

Dana Gas PJSC

Strong operational performance amid geopolitical challenges

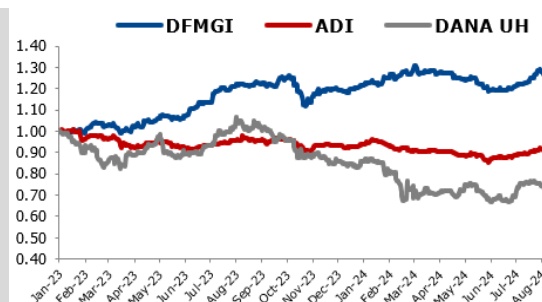
Current Price
AED 0.69

Target Price
AED 0.95

Upside/Downside (%)
+38%

Rating
BUY

- DANA's production averaged 53,700 boepd in 2Q24 compared to 56,750 boepd in 2Q23, owing to lower production in Egypt.
- DANA's cash position remained stable at USD 140 Mn in 2Q24 compared to 1Q24 with USD 110 Mn in cash held at Pearl Petroleum JV. Total borrowings decreased to USD 182 Mn in 2Q24 from USD 252 Mn in 4Q23.
- DANA collected USD 131 Mn of its share from Pearl Petroleum in the KRI and USD 21 Mn from Egypt. Outstanding receivables in KRI amounted to USD 81 Mn and USD 60 Mn in Egypt in 1H24.
- DANA's capex stood at USD 14 Mn in 2Q24 compared to USD 32 Mn in 2Q23 due to constrained investment in Egypt pending concession consolidation and lower spending in the KRI due to the suspension of the KM250 expansion project.



2Q24 Net Profit is in line with our estimate

Dana Gas PJSC ("DANA"/The Company) net profit increased 3.0% YOY to USD 34 Mn in 2Q24, in line with our estimate of USD 35 Mn. The marginal increase in net profit is mainly attributable to strong operational performance in the KRI region with increase in production by 7% YOY to 36,500 boepd, despite challenges such as lower realized prices and a temporary suspension of production in April.

P&L Highlights

Dana Gas' revenue declined 7.0% YOY to USD 93 Mn in 2Q24 primarily attributed to lower realized prices and a declining rate of production in Egypt partially offset by higher production in the KRI region. The realized prices averaged USD 45 per barrel for condensate and USD 33 per boe (barrel of oil equivalent) for LPG in 2Q24 compared to USD 53 per barrel and USD 34 per boe, respectively in 2Q23. Additionally, the Company's average production declined 4.0% YOY from 56,750 boepd (barrels of oil equivalent per day) in 2Q23 to 53,700 boepd in 2Q24. KRI's production rose 7% YOY from 34,150 boepd in 2Q24 to 36,500 boepd in Q2 2024. Conversely, Egypt's production dropped 24% YOY to 17,200 boepd in 2Q24, down from 22,600 boepd in 2Q23, primarily due to natural field depletion. The Company's royalty payments dropped 31.0% YOY to USD 20 Mn in 2Q24, while operating costs fell 3.7% YOY to USD 26 Mn. Consequently, gross profit rose 6.8% YOY to USD 47 Mn in 2Q24. DANA's G&A expenses remained steady at USD 3 Mn in 2Q24 compared to 2Q23, while investment and finance income declined 33.3% YOY to USD 2 Mn in 2Q24. Financial impairments stood flat at USD 1 Mn in 2Q24. EBITDA decreased 3.6% YOY to USD 54 Mn in 2Q24, while margins improved 206 bps YOY to 58.1% in 2Q24. Consequently, operating profit declined 2.4% YOY to USD 40 Mn in 2Q24. Finance costs dropped from USD 4 Mn in 2Q23 to USD 3 Mn in 2Q24, while income tax expense fell 25.0% YOY to USD 3 Mn.

