

Dana Gas PJSC

Decline in volume and price impacted profit

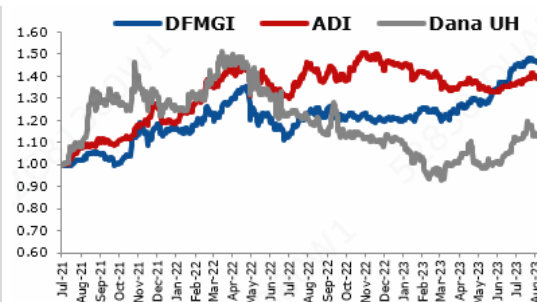
Current Price
AED 0.95

Target Price
AED 1.15

Upside/Downside (%)
+21%

Rating
BUY

- Dana Gas production in 2Q23 averaged 56.76 kboe/d in 2Q23 as compared to 59.80 kboe/d due to lower production in Egypt.
- Pearl Petroleum initiated third-party condensate sales to local buyers in May 2023 in addition to existing local LPG sales.
- Dana Gas negotiated new terms with EGAS, and the new agreement was approved by EGAS board, which will extend the life of DANA's assets however the agreement is pending clearance from the Egyptian Parliament.
- Pearl Petroleum received USD 101 Mn from the Kurdistan Regional Government and is in talks to settle the outstanding at the earliest.
- Dana Gas received approval from UAE's regulatory authority to increase the foreign ownership in the Company's shares to 100%, up from 49%.



2Q23 Net Profit lower than our estimate

Dana Gas PJSC ("DANA"/The Company) net profit declined 42.1% YOY to USD 33 Mn in 2Q23, lower than our estimate of USD 45 Mn. The decline in net profit is mainly attributable to a fall in revenue due to a drop in the Company's realized prices, coupled with additional discounts in the KRI region partially offset by an increase in KRI production along with a decline in royalties, operating costs and income tax expenses.

P&L Highlights

Dana Gas revenue declined 30.6% YOY to USD 100 Mn in 2Q23 mainly driven by lower realized prices and a decline in average production. The Company's average production declined 5.1% YOY to 56,750 barrels of oil per day (boepd). KRI region average production increased marginally 1.6% YOY to 34,140 boepd in 2Q23. Egypt's production fell 13.7% YOY to 22,610 boepd in 2Q23 due to limited investments and a decline in the natural field. A partial shutdown in the Kor Mor region was carried out in 2Q23 for maintenance which impacted the production in the region. Dana Gas sold condensate to third-party local buyers as other companies stopped production in the KRI region and also awarded additional discounts on condensate sales in the KRI region. Average realized prices of condensate stood at USD 53 per barrel in 2Q23 as compared to USD 93 per barrel in 2Q22. Likewise, the average realized LPG price declined to USD 34/boe in 2Q23 as compared to USD 45/boe in 2Q22. The Company's royalty declined 32.6% YOY to USD 29 Mn in 2Q23. On the other hand, operating cost fell 10.0% YOY to USD 27 Mn in 2Q23. Thus, gross profit declined 38.0% YOY to USD 44 Mn in 2Q23. The Company's G&A expenses remained stable at USD 3 Mn in 2Q23 as compared to the 2Q22 while investment and finance income increased from USD 1 Mn in 2Q22 to USD 3 Mn in 2Q23. Furthermore, impairments remained

Stock Information

Market Cap (AED, mm)	6,673.59
Paid Up Capital (mm)	1,904.54
52 Week High	1.07
52 Week Low	0.75
3M Avg. daily value (AED)	11,382,940

2Q23 Result Review (USD, mm)

Total Assets	2,707
Total Liabilities	413
Total Equity	2,294
EBITDA	56
Net Profit	33

Financial Ratios

Dividend Yield (12m)	9.43
Dividend Pay-out (%)	172.96
Price-Earnings Ratio(x)	8.08
Price-to-Book Ratio (x)	0.79
Book Value (AED)	0.33
Return-on Equity (%)	9.76

