

17 November 2011

Dana Gas

Bond takes gas out of Dana

Buy

Target price
Dh0.81 (from Dh0.94)

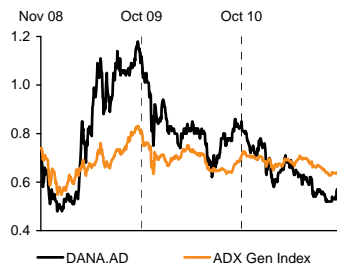
Price
Dh0.56

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (Dh)	0.52	0.55	0.76
Absolute (%)	7.7	1.8	-26.3
Rel market (%)	7.8	6.4	-17.9
Rel sector (%)	n/a	n/a	n/a



Market capitalisation
Dh3.70bn (€744.65m)

Average (12M) daily turnover
Dh9.10m (US\$2.52m)

Sector: European-DS Tot Mrkt
RIC: DANA.AD, DANA.UH
Priced Dh0.56 at close 16 Nov 2011.
Source: Bloomberg

Analysts

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The bond-payment date is rapidly approaching with no clear guidance yet. We reduce our target price due to heightened risk, a receivables problem in Egypt and a decrease in the value of the MOL investment. We maintain a Buy.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (Dhm)	873.5	1,285	2,036	1,608	1,443
EBITDA (Dhm)	216.5	994.6	1,659	1,192 ▼	991.5 ▼
Reported net profit (Dhm)	88.10	157.8	615.1 ▲	124.0 ▼	-134 ▼
Normalised net profit (Dhm)	513.8	176.2	615.1 ▲	124.0 ▼	-134 ▼
Normalised EPS (Dh)	0.09	0.03	0.09	0.02	-0.02
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)	6.54	21.00	6.01	29.80	-27.5
EV/EBITDA (x)	28.20	6.44	3.96	5.49	6.01
EV/invested capital (x)	0.60	0.60	0.59	0.58	0.57
ROIC - WACC (%)	-17.5	-11.4	-5.72	-10.8	-13.2

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

Receivables issue improved in Iraq, deteriorating in Egypt

Dana's current receivables stand at US\$191m (Dh701m) in Kurdistan and US\$207m (Dh760m) in Egypt. In 9M11, Dana Gas received US\$80m (Dh294m) in Kurdistan and US\$48m (Dh176m) in Egypt. By comparison, in 9M10, we estimate Dana Gas was paid US\$11m (Dh42m) in Kurdistan and US\$148m (Dh543m) in Egypt.

Capex plans changed, new capex forecasts

In light of Dana's current receivables problem, the company continues to cut back on its capex plans. This is evident by the company opting to put the construction of the announced Salma Plant (estimated cost of US\$200m) on hold and instead opting for an expansion of the current El Wastani Plant (estimated cost of US\$150m) once normalcy returns in Egypt, a situation we believe will occur by 2013.

Revised production forecasts

In addition to putting the Salma Plant on hold, Dana Gas has slowed its Egyptian drilling schedule. This resulted in a production decline to 40,400bpd in 3Q11 from 47,300bpd in 1Q11, or an absolute decline of 6,900bpd. We forecast a further drop to 39,900bpd in 4Q11, or an absolute drop of 500bpd.

Valuation update and risks

We decrease our SOTP-based target price to Dh0.81ps from Dh0.94ps. Our lower valuation is a result of a higher WACC in Egypt due to a heightened risk environment, capex cuts in Egypt and a decrease in the value of Dana's investment in MOL Hungarian Oil and Gas (MOL). We maintain our Buy recommendation because we continue to see underlying value in Dana's producing assets and upside from possible catalysts. The main risk to our valuation lies in Dana's ability to refinance its convertible bond due October 2012. Although we believe Dana should be able to refinance the bond, in the absence of a clear plan from the company, we believe upside to the stock will be limited.

Important disclosures can be found in the Disclosures Appendix.