Stock Information

Market Cap (AED, mn)	4,826.81
Paid Up Capital (mn)	1,904.59
52 Week High	0.97
52 Week Low	0.60
3M Avg. daily value (AED)	7,458,072

2Q24 Result Review (USD, mn)

Total Assets	2,800
Total Liabilities	357
Total Equity	2,443
EBITDA	54
Net Profit	34

Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	8.82
Price-to-Book Ratio (x)	0.54
Book Value (AED)	0.35
Return-on Equity (%)	6.29

Stock Performance

5 Days	4.39%
1 Months	-1.71%
3 Months	5.34%
6 Months	10.05%
1 Year	-25.97%
Month to Date (MTD%)	0.73%
Quarter to Date (QTD%)	8.66%
Year to Date (YTD%)	-12.88%

Balance Sheet Highlights

The Company's cash and bank balance stood at USD 140 Mn in 2Q24 with USD 110 Mn held at Pearl Petroleum. DANA made a collection of USD 152 Mn in 1H24 out of which Egypt contributed USD 21 Mn and USD 131 Mn from the KRI region. The Company's capex stood at USD 14 Mn in 2Q24, down from USD 32 Mn in 2Q23, attributed to limited capex in Egypt pending concession consolidation and reduced capex in the KRI due to the suspension of the KM250 expansion project. Total borrowings declined to USD 182 Mn in 2Q24 compared to USD 232 Mn in 1Q24 with a reduced corporate debt of USD 26 Mn in 1H24. It further expects full repayment of BOS facility in 3Q24.

Target Price and Rating

We maintain our BUY rating on Dana Gas with an unchanged target price of AED 0.95. DANA's revenue declined 7.0% YOY to USD 93 Mn in 2Q24, which was mainly driven by lower realization and a decline in production from Egypt. The Company's average production stood at 53,700 boepd in 2Q24. Dana Gas PJSC faced significant challenges in its ongoing expansion projects, particularly in the Kurdistan Region of Iraq (KRI). Despite these setbacks, the company remained committed to advancing key projects. The KM250 project in KRI, which involves the development of two gas processing trains, experienced delays due to security concerns, including rocket attacks and a drone strike that temporarily halted production. However, production at the Khor Mor field was fully restored by May 2024, and efforts are underway to establish a new timeline for completing the KM250 project. Upon completion, the expansion project will boost KRI's gross gas production capacity to 750 MMscf/d, significantly boosting revenue and profitability. Additionally, collections in the KRI have improved following a new agreement with the government, achieving a 120% collection rate in 1H24. The Government of the Egyptian cabinet approved a draft law that authorizes the Minister of Oil and the Egyptian Natural Gas Holding Co (EGAS) to finalize a new concession agreement with Dana Gas. The agreement is authorized by Egyptian Parliament and it is part of the strategic consolidation plan to extend the life of Egyptian assets and maximize stakeholder value in the upcoming year. The revised terms will also enable meaningful future investment, and the resumption of drilling activities expected to benefit the Company's production level. The agreement also includes enhanced economic terms and the direct granting of 296 km² of exploration acreage. This will enable a late-stage development program that includes drilling three exploration wells on the newly awarded property and eight infield exploration/development wells. On the other hand, DANA Gas intends to resume dividend payments following an improvement in its cash condition. Dana Gas received a dividend of USD 42 Mn from Pearl Petroleum in 1H24. Thus, considering these factors, we maintain our BUY rating on the stock.

Dana Gas - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	8.4	NM	4.1	7.1	8.1	7.7
PB	0.5	0.6	0.6	0.6	0.5	0.5
EV/EBITDA	3.9	9.3	4.9	4.1	5.5	5.3
Dividend yield	8.1%	8.1%	11.8%	13.2%	-	-

