

## Dana Gas

Decline in realized prices impacted profitability

### 1Q23 Net Profit higher than our estimate

Dana Gas PJSC ("DANA"/The Company") net profit declined 7.5% YOY to USD 50 Mn in 1Q23, higher than our estimate of USD 37 Mn. The decline in net profit is mainly due to a decline in Company's realized prices which resulted in lower revenue, partially offset by a decline in operating cost and an increase in KRI production.

### P&L Highlights

Dana Gas' revenue declined 12.9% YOY to USD 122 Mn in 1Q23 owing lower realized prices partially offset by an increase in production volumes.. The Company average production marginally rose 1.0% YOY at 62,900 (boepd) owing to an increase in KRI production partially offset by a decline in Egypt production. KRI production grew 9% YOY at 38,700 (boepd) mainly due to the completion of the debottlenecking projects in 2H22. While Egypt's production declined 10.0% YOY to 24,200 (boepd) mainly due to natural field depletion and a decrease in investment activity. Average realized prices of condensate averaged to USD 59 per barrel in 1Q23 whereas average LPG prices declined to USD 39/boe in 1Q23. Dana Gas' royalties declined 17.5% YOY to AED 33 Mn in 1Q23 due to lower top line. While operating cost fell 9.1% YOY to AED 30 Mn in 1Q23 attributable to the Company's efforts to optimize the cost base. Resultantly, gross profit declined 11.9% YOY to AED 89 Mn in 1Q23. However, gross profit margin increased 50 bps YOY to 48.4% in 1Q23. Furthermore, G&A expenses remained stable at AED 3 Mn in 1Q23. The Company recorded investment and finance income of AED 2 Mn in 1Q23 compared to nil investment income in 1Q22. Impairments on financial assets also remained stable to AED 1 Mn in 1Q23. Resultantly, Dana Gas' operating profit decreased 6.6% YOY to AED 57 Mn in 1Q23 with an increase in operating profit margin from 43.6% in 1Q22 to 46.7% in 1Q23. EBITDA also declined 8.6% YOY to AED 74 Mn in 1Q23 with an increase in EBITDA margin from 57.9% in 1Q22 to 60.7% in 1Q23. Finance costs increased from AED 1 Mn in 1Q22 to AED 2 Mn in 1Q23. Thus, profit before tax declined from AED 60 Mn in 1Q22 to AED 55 Mn in 1Q23. Income tax expenses decreased 16.7% YOY to AED 5 Mn in 1Q23 due to lower profitability.

### Balance Sheet and Cash Flow highlights

The Company's cash and bank balance stood at USD 148 Mn in 1Q23 which includes USD 102 Mn of cash held at Pearl Petroleum. Dana gas collected a total of USD 63 Mn receivables of which Egypt contributed USD 15 Mn and USD 48 Mn from the KRI region in 1Q23. The Company's capex rose from USD 26 Mn in 1Q22 to USD 40 Mn in 1Q23 and further plans to invest USD 100 Mn in Egypt in next two years. Free cash flow of the Company stood at USD 9 Mn compared to USD 36 Mn in 1Q22. Total debt stood at USD 208 Mn in 1Q23 which includes USD 52 Mn credit facilities and USD 156 Mn non-recourse project debt at Pearl in 1Q23.

### Target price and rating

We maintain our BUY rating on Dana Gas with a target price of AED 1.15. Dana Gas recorded a decline in profitability, mainly due to a decrease in the Company's realized selling hydrocarbon prices, partially offset by an increase in average production and decline in operating costs. The Company's production averaged 62,900 boepd in

**Rating : BUY**

### First Look Note – 1Q23

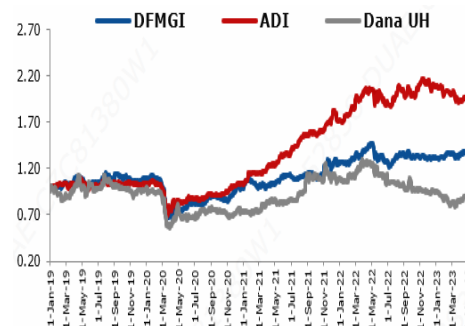
**Sector: Energy**

#### Recommendation

Current Price (05-Jun-23)	0.825
Target Price (AED)	1.15
Upside/Downside (%)	+39%

#### Stock Information

Market Cap (mm)	5,792.17
Paid Up Capital (mm)	1,904.57
52 Week High	1.10
52 Week Low	0.75
3M Avg. daily value (AED)	9,923,093



