المجموعة المالية - هيرميس
EFG HERMES

DANA GAS

Extracting Hidden Value

03 JUNE 2009

DUBAI | OIL & GAS

Short-Term Rec.: Accumulate	Current Price*: AED 1.14
Long-Term Rec. : Buy	LT Fair Value : AED 1.89

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- **Kurdistan Deal Reveals Potential of Business:** We believe Dana Gas represents one of the best buying opportunities in the UAE markets today. However, the stock is still being penalised by negativity surrounding failed promises of the start of the Iranian gas deal. The company's most recent deal to sell a stake in its Kurdistan upstream interests shows the business's inherent value in our opinion. We believe the current share price does not reflect this potential and reiterate our ST Accumulate/LT Buy ratings.

- **Operationally on Track in 1Q2009:** Although Dana's 1Q2009 revenue dropped 9% Y-o-Y on the back of lower oil and gas prices, it would have been worse had it not been for the company's Kurdistan operations, which started to contribute to numbers. The company produced a net loss of AED32 million in 1Q2009, vs. a profit of AED25 million for 1Q2008, but this variance was driven by non-operating items, namely a AED56 million profit from an asset disposal in 1Q2008.

- **Centurion Reserve Increases Drive Value: We increase our estimates for Centurion's long term reserves to 189 mmboe from 109 mmboe** given the company's six successive finds in Egypt over the last nine months. Despite adjusting our long term oil price assumptions, we maintain production rates for now, but increase the value of the Egyptian operations and upgrade our forecasts due to these higher reserves.

- **Kurdistan Project Showing Real Value:** Dana Gas's mid and downstream Kurdistan operations are now under way and are contributing to numbers. The company's recent deal to sell a stake in its upstream interests to OMV and MOL demonstrates the significant potential of the its operations in Kurdistan and has led us to upgrade our value assigned to this project significantly to AED0.53/share from AED0.32.

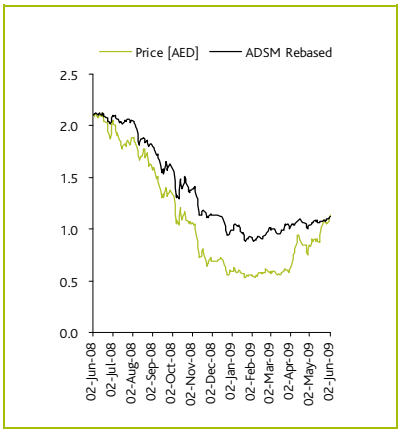
- **Iranian Gas Still Expected This Year.** We still believe the company's cornerstone UAE gas project will materialise this year, despite repeated delays, but now expect it to start contributing to forecasts from the start of 2010e (previously expected 2H2009e). Despite this, we are confident the project's initiation is a matter of when not if because the pipeline and facilities are 100% ready.

- **Increasing Valuation to AED1.89/share:** Having incorporated all our assumption changes, our estimated LTFV rises to AED1.89/ share from AED1.58. In our view, any negative sentiment surrounding the delayed Iranian Gas deal is being mitigated by the substantial value being realised in Dana's Kurdistan and Egyptian operations and this should continue to act as a catalyst for the share to perform.

COMPANY NOTE

December Year End	*2008a*	*2009e*	*2010e*	*2011e*
Revenue	662	1,169	2,159	2,599
EBITDA	455	897	1,812	2,201
Operating Profit	154	613	1,514	1,864
Income from Associates	-	-	132	197
Net Attrib. Income	120	184	1,164	1,526
EPS	0.02	0.03	0.19	0.25
DPS	N/A	N/A	N/A	N/A
Net Debt (Cash)	2,340	2,049	498	(1,457)
P/E (Attrib.)	57.0	37.1	5.9	4.5
EV/EBITDA	20.2	10.2	5.1	4.2
P/BV	1.0	0.9	0.9	0.8
P/CF	58.0	12.6	3.9	3.2
Div. Yield	-	-	-	-
RoAE	1.7%	2.5%	14.6%	16.4%

Figures in AED million, unless otherwise stated



Estimates Changes

(AED mn)	*2008a*	*2009e*		*2010e*	
		Old	*New*	*Old*	*New*
Revenue	662	1,746	1,169	2,727	2,159
EBITDA	455	1,449	897	2,375	1,812
EBITDA Margin	39.9%	63.8%	56.9%	68.7%	65.5%
Net Attrib. Income	120	658	184	1,591	1,164

