

13 June 2011

Dana Gas

Receivables up, capex down

Buy

Target price
Dh0.94 (from Dh0.90)

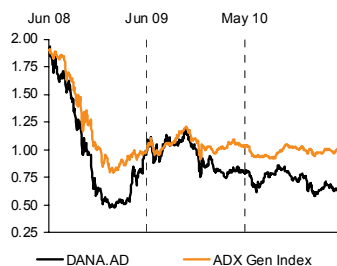
Price
Dh0.63

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (Dh)	0.68	0.58	0.67
Absolute (%)	-7.4	8.6	-6.0
Rel market (%)	-8.3	4.7	-12.2
Rel sector (%)	-7.4	8.6	-6.0



Market capitalisation
Dh4.16bn (€776.11m)

Average (12M) daily turnover
Dh12.55m (US\$3.43m)

Sector: European-DS Tot Mrkt
RIC: DANA.AD, DANA.UH
Priced Dh0.63 at close 6 Jun 2011.
Source: Bloomberg

Analysts

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A temporary spike in receivables in Egypt has forced Dana Gas to delay capex plans, a net positive, in our view. We maintain our Buy recommendation as we continue to see upside from probable catalysts.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (Dhm)	873.5	1,285	2,122	1,908	1,919
EBITDA (Dhm)	216.5	994.6	1,653	1,378 ▼	1,387
Reported net profit (Dhm)	88.10	157.8	563.8	299.7 ▼	87.80
Normalised net profit (Dhm)	513.8	176.2	563.8	299.7 ▼	87.80
Normalised EPS (Dh)	0.09	0.03	0.09	0.05	0.01
Dividend per share (Dh)	n/a	n/a	n/a	n/a	n/a
Dividend yield (%)	n/a	n/a	n/a	n/a	n/a
Normalised PE (x)	7.36	23.60	7.38	13.90	47.30
EV/EBITDA (x)	30.40	6.90	4.34	4.50	4.01
EV/invested capital (x)	0.65	0.64	0.60	0.55	0.52
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00

Use of ▲ ▼ indicates that the line item has changed by at least 5%.
Accounting standard: IFRS
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

Strong 1Q11 held back by temporary delay in hydrocarbon payments in Egypt

Dana Gas reported that hydrocarbon payments in Egypt suffered a temporary setback in 1Q11 due to the political situation in the country. Receivables in Egypt increased to US\$148m (Dh543m) in 1Q11, from US\$98m (Dh360m) in 4Q10. We believe this is a timing issue related to Egypt's political situation, rather than a change in the terms of the agreement. We believe this setback is temporary as Dana Gas reported in April 2011 that it had collected US\$20m (Dh73m) from the sale of hydrocarbons.

Aggressive Egypt capex put on hold; new capex forecasts

In line with recent Dana Gas management comments, we forecast the company will delay its 2011 Salma Plant expansion plans, effectively cutting its capex for 2011 by more than half. A positive outcome of the payments delay in Egypt is that it has instilled capex discipline on the company. As we highlighted in our initiation note, if capex plans had not been delayed, the company would likely be in a negative cash position by end-2011, assuming continued non-payment for hydrocarbon sales in Kurdistan. We believe this has forced the company to put a more realistic plan in place as the November 2012 maturity of its Sukuk bonds approaches.

Revised production forecasts

Following recent announcements by the company, we have raised our production forecasts. We assume production in Egypt will rise to about 65,000bpd by 3Q13, from 47,300bpd in 1Q11. In Kurdistan, we now forecast incremental production of 10,000bpd will be brought onstream in 4Q11, rather than in 3Q11.

Valuation update

We increase our target price to Dh0.94ps from Dh0.90s. Although our predicted 2011 EPS decreased from Dh0.087ps to Dh0.085ps, our valuation has increased due to our higher oil price estimates in 2011 and an increase in the value of Dana Gas's investment in MOL Hungarian Oil and Gas.

Important disclosures can be found in the Disclosures Appendix.

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New forecasts

New capex estimates

In line with recent comments by Dana Gas management, we expect the company to delay its capex for 2011 by more than half, leading us to revise our Egypt capex forecasts for 2011. We previously forecast the company would spend about US\$200m (Dh734m) on capex. Now we see it spending close to US\$81m (Dh297m), pushing most of the Salma Plant capex into 2012 and 2013.

