

Dana Gas PJSC

Decline in realized prices and production dragged profitability

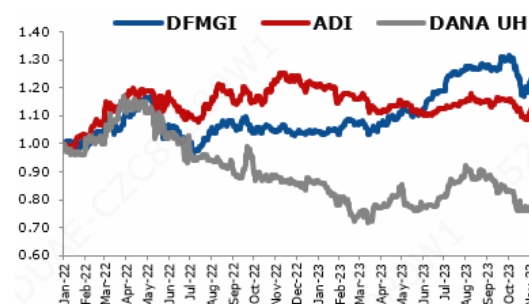
Current Price
AED 0.78

Target Price
AED 0.95

Upside/Downside (%)
+22%

Rating
BUY

- Dana Gas' production in 3Q23 averaged 59.60 kboe/d as compared to 59.80 kboe/d in 2Q23 due to lower production in Egypt partially offset by increase in production from KRI region.
- The Company's average realized condensate price declined to USD 45 per barrel in 3Q23 from USD 81 per barrel in 3Q22 negatively impacting revenue.
- Dana Gas' production optimization from existing wells and reservoir management led to lower-than-expected decline in production from Nile Delta fields in Egypt.
- Dana Gas successfully completed and tested all KM-250 gas wells and two infill gas wells in 3Q23. On completion of the KM-250 project, KRI's gross production capacity of gas will increase to 770 MMscf per day which will contribute a minimum annual revenue of USD 150 Mn.



3Q23 Net Profit lower than our estimate

Dana Gas PJSC ("DANA"/The Company) net profit declined 14.0% YOY to USD 43 Mn in 3Q23, lower than our estimate of USD 46 Mn. The decline in net profit was mainly due to a fall in revenue attributable to lower realized prices, coupled with additional discounts on condensate sales in the KRI region, increase in operating cost, and higher finance cost partially offset by an increase in KRI production along with decline in royalties and income tax expenses.

P&L Highlights

Dana Gas revenue declined 20.6% YOY to USD 104 Mn in 3Q23 mainly driven by decline in realized prices and lower average production during the period. The Company's average production declined marginally 0.3% YOY to 59,600 barrels of oil per day (boepd) in 3Q23. KRI region average production increased 13.5% YOY to 38,600 boepd in 3Q23. On the other hand, Egypt's average production declined 18.6% YOY to 21,000 boepd. The increase in KRI's average production was supported by the successful debottlenecking project carried out in second half of 2022 whereas Egypt's average production fell due to natural field decline and reduced investment activity. The average realized prices of condensate declined from USD 81 per barrel in 3Q22 to USD 45 per barrel in 3Q23. Similarly, the average LPG realized price declined to USD 34 per barrel in 3Q23 as compared to USD 39 per barrel in 3Q22. The Company's royalty declined 40.0% YOY to USD 21 Mn in 3Q23. On the other hand, operating cost grew 3.1% YOY to USD 33 Mn in 3Q23. Thus, gross profit declined 21.9% YOY to USD 50 Mn in 3Q23. DANA's G&A expenses remained unchanged at USD 3 Mn in 3Q23 as compared to the 3Q22 while investment and finance income increased from USD 1 Mn in 3Q22 to USD 2 Mn in 3Q23. Furthermore, other income grew from USD 1 Mn in 3Q22 to

Stock Information

Market Cap (AED, mm)	5,449.40
Paid Up Capital (mm)	1,904.70
52 Week High	1.00
52 Week Low	0.75
3M Avg. daily value (AED)	7,360,461

3Q23 Result Review (USD, mm)

Total Assets	2,759
Total Liabilities	422
Total Equity	2,337
EBITDA	72
Net Profit	43

Financial Ratios

Dividend Yield (12m)	5.69
Dividend Pay-out (%)	172.96
Price-Earnings Ratio(x)	6.89
Price-to-Book Ratio (x)	0.65
Book Value (AED)	0.33
Return-on Equity (%)	9.27

Stock Performance

5 Days	-1.89%
1 Months	-4.53%
3 Months	-17.39%
6 Months	-3.83%
1 Year	-15.51%
Month to Date (MTD%)	-3.83%
Quarter to Date (QTD%)	-11.58%
Year to Date (YTD%)	-15.33%