Stock Data

Last div. and its date	*N/A*
Mkt. Cap./ Shares (mn)	*AED6,840 / 6,000*
Av. Monthly Liqd. (mn)	*AED552*
52 Week High/Low	*AED2.12 / 0.53*
Bloomberg/Reuters	*DANA UH / DANA.AD*
Est. Free Float	*80%*

*Prices as of 02 June 2009

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I. 1Q2009 RESULTS – OPERATIONALLY ON TRACK

The company's mid and downstream operations in Kurdistan have started to contribute to numbers

REVENUES DOWN ON LOWER OIL PRICES

Dana Gas reported 1Q2009 revenues of AED247 million, down 9% Y-o-Y on the back of lower oil and gas prices. This means the company achieved lower selling prices for its by-products (namely LPG and Condensate) versus the same period last year. This Y-o-Y decline would have been higher—we estimate a like-for-like decline would have been about 35%—had it not been for the Kurdistan operations, which started to contribute to numbers from the beginning of the year. Although Dana did not give a breakdown of its revenues, we calculate the Kurdistan operations may have contributed around AED80 million to the top line in 1Q2009.

OPERATING COSTS AND NET PROFIT

This positive contribution from Kurdistan meant that gross profit (after taking account for royalties and depreciation and depletion) was up a strong 74% Y-o-Y at AED68 million. Although SG&A, financing and tax expenses did not change much Y-o-Y, the company produced a net loss of AED32 million in 1Q2009 versus a profit of AED25 million for the same period last year. However, this variance was driven by non-operating items, namely a AED56 million profit generated from the disposal of the company's interest in a concession (West Gharib) in 1Q2008, and meant that Dana Gas was operationally on track.

Figure 1: Summary of 1Q2009 Results

AED million, unless otherwise stated

	1Q2009a	1Q2008a	Y-o-Y
Revenue	247	272	-9%
Less: Royalties	(81)	(131)	
Net Revenue	**166**	**141**	**18%**
Cost of Sales	(33)	(20)	
Gross Profit	**133**	**121**	**10%**
Gross Profit Margin	80%	86%	
SG&A	(26)	(24)	8%
EBITDAX	**107**	**97**	**10%**
Exploration Expenses	0	(2)	
EBITDA	**107**	**95**	**13%**
EBITDA Margin	64%	67%	
Depreciation and Amortisation	(65)	(82)	-21%
Net Operating Profit	**42**	**13**	**223%**
Operating Margin	25%	9%	
Non-Operating Income	6	45	-87%
Gain in FV of Inv. Property	0	56	-100%
Investment and Finance Income	7	14	-50%
Interest Expense	(57)	(73)	-22%
Earnings before Taxes	**(2)**	**55**	**-104%**
Income Taxes	(30)	(30)	
Profit for the Period	**(32)**	**25**	**-228%**
EPS	(0.005)	0.004	

Source: Dana Gas disclosure, EFG-Hermes estimates

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II. PROJECT BY PROJECT UPDATE

Since our last update note (Strategy Coming Together, 19 November 2009) when we used a project-by-project approach to give an in-depth analysis of Dana Gas and its various projects/operations, the company has witnessed significant news-flow. We stick with our analysis method and discuss Dana's three major projects/operations (Egypt, Iran and Kurdistan).

A. DANA GAS EGYPT

Dana Gas' Egyptian operations are based on Centurion Energy International, which is a Canadian-based oil and gas exploration and production company with assets in the MENA region (operating principally in the Egyptian Nile Delta). The company was acquired by Dana Gas at the end of 2006. The subsidiary has exploration assets in Egypt, Tunisia and the Sao Tome/Nigeria JDZ and represents Dana Gas's exposure to the upstream gas sector.

Previously we had forecast that the company would increase (P2 - Proved and Probable) reserves in its Egyptian E&P operations (Centurion) to 80mmboe by the end of 2009e and then to 96 mmboe in 2010e, as in Figure 2. We had assumed these increases despite our estimates of 30% production increases p.a. for the next few years.

