

Dana Gas PJSC

Decline in production impacted profitability

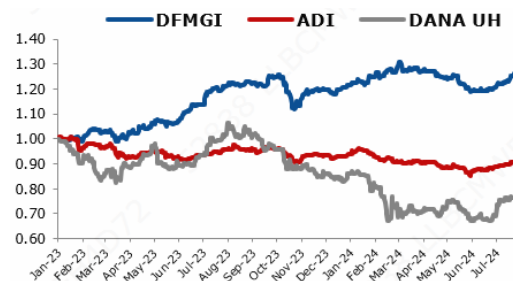
Current Price
AED 0.70

Target Price
AED 0.95

Upside/Downside (%)
+36%

Rating
BUY

- The company's average production stood at 55,300 boepd in 3Q24 as compared to 59,600 in 3Q23.
- Dana's cash and bank balance showed a solid position at USD 151 million in 3Q24, with USD 118 Mn held to Pearl Petroleum
- Total borrowings of the Company decreased to USD 144 Mn in 3Q24 from USD 252 Mn in 4Q23.
- Pearl Petroleum has now took over direct control of the construction of the KM250 project with an expected completion of the project by 2Q26.



3Q24 Net Profit higher than our estimate

Dana Gas PJSC ("Dana" or "the Company") reported a 7.0% YOY decline in net profit to USD 40 Mn in 3Q24 higher than our estimate of USD 33 Mn. The decline in net profit is primarily attributable to a fall in revenue and other income partially offset by a decline in royalties and operating expenses.

P&L Highlights

Dana Gas experienced a 7.7% YOY decline in revenue to USD 96 Mn in 3Q24 mainly due to a decline in production in Egypt partially offset by increased output in the KRI region. The Company's average production decreased 7.2% YOY to 55,300 boepd in 3Q24. Notably, KRI's average production rose 2.1% YOY to 39,400 boepd in 3Q24, while Egypt witnessed a 24.3% YOY decline to 15,900 boepd due to the depletion of the natural field. Realized average prices stood at USD 44 per barrel for condensate and USD 34 per barrel for LPG in 3Q24 compared to USD 45 barrel and USD 34 per barrel, respectively, in 3Q23. Royalty payments reduced 9.5% YOY to USD 19 Mn in 3Q24 whereas operating costs fell 9.1% to USD 30 Mn, contributing to a gross profit of USD 47 Mn, albeit lower by 6.0% YOY in 3Q24. Furthermore, Dana's G&A expenses remained unchanged at USD 3 Mn in 3Q24 compared to 3Q23, while investment and finance income increased 50.0% YOY to USD 3 Mn in 3Q24. Moreover, impairments stood flat at USD 1 Mn in 3Q24. The Company's EBITDA decreased 16.9% YOY to USD 59 Mn in 3Q24 with a 681 bps YOY decline in EBITDA margin to 61.5%. Dana's operating profit decreased 16.4% YOY to USD 46 Mn in 3Q24. The Company successfully reduced finance cost by 57.1% YOY to USD 3 Mn in 3Q24. Additionally, income tax expense declined 40.0% YOY to USD 3 Mn in 3Q24.

Stock Information

Market Cap (AED, mn)	4,924.74
Paid Up Capital (mn)	1,904.57
52 Week High	0.81
52 Week Low	0.60
3M Avg. daily value (AED)	4,647,326

3Q24 Result Review (USD, mn)

Total Assets	2,792
Total Liabilities	309
Total Equity	2,483
EBITDA	59
Net Profit	40

Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	9.18
Price-to-Book Ratio (x)	0.54
Book Value (USD)	0.35
Return-on Equity (%)	6.06

Stock Performance

5 Days	3.53%
1 Months	11.75%
3 Months	1.73%
6 Months	7.48%
1 Year	-9.74%
Month to Date (MTD%)	4.30%
Quarter to Date (QTD%)	10.00%
Year to Date (YTD%)	-11.11%

Balance Sheet Highlights

The Company's cash and bank balance increased from USD 140 Mn in 2Q24 to USD 151 Mn in 3Q24, out of which USD 118 Mn is allocated to Pearl Petroleum. Dana successfully collected USD 238 Mn in 9M24, which includes a significant contribution of USD 202 Mn from Egypt and USD 36 Mn from the KRI region. The Company incurred a capex of USD 43 Mn in 9M24 compared to USD 110 Mn in 9M23. Furthermore, total borrowings declined to USD 144 Mn in 3Q24 compared to USD 182 Mn in 2Q24 due to the repayment of USD 70 Mn facility.

Target Price and Rating

We continue to uphold our BUY rating on Dana Gas while maintaining our target price at AED 0.95. In 3Q24, Dana's revenue moderated 7.7% YOY to USD 96 Mn, primarily attributed to a decrease in production from Egypt. The Company's average production stood at 55,300 boepd in 3Q24 compared to 59,600 boepd in 3Q23. On a positive note, Dana successfully increased its production in the KRI region by 3% YOY to 38,200 boepd, driven by the growing demand for gas to support power plants. This achievement highlights the Company's commitment to maximize the potential of its existing hydrocarbon assets. On the other hand, the Company witnessed a 24% YOY decline in Egypt's production to 17,100 boepd. In relation to the KM250 project in KRI, Pearl Petroleum Company Limited issued a notice of termination under the EPC contract with Enerflex, effective September 9, 2024, due to performance issues arising during the execution of EPC works. This strategic move allows Pearl to gain direct oversight of the remaining phases of the KM250 project, positioning it for timely completion by 2Q26. Furthermore, the Company plans to assess the resumption of dividend payments in March 2025 owing to a decline in the corporate debt which reflects an improved financial position. Given these developments, we remain optimistic and maintain our BUY rating on the stock.