#### Financial Ratios

Dividend Yield (12m)	10.87
Dividend Pay-out (%)	172.96
Price-Earnings Ratio (x)	6.39
Price-to-Book Ratio (x)	0.67
Book Value (AED)	0.34
Return-on Equity (%)	10.60
Earning Per Share (AED)	0.04
Beta	0.85

#### Stock Performance

5 Days	0.85%
1 Months	0.00%
3 Months	3.50%
6 Months	-7.90%
1 Year	-23.33%
Month to Date (MTD)	0.85%
Quarter to Date (QTD)	1.60%
Year to Date (YTD)	-10.00%

1Q23 compared to 62,400 boepd in 1Q22. KRI production rose 9.0% YOY to 38,700 boepd mainly due to the completion of debottlenecking projects in 2H22. Furthermore, the Company also maintained cost discipline and optimized the expenses as operating expenses declined 9.1% YOY in 1Q23. Furthermore, the Company intends to develop assets in KRI and increase production in Egypt to facilitate future growth opportunities. DANA's KM250 expansion project is on track and is anticipated to deliver its first gas in 2Q24. Once completed, the project will increase KRI's gross gas output to 750 MMscf/d of gas, 23 kbb/d of condensate, and 1,100 MTPD of LPG. It also completed the drilling of five wells capable of generating gas at rates comparable to those of currently producing wells. Furthermore, Dana's new agreement with EGAS also got approved by EGAS Board which will help the Company to maximize the life of its assets. DANA received favourable arbitration against NIOC and the Company is expected to receive USD 607.5 Mn. Additionally, the final hearing on the second arbitration was due in March 2023 but was postponed due to the resignation of the external lawyers of NIOC. The Company also approved a final cash dividend of 4.5 fils per share which brings the total cash dividend to 9 fils per share for 2022, amounting to a dividend yield of 10.8%. Thus, based on our analysis, we maintain our BUY rating on the stock.

**Dana Gas Relative valuation**

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	NM	10.15	NM	4.96	8.59	8.66
PB (x)	0.60	0.59	0.73	0.68	0.68	0.68
EV/EBITDA (x)	6.83	4.68	11.09	5.86	4.90	5.26
Dividend Yield (%)	6.7%	6.7%	6.7%	9.8%	11.0%	11.0%

*FABS Estimates & Co Data*
**Dana Gas- P&L**

USD mn	1Q22	4Q22	1Q23	1Q23F	Var.	YOY	QOQ	2022	2023F	Change
Revenue	140	114	122	97	25.7%	-12.9%	7.0%	529	477	-9.9%
Royalties	-40	-34	-33	-35	-5.5%	-17.5%	-2.9%	-152	-133	-12.2%
<b>Net Revenue</b>	<b>100</b>	<b>80</b>	<b>89</b>	<b>62</b>	<b>43.3%</b>	<b>-11.0%</b>	<b>11.3%</b>	<b>377</b>	<b>343</b>	<b>-9.0%</b>
Oprat. Costs & depletion	-33	-33	-30	-24	26.2%	-9.1%	-9.1%	-128	-119	-6.9%
<b>Gross Profit</b>	<b>67</b>	<b>47</b>	<b>59</b>	<b>38</b>	<b>53.9%</b>	<b>-11.9%</b>	<b>25.5%</b>	<b>249</b>	<b>224</b>	<b>-10.1%</b>
G&A expenses	-3	-3	-3	-3	15.3%	0.0%	0.0%	-12	-12	-0.7%
Invst. & finance income	0	3	2	2	17.8%	NA	-33.3%	5	4	-14.2%
Other Expenses	-2	-5	0	-4	NA	NA	NA	-10	-14	43.0%
Impairment of fin. assets	-1	-45	-1	0	NA	NA	NA	-47	0	NA
Other Income	0	35	0	12	NA	NA	NA	36	21	-40.4%
<b>Operating Profit</b>	<b>61</b>	<b>30</b>	<b>57</b>	<b>46</b>	<b>24.2%</b>	<b>-6.6%</b>	<b>90.0%</b>	<b>217</b>	<b>223</b>	<b>3.0%</b>
<b>EBITDA</b>	<b>81</b>	<b>91</b>	<b>74</b>	<b>65</b>	<b>14.6%</b>	<b>-8.6%</b>	<b>-18.7%</b>	<b>332</b>	<b>312</b>	<b>-6.1%</b>
Finance costs	-1	-2	-2	-3	-28.8%	NA	0.0%	-9	-11	24.8%
<b>Profit Before Tax</b>	<b>60</b>	<b>28</b>	<b>55</b>	<b>43</b>	<b>27.7%</b>	<b>-8.3%</b>	<b>96.4%</b>	<b>208</b>	<b>212</b>	<b>2.0%</b>
Income tax expense	-6	-7	-5	-6	-10.7%	-16.7%	-28.6%	-26	-32	22.4%
<b>Profit After Tax</b>	<b>54</b>	<b>21</b>	<b>50</b>	<b>37</b>	<b>33.4%</b>	<b>-7.4%</b>	<b>138.1%</b>	<b>182</b>	<b>180</b>	<b>-0.9%</b>
NCI	0	0	0	0	NA	NA	NA	0	0	NA
<b>Profit to equity holders</b>	<b>54</b>	<b>21</b>	<b>50</b>	<b>37</b>	<b>33.4%</b>	<b>-7.4%</b>	<b>138.1%</b>	<b>182</b>	<b>180</b>	<b>-0.9%</b>