Figure 2: Old Reserves Estimates
Millions barrels of Oil Equivalent (mmboe), unless otherwise stated

	2008	2009e	2010e	2011e	2012e	2013e	2014e	2015e
New Discoveries	0.0	20.0	30.0	30.0	22.7	22.7	22.7	22.7
Reserves (P2)	70.0	79.7	96.2	108.8	108.8	108.8	108.8	108.8

Source: EFG-Hermes estimates

After an aggressive development programme in Egypt, reserves jumped to 170 mmboe from 70 mmboe

After Centurion's recent aggressive exploration and development programme for its Egypt assets, reserves have jumped significantly to approximately 170 million barrels of equivalent oil (mmboe) from 70 mmboe at the end of 1H20008. Given this success, we now adjust our reserves upwards this year to incorporate the additional new reserves discovered, from our previous estimate of just a 20 mmboe increase to reserves in 2009e. For subsequent years, we maintain our relatively conservative estimates of small new reserve findings every year across our forecast horizon, as shown in Figure 3.

This means that we now expect reserve levels to reach 189 mmboe by 2011e (from our previous expectations of just 109 mmboe), which is still conservative given Dana Gas' Egyptian exploration assets have in the region of 3.5 trillion cubic feet (equivalent to 630 million boe) of risked gas potential based on an independent engineer's report from UK-based Gaffney, Cline & Associates. We also maintain our assumptions on production increases as any further increases would lead to capacity constraints in terms of Dana's existing processing facilities in Egypt.

Figure 3: New Reserves Estimates
Millions barrels of Oil Equivalent (mmboe), unless otherwise stated

	2008a	2009e	2010e	2011e	2012e	2013e	2014e	2015e
New Discoveries	0.0	75.0	30.0	30.0	22.7	22.7	22.7	22.7
Reserves (P2)	94.3	159.7	176.2	188.8	188.8	188.8	188.8	188.8

Source: EFG-Hermes estimates

Production in Egypt consists of natural gas (80%), which is sold at a fixed price of USD2.65/Mcf, and the remaining 20% is divided between oil, condensate and LPG, which are sold at international prices. Due to the correction in oil prices at the end of last year, we have revisited our price assumptions for each of these by-products since they are derived from the underlying oil price, as seen in Figure 4.

Figure 4: Oil Price and By-Product Estimates
USD, unless otherwise stated

	2009e	2010e	2011e	2012e
Oil Price / Barrel	50	65	70	70
Gas Price (mmbtu)	2.65	2.65	2.65	2.65
LPG / Tton (9x Oil price)	450	585	630	630
Condensate / Barrrel (Oil price)	50	65	70	70

Source: EFG-Hermes

Our earnings estimates rise because of lower depreciation and depletion costs.

Although these price changes mean that our revenue forecasts for Dana's Egyptian operations are reduced by 22% in 2009e and by 17% in 2010e, our earnings estimates rise 7% in 2009e and 45% in 2010e because of lower depreciation and depletion costs. This is a function of Dana's relative success in increasing its reserves. As reserves rise, with our assumption of production levels not increasing proportionately, the company's production rate falls as a percentage of total reserves. This in turn means that the company's depletion rate falls, and results in an increase to the useful life of those reserves.

Figure 5: Financial Forecasts for Egyptian Operations
AED million, unless otherwise stated

	2009e	2010e	2011e	2012e
Revenue	**1,112**	**1,650**	**2,233**	**2,233**
Less: Royalties	(409)	(606)	(821)	(943)
Net Revenue	703	1,043	1,413	1,290
Cost of Sales	(99)	(128)	(167)	(167)
EBITDAX	605	915	1,246	1,124
Exploration Costs	(15)	(19)	(25)	(25)
EBITDA	**590**	**896**	**1,221**	**1,099**
Depreciation & Depletion	(236)	(221)	(260)	(243)
Net Operating Profit	**354**	**675**	**961**	**856**
Income Tax Expense	(175)	(260)	(352)	(404)
Net Profit	**179**	**415**	**609**	**452**

Source: EFG-Hermes estimates

All these changes (particularly the increase to reserves), coupled with our valuation moving one year forward, means that our DCF valuation for Centurion rises to AED1.14/share from AED0.84.

Figure 6: Centurion DCF Valuation
AED million, unless otherwise stated

	2009e	2010e	2011e	2012e	2013e	2014e	2015e
EBITDAX - Tax	**430**	**655**	**894**	**720**	**704**	**704**	**704**
Capex	(148)	(192)	(250)	(250)	(250)	(250)	(250)
Divesment							8,313
FCF	282	463	644	470	454	454	8,767
FCF PV	**266**	**399**	**506**	**336**	**297**	**270**	**4,758**
Total Equity Value	6,834						
Value per Share	**1.14**						

Note: Excludes investment in working capital and net debt which is assigned at the corporate level
Source: EFG-Hermes estimates

Figure 6 reflects our base case scenario and it is worth noting that our best-case scenario assumes Dana Gas would be successful in recovering the entire risked reserves of 3.5 trillion cubic feet (equivalent to 630 million boe) based on the Gaffney, Cline & Associates report. This would give us a best-case valuation of AED2.20 per share as in Figure 7.