USD 6 Mn in 3Q23. As a result, total operating profit declined 9.8% YOY to USD 55 Mn in 3Q23 while the operating margin grew 632 bps YOY to 52.9% in 3Q23. Moreover, DANA's EBITDA declined 5.0% YOY to USD 72 Mn in 3Q23 with a margin of 69.4% in 3Q23 as compared to 58.0% in 3Q22. Finance costs grew 40% YOY from USD 5 Mn in 3Q22 to USD 7 Mn in 3Q23 due to higher interest rates. In addition, income tax expenses declined 16.7% YOY to USD 5 Mn in 3Q23 in line with a decline in profitability.

Balance Sheet Highlights

The Company's cash and bank balance stood at USD 115 Mn in 3Q23 which includes USD 99 Mn of cash held at Pearl Petroleum. Dana Gas collected a total of USD 167 Mn receivables of which Egypt contributed USD 40 Mn and USD 127 Mn from the KRI region in 3Q23. The Company's capex stood at USD 38 Mn in 3Q23 as compared to USD 32 Mn in 2Q23. Dana Gas' total debt declined from USD 257 Mn in 2Q23 to USD 252 Mn in 3Q23 which includes USD 108 Mn of drawn credit facilities and USD 144 Mn non-resource project debt at Pearl Petroleum.

Target Price and Rating

We maintain our BUY rating on Dana Gas with a revised target price of AED 0.95. The Company's share price declined 17.9% since our previous rating. The Company's net profit declined in 3Q23 on YOY basis mainly due to lower realized selling prices and a marginal decline in average production. Dana Gas continued condensate sales in the KRI region to third-party local buyers at a discount in 3Q23 amid competitive market which impacted profitability. The Company's production averaged 59,600 boepd in 3Q23 compared to 56,760 boepd in 2Q23. KRI production rose 13.5% YOY to 38,600 boepd in 3Q23, driven by the benefit of debottlenecking in 2022. Whereas, Dana Gas's production optimization from existing wells and reservoir management led to lower-than-expected decline in production from Nile Delta fields in Egypt. Meanwhile, the Company, identified development/exploration opportunity at the existing onshore land which is under concession terms with EGAS. New explorations in existing onshore acreage will further boost the Company's production. Dana Gas successfully completed and tested all KM-250 gas wells and two infill gas wells in 3Q23. On the completion of the KM-250 project, KRI's gross production capacity of gas will increase to 770 MMscf per day which will contribute a minimum annual revenue of USD 150 Mn. EGAS board approved Dana Gas's agreement of drilling three exploration wells and eight infield exploration on 296 square km exploration acreage however, the agreement is pending ratification by the Egyptian parliament. The company is not in a position to pay interim dividend for 1H23 due to high capex on the KM250 project and delayed collections but considers paying annual dividend in March 2024. Despite high capex in the KRI region, the Company managed to collect 75% of its total billing in 9M23 as compared to 92% in 9M22. Despite the current pipeline shutdown, the consistent revenue collections from KRG reflects the Company's vital role in supporting KRI's power sector. Additionally, the final hearing on Crescent Petroleum's arbitration against NIOC is anticipated to be conducted in 2024 whereas Dana Gas will receive a share of award from the same. OPEC's production cut firmly supports oil prices while further plans to deepen supply cuts will result in higher oil prices which will benefit the Company's profitability. Thus, based on the positives, we maintain our BUY rating on the stock.