*FABS Estimates & Co Data*
**Dana Gas- Margins**

	1Q22	4Q22	1Q23F	YOY	QOQ	2022	2023F	Change
Gross Profit	47.9%	41.2%	48.4%	50	713	47.1%	47.0%	-7
Operating Profit	43.6%	26.3%	46.7%	315	2041	41.0%	46.9%	588
EBITDA	57.9%	79.8%	60.7%	280	-1917	62.8%	65.4%	267
Net Profit	38.6%	18.4%	41.0%	241	2256	34.4%	37.9%	346

*FABS estimate & Co Data*

## Valuation:

We use Discounted Free Cash flow (DCF) and Relative Valuation (RV) to value DANA. We have assigned 70% weight to DCF and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
DCF	1.39	70.0%	0.97
Relative Valuation	0.59	30.0%	0.18
<b>Weighted Average Valuation (AED)</b>			<b>1.15</b>
<b>Current market price (AED)</b>			<b>0.82</b>
<b>Upside/Downside (%)</b>			<b>40.63%</b>

### 1) DCF Method:

DANA is valued using free cash flow to the firm. We have discounted the cash flow using the weighted average cost of capital of 12.1%. It is arrived after using the cost of equity of 12.7% and interest-adjusted cost of debt of 7.6%. The cost of equity is calculated by using a 10-year government bond yield of 4.3%, beta of 1.0 and equity risk premium of 8.4%. We assumed a higher equity risk premium of 8.4% given the current economic situation in Egypt and the unstable geopolitical situation in Iraq. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, Mn)	889
Terminal value (USD, Mn)	1,909
<b>FV to Common shareholders (USD, Mn)</b>	<b>2,652</b>
No. of share (Mn)	6,995
Current Market Price (AED)	0.82
<b>Fair Value per share (AED)</b>	<b>1.39</b>

#### DCF method

(All Figures in USD Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
EBIT + Tax	192	240	274	333	355
Depreciation & Amortization	100	112	123	129	141
(-) Capex	-105	-112	-125	-133	-142
(-) Change in Working Capital	-16	-39	-47	-21	-35
<b>Free Cash Flow to Firm (FCFF)</b>	<b>170</b>	<b>202</b>	<b>225</b>	<b>307</b>	<b>319</b>
Discounting Factor	0.94	0.84	0.75	0.66	0.59
<b>Discounted FCFF</b>	<b>159</b>	<b>168</b>	<b>168</b>	<b>204</b>	<b>189</b>

## 2) Relative Valuation:

We have used local as well as international peers to value DANA and it is valued using the EV/EBITDA multiple. It is valued at EV/EBITDA multiple of 4.1x in line with its peers.

Company	Market (USD Bn)	EV/EBITDA (x)		PE (x)	
		2023	2024	2023	2024
Saudi Arabian Oil Company	2,103.0	5.8	6.1	12.5	13.6
Shell PLC	192.6	3.3	3.5	6.3	6.9
BP Plc	102.9	2.7	2.7	5.3	6.5
Petrochina Co Ltd	190.0	3.4	3.3	6.2	6.4
Chevron Corporation	294.6	5.6	5.6	11.8	10.7
Santos Ltd	16.2	4.1	4.5	8.2	9.0
Transportadora De Gas Del Norte S.A	4.0	10.1	5.8	15.2	5.6
<b>Average</b>		5.0x	4.5x	9.4x	8.4x
<b>Median</b>		4.1x	4.5x	8.2x	6.9x
<b>Max</b>		5.7x	5.7x	12.2x	9.8x
<b>Min</b>		3.4x	3.4x	6.3x	6.5x

### Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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