Figure 7: Centurion Best Case Valuation Scenario
AED million, unless otherwise stated

	2009e	2010e	2011e	2012e	2013e	2014e	2015e
EBITDAX - Tax	430	655	894	720	704	704	704
Capex	(148)	(192)	(250)	(250)	(250)	(250)	(250)
Divestment							20,010
FCF	282	463	644	470	454	454	20,464
FCF PV	266	399	506	336	297	270	11,107
Total Equity Value	13,182						
Value / Share	**2.20**						

Note: Excludes investment in working capital & net debt, which is assigned at the corporate level
Source: EFG-Hermes estimates

B. DANA GAS KURDISTAN

With Dana Gas announcing a deal to sell a stake in its upstream interests, we now revisit our assumptions for the company's entire Kurdistan operations

While Dana Gas's operations in Kurdistan are split between i) Upstream and ii) Mid- and Downstream, previously, all of our value assigned to this project came from the company's mid and downstream operations. We had resisted attributing any value to the company's upstream interests in Kurdistan due to the uncertainties surrounding the region given its current political state and in particular, the potential timeframe required for any value to be realised from these assets. However, with the company announcing a deal to sell a stake in its upstream interests, we now revisit our assumptions for Kurdistan. The deal gives us an implied value for those assets and adds a further AED0.22 to valuation, giving a total contribution from Dana Gas Kurdistan of AED0.53/share. We discuss each operation turn by turn.

MID AND DOWNSTREAM OPERATIONS

Dana Gas signed in 1H2007 a strategic alliance (alongside Crescent Petroleum) with the Kurdistan Regional Government of Iraq. Under the terms of the strategic alliance, Dana Gas (granted 25 year exclusive rights on a 50% working interest basis) was appointed-on a service contract basis-to develop, process and transport natural gas from the Khor Mor Gas field. It would also provide natural gas supplies to fuel domestic electric power generation plants currently under construction near Erbil and Suleymaniya. Production from the Khor Mor project is now under way and has contributed to Dana's first quarter numbers.

We had assumed that under the current structure of the deal, Dana Gas would have the right to extract liquids and condensates from the rich gas fields and would be able sell the by-products to the international market but would not generate revenues from the sale of gas from the Khor Mor field. However, from the sale of these liquids and condensates, Dana Gas has the right to recover: i) all its investment costs from the set up of its operations in Kurdistan (plus a contractually agreed rate of return on investment) ii) all its operating costs and iii) 10% of any surplus money made (over and above any operating costs) that will be returned to the Kurdistan Regional Government of Iraq.

Given our changes to assumptions for the oil price going forward and thus sale prices of by-products in the future (as in Figure 4), we have adjusted our short-term revenue and FCF forecasts downwards. Dana Gas will retrieve the same amount in total from this deal upfront (c.USD400 million), which is its initial capital plus the contractually agreed return and its operating costs, before it gets a share of on-going profits. However, the payback period will be longer.

Figure 8: Kurdistan Operations DCF Valuation
AED million, unless otherwise stated

	2009e	2010e	2011e	2012e	2013e	2014e	2015e
EBITDA	394	845	278	92	92	92	92
Capex	-	-	-	-	-	-	-
FCF	394	845	278	92	92	92	92
PV FCF	368	698	203	59	52	46	41
Terminal Value	837						
Perpetual Growth Rate	2.0%						
WACC	13.2%						
PV of Cash Flows 08-15e	1,467						
PV of Perpetuity	373						
Total Firm Value	1,839						
Net Debt	-						
Equity Value	1,839						
Total Equity Value	1,839						
No.of Shares	6000						
FV / Share (AED)	**0.31**						

Note: Excludes investment in working capital & net debt, which is assigned at the corporate level
Source: EFG-Hermes estimates

UPSTREAM OPERATIONS

The company was given the rights to appraise and develop a second and potentially larger field in Kurdistan-the Chemchemal Field. We chose not to include this in our estimates given the uncertainties attached to the potential of the field, the probable timeframe of at least three years to develop the assets and the political instability of the Kurdistan region of Iraq.