Stock Performance

5 Days	3.14%
1 Months	4.15%
3 Months	17.49%
6 Months	23.74%
1 Year	-1.45%
Month to Date (MTD%)	-2.55%
Quarter to Date (QTD%)	10.93%
Year to Date (YTD%)	3.70%

unchanged at USD 1 Mn in 2Q23 as compared to 2Q22. As a result, total operating profit declined 36.9% YOY to USD 41 Mn in 2Q23 while operating margin declined 414 bps YOY to 41.0% in 2Q23. Additionally, EBITDA declined 32.5% YOY to USD 56 Mn in 2Q23 with a margin of 56.0% in 2Q23 compared to 57.6% in 2Q22. Finance costs increased from USD 1 Mn in 2Q22 to USD 4 Mn in 2Q23 due to higher interest rates. Income tax expenses declined 42.9% YOY to USD 4 Mn in 2Q23 in line with a drop in profitability.

Balance Sheet Highlights

The Company's cash and bank balance stood at USD 101 Mn in 2Q23, including USD 82 Mn of cash held at Pearl Petroleum. Dana Gas collected a total of USD 106 Mn receivables of which Egypt contributed USD 26 Mn and USD 80 Mn from the KRI region in 2Q23. The Company's capex stood at USD 32 Mn in 2Q23 as against USD 40 Mn in 1Q23 and further plans to invest USD 100 Mn in Egypt in the next two years. Dana Gas' total debt increased from USD 208 Mn in 1Q23 to USD 257 Mn in 2Q23 which includes USD 112 Mn of credit facilities, USD 145 Mn non-resource project debt at Pearl Petroleum level, and USD 65 Mn facility fully drawn in April 2023.

Target Price and Rating

We maintain our BUY rating on Dana Gas with a target price of AED 1.15. The Company's profitability declined in 2Q23 mainly due to lower realized selling prices and a decline in overall production. Dana Gas offered additional discounts on condensate sales in the KRI region as it started selling to third-party local buyers as other companies temporarily halted production. The Company's production averaged 56,750 boepd in 2Q23 as compared to 59,800 boepd in 2Q22. KRI production increased marginally by 1.6% YOY to 34,140 boepd in 2Q23 driven by the completion of debottlenecking. Dana Gas carried out plant maintenance in 2Q23, resulting in a temporary partial shutdown of the plant in KRI region impacting production. The Company maintained cost discipline which resulted in stable operating expenses. Pearl Petroleum completed drilling six KM 250 project wells which will add 250 MMscf/d production capacity after completion. Additionally, Dana Gas negotiated new terms with EGAS and the new agreement was approved by the EGAS board but it requires clearance from Egyptian Parliament. The new agreement will extend the life of its assets. The agreement with EGAS includes drilling 3 wells out of the 8 infield exploration wells during 2023 -2024. Furthermore, Pearl Petroleum received USD 101 Mn from Kurdistan Regional Government and the company is in talks to settle the outstanding amount. Whereas, the production is continued without any obstacles since the products are locally consumed. Additionally, the final hearing on Dana Gas arbitration against NIOC will be rescheduled due to the resignation of NIOC's external lawyers. Dana Gas received approval from UAE's regulatory authority to increase the foreign ownership in the Company's shares to 100%, up from 49%. The Company also paid a dividend of 4.5 fils per share amounting to USD 86 Mn in May 2023 during 2H22. 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
PE	NM	11.76	NM	5.75	9.95	10.96
PB	0.70	0.69	0.84	0.79	0.79	0.79
EV/EBITDA	7.91	5.41	12.78	6.78	5.65	7.02
Dividend yield	5.8%	5.8%	5.8%	8.4%	9.5%	9.5%

