

Dana Gas PJSC

Lower hydrocarbon prices and production impacted profitability

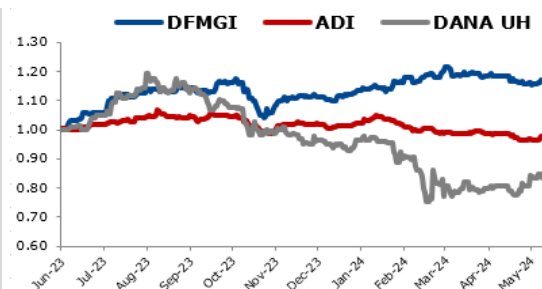
Current Price
AED 0.665

Target Price
AED 0.95

Upside/Downside (%)
+43%

Rating
BUY

- DANA's production averaged 56,750 boepd in 1Q24 compared to 62,900 boepd in 1Q23, owing to lower production in Egypt.
- DANA's Balance Sheet strengthened with an improvement in cash position while total borrowings declined to USD 232 Mn in 1Q24 compared to USD 252 Mn in 4Q23.
- Revenue declined 20.5% YOY to USD 97 Mn in 1Q24 mainly driven by a drop in realized prices and production in Egypt.
- DANA's capex stood at USD 17 Mn in 1Q24 compared to USD 40 Mn in 1Q23 owing to limited capex in Egypt.



Stock Information

Market Cap (AED, mn)	4,651.92
Paid Up Capital (mn)	1,904.54
52 Week High	1.00
52 Week Low	0.60
3M Avg. daily value (AED)	15,555,260

1Q24 Net Profit lower than our estimate

Dana Gas PJSC ("DANA"/The Company") net profit declined 24.0% YOY to USD 38 Mn in 1Q24, lower than our estimate of USD 47 Mn. The decline in net profit is mainly attributable to a fall in revenue due to lower realized hydrocarbon prices owing to a 25% and 10% drop in Condensate and LPG realized prices, respectively and an increase in operating cost partially offset by a decline in royalties.

1Q24 Result Review (USD, mn)

Total Assets	2,803
Total Liabilities	394
Total Equity	2,409
EBITDA	61
Net Profit	38

P&L Highlights

Dana Gas' revenue declined 20.5% YOY to USD 97 Mn in 1Q24 mainly driven by a drop in realized prices and lower production in Egypt due to the depletion of natural field and lack of investments. The Company's average production declined from 62,900 boepd (barrels of oil per day) in 1Q23 to 56,750 boepd in 1Q24. KRI's production remained flat at 38,600 boepd, whereas Egypt's production declined 25% YOY to 187,150 boepd during 1Q24 due to a decline in the natural field. The average realized prices of condensate declined from USD 59 per barrel in 1Q23 to USD 44 per barrel in 1Q24. Similarly, the average LPG realized price declined from USD 39 per barrel in 1Q23 to USD 35 per barrel in 1Q24. The Company's royalty declined 45.5% YOY to USD 18 Mn in 1Q24. On the other hand, operating costs grew 6.7% YOY to USD 32 Mn in 1Q24 due to increased security, maintenance, and staff costs. Thus, gross profit declined 20.3% YOY to USD 47 Mn in 1Q24. DANA's G&A expenses remained unchanged at USD 3 Mn while investment and finance income increased 50.0% YOY to USD 3 Mn. Impairments on financial assets remained stable at USD 1 Mn in 1Q24. EBITDA declined 17.6% YOY to USD 61 Mn in 1Q24 with 223 bps YOY increase in EBITDA margin to 62.9% in 1Q24. Thus, operating profit declined 19.3% YOY to USD 46 Mn in 1Q24. Finance costs increased from USD 2 Mn in 1Q23 to USD 4 Mn in 1Q24, while income tax expense declined 20.0% YOY to USD 4 Mn.

Financial Ratios

Dividend Yield (12m)	6.77
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	8.44
Price-to-Book Ratio (x)	0.53
Book Value (AED)	0.34
Return-on Equity (%)	6.22

Stock Performance

5 Days	-4.18%
1 Months	2.78%
3 Months	7.61%
6 Months	-17.49%
1 Year	-18.50%
Month to Date (MTD%)	-3.62%
Quarter to Date (QTD%)	1.68%
Year to Date (YTD%)	-16.04%

Balance Sheet Highlights

The Company's cash and bank balance stood at USD 140 Mn in 1Q24 with USD 116 Mn held at Pearl Petroleum. During the year, DANA collected a total of USD 76 Mn in 1Q24 of which Egypt contributed USD 9 Mn and USD 67 Mn from the KRI region. The Company's capex stood at USD 17 Mn in 1Q24 compared to USD 40 Mn in 1Q23, which was attributed to the limited capex in Egypt until the completion of concession consolidation. DANA's balance sheet strengthened with an improvement in cash position while total borrowings declined to USD 232 Mn in 1Q24 compared to USD 252 Mn in 4Q23.