Sale of Kurdistan Stake Announced

The company announced on the May 17 a strategic partnership agreement with OMV and MOL, two of Central Europe's leading integrated oil and gas groups. The agreement gave each company a 10% stake in Pearl Petroleum, which is the entity that holds the upstream interest of Dana Gas and Crescent Petroleum in the Kurdistan region of Iraq (owned 50/50).

The Nabucco Gas Pipeline Project

The aim of the partnership is to ultimately pump gas from Iraq's Kurdistan region through the Nabucco pipeline to supply Europe. In return, Dana and Crescent were given USD350 million in cash by OMV and a 6% stake in MOL (worth approx. USD400 million). The Nabucco pipeline connects the Caspian region, Middle East and Egypt via Turkey, Bulgaria, Romania, Hungary with Austria and the Central and Western European gas markets. It is partially owned by OMV and MOL.

Construction of the pipeline will be carried out over two main phases in addition to a third support phase. The first construction phase, planned to start in 2011, consists of completing the construction of 2,000 km of the pipeline by 2014. The second phase, which is scheduled for completion in 2015, will add the remaining section of the pipeline. A final support phase will consist of installing compression stations to the pipeline so that it reaches its target transportation capacity. The pipeline's transportation capacity is expected to reach 3 bcfd (billion cubic feet /day) at the project's final phase.

Spanner in the Works

Within days of the announcement of the deal, the Iraqi government issued a statement saying that they reject any deal that does not include Iraq's Federal Ministry of Oil. "We will not allow any side to export gas from the region without the approval of the central government and the Iraqi oil ministry," said Iraqi Oil Minister Hussain al-Shahristani

What This Means for Dana and the Project

This does not mean the deal signed between Dana/Crescent and OMV & MOL has been rejected, but it implies that OMV and MOL's objective of delivering gas to Europe is in jeopardy. However, this is only if we assume there is no clause that voids the deal if gas is not allowed to be transported to Europe. Therefore, we believe Dana Gas will still get its money and the company has said they will use it to develop the fields in Kurdistan.

Given the protracted timeframe of construction, we believe this is not the end of the saga. We could see a situation similar to Dana Gas's Iran deal where press speculation continues from both sides as to whether gas will indeed be transported into Europe or not.

For the moment, Dana and Crescent are the real winners here. They have managed to not only align themselves with strategic European oil and gas partners, but have critically monetised their upstream operations in Kurdistan, giving them the money to go ahead and develop the fields there. Once this development is done, even if the gas is not allowed to be exported into Europe, the fall-back scenario for Dana would be to create a "Gas City", by attracting industries and businesses to the area, as they originally had planned to do. This would enable demand to come to the supply of gas in Kurdistan.

How This Affects Forecasts and Valuation

The company's fair value should increase by at least the money and shares Dana Gas has received in this deal, which adds around AED0.22 to the share price

When we issued our last in-depth update note on Dana Gas, we resisted attributing any value to the company's 50% stake in Pearl (Dana's upstream interests in Kurdistan) due to the uncertainties surrounding the region and its current political state, especially given the potential timeframe required for any value to be realised from these assets. Our value for Kurdistan came from the mid and downstream operations that are already under way. This deal at least gives us an implied value for those assets (USD1,750 million for Dana's stake, equivalent to AED1.07/share). However, the subsequent statement from the Iraqi Ministry shows how precarious the situation is and in our mind justifies our conservatism not to include this in our forecasts. Dana's fair value should increase by at least the money and shares the company has received in this deal. This would add around AED0.22 to the share price and gives a total contribution from Dana Gas Kurdistan of AED0.53/share.

C. DANA GAS UAE – THE IRANIAN DEAL

FURTHER DELAYS IMPACT NEAR-TERM FORECASTS

The Iranian gas project had originally been scheduled for gas deliveries by 2Q2006. However, it has suffered a series of delays, namely disagreements relating to price and delays from the Iranian side in completing the infrastructure needed for the commencement of the project.

We now expect contribution from the Iranian deal from the start of 2010e to be prudent

Given that construction on the Iranian side is now complete, Dana Gas's management believes that gas supplies will begin very shortly. We had previously expected the UAE gas project to begin contributing to our numbers from the beginning of 2H2009e. No gas has been delivered yet and so we now expect contribution from this project from the start of 2010e to be prudent. This reduces our forecasts of revenues of AED100 million and net profit of AED161 million in 2009e to zero from Dana's UAE operations, but means we maintain our estimates for 2010e and beyond, as shown in Figure 9.