Also, we have adjusted our capex plans for the UAE Sharjah Gas Project. We previously expected the company to spend US\$90m (Dh330m) in 2011, US\$40m (Dh147m) in 1H12 and that the plant would be operational by 2H12. We now forecast capex of US\$65m (Dh239m) in each of 2011 and 2012, with production to begin in 2013.

We have previously said that for Dana Gas to execute its 2011 plan, the company may have to lean toward a partial sale of its stake in the publicly listed MOL, reserve-based lending, or simply cut back on capex. As a result of the revised capex strategy, we no longer forecast the company will draw on finance in 2011. We believe it will have about US\$83m (Dh305m) in cash by end-2011.

New production estimates

The new capex plans and delays in production forecasts lead us to revise our production estimates as follows:

Egypt: We assume production will increase from 47,300bpd in 1Q11 to 49,800bpd in 4Q11. With the extended delay in capex plans, we assume production will increase to about 65,000bpd by 3Q13, when we expect the new Salma Plant to become fully operational.

Kurdistan: While we earlier predicted the second LPG train and incremental production of 10,000bpd would be brought onstream in 3Q11, we now expect this to be achieved in 4Q11 due to lower-than-expected power demand.

Elevated energy prices

Considering the sooner-than-expected recovery in oil markets, we have raised our 2011 oil price estimate from US\$85/bbl to US\$100/bbl for 2011. We keep our long-term oil price estimate at US\$90/bbl to remain conservative.

New EPS estimates

Our new 2011 EPS forecast is 1.8% lower than our previous 2011 forecast due to a delay in the second LPG train in Kurdistan being brought online. With the operations of the Salma Plant now scheduled by the company to come online in 3Q13 rather than in 4Q12, our new EPS forecast falls further, by 28.3% in 2012 and 58.5% in 2013.

Table 1 : New estimates

	2011 old (Dhm)	2011 new (Dhm)	Change (%)	2012 old (Dhm)	2012 new (Dhm)	Change (%)	2013 old (Dhm)	2013 new (Dhm)	Change (%)
Net revenue	2,096	2,122	1.2%	2,565	1,908	-25.6%	2,245	1,919	-14.5%
EBITDAX	1,690	1,745	3.2%	1,970	1,470	-25.4%	1,651	1,387	-15.9%
EBITDA	1,598	1,653	3.4%	1,879	1,378	-26.6%	1,651	1,387	-15.9%
Net income	574	564	-1.8%	418	300	-28.3%	212	88	-58.5%
EPS (Dh)	0.087	0.085	-1.8%	0.063	0.045	-28.3%	0.032	0.013	-58.5%

Source: Rasmala forecasts

Valuation

Our new valuation yields a fair value of Dh0.94 per share, 49% higher than the current price (Table 2). At Dh0.63 per share now, the stock is trading at 2011F EV/EBITDA of 4.4x and 2011F PE of 7.5x. Our valuation implies 2011 EV/EBITDA of 5.5x and PE of 11.0x.

Table 2 : Sum-of-the-parts valuation

(Dh m)	Value	Per share (Dh)	% of asset value	Valuation methodology
Dana Gas Egypt	3,726	0.56	60%	DCF
Kurdistan	4,352	0.66	70%	Implied value
Gulf of Suez	773	0.12	12%	DCF
UAE Sharjah	343	0.05	6%	DCF
Corporate expenses	-1,539	-0.23	-25%	DCF
Investments	1,485	0.23	24%	Market value
Total EV	9,140	1.38	147%	
Net debt	-2,907	-0.44	-47%	Net debt as of 31/03/2011
Total equity value	6,233	0.94	100%	
Shares outstanding	6,600			
Equity value per share	0.94			
Current price	0.63			
Upside/downside	49.2%			
Recommendation	Buy			