Dana Gas - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	NM	9.65	NM	4.72	8.17	9.16
PB	0.57	0.56	0.69	0.65	0.65	0.63
EV/EBITDA	6.50	4.46	10.57	5.58	4.67	6.25
Dividend yield	7.1%	7.1%	7.1%	10.3%	11.5%	6.4%

FABS Estimates & Co Data

Dana Gas – P&L

USD mm	3Q22	2Q23	3Q23	3Q23F	Var.	YOY	QOQ	2022	2023F	Change
Revenue	131	100	104	120	-13.2%	-20.6%	4.0%	529	436	-17.6%
Royalties	-35	-29	-21	-32	-35.1%	-40.0%	-27.6%	-152	-106	-30.6%
Net Revenue	96	71	83	87	-5.1%	-13.5%	16.9%	377	330	-12.3%
Operating Costs & depletion	-32	-27	-33	-30	10.2%	3.1%	22.2%	-128	-128	0.1%
Gross Profit	64	44	50	58	-13.0%	-21.9%	13.6%	249	202	-18.7%
G&A expenses	-3	-3	-3	-3	0.2%	0.0%	NM	-12	-11	-9.2%
Investment & finance inc.	1	3	2	1	39.1%	NM	-33.3%	5	9	74.4%
Other Expenses	-1	-1	0	-1	NM	NM	NM	-10	-4	-56.4%
Impairment of fin. assets	0	-1	0	-1	NM	NM	NM	-47	-2	NM
Other Income	1	0	6	1	NM	NM	NM	36	9	-75.8%
Operating Profit	61	41	55	54	1.5%	-9.8%	34.1%	217	202	-7.1%
EBITDA	76	56	71	78	-9.0%	-6.6%	26.8%	332	259	-21.9%
Finance costs	-5	-4	-7	-3	NM	40.0%	75.0%	-9	-19	116.0%
Profit Before Tax	56	37	48	51	-6.6%	-14.3%	29.7%	208	182	-12.4%
Income tax expense	-6	-4	-5	-6	-9.1%	-16.7%	25.0%	-26	-20	-22.9%
Profit After Tax	50	33	43	46	-6.3%	-14.0%	30.3%	182	162	-10.9%
NCI	0	0	0	0	NM	NM	NM	0	0	NM
Net Profit	50	33	43	46	-6.3%	-14.0%	30.3%	182	162	-10.9%

FABS estimate & Co Data

Dana Gas - Margins

	3Q22	2Q23	3Q23	YOY	QOQ	2022	2023F	Change
Gross margin	48.9%	44.0%	48.1%	-78	408	47.1%	46.4%	-64
EBITDA margin	46.6%	41.0%	52.9%	632	1188	41.0%	46.2%	522
Operating margin	58.0%	56.0%	68.3%	1025	1227	62.8%	59.5%	-325
Net profit margin	38.2%	33.0%	41.3%	318	835	34.4%	37.2%	278

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	0.97	70.0%	0.68
Relative Valuation (RV)	0.89	30.0%	0.27
Weighted Average Valuation (AED)			0.95
Current market price (AED)			0.78
Upside/Downside (%)			+22%

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 12.8% 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 5.2%, beta of 0.95 and equity risk premium of 8.0%. We assumed a higher equity risk premium of 8.0% 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)	601
Terminal value (USD, Mn)	1,382
FV to Common shareholders (USD, Mn)	1,846
No. of share (Mn)	6,995
Current Market Price (AED)	0.78
Fair Value per share (AED)	0.97

DCF Method

(All Figures in USD Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
NOPAT	182	168	207	236	242
D&A	72	75	77	80	82
Change in working capital	-153	-90	-106	-100	-102
(-) Capex	-144	46	6	1	-6
Free Cash Flow to Firm (FCFF)	-43	198	185	216	216
Discounting Factor	0.99	0.88	0.79	0.70	0.63
Discounted FCFF	-7	175	145	152	136

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 7.1x in line with its peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
Saudi Arabian Oil Company	2,159,000	7.9	7.8	16.5	16.7
Kimbell Royalty Partners	1,140	6.4	4.4	16.3	10.8
Sociedad Commercial	551	14.5	8.9	NA	NA
Chevron	272,000	5.4	5.2	10.4	10.5
Santos Ltd	15,060	4.2	4.5	9.6	9.7
Transportadora	5,451	14.5	10.6	30.9	11.3
Average		8.8x	6.9x	16.7x	11.8x
Median		7.1x	6.5x	16.3x	10.8x
Max		12.8x	8.6x	16.5x	11.3x
Min		5.7x	4.7x	10.4x	10.5x

Source: FAB Securities