Figure 9: New Forecasts for UAE Operations
AED million, unless otherwise stated

	2009e	2010e	2011e	2012e	2013e
UGTC Revenues (Transportation)	0	97	97	97	97
Sajgas Revenues (Processing)	0	102	102	102	102
Total Revenues	**0**	**199**	**199**	**199**	**199**
Cost of Sales	0	(37)	(37)	(37)	(37)
EBITDA	**0**	**162**	**162**	**162**	**162**
Depreciation	0	(29)	(29)	(29)	(29)
Operating Profit	0	133	133	133	133
Income from Associates (35% ownership in CNGCL)	0	108	133	131	129
Net Profit	**0**	**241**	**266**	**264**	**262**

Source: EFG-Hermes estimates

This downgrade reduces our DCF valuation for the UAE Operations to AED0.52/share from AED0.63.

Figure 10: DCF Valuation of UAE Operations
AED million, unless otherwise stated

	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e
EBITDA	**0**	**270**	**295**	**293**	**292**	**290**	**288**	**286**
Capex								
Change in Working Capital								
FCF	0	270	295	293	292	290	288	286
PV FCF	0	232	231	209	189	171	155	140
Terminal value	3,707							
Perpetual Growth Rate	2.0%							
WACC	9.9%							
PV of Cash Flows 09-16	1,328							
PV of Perpetuity	1,812							
Total Firm Value	**3,14**							
Net Debt	-							
Equity Value	**3,140**							
Number of Shares	6,000							
FV/share (AED)	**0.52**							

Note: Excludes investment in working capital and net debt which is assigned at the corporate level
Source: EFG-Hermes estimates

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BUT CONFIDENT THAT THE GAS WILL ARRIVE

The company remains confident that they will get gas from Iran in 2009 and so its UAE operations will finally be up and running. Despite our downgrades to this year's numbers, we still share this view and believe the deal will come to fruition because of the following reasons:

1. Both sides have spent the last seven to eight years building a pipeline, with USD1 billion spent by Dana and a further USD1.2 billion by NIOC. The pipeline is now 100% complete. Therefore, we believe the investment/capital already committed to this project is significant enough to prevent either party from simply walking away from the contract.

2. If there is still an issue on price, Crescent Petroleum (Dana's parent company) has put forward a revised price and, moreover, these negotiations have been helped by spot prices falling from their peaks last year to less than USD4 mmbtu.

3. SEWA and FEWA are using alternative fuels to operate their plants, which cost significantly more than the gas equivalent (between USD25 and USD35 per mmbtu vs. international gas prices of USD6.8per mmbtu). Therefore, even if the gas is secured from Iran at international prices (i.e. much higher than the original price agreed upon), we believe Dana will still be able to market this gas to end users in the UAE since it would still represent a discount to what they are paying for current feedstock.

4. Iran is thought to be currently running its largest budget deficit ever (in absolute terms). According to the Iranian press, sources from within Iran have commented on a budget deficit figure as high as USD44 billion for this year, however, the IMF has projecting a deficit of 3.5% of GDP for 2009, equal to around USD12 billion. Because of this, Iran has shown its willingness to export more of its gas (recently striking a new deal with Turkey to sell at what market commentators believe to below current spot prices and possibly as low as around USD2.5mmbtu).

5. If Iran did decide to sell its gas to another party/country, or even decide to use it for domestic purposes, it would take at least three to four years to build an alternative pipeline back to mainland Iran given the offshore location of the Salman field.

III. CONSOLIDATED VALUATION OF AED1.89 PER SHARE

After making our adjustment to forecasts and valuations, our sum of the part valuation, which combines all of the separate subsidiaries/projects, gives us a new LTFV of AED1.89/share from AED1.58. In the same way as before, we have deducted the company's current net debt and contingency payments for various existing projects where commitments have been made by Dana Gas to arrive at our valuation.

If we exclude the Iranian project from our valuation for Dana Gas on the basis that they never get the gas from Iran (something we believe is unlikely), we would arrive at a LTFV of AED1.37. If we include the full value of the upstream operations in Kurdistan implied by the stakes purchased by OMV and MOL, our LTFV would rise to AED2.74 a share.