Source: Rasmala forecasts

Income statement

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	873.5	1285	2122	1908	1919
Cost of sales	-121.1	-121.1	-189.7	-225.4	-274.6
Operating costs	-535.8	-168.8	-279.2	-303.9	-256.9
EBITDA	216.5	994.6	1653	1378	1387
DDA & Impairment (ex gw)	-741.3	-400.0	-477.3	-507.3	-628.0
EBITA	-524.8	594.5	1176	871.1	759.4
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
EBIT	-524.8	594.5	1176	871.1	759.4
Net interest	-201.9	-205.5	-251.4	-215.6	-215.6
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	990.9	33.0	7.34	0.00	0.00
Reported PTP	264.2	422.0	931.7	655.5	543.8
Taxation	-176.2	-264.2	-367.9	-355.7	-456.0
Minority interests	0.00	0.00	0.00	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	88.1	157.8	563.8	299.7	87.8
Tot normalised items	-425.7	-18.4	0.00	0.00	0.00
Normalised EBITDA	216.5	994.6	1653	1378	1387
Normalised PTP	690.0	440.4	931.7	655.5	543.8
Normalised net profit	513.8	176.2	563.8	299.7	87.8

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	781.7	583.5	303.9	1270	1915
Other current assets	939.5	1163	2275	1286	1244
Tangible fixed assets	3453	3835	3996	4468	4141
Intang assets (incl gw)	5061	4973	4866	4775	4775
Oth non-curr assets	1182	1292	1618	1618	1618
Total assets	11417	11847	13059	13417	13693
Short term debt (2)	0.00	0.00	0.00	0.00	0.00
Trade & oth current liab	466.1	513.8	806.4	864.6	1053
Long term debt (3)	3197	3292	3318	3318	3318
Oth non-current liab	51.4	62.4	62.4	62.4	62.4
Total liabilities	3714	3868	4187	4245	4433
Total equity (incl min)	7703	7979	8873	9172	9260
Total liab & sh equity	11417	11847	13059	13417	13693
Net debt	2415	2708	3014	2048	1403

Source: Company data, Rasmala forecasts

year ended Dec

Cash flow statement

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	216.5	994.6	1653	1378	1387
Change in working capital	-84.4	-304.6	-818.9	1047	230.4
Net interest (pd) / rec	201.9	205.5	251.4	215.6	215.6
Taxes paid	-176.2	-264.2	-367.9	-355.7	-456.0
Other oper cash items	242.2	-150.5	-155.9	-123.9	-215.7
Cash flow from ops (1)	400.0	480.8	561.7	2161	1162
Capex (2)	-554.2	-491.8	-601.0	-979.9	-300.9
Disposals/(acquisitions)	407.4	3.67	-22.0	0.00	0.00
Other investing cash flow	33.0	25.7	3.67	0.00	0.00
Cash flow from invest (3)	-113.8	-462.4	-619.3	-979.9	-300.9
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	-249.6	-253.2	-236.7	-215.6	-215.6
Ordinary dividend paid	0.00	0.00	0.00	0.00	0.00
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	-36.7	36.7	14.7	0.00	0.00
Cash flow from fin (5)	-286.3	-216.5	-222.0	-215.6	-215.6
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
Incr/(decr) cash (1+3+5+6)	0.00	-198.2	-279.6	965.8	645.3
Equity FCF (1+2+4)	-154.1	-11.0	-39.2	1181	860.9