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New forecasts

We revise our forecasts on the back of capex cuts in Egypt, a receivables problem in Egypt and an improving receivables situation in Iraq.

Receivables

Dana Gas continues to suffer from receivables problems in Iraq and Egypt, although the situation is improving in Iraq. It is our understanding that Dana's receivables problem in Egypt is partly a result of Egyptian Natural Gas Holding Company (EGAS) and Egyptian General Petroleum Corporation (EGPC) holding back payments to Dana Gas. We believe this is because they are not being paid due to their inability to deliver gas due to pipeline disruptions and their own receivables problems with the electricity sector and the Egyptian public. Dana's receivables problem in Egypt began in 1Q11, improved slightly in 2Q11 and deteriorated further in 3Q11. Dana Egypt received US\$48m (Dh176m) in 9M11, or an estimated 31% of net revenue. By comparison, we estimate that Dana Egypt received US\$148m (Dh543m) in 9M10, or approximately 108% of net revenue. We forecast that payments will continue in 4Q11 at the same rate as in 9M11 at about 30% of net revenue, improve to about 56% of net revenue in 2012, and recover to pre-crisis levels by 2013. We remain cautious for the next 12 months due to the current instability in Egypt, but we are encouraged by a Reuters news article from 24 October 2011 stating that Egypt has resumed pumping gas to Jordan and Israel after a disruption caused by an attack on the gas pipeline.

Dana's receivables problem in Kurdistan improved in 9M11, with the company receiving US\$80m (Dh294m) through Pearl Petroleum, or an estimated 52% of net revenue. By comparison, we estimate that Dana Gas received US\$2.4m (Dh9m) in 9M11, or approximately 4.4% of revenue. We understand that the improvement in payments is a result of the first US\$243m (Dh892m) oil-export payment made by Baghdad to the Kurdistan Regional Government (KRG) in May 2011. We forecast that payments will continue in 4Q11 at the same rate as in 3Q11 – ie, at an estimated 83% of net revenue. From 2012 to 2014, we forecast that the company will begin to see cost-recovery repayments in addition to a normalised receivables schedule until the majority of costs have been recovered by the end of 2014. From 2015 onward, we forecast a normalised receivables schedule.

New capex forecasts

In light of Dana's decreased exploration spend, in addition to the Salma Plant being put on hold, we reduce our capex forecasts.

We forecast that the company will postpone the extension of the El Wastani Plant to 2013, when we forecast a return to normalcy in Egypt, and we assume completion by early 2015.

Regarding drilling, we forecast that the company will drill a total of five exploration holes in 2011, as opposed to our previous forecast of 14 exploration holes and we increase our estimate for the success rate from 50% to 60%. We also forecast that the company will drill three additional development wells in 4Q11. For 2012-14, we forecast the company will drill six exploration holes per year with a success rate of 50%, three development wells in 2013, and five development wells per year in 2013 and 2014. Our new capex forecasts total US\$110m in 2011, US\$141m in 2012, US\$109m in 2013 and US\$121m in 2014. Our previous forecasts were US\$164m in 2011, US\$267m in 2012, US\$82m in 2013 and US\$12m in 2014.

New production forecasts

The new capex plans and delays in production prompt us to revise our production forecasts as follows.

- In Egypt, we assume production will decrease from 44,200bpd in 2Q11 to 39,900bpd in 4Q11. Given the company's change in its capex plans, we assume production will increase to about 60,100bpd by 2015, when we expect the expansion of the El Wastani Plant to be fully completed.
- Our production forecasts for Kurdistan remain unchanged.

New WACC estimate in Egypt

We estimate a higher WACC of 17.5% in Egypt due to a heightened risk environment.

