

Dana Gas

Decline in production and lower prices dragged bottom line

4Q22 Net Profit lower than our estimate

Dana Gas PJSC ("DANA"/The Company) net profit declined 43.5% YOY to AED 78 Mn in 4Q22, below our estimate of AED 233 Mn. The decline is mainly driven by an increase in impairment expense and a decline in revenue, partially offset by a decline in operating expenses and an increase in investment and financing income.

P&L Highlights

Dana Gas' revenue decreased 3.5% YOY to AED 418 Mn in 4Q22 owing to a decrease in production volumes of the company along with lower realized prices. Average realized prices of condensate rose 4.8% YOY to USD 65 barrels of oil equivalent (boe) in 4Q22 whereas average LPG prices stayed declined 7.7% YOY to USD 36 barrels of oil equivalent (boe) in 4Q22. The Company's production declined 0.7% YOY to 58,600 barrels of oil equivalent per day (boepd) in 4Q22 attributable to reduced production in Egypt due to the depletion of the natural field and limited capital investments partially offset by increased production in Iraq. Dana Gas' royalties declined 0.8% YOY to AED 124 Mn in 4Q22. On the other hand, operating cost fell marginally 5.4% YOY to AED 122 Mn in 4Q22 attributable to the Company's efforts to optimize the cost base. Thus, the Company's gross profit declined 3.9% YOY and 26.5% QOQ to AED 172 Mn in 4Q22. Furthermore, G&A expenses declined 21.4% YOY to AED 11 Mn in 4Q22 whereas other expenses increased 44.1% YOY to AED 19 Mn. The Company recorded AED 3 Mn in impairments on financial assets as compared to AED 165 Mn in 4Q22. In addition, DANA received other income worth AED 124 Mn in 4Q21 as compared to AED 128 Mn in 4Q22. Resultantly, Dana Gas' operating profit decreased 32.9% YOY to AED 110 Mn in 4Q22. EBITDA stood at AED 334 Mn in 4Q22 with an EBITDA margin of 79.8%. Finance costs remain unchanged at AED 7 Mn in resulting in a profit before tax of AED 103 Mn. Income tax expenses rose 31.6% YOY to AED 25 Mn in 4Q22.

Balance Sheet and Cash Flow highlights

The Company's cash and bank balance stood at USD 151 Mn in 2022. DANA paid a dividend of USD 172 Mn in 2022 and held a cash balance of USD 88 Mn at Pearl Petroleum. Dana Gas collected a total of USD 318 Mn receivables from Egypt and KRI region. Out of which, Egypt contributed USD 85 Mn while KRI region contributed USD 233 Mn in 2022. The Company's capex rose to USD 139 Mn in 2022, up from USD 126 Mn in 2021 and further plans to invest USD 100 Mn in Egypt in the next two years. Total debt stood at USD 216 Mn in 2022 which includes USD 159 Mn non-recourse project debt at Pearl and USD 57 Mn credit facility after a USD 19 Mn repayment in 2022.

Target price and rating

We maintain our BUY rating on Dana Gas with a revised target price of AED 1.15. The Company reported a 2P hydrocarbon reserve of 1,087 million of barrel oil equivalent per day (MMboe). The reserve is enough to carry out production for almost 50 years based on 2022 production. Dana gas positively benefited from high realized prices in 2022 partially offset by a decline in average production. The Company's average production stood at 60,200 boepd

Rating : BUY

First Look Note – 4Q22

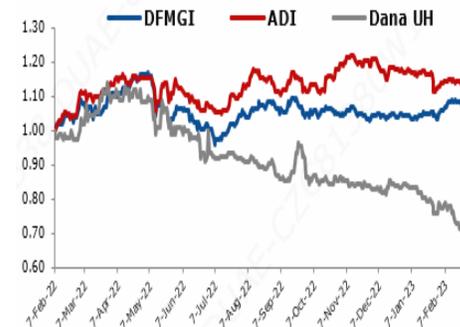
Sector: Energy

Recommendation

Current Price (15-Mar-23)	0.765
Target Price (AED)	1.15
Upside/Downside (%)	+50%

Stock Information

Market Cap (mm)	5,386.44
Paid Up Capital (mm)	1,904.75
52 Week High	1.26
52 Week Low	0.75
3M Avg. daily value (AED)	6,523,997



Financial Ratios

Dividend Yield (12m)	11.6
Dividend Pay-out (%)	172.96
Price-Earnings Ratio (x)	5.87
Price-to-Book Ratio (x)	0.65
Book Value (AED)	0.33
Return-on Equity (%)	11.02
Earning Per Share (AED)	0.04
Beta	0.82