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 20.5% YOY to USD 97 Mn in 1Q24 mainly driven by a drop in realized prices and a lower rate of production in Egypt. The Company's average production stood at 56,750 boepd in 1Q24. DANA Gas identified exploration opportunities within its current onshore acreage as well as in adjacent open acreage and negotiated new terms with EGAS as these opportunities are under current concession terms. The agreement includes better economic terms and a direct grant of 296 km² of exploration acreage. This will enable a late life development program that consists of drilling 3 exploration wells inside the newly secured acreage and 8 infield exploration/development wells. Pearl Petroleum continued to make significant progress in the KM 250 Expansion project with the completion of the drilling of six KM 250 Project wells. However, the drone attack on a condensate storage tank in Khor Mor on 26th April led to a temporary suspension of operations. Pearl Petroleum resumed its production in the Khor More field on 1 May 2024 after concrete actions from the govt. of Iraq and Kurdistan regional government. The expansion project will boost KRI's gross gas production capacity of KRI to 750 MMscf/d, which will contribute a minimum revenue of USD 150 Mn annually. The Company received USD 15 Mn dividend from Pearl Petroleum in 1Q24 as Pearl resumed dividend payments to its shareholders, including Dana Gas. On the other hand, DANA Gas aims to resume dividend payments after the improvement of its liquidity position. New payment mechanism agreed with direct payments from power stations led to 122% collection realization in Q1 2024. Despite the continued uncertainty in the global economy amid increased geopolitical tensions, hydrocarbon prices are likely to stay higher in FY2024. Thus, based on the above-mentioned factors, we maintain our BUY rating on the stock.

Dana Gas - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	8.5	NM	4.2	7.2	8.2	8.7
PB	0.5	0.6	0.6	0.6	0.6	0.5
EV/EBITDA	4.0	9.4	4.9	4.2	5.6	5.9
Dividend yield	8.0%	8.0%	11.6%	13.0%	0.0%	0.0%

FABS Estimates & Co Data

Dana Gas – P&L

USD mn	1Q23	4Q23	1Q24	1Q24F	Var.	YOY	QOQ	2023	2024F	Change
Revenue	122	97	97	114	-14.7%	-20.5%	0.0%	423	406	-4.0%
Royalties	-33	-26	-18	-30	-39.1%	-45.5%	-30.8%	-109	-106	-3.1%
Net Revenue	89	71	79	84	-6.1%	-11.2%	11.3%	314	301	-4.3%
Operating Costs & depletion	-30	-34	-32	-34	-5.9%	6.7%	-5.9%	-124	-123	-1.2%
Gross Profit	59	37	47	50	-6.3%	-20.3%	27.0%	190	178	-6.3%
G&A expenses	-3	-2	-3	-3	5.5%	0.0%	50.0%	-11	-11	-0.3%
Investment & finance inc.	2	3	3	2	31.9%	50.0%	0.0%	10	8	-18.8%
Other Expenses	0	1	0	-1	NM	NM	NM	0	-2	NM
Impairment of fin. assets	-1	-1	-1	0	NM	0.0%	0.0%	-3	0	NM
Change in FV of inv prop	0	1	0	0	NM	NM	NM	1	0	NM
Other Income	0	2	0	2	NM	NM	NM	8	8	1.6%
Operating Profit	57	41	46	51	-10.3%	-19.3%	12.2%	194	181	-6.5%
EBITDA	74	56	61	65	-5.6%	-17.6%	8.9%	257	236	-8.0%
Finance costs	-2	-5	-4	0	NM	NM	-20.0%	-18	-15	-16.0%
Profit Before Tax	55	36	42	51	-18.1%	-23.6%	16.7%	176	166	-5.6%
Income tax expense	-5	-2	-4	-5	-13.4%	-20.0%	NM	-16	-15	-6.5%
Profit After Tax	50	34	38	47	-18.6%	-24.0%	11.8%	160	151	-5.5%
NCI	0	0	0	0	NM	NM	NM	0	0	NM
Net Profit	50	34	38	47	-18.6%	-24.0%	11.8%	160	151	-5.5%

FABS estimate & Co Data

Dana Gas - Margins

	1Q23	4Q23	1Q24	YOY	QOQ	2023	2024F	Change
Gross margin	48.4%	38.1%	48.5%	9	1,031	44.9%	43.8%	-108
EBITDA margin	46.7%	42.3%	47.4%	70	515	45.9%	44.6%	-123
Operating margin	60.7%	57.7%	62.9%	223	515	60.8%	58.2%	-255
Net profit margin	41.0%	35.1%	39.2%	-181	412	37.8%	37.2%	-60

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	1.06	70.0%	0.74
Relative Valuation (RV)	0.71	30.0%	0.21
Weighted Average Valuation (AED)			0.95
Current market price (AED)			0.665
Upside/Downside (%)			+43%

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 11.3% 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 5.3%, beta of 0.90, and equity risk premium of 6.7%. We assumed a higher equity risk premium of 6.7% 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)	600
Terminal value (USD, Mn)	1,509
FV to Common shareholders (USD, Mn)	2,017
No. of share (Mn)	6,995
Current Market Price (AED)	0.665
Fair Value per share (AED)	1.06

DCF Method

(All Figures in USD Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	166	219	229	235	237
D&A	71	78	82	86	89
Change in working capital	-122	-139	-149	-139	-143
(-) Capex	-3	-14	16	28	26
Free Cash Flow to Firm (FCFF)	72	144	178	210	209
Discounting Factor	0.94	0.85	0.76	0.69	0.62
Discounted FCFF	67	122	136	145	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 2024 EV/EBITDA multiple of 6.1x in line with its peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Saudi Arabian Oil Company	1,934,000	7.6	7.5	16.1	15.9
Kimbell Royalty Partners	1,170	6.3	5.3	22.7	14.6
Chevron	306,000	6.1	5.1	12.9	11.4
Santos Ltd	16,810	5.4	5.2	12.3	11.9
Transportadora	3,420	5.9	4.8	NA	NA
Average		6.3x	5.6x	16.0x	13.5x
Median		6.1x	5.2x	14.5x	13.3x
Max		6.3x	5.3x	17.8x	14.9x
Min		5.9x	5.1x	12.8x	11.8x

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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