Table 1 : WACC calculation for Egypt

	Dana Egypt
Risk-free rate - long-term bonds	14.0%
Risk premium	7.5%
Corporate tax rate	20.0%
Beta	1.3
Cost of equity	23.8%
Cost of debt	9.0%
Target debt ratio	40.0%
WACC	17.5%

Source: Rasmala forecasts

New EPS forecasts

Our new 2011 EPS forecast is similar to our previous 2011 forecast due to lower production being offset by higher energy prices.

Table 2 : New forecasts

(Dhm)	2011 old	2011 new	Change (%)	2012 old	2012 new	Change (%)	2013 old	2013 new	Change (%)
Net revenue	2,122	2,036	-4.1%	1,908	1,608	-15.7%	1,919	1,443	-24.8%
EBITDAX	1,745	1,711	-1.9%	1,470	1,231	-16.3%	1,387	1,036	-25.3%
EBITDA	1,653	1,659	0.4%	1,378	1,192	-13.5%	1,387	992	-28.5%
Net income	564	615	9.0%	300	124	-58.7%	88	-134	-252.3%
EPS (Dh)	0.085	0.093	9.4%	0.045	0.019	-57.8%	0.013	-0.020	-253.8%

Source: Rasmala forecasts

Update on possible London Stock Exchange listing

Dana Gas said in a statement to the Abu Dhabi stock exchange earlier this week that it was collaborating with a number of international banks for collective advice on further developing the group's plans to list its upstream business on the London Stock Exchange. We view a possible listing on the exchange as a positive because it would bring greater international exposure to the company.

4Q11 preview

We forecast net revenue of Dh623m, EBITDA of Dh518m and net income of Dh256m. Our 4Q11 forecasts are in line with our previous 4Q11 forecasts, again due to lower production being offset by higher energy prices. 4Q11 consensus numbers were not yet available. The net income estimate in 4Q11 is 78.5% greater than net income in 3Q11 as a result of the second LPG train coming onstream in Kurdistan, taking daily production to 10,000bpd in 4Q11 from 6,700bpd in 3Q11.

Table 3 : 4Q11 preview

	Our forecasts (Dhm)
Net revenue	623
EBITDA	518
Net income	256

Source: Rasmala forecasts

Risks

Convertible bond is looming

Dana Gas has a 7.5% per annum interest-bearing convertible sukuk worth US\$1bn (Dh3.67bn) that expires on 31 October 2012. Assuming Dana's receivables problems in Egypt do not deteriorate further and Kurdistan's receivables issue continues to improve at the same rate as it did in 3Q11, we would expect Dana Gas to be able to refinance the sukuk prior to October 2012 (carrying value of US\$969m, or Dh3.56bn, as of 3Q11).

We forecast the company will end 2012 with about Dh539m in cash. This, combined with a possible sale of Dana's stake in publicly listed MOL worth Dh844m, would leave Dana with net debt of approximately Dh2.2bn. If Dana Gas opted to pay back a portion of the sukuk and refinance the gap, we believe the company could fund the gap with the issuance of another sukuk, albeit at a higher interest rate, or by further reserve-based lending against its Egyptian or Iraqi assets.

The main risk to our valuation lies in Dana's ability to refinance this bond. With little guidance from the company to date on the method of payment, we remain cautious and reduce our target price accordingly. Dana Gas made a statement on 10 August 2011 stating that it "is working to implement a sukuk liability management program with regard to this bond. Dana Gas continues to assess various options for its optimum capital structure and will update the market when appropriate." More recently, on 17 November 2011, the board stated on the Abu Dhabi Securities Exchange (ADX) website that it will meet on 22 November 2011 in the Kurdistan region of Iraq to discuss refinancing its bond. We believe any further announcements regarding a repayment or refinancing plan for the sukuk would be a positive catalyst to the stock, but, in the absence of a plan, we believe upside will be limited and expect downside risk to increase as October 2012 approaches.

Valuation

Our new valuation yields a fair value of Dh0.81 per share, 44% higher than the current price (see Table 2). At Dh0.56 per share, the stock is trading at 2011F EV/EBITDA of 4.0x and 2011F PE of 6.0x. Our valuation implies 2011F EV/EBITDA of 4.9x and PE of 8.6x.