Stock Performance

5 Days	-4.82%
1 Months	-3.87%
3 Months	-17.20%
6 Months	-19.88%
1 Year	-32.46%
Month to Date (MTD)	-2.53%
Quarter to Date (QTD)	-16.30%
Year to Date (YTD)	-16.30%

in 2022 marginally lower compared to 62,100 boepd in 2021. The Company's maintained cost discipline and optimized the operating expenses boosting profitability in 2022. Plant bottlenecking increased the plant capacity of the Khor Mor gas plant by 50 MMscf/d in January 2023 to 500 MMscf/d. Expansion of the KM250 plant adding two gas processing trains of 250 MMscf/d are approved and under construction. On the other hand, the company is in coordination with KRG to restart construction activities at KM250 EPC plant. Dana gas negotiated new terms with EGAS that will help the company to maximize the life of its assets. Dana Gas' received favorable arbitration against NIOC whereas all challenges by NIOC to the first arbitration were dismissed by England High Court in London while interest is continuously accruing and stood at USD 608 Mn. The final hearing on the second arbitration was due in March 2023 but will be postponed due to the resignation of the external lawyers of NIOC. In addition, Dana Gas paid dividend of 4.5 fils per share for 1H22, we expect the same for the second half of 2022, amounting to a dividend yield of 11.6%. The Company's robust expansion plans lead to strong cash flow visibility in long term. Thus, based on our analysis, we maintain our BUY rating on the stock.

Dana Gas Relative valuation

(at CMP)	2018	2019	2020	2021	2022
P/E (x)	NM	9.51	NM	4.73	8.18
PB (x)	0.57	0.57	0.69	0.65	0.65
EV/EBITDA (x)	6.52	4.47	10.59	5.59	4.68
Dividend Yield (%)	7.1%	7.1%	7.1%	10.3%	11.6%

FABS Estimates & Co Data
Dana Gas- P&L

AED mn	4Q21	3Q22	4Q22	4Q22F	Var.	YOY Ch	QOQ Ch	2021	2022	Change
Revenue	433	480	418	504	-17.1%	-3.5%	-12.9%	1,657	1,939	17.0%
Royalties	-125	-129	-124	-136	-8.9%	-0.8%	-3.9%	-491	-557	13.4%
Net Revenue	308	351	294	368	-20.1%	-4.5%	-16.2%	1,166	1,382	18.5%
Oprat. Costs & depletion	-129	-117	-122	-121	0.9%	-5.4%	4.3%	-451	-470	4.2%
Gross Profit	179	234	172	247	-30.4%	-3.9%	-26.5%	715	912	27.6%
G&A expenses	-14	-11	-11	-11	3.9%	-21.4%	0.0%	-40	-44	10.0%
Invst. & finance income	0	3	11	0	NM	NM	NM	7	18	NA
Other Expenses	-34	-3	-19	-35	-46.1%	-44.1%	NM	-60	-37	-38.3%
Impairment of fin. assets	-3	0	-165	0	NM	NM	NM	-7	-172	NM
Other Income	124	4	128	66	95.4%	3.2%	NM	2,353	132	-94.4%
Operating Profit	164	223	110	267	-58.7%	-32.9%	-50.7%	1,262	795	-37.0%
EBITDA	330	279	334	325	2.6%	1.1%	19.7%	986	1,217	23.4%
Finance costs	-7	-19	-7	-8	-7.4%	0.0%	-63.2%	-18	-33	83.3%
Profit Before Tax	157	204	103	259	-60.2%	-34.4%	-49.5%	1,244	762	-38.7%
Income tax expense	-19	-22	-25	-26	-3.5%	31.6%	13.6%	-81	-95	17.3%
Profit After Tax	138	182	78	233	-66.5%	-43.5%	-57.1%	1,163	667	-42.6%
NCI	0	0	0	0	NM	NM	NM	7	0	NA
Profit to equity holders	138	182	78	233	-66.5%	-43.5%	-57.1%	1,156	667	-42.3%

FABS Estimates & Co Data

Dana Gas- Margins

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022	Change
Gross Profit Margin	41.3%	48.8%	41.1%	-19	-760	43.2%	47.0%	388
Operating Profit Margin	37.9%	46.5%	26.3%	-1,156	-2,014	76.2%	41.0%	-3,516
EBITDA	76.2%	58.0%	79.8%	361	2,176	59.5%	62.8%	326
Net Profit Margin	31.9%	37.9%	18.7%	-1,321	-1,926	69.8%	34.4%	-3,537

FABS estimate & Co Data

FAB Securities Awards



Best Brokerage House in UAE 2016 & 2017 by "Banker Middle East"



Best Brokerage House in UAE 2016, 2017, 2019 and 2020 by "IFA"



Best Brokerage in the UAE 2016 By "Global Investor/ ISF ME Awards"



Best Research House in UAE 2016 and 2020 by "IFA"



Best New Mobile Application in UAE 2016 by "IFA"



Best Equity Finance Company in UAE 2016 by "IFA"