Figure 11: Sum of the Parts Valuation
AED per share, unless otherwise stated

Subsidiary	Value
Centurion	1.14
Gulf of Suez	0.12
UAE Valuation	0.52
Kurdistan	0.53
Total	**2.31**
Net Debt	(0.39)
Contingencies	(0.03)
LTFV	**1.89**
LTFV Excluding Iran	**1.37**
Current Price	**1.14**
Upside	66%

Source: EFG-Hermes estimates

SENSITIVITY TO OIL PRICES

Dana Gas is sensitive to changes in price but not on a one-to-one basis

A sensitivity analysis of the company's new LTFV to international oil and gas prices, and thus by-product prices, in the long term (beyond 2011e) shows that Dana Gas is sensitive to changes in price but not on a one-to-one basis (i.e. a positive correlation exists, but with an elasticity of less than one) .This is because: i) the company's gas production in Egypt is sold at a fixed price based on the contractual agreement between Dana Gas and the Egyptian government and ii) in the UAE, tariffs charged for processing and transportation of natural gas are fixed. Therefore, Dana Gas's only exposure to international oil prices comes from its sale of LPG & condensate in Egypt, Kurdistan and the UAE. Both prices being indexed to international oil prices are in our assumptions.

Figure 12: Sensitivity of LTFV to LT Oil Prices
AED per share, unless otherwise stated

LT Oil Price (USD)	40	50	60	70	80	90	100
Change	*-43%*	*-29%*	*-14%*	**0%**	*14%*	*29%*	*43%*
LTFV	1.44	1.59	1.74	**1.89**	2.04	2.19	2.34
Change	*-24%*	*-16%*	*-8%*	**0%**	*8%*	*16%*	*24%*

Source: EFG-Hermes estimates

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RECOMMENDATION

We reduced our assumptions for oil prices, and thus the selling price of by-products, but have **increased our estimates for Centurion's long term reserves to 189mmboe from 109 mmboe given the company's six successive finds in Egypt over the past nine months.** Dana Gas's recent deal with OMV and MOL in Kurdistan demonstrates the significant potential of the company's operations there and has led us to upgrade our value assigned to these operations. Despite repeated delays, we still believe the cornerstone UAE gas project will materialise this year and now expect it to start contributing to forecasts in the beginning of 2010e, from our previous expectations of a 2H2009e start.

Having incorporated all our assumption changes, we raise our estimated LTFV to AED1.89 per share from AED1.58

Having incorporated all our assumption changes, we raise our estimated LTFV to AED1.89 per share from AED1.58. This offers significant upside to the current share. In our view, any negative sentiment surrounding the delayed Iranian Gas deal is being mitigated by the substantial value realised at Dana's Kurdistan and Egyptian operations. This should continue to act as a catalyst for the share to perform. We believe Dana Gas represents one of the best buying opportunities in the UAE markets today. We feel the company's most recent deal to sell a stake in its operations in Kurdistan shows how much inherent value there is in the business. We believe the current share price does not reflect this potential value and therefore reiterate our ST Accumulate/LT Buy rating.

IV. FINANCIAL STATEMENTS

Income Statement (December Year End)

AED million, unless otherwise stated

	2008a	2009e	2010e	2011e	2012e	2013e
Revenue	1,139	1,577	2,766	3,420	3,420	3,420
Less: Royalties	(477)	(409)	(606)	(821)	(943)	(954)
Net Revenue	**662**	**1,169**	**2,159**	**2,599**	**2,477**	**2,466**
Cost of Sales	(103)	(170)	(236)	(275)	(275)	(275)
Gross Profit	**559**	**999**	**1,923**	**2,324**	**2,202**	**2,191**
Gross Profit Margin	84%	85%	89%	89%	89%	89%
SG&A	(82)	(87)	(92)	(98)	(104)	(110)
EBITDAX	**477**	**912**	**1,831**	**2,226**	**2,098**	**2,081**
Exploration Expenses	(22)	(15)	(19)	(25)	(25)	(25)
EBITDA	**455**	**897**	**1,812**	**2,201**	**2,073**	**2,056**
EBITDA Margin	40%	57%	66%	64%	61%	60%
Depreciation and Depletion	(301)	(284)	(298)	(337)	(320)	(320)
Net Operating Profit	**154**	**613**	**1,514**	**1,864**	**1,754**	**1,737**
NOP Margin	23%	52%	70%	72%	71%	70%
Non-Operating Income	98	0	0	0	0	0
Income From Associates	0	0	132	197	195	193
Gain in FV of Inv. Property	121	0	0	0	0	0
Investment & Finance Income	148	22	53	92	67	110
Net Interest Income (Expense)	(263)	(275)	(275)	(275)	(275)	0
Earnings before Taxes	**258**	**360**	**1,424**	**1,878**	**1,740**	**2,039**
Income Taxes	(138)	(175)	(260)	(352)	(404)	(409)
Net Profit after Unusual Items	**120**	**184**	**1,164**	**1,526**	**1,336**	**1,630**
EPS	0.020	0.031	0.194	0.254	0.223	0.272