FABS Estimates & Co Data

Dana Gas – P&L

USD mn	2Q23	1Q24	2Q24	2Q24F	Var.	YOY	QOQ	2023	2024F	Change
Revenue	100	97	93	94	-1.3%	-7.0%	-4.1%	423	398	-5.9%
Royalties	-29	-18	-20	-19	6.1%	-31.0%	11.1%	-109	-80	-27.0%
Net Revenue	71	79	73	75	-3.2%	2.8%	-7.6%	314	318	1.4%
Operating Costs & depletion	-27	-32	-26	-33	-20.4%	-3.7%	-18.8%	-124	-123	-1.1%
Gross Profit	44	47	47	43	10.0%	6.8%	0.0%	190	196	3.0%
G&A expenses	-3	-3	-3	-2	22.4%	0.0%	0.0%	-11	-11	-2.3%
Investment & finance inc.	3	3	2	2	-15.1%	-33.3%	-33.3%	10	8	-20.4%
Other Expenses	-1	0	-4	-1	NM	NM	NM	0	-2	NM
Impairment of fin. assets	-1	-1	-1	0	NM	NM	NM	-3	0	NM
Change in FV of inv prop	0	0	0	0	NM	NM	NM	1	0	NM
Other Income	0	0	0	0	NM	NM	NM	8	8	-0.5%
Operating Profit	41	46	40	42	-4.1%	-2.4%	-13.0%	194	199	2.5%
EBITDA	56	61	54	57	-6.0%	-3.6%	-11.5%	257	254	-1.2%
Finance costs	-4	-4	-3	-4	-19.1%	-25.0%	-25.0%	-18	-13	-27.7%
Profit Before Tax	37	42	37	38	-2.6%	0.0%	-11.9%	176	186	5.6%
Income tax expense	-4	-4	-3	-3	-12.2%	-25.0%	-25.0%	-16	-17	4.5%
Profit After Tax	33	38	34	35	-1.6%	3.0%	-10.5%	160	169	5.7%
NCI	0	0	0	0	NM	NM	NM	0	0	NM
Net Profit	33	38	34	35	-1.6%	3.0%	-10.5%	160	169	5.7%

FABS estimate & Co Data

Dana Gas - Margins

	2Q23	1Q24	2Q24	YOY	QOQ	2023	2024F	Change
Gross margin	44.0%	48.5%	50.5%	654	208	44.9%	49.2%	425
Operating margin	41.0%	47.4%	43.0%	201	-441	45.9%	50.0%	410
EBITDA margin	56.0%	62.9%	58.1%	206	-482	60.8%	63.8%	305
Net profit margin	33.0%	39.2%	36.6%	356	-262	37.8%	42.5%	467

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	1.03	70.0%	0.72
Relative Valuation (RV)	0.76	30.0%	0.23
Weighted Average Valuation (AED)			0.95
Current market price (AED)			0.69
Upside/Downside (%)			+38%

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 10.8%. It is arrived after using the cost of equity of 11.2% and the interest-adjusted cost of debt of 8.6%. The cost of equity is calculated by using a 10-year government bond yield of 4.9%, beta of 0.90, and equity risk premium of 7.0%. We assumed a higher equity risk premium of 7.0% given the current economic situation in Egypt and the unstable geopolitical situation in Iraq. Government bond yield is calculated after adding 10-year CDS spread Abu Dhabi over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (USD, Mn)	615
Terminal value (USD, Mn)	1,505
FV to Common shareholders (USD, Mn)	1,968
No. of share (Mn)	6,995
Current Market Price (AED)	0.69
Fair Value per share (AED)	1.03

DCF Method

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	182	215	225	230	233
D&A	71	74	78	81	84
Change in working capital	-80	-137	-146	-136	-140
(-) Capex	2	-13	15	28	25
Free Cash Flow to Firm (FCFF)	176	139	172	204	203
Discounting Factor	0.96	0.87	0.78	0.71	0.64
Discounted FCFF	85	121	135	144	130

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 a 2024 EV/EBITDA multiple of 6.3x in line with its peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Saudi Arabian Oil Company	1,820,000	7.1	7.2	15.3	15.2
Kimbell Royalty Partners	1,290	6.7	5.6	18.7	13.6
Chevron	306,000	6.2	5.4	12.8	11.1
Santos Ltd	16,470	5.5	5.3	12.0	12.1
Transportadora	3,970	6.3	5.6		
Average		6.3x	5.8x	14.7x	13.0x
Median		6.3x	5.6x	14.1x	12.9x
Max		6.7x	5.6x	16.2x	14.0x
Min		6.2x	5.4x	12.6x	11.9x

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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