities with the formation of an alliance with Single Buoy Moorings (SBM) and entails the development of an LNG terminal in Pakistan. Additionally, Dana is ready to open its first office outside of the UAE, in Saudi Arabia, which will advance its expansion into new markets.
- While this positive news-flow has given some visibility as to the future direction of the company, Dana Gas still faces a major risk with respect to the completion of its Iranian gas contract and without a final resolution on this major deal, we find it hard to change our outlook on the stock at this stage. Moreover, although the company is undoubtedly moving forward with its strategy, Dana Gas still has much to prove.
- Thus we maintain our ST Neutral/LT Neutral recommendation on the stock, with an estimated Fair Value of AED1.75.

Flash Note



	2006a	2007e	2008e
EPS*	0.03	0.03	0.05
PER (x)	64.4	56.8	37.8
DPS	0.00	0.025	0.026
Div.Yield	0.0%	0.8%	0.8%
CFPS	0.03	0.07	0.11
PCF (x)	53.4	25.7	16.4
BVPS	1.16	1.19	1.24
PBV (x)	1.5	1.5	1.4

*Attributable

Stock Data:

Last Ex-Div Date	N/A
Mkt. Val. (mn)	AED10,620
Shares (mn)	6,000
Av. Mthly Liqd. (mn)	AED227.4
52-Week High / Low	AED5.87 / 1.73
Bloomberg / Reuters	DANA UH / DANA.AD
Est. Free Float	35%

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*As of 31 October 2006

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REVIEW OF FINANCIALS

A. 3Q2006 Results - Interest and Investment Income

Dana reported 3Q2006 net profits of AED46 million, while net income for its first ten months of operations amounted to AED784 million. Since this is Dana's first year of operations, there are no comparable figures. However, these results are in line with our expectations for the full year. Given that these results are for the ten-month period starting November 20 2005, we anticipate that much of the non-operating income, which is related to proceeds from the company's IPO last year, will have fallen into last year's numbers, and this timing difference accounts for the large difference in these 10-month results and our full year expectations, as in table 1.1.

Table 1.1: Results since Inception versus 2006e

(AED mn)	20 Nov. 05- 30 Sep. 06*	2006e
Income Statement		
Revenues	0.0	57.3
COGS	0.0	(37.2)
Gross Profit	0.0	20.1
SGA	(17.0)	(5.0)
EBITDA	(17.0)	15.1
Depreciation	0.0	-31.4
Net Operating Profit	(17.0)	(16.3)
Non-operating Income	635.4	144.4
Net Interest Income (Expense)	139.6	100.0
Sundry Income	26.0	0.0
Minority Interest	0.0	0.0
Earnings before Taxes	784.0	228.1
Income Taxes	0.0	0.0
NPAUI	784.0	228.1
EPS	0.13	0.04

*Results since inception

Source: Dana Financial Statements

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

This past quarter, Dana Gas has successfully entered into two strategic alliances, thereby furthering its expansion into new markets. First, the company entered into a joint venture with Bahraini shareholders to create a Bahraini registered company, named Dana Gaz (Bahrain), with Dana maintaining a controlling stake of 66% in Dana Gaz (Bahrain). Pursuant to this transaction, the new entity Dana Gaz entered into a 50:50 strategic alliance with state-owned Egyptian Natural Gas Holding Company (EGAS) to build, own and operate high-efficiency gas liquids extraction and manufacturing plant in the Egyptian Gulf of Suez. The plant has the capacity of processing at least 150 million cubic feet of gas per day in addition to 120,000 metric tonnes per year of propane and butane. Upon completion of the plant in 24 months, the joint venture will go on to export and market these liquefied petroleum gas (LPG) products. Additionally, they have signed a 15 year supply agreement for the supply of gas feed-stock with the Egyptian General Petroleum Corporation (EGPC).