Source: Dana Gas, EFG-Hermes estimates

Balance Sheet (December Year End)

AED million, unless otherwise stated

	2008a	2009e	2010e	2011e	2012e	2013e
Net PPE	7,746	7,462	7,032	6,498	5,983	5,470
Goodwill	1,128	1,128	1,128	1,128	1,128	1,128
Investment Property	403	403	403	403	403	403
Total Non-current assets	**9,277**	**8,993**	**8,563**	**8,029**	**7,514**	**7,001**
Inventories	211	373	481	579	552	550
AR	484	553	725	873	832	828
Cash and Bank Balances	798	1,089	2,640	4,595	3,336	5,482
Assets Held for Sale	28	28	28	28	28	28
Total Current Assets	**1,521**	**2,042**	**3,874**	**6,074**	**4,748**	**6,888**
Total Assets	**10,798**	**11,035**	**12,437**	**14,104**	**12,262**	**13,889**
Share Capital	6,000	6,000	6,000	6,000	6,000	6,000
Statutory Reserve	104	122	239	391	525	688
Legal Reserve	104	122	239	391	525	688
Retained Earnings	819	967	1,898	3,118	4,187	5,491
Convertible Bonds Equity Component	191	191	191	191	191	191
Total Equity	**7,218**	**7,402**	**8,566**	**10,092**	**11,428**	**13,058**
Convertible Bonds	3,138	3,138	3,138	3,138	0	0
Finance Lease Obligations	0	0	0	0	0	0
Asset Decommissioning Obligation	35	35	35	35	35	35
Total Non-Current Liabilities	**3,173**	**3,173**	**3,173**	**3,173**	**35**	**35**
Accounts Payable & Accruals	403	455	693	834	795	792
Short-term Portion of Finance Lease	1	1	1	1	1	1
Liabilities Assoc. with Assets Held for Sale	3	3	3	3	3	3
Total Current Liabilities	**407**	**459**	**697**	**838**	**799**	**796**
Total Liabilities	**3,580**	**3,632**	**3,870**	**4,011**	**834**	**831**
Total Equity and Liabilities	**10,798**	**11,035**	**12,437**	**14,104**	**12,262**	**13,889**

Source: Dana Gas, EFG-Hermes estimates

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Cash Flow Statement (December Year End)

AED million, unless otherwise stated

	2007a	2008a	2009e	2010e	2011e	2012e	2013e
Net Profit	**281**	**258**	**360**	**1,424**	**1,878**	**1,740**	**2,039**
Depreciation	241	301	284	298	337	320	320
Finance Costs	118	115	253	222	183	209	(110)
Income Taxes	(170)	(138)	(175)	(260)	(352)	(404)	(409)
Others	(214)	(174)	-	132	197	195	193
Cash Operating Profit after Tax	**256**	**362**	**722**	**1,817**	**2,243**	**2,059**	**2,034**
Working Capital	81	(244)	(178)	(43)	(104)	29	3
Net Cash Flow From Operating Activities	**337**	**118**	**544**	**1,773**	**2,138**	**2,088**	**2,036**
Net Plant Expenditure	(4,430)	(892)	-	-	-	-	-
Free Cash Flow	**(4,093)**	**(774)**	**544**	**1,773**	**2,138**	**2,088**	**2,036**
Non-Operating Cash Flow	-	-	-	-	-	-	-
Free Cash Flow before Financing	**(4,093)**	**(774)**	**544**	**1,773**	**2,138**	**2,088**	**2,036**
Total Cash Flow From Financing	3,340	(411)	(253)	(222)	(183)	(3,347)	110
Change in Cash	**(753)**	**(1,185)**	**291**	**1,551**	**1,955**	**(1,259)**	**2,146**

Source: Dana Gas, EFG-Hermes estimates

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