Dana Gas - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	8.7	NM	4.2	7.3	8.3	9.1
PB	0.5	0.6	0.6	0.6	0.6	0.5
EV/EBITDA	4.0	9.5	5.0	4.2	5.7	5.7
Dividend yield	7.9%	7.9%	11.4%	12.9%	0.0%	0.0%

FABS Estimates & Co Data

Dana Gas – P&L

USD mn	3Q23	2Q24	3Q24	3Q24F	Var.	YOY	QOQ	2023	2024F	Change
Revenue	104	93	96	92	4.8%	-7.7%	3.2%	423	381	-9.9%
Royalties	-21	-20	-19	-19	-1.3%	-9.5%	-5.0%	-109	-77	-29.4%
Net Revenue	83	73	77	72	6.4%	-7.2%	5.5%	314	304	-3.1%
Operating Costs & depletion	-33	-26	-30	-33	-8.1%	-9.1%	15.4%	-124	-120	-3.0%
Gross Profit	50	47	47	40	18.3%	-6.0%	0.0%	190	184	-3.2%
G&A expenses	-3	-3	-3	-3	16.9%	0.0%	0.0%	-11	-12	10.9%
Investment & finance inc.	2	2	3	2	50.0%	50.0%	50.0%	10	11	6.7%
Other Expenses	0	-4	-1	0	NM	NM	NM	0	-6	NM
Impairment of fin. assets	0	-1	-1	0	NM	NM	NM	-3	-3	NM
Change in FV of inv prop	0	0	0	0	NM	NM	NM	1	0	NM
Other Income	6	0	1	1	-6.7%	-83.3%	NM	8	1	-88.1%
Operating Profit	55	40	46	40	14.3%	-16.4%	15.0%	194	174	-10.5%
EBITDA	71	54	59	57	4.2%	-16.9%	9.3%	257	232	-9.5%
Finance costs	-7	-3	-3	-3	-0.3%	-57.1%	0.0%	-18	-13	-27.7%
Profit Before Tax	48	37	43	37	15.5%	-10.4%	16.2%	176	161	-8.8%
Income tax expense	-5	-3	-3	-4	-23.3%	-40.0%	0.0%	-16	-14	-9.7%
Profit After Tax	43	34	40	33	20.0%	-7.0%	17.6%	160	146	-8.7%
NCI	0	0	0	0	NM	NM	NM	0	0	NM
Net Profit	43	34	40	33	20.0%	-7.0%	17.6%	160	146	-8.7%

FABS estimate & Co Data

Dana Gas - Margins

	3Q23	2Q24	3Q24	YOY	QOQ	2023	2024F	Change
Gross margin	48.1%	50.5%	49.0%	88	-158	44.9%	48.3%	334
Operating margin	52.9%	43.0%	47.9%	-497	491	45.9%	45.6%	-31
EBITDA margin	68.3%	58.1%	61.5%	-681	339	60.8%	61.0%	24
Net profit margin	41.3%	36.6%	41.7%	32	511	37.8%	38.3%	52

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	0.98	70.0%	0.68
Relative Valuation (RV)	0.90	30.0%	0.27
Weighted Average Valuation (AED)			0.95
Current market price (AED)			0.70
Upside/Downside (%)			+36%

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 11.4%. It is arrived after using the cost of equity of 11.8% and the interest-adjusted cost of debt of 7.8%. The cost of equity is calculated by using a 10-year government bond yield of 5.0%, beta of 0.90, and equity risk premium of 7.5%. We assumed a higher equity risk premium of 7.5% 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)	521
Terminal value (USD, Mn)	1,345
FV to Common shareholders (USD, Mn)	1,859
No. of share (Mn)	6,995
Current Market Price (AED)	0.70
Fair Value per share (AED)	0.98

DCF Method

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	159	183	202	211	220
D&A	66	72	77	80	83
(-) Capex	-76	-118	-130	-123	-129
(-/+) Change in Working Capital	16	-4	8	23	18
Free Cash Flow to Firm (FCFF)	166	133	156	191	192
Discounting Factor	0.99	0.89	0.80	0.71	0.64
Discounted FCFF	20¹	118	124	136	124

Source: FAB Securities,¹Adjusted for partial year

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 7.4x in line with its peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Saudi Arabian Oil Company	1,804,049	7.8	7.8	16.7	16.6
Kimbell Royalty Partners	1,323	7.4	7.2	27.3	17.4
Chevron	290,769	7.0	6.6	15.4	14.1
Santos Ltd	14,119	5.2	5.0	10.8	10.9
Transportadora	4,727	7.9	6.6	13.1	NA
Average		7.1x	6.6x	16.7x	14.8x
Median		7.4x	6.6x	15.4x	15.4x
Max		7.8x	7.2x	16.7x	16.8x
Min		7.0x	6.6x	13.1x	13.3x

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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