

Dana Gas

Higher production and oil prices boosted the profitability

3Q21 Net profit beats our estimate

Dana Gas (DANA) reported a significant increase in Net profit to AED514 mm in 3Q21, up from a Net loss of AED1,321 mm in 3Q20, beating our estimate by 