Table 4 : Sum-of-the-parts valuation

(Dhm)	Value	Per share (Dh)	% of asset value	Valuation methodology
Dana Gas Egypt	2,639	0.40	50%	DCF
Kurdistan	4,352	0.66	82%	Implied value
Gulf of Suez	750	0.11	14%	DCF
UAE Sharjah	354	0.05	7%	DCF
Corporate expenses	-753	-0.11	-14%	DCF
Investments	844	0.13	16%	Market value
Total EV	8,187	1.24	154%	
Net debt	-2,872	-0.44	-54%	Estimated net debt as of 31/12/2011
Total equity value	5,315	0.81	100%	
Shares outstanding	6,600			
Equity value per share	0.81			
Current price	0.56			
Potential upside/downside	43.8%			
Recommendation	Buy			

Source: Rasmala forecasts

Income statement

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	873.5	1285	2036	1608	1443
Cost of sales	-121.1	-121.1	-170.4	-206.7	-223.2
Operating costs	-535.8	-168.8	-206.0	-210.1	-228.0
EBITDA	216.5	994.6	1659	1192	991.5
DDA & Impairment (ex gw)	-741.3	-400.0	-402.2	-453.5	-514.9
EBITA	-524.8	594.5	1257	738.1	476.6
Goodwill (amort/impaird)	0.00	0.00	0.00	0.00	0.00
EBIT	-524.8	594.5	1257	738.1	476.6
Net interest	-201.9	-205.5	-314.6	-304.2	-304.2
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	990.9	33.0	3.67	0.00	0.00
Reported PTP	264.2	422.0	946.1	433.9	172.4
Taxation	-176.2	-264.2	-331.0	-309.9	-307.0
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	615.1	124.0	-134.6
Tot normalised items	-425.7	-18.4	0.00	0.00	0.00
Normalised EBITDA	216.5	994.6	1659	1192	991.5
Normalised PTP	690.0	440.4	946.1	433.9	172.4
Normalised net profit	513.8	176.2	615.1	124.0	-134.6

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	781.7	583.5	508.2	538.9	1122
Other current assets	939.5	1163	1951	2021	1463
Tangible fixed assets	3453	3835	3829	3892	3777
Intang assets (incl gw)	5061	4973	4932	4893	4849
Oth non-curr assets	1182	1292	924.8	924.8	924.8
Total assets	11417	11847	12146	12270	12136
Short term debt (2)	0.00	0.00	0.00	0.00	0.00
Trade & oth current liab	466.1	513.8	462.4	462.4	462.4
Long term debt (3)	3197	3292	3380	3380	3380
Oth non-current liab	51.4	62.4	66.1	66.1	66.1
Total liabilities	3714	3868	3909	3909	3909
Total equity (incl min)	7703	7979	8238	8362	8227
Total liab & sh equity	11417	11847	12146	12270	12136
Net debt	2415	2708	2872	2841	2258

Source: Company data, Rasmala forecasts

year ended Dec

Cash flow statement

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	216.5	994.6	1659	1192	991.5
Change in working capital	-84.4	-304.6	-839.5	-69.7	558.5
Net interest (pd) / rec	201.9	205.5	314.6	304.2	304.2
Taxes paid	-176.2	-264.2	-331.0	-309.9	-307.0
Other oper cash items	227.5	-150.5	-259.6	-264.9	-260.2
Cash flow from ops (1)	385.4	480.8	543.8	851.4	1287
Capex (2)	-554.2	-491.8	-356.0	-516.4	-400.0
Disposals/(acquisitions)	407.4	3.67	-47.7	0.00	0.00
Other investing cash flow	33.0	25.7	7.34	0.00	0.00
Cash flow from invest (3)	-113.8	-462.4	-396.4	-516.4	-400.0
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	-249.6	-253.2	-263.2	-304.2	-304.2
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	40.4	0.00	0.00
Cash flow from fin (5)	-286.3	-216.5	-222.9	-304.2	-304.2
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	-14.7	-198.2	-75.4	30.8	582.9
Equity FCF (1+2+4)	-168.8	-11.0	187.8	335.0	887.1