Source: Company data, Rasmala forecasts

year to Dec

Standard ratios	Dana Gas					BP			Royal Dutch Shell		
	FY09A	FY10A	FY11F	FY12F	FY13F	FY11F	FY12F	FY13F	FY11F	FY12F	FY13F
Performance											
Sales growth (%)	31.5	47.1	65.2	-10.1	0.59	39.2	-11.0	-3.81	34.0	-11.8	-4.76
EBITDA growth (%)	-52.8	359.3	66.2	-16.6	0.66	55.5	-5.70	-0.32	48.2	-4.86	-1.85
EBIT growth (%)	n/a	n/a	91.8	-25.9	-12.8	87.5	-10.1	-3.65	85.8	-9.82	-5.78
Normalised EPS growth (%)	677.8	-68.8	220.0	-46.8	-70.7	17.8	-9.45	-4.00	48.4	-5.88	-5.16
EBITDA margin (%)	24.8	77.4	77.9	72.3	72.3	10.7	11.3	11.7	12.0	12.9	13.3
EBIT margin (%)	-11.3	47.7	55.4	45.7	39.6	8.25	8.34	8.36	9.12	9.33	9.23
Net profit margin (%)	58.8	13.7	26.6	15.7	4.58	5.33	5.42	5.41	5.45	5.81	5.79
Return on avg assets (%)	0.00	3.34	6.55	3.89	2.24	9.12	7.96	7.38	8.20	7.37	6.78
Return on avg equity (%)	0.00	2.25	6.70	3.33	0.95	22.7	17.4	14.8	17.2	14.8	13.0
ROIC (%)	-1.03	6.06	11.0	7.33	6.77	26.5	21.6	18.4	22.5	19.4	17.6
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00	18.6	13.6	10.4	14.6	11.5	9.73
				year to Dec			year to Dec			year to Dec	
Valuation											
EV/sales (x)	7.53	5.35	3.38	3.25	2.90	0.35	0.40	0.42	0.52	0.58	0.60
EV/EBITDA (x)	30.4	6.90	4.34	4.50	4.01	3.24	3.54	3.57	4.37	4.47	4.52
EV/EBITDA @ tgt price (x)	39.8	8.96	5.58	5.99	5.48	4.08	4.43	4.47	4.98	5.11	5.17
EV/EBIT (x)	n/m	11.2	6.10	7.12	7.32	4.18	4.80	5.01	5.73	6.19	6.52
EV/invested capital (x)	0.65	0.64	0.60	0.55	0.52	1.00	0.91	0.84	1.23	1.16	1.09
Price/book value (x)	0.49	0.52	0.47	0.45	0.45	1.14	1.01	0.90	1.29	1.19	1.11
Equity FCF yield (%)	-4.08	-0.26	-0.94	28.4	20.7	7.74	6.42	5.37	6.81	7.03	6.35
Normalised PE (x)	7.36	23.6	7.38	13.9	47.3	5.58	6.16	6.42	7.86	8.35	8.80
Norm PE @ tgt price (x)	11.0	35.2	11.0	20.7	70.6	7.25	8.01	8.34	9.17	9.74	10.3
Dividend yield (%)	n/a	n/a	n/a	n/a	n/a	3.90	3.98	4.06	4.96	5.23	5.23
				year to Dec			year to Dec			year to Dec	
Per share data	FY09A	FY10A	FY11F	FY12F	FY13F	Solvency	FY09A	FY10A	FY11F	FY12F	FY13F
Tot adj dil sh, ave (m)	6000	6600	6600	6600	6600	Net debt to equity (%)	31.3	33.9	34.0	22.3	15.1
Reported EPS (AED)	0.01	0.02	0.09	0.05	0.01	Net debt to tot ass (%)	21.2	22.9	23.1	15.3	10.2
Normalised EPS (AED)	0.09	0.03	0.09	0.05	0.01	Net debt to EBITDA	11.2	2.72	1.82	1.49	1.01
Dividend per share (AED)	n/a	n/a	n/a	n/a	n/a	Current ratio (x)	3.69	3.40	3.20	2.96	3.00
Equity FCF per share (AED)	-0.03	0.00	-0.01	0.18	0.13	Operating CF int cov (x)	-1.85	-2.63	-2.70	-10.7	-6.50
Book value per sh (AED)	1.28	1.21	1.34	1.39	1.40	Dividend cover (x)	0.00	0.00	0.00	0.00	0.00
				year to Dec						year to Dec	

Priced as follows: DANA.AD - Dh0.63; BP.L - £4.51; RDSa.L - £21.38
Source: Company data, Rasmala forecasts

Valuation methodology

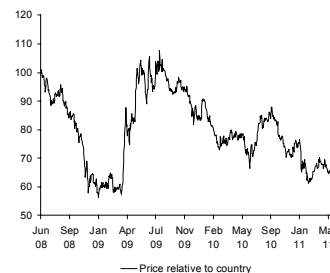
We value Dana Gas using a sum-of-the-parts methodology implying a fair value of Dh0.94/share. The main risks include continuing non-payment in Iraq, delays in starting new projects and declining energy prices.