The second important consortium that Dana Gas has assembled consists of an agreement signed with the Dutch company Single Buoy Moorings (SBM), and includes some involvement from US-based Granada Group to develop a liquefied natural gas (LNG) terminal at Port Qasim in Karachi, Pakistan. The project is expected to cost AED734.6 million, with an initial capacity of 3.5 million tonnes of LNG per annum. The alliance between Dana Gas and SBM is a key agreement for the company as it allows Dana to be more involved in LNG marketing activities. SBM is expected to assume the responsibilities of the supply and operation of the LNG floating storage and regasification terminals. The LNG terminal is expected to be completed by 2010. Management also suggest that with SBM, it is likely that Dana will complete other LNG projects across Lebanon and Kuwait.

A third development that Dana has highlighted this quarter is the imminent opening of its first office outside of the UAE in Al-Khobar, Saudi Arabia. This milestone marks the company's expansion into key regional markets and underlines its growth potential.

Update on Cornerstone Iranian Contract

The Iranian contract remains under review, with final talks expected to be completed within a month at the latest. While the dispute between National Iranian Oil Company (NIOC) and Dana Gas continues over the price at which gas will be imported from Iran's Salman field, we believe that given the fact that the pipeline and related infrastructure is complete, the situation will be resolved shortly. In our initiation note on Dana Gas, we had assumed that the contract would be struck at the original terms, but also included the possibility of an alternative deal occurring. This alternative would entail Dana's gross margins from revenues generated from this contract to halve, since they could well be forced to pay up to four times as much for the imported gas.

Discussions in the press suggest that either way, the deal will be resolved - through a price hike paid by Dana Gas, or a worst case but unlikely scenario whereby NIOC picks an alternative counterparty to supply the gas to. However, all guidance from management suggests that given the considerable investment both parties have already committed to the project and the strategic importance it holds for Dana, that there will be a resolution before year end, even if the agreed price that Dana pays has to rise. Thus, we maintain our current estimates and believe that this contract will commence in 1H2007.

Other Contracts and Deals

The other contract Dana has entered into was one with Emarat Petroleum to build, own and operate a gas pipeline connecting the SajGas gas hub to the Hamriyah Free Zone. The first phase of the project, consisting of connecting the SajGas gas hub with the existing Sharjah network, was successfully completed before schedule. The second phase of connecting the pipeline from the SajGas hub to the Hamriyah Free Zone is progressing as planned and as mentioned earlier, we expect revenues from this contract to come on stream in 4Q2006.

The last and smallest contract is one signed with Oman Chemical and Pharmaceuticals (OCPL) entails the construction of an ammonia plant to produce petrochemicals. Without further guidance on the progress on this project, our expectations on this deal have not changed and we anticipate that the plant will be completed by 2007 as planned, and revenues will commence as forecasted in 1Q2008.

With respect to the anticipated acquisition of Pakistan's Sui Southern Gas Company Limited (mentioned in our company initiation in August 2006) we have no further guidance on this deal, while it is fair to say that all mention in the press suggests that the transaction is still under review and is likely to be completed as expected.

C. Capital Structure

Dana's capital structure has remained largely unchanged over the course of its first ten months of operations. It continues to hold no debt and has used its cash pile to repay the first and second installments of AED647 million each, of its convertible note, with the balance also expected to be paid in cash in 4Q2006. The two alliances that the company has completed over the past quarter have both been joint ventures, and as such have not needed an immediate cash outlay from the company. Furthermore, work on the projects associated with these agreements has not started and hence no additional capital expenditure has been made this quarter.

D. Forecasts

Since, this is Dana's first year of operations, we do not have comparable figures. However, these results are in line with our expectations at this stage. The new alliances successfully completed in 3Q2006 as well as the anticipated progress on previously announced key contracts, further underpins our forecasts and therefore we maintain our current estimates. However, one should note that there is significant risk to our forecasts due to uncertainty as to whether certain key projects will start operation in 4Q2006. Our full year forecasts look for revenues of AED358m, EBITDA of AED57.3m, net Attributable Profit of AED228m and EPS of 0.038.

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