Source: Company data, Rasmala forecasts

year to Dec

Standard ratios	Dana Gas					BP			Royal Dutch Shell		
Performance	FY09A	FY10A	FY11F	FY12F	FY13F	FY11F	FY12F	FY13F	FY11F	FY12F	FY13F
Sales growth (%)	n/a	47.1	58.5	-21.0	-10.3	32.4	-10.7	-1.90	36.1	-13.1	-4.76
EBITDA growth (%)	n/a	359.3	66.8	-28.2	-16.8	48.2	-2.23	0.87	48.4	-7.77	-1.71
EBIT growth (%)	n/a	n/a	105.1	-41.3	-35.4	73.9	-2.08	-2.17	87.4	-13.8	-5.77
Normalised EPS growth (%)	n/a	-68.8	249.2	-79.8	-70.7	7.35	-2.50	-2.06	47.8	-6.22	-5.19
EBITDA margin (%)	24.8	77.4	81.5	74.1	68.7	10.7	11.7	12.0	11.8	12.5	12.9
EBIT margin (%)	-11.3	47.7	61.8	45.9	33.0	8.05	8.82	8.80	9.06	8.99	8.90
Net profit margin (%)	58.8	13.7	30.2	7.71	-9.33	5.14	5.64	5.63	5.34	5.76	5.74
Return on avg assets (%)	0.00	3.34	7.81	3.51	1.39	8.40	8.01	7.57	8.14	7.35	6.75
Return on avg equity (%)	0.00	2.25	7.60	1.50	-1.63	21.1	17.5	15.2	17.1	14.6	12.8
ROIC (%)	n/a	6.06	11.8	6.64	4.25	24.6	20.5	18.6	22.7	18.9	17.2
ROIC - WACC (%)	-17.5	-11.4	-5.72	-10.8	-13.2	16.7	12.6	10.7	14.8	11.0	9.30
				year to Dec			year to Dec			year to Dec	
Valuation											
EV/sales (x)	7.00	4.99	3.23	4.06	4.13	0.40	0.44	0.45	0.52	0.58	0.61
EV/EBITDA (x)	28.2	6.44	3.96	5.49	6.01	3.73	3.75	3.77	4.38	4.63	4.68
EV/EBITDA @ tgt price (x)	35.7	8.07	4.93	6.84	7.64	4.57	4.60	4.62	4.83	5.12	5.17
EV/EBIT (x)	-61.7	10.4	5.22	8.86	12.5	4.96	4.97	5.16	5.71	6.46	6.80
EV/invested capital (x)	0.60	0.60	0.59	0.58	0.57	1.04	0.94	0.87	1.25	1.18	1.11
Price/book value (x)	0.44	0.46	0.45	0.44	0.45	1.20	1.05	0.94	1.31	1.20	1.12
Equity FCF yield (%)	-5.02	-0.30	5.08	9.06	24.0	6.64	5.42	4.87	7.12	6.83	6.15
Normalised PE (x)	6.54	21.0	6.01	29.8	-27.5	6.25	6.41	6.54	8.07	8.60	9.07
Norm PE @ tgt price (x)	9.40	30.2	8.64	42.9	-39.5	7.98	8.18	8.36	9.04	9.63	10.2
Dividend yield (%)	n/a	n/a	n/a	n/a	n/a	3.82	3.90	3.98	4.77	5.11	5.11
				year to Dec			year to Dec			year to Dec	
Per share data						Solvency					
Tot adj dil sh, ave (m)	6000	6600	6600	6600	6600	Net debt to equity (%)	31.3	33.9	34.9	34.0	27.4
Reported EPS (AED)	0.01	0.02	0.09	0.02	-0.02	Net debt to tot ass (%)	21.2	22.9	23.6	23.2	18.6
Normalised EPS (AED)	0.09	0.03	0.09	0.02	-0.02	Net debt to EBITDA	11.2	2.72	1.73	2.38	2.28
Dividend per share (AED)	n/a	n/a	n/a	n/a	n/a	Current ratio (x)	3.69	3.40	5.32	5.54	5.59
Equity FCF per share (AED)	-0.03	-0.00	0.03	0.05	0.13	Operating CF int cov (x)	-1.78	-2.63	-1.78	-2.82	-4.24
Book value per sh (AED)	1.28	1.21	1.25	1.26	1.24	Dividend cover (x)	0.00	0.00	0.00	0.00	0.00
				year to Dec						year to Dec	