Source: Rasmala forecasts

Company description

Buy Price relative to country

Dana Gas PJSC is a UAE-based public joint stock company involved in the exploration, production, ownership, transportation, processing, distribution, marketing, and sale of natural gas and petroleum-related products, as well as the development of gas-related projects and services. The Company has four wholly-owned subsidiaries, including Dana Gas LNG Ventures, which is a British Virgin Islands-based company engaged in oil and gas exploration and production; Dana Gas Egypt (previously Centurion), which is a Canada-based oil and gas exploration and production company. Sajaa Gas Private Limited Company (Sajgas) and United Gas Transmissions Company Limited (UGTC) are United Arab Emirates-based subsidiaries engaged in gas sweetening and transportation. Its operations span throughout the Arabian Gulf, the Middle East, North Africa and South Asia.



Strategic analysis

Average SWOT company score: 4

Revenue breakdown, 2011F

Strengths 4

Dana Gas is well positioned to benefit from increasing investments into MENA, thanks to its presence in the entire gas value chain and the increasing importance of natural gas in the region.

Weaknesses 3

Dana Gas sells by-products from its Egypt and Iraq projects at prices indexed to crude oil. The price volatility of such commodities could have a negative effect on the expected results of operations.

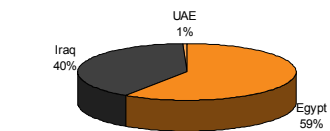
Opportunities 5

Iraq projects show strong growth potential, with the possibility of supplying natural gas to the European region through the Nabucco pipeline. Dana Gas is also involved in an E&P project in Egypt, where it has access to proven and probable reserves of about 116.9m boe.

Threats 3

Security in Iraq remains unstable and KRG-Baghdad differences could potentially hurt Dana Gas' future energy projects in Iraq. Iran does not have a healthy relationship with the international community, which could result in sanctions that prohibit international firms from doing business with Iran.

Scoring range is 1-5 (high score is good)



Source: Rasmala forecasts

Market data

Headquarters
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Website
<http://www.danagas.ae>

Shares in issue
6600.0m

Freefloat
35%

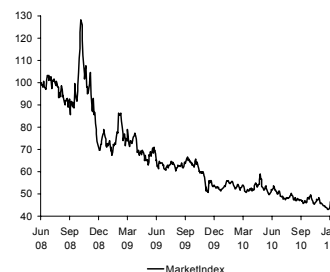
Majority shareholders
Crescent Petroleum Company (20%), Arabian Oud Company (3%)

Country view: United Arab Emirates

Country rel to M East & Africa

MENA markets are showing characteristics of a text book case of loss aversion. This is expected given the magnitude of losses investors experienced since 2008, with 2009 lagging emerging markets by a fairly wide margin. Rising oil prices and budget surpluses drove asset prices across the region higher resulting in a real-estate bubble that has negatively impacted speculators and the banking system. Bubbles do pop and recover over time if there is a legal system in place that enables the transfer of assets. The bad news is such a mechanism did not exist. The good news is that with the creation or RERA and the possibility of Strata Law, this could change and facilitate the transfer of properties from speculators to real investors.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Competitive position

Average competitive score: 4+

Broker recommendations

Supplier power 4+

High. Countries that hold energy reserves have a lot of leverage while negotiating exploration contracts with different companies, since they hold the land where valuable reserves lie.

Barriers to entry 4+

High. Due to high costs of exploration and considerable capex amounts needed when extracting gas and associated products from the land.

Customer power 4+

Low. Energy sources, gas specifically, are some of the highest demand items in the market today. With few suppliers available in certain regions, customers have to accept the terms of suppliers.

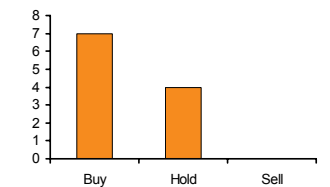
Substitute products 4+

Low. Although there are other alternative sources of energy, they are not as cheap or abundant as natural gas, making it one of the most efficient energy sources.

Rivalry 4-

Low. Once a company is granted an exploration contract or deal, it is very hard for its peers to participate in exploration and extraction activities in the same area.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Valuation and risks to target price

Dana Gas (RIC: DANA.AD, Rec: Buy, CP: Dh0.63, TP: Dh0.94): We value Dana Gas using a sum-of-the-parts methodology implying a fair value of Dh0.94/share. The main risks include continuing non-payment in Iraq, delays in the planned start dates of new projects and declining energy prices.

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