FABS Estimates & Co Data

Dana Gas – P&L

USD mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY	QOQ	2022	2023F	Change
Revenue	144	122	100	134	-25.5%	-30.6%	-18.0%	529	466	-12.0%
Royalties	-43	-33	-29	-44	-34.5%	-32.6%	-12.1%	-152	-130	-14.2%
Net Revenue	101	89	71	90	-21.1%	-29.7%	-20.2%	377	335	-11.1%
Operating Costs & depletion	-30	-30	-27	-32	-16.2%	-10.0%	-10.0%	-128	-116	-9.0%
Gross Profit	71	59	44	58	-23.8%	-38.0%	-25.4%	249	219	-12.1%
G&A expenses	-3	-3	-3	-3	6.4%	0.0%	0.0%	-12	-12	-3.0%
Investment & finance inc.	1	2	3	1	NM	NM	50.0%	5	6	11.8%
Other Expenses	-2	0	-1	-3	-70.2%	-50.0%	NM	-10	-12	16.4%
Impairment of fin. assets	-1	-1	-1	-1	0.0%	0.0%	0.0%	-47	-4	NM
Impairment on PPE	0	0	0	0	NM	NM	NM	-2	0	NM
Share of loss/profit on JV	-1	0	-1	0	NM	0.0%	NM	-2	-3	50.0%
Other Income	0	0	0	1	NM	NM	NM	36	5	-87.1%
Operating Profit	65	57	41	53	-22.6%	-36.9%	-28.1%	217	199	-8.4%
EBITDA	83	74	56	77	-27.3%	-32.5%	-24.3%	332	280	-15.6%
Finance costs	-1	-2	-4	-3	42.5%	NM	NM	-9	-11	24.8%
Profit Before Tax	64	55	37	50	-26.2%	-42.2%	-32.7%	208	188	-9.8%
Income tax expense	-7	-5	-4	-5	-22.8%	-42.9%	-20.0%	-26	-23	-13.4%
Profit After Tax	57	50	33	45	-26.6%	-42.1%	-34.0%	182	165	-9.3%
Net Profit	57	50	33	45	-26.6%	-42.1%	-34.0%	182	165	-9.3%

FABS estimate & Co Data

Dana Gas - Margins

	2Q22	1Q23	2Q23	YOY	QOQ	2022	2023F	Change
Gross margin	49.3%	48.4%	44.0%	-531	-436	47.1%	47.0%	-7
EBITDA margin	45.1%	46.7%	41.0%	-414	-572	41.0%	42.7%	168
Operating margin	57.6%	60.7%	56.0%	-164	-466	62.8%	60.1%	-262
Net profit margin	39.6%	41.0%	33.0%	-658	-798	34.4%	35.5%	105

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 Method	1.21	70.0%	0.85
Relative Valuation (RV)	1.01	30.0%	0.30
Weighted Average Valuation (AED)			1.15
Current market price (AED)			0.95
Upside/Downside (%)			+21%

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 12.0%. It is arrived after using the cost of equity of 12.7% and the interest-adjusted cost of debt of 7.6%. The cost of equity is calculated by using a 10-year government bond yield of 4.5%, beta of 0.97 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)	807
Terminal value (USD, Mn)	1,659
FV to Common shareholders (USD, Mn)	2,310
No. of share (Mn)	6,995
Current Market Price (AED)	0.95
Fair Value per share (AED)	1.21

DCF Method

(All Figures in USD Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
NOPAT	176	240	281	326	378
D&A	99	112	124	131	138
Change in working capital	-102	-119	-142	-171	-188
(-) Capex	-16	-58	-55	-19	-60
Free Cash Flow to Firm (FCFF)	158	177	208	266	269
Discounting Factor	0.96	0.86	0.76	0.68	0.61
Discounted FCFF	151	151	159	182	163

Source: FAB Securities

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 7.4x in line with its peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
Saudi Arabian Oil Company	2,220,000	8.4	8.1	17.4	16.6
Kimbell Royalty Partners	1,103	6.5	4.9	12.5	9.6
Sociedad Commercial	441	11.4	7.0	NA	NA
Chevron	297,000	6.0	5.8	12.3	11.3
Santos Ltd	16,621	4.5	4.8	9.9	9.9
Transportadora	3,612	12.3	7.3	20.1	7.4
Average		8.2x	6.3x	14.4x	11.0x
Median		7.4x	6.4x	12.5x	9.9x
Max		10.7x	7.2x	17.4x	11.3x
Min		6.1x	5.1x	12.3x	9.6x

Source: FAB Securities

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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