Priced as follows: DANA.AD - Dh0.56; BP.L - £4.64; RDSa.L - £22.32
Source: Company data, Rasmala forecasts

Valuation methodology: Sum-of-the-parts valuation

(Dhm)	Value	Per share (Dh)	% of asset value	Valuation methodology
Dana Gas Egypt	2,639	0.40	50%	DCF
Kurdistan	4,352	0.66	82%	Implied value
Gulf of Suez	750	0.11	14%	DCF
UAE Sharjah	354	0.05	7%	DCF
Corporate expenses	-753	-0.11	-14%	DCF
Investments	844	0.13	16%	Market value
Total EV	8,187	1.24	154%	
Net debt	-2,872	-0.44	-54%	Estimated net debt as of 31/12/2011
Total equity value	5,315	0.81	100%	
Shares outstanding	6,600			
Equity value per share	0.81			
Current price	0.56			
Potential upside/downside	43.8%			
Recommendation	Buy			

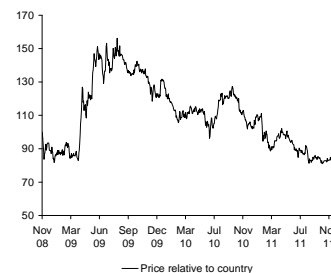
Source: Rasmala forecasts

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

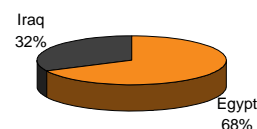
Iraq projects show strong growth potential, with the possibility of supplying natural gas to the European region through the Nabucco pipeline. Dana Gas is also involved in an E&P project in Egypt, where it has access to proven and probable reserves of about 116.9m boe.

Threats

3

Security in Iraq remains unstable and KRG-Baghdad differences could hurt Dana Gas's future energy projects in Iraq.

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



Source: Rasmala forecasts

Market data

Headquarters

Crescent Tower, 11th Floor, Al Buhaira Corniche, PO Box 2011, Sharajah, United Arab Emirates

Website

<http://www.danagas.ae>

Shares in issue

6600.0m

Freefloat

80%

Majority shareholders

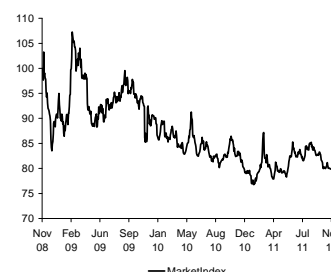
Crescent Petroleum (20%), Arabian Oud (3%)

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 of 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+

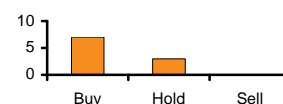
Low. Although there are other alternative sources of energy, they are not as cheap or abundant as natural gas, making it one of the most efficient energy sources.

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: Dh0.56, TP: Dh0.81): We value Dana Gas using a sum-of-the-parts methodology. The main risk to our valuation lies in Dana's ability to refinance its convertible bond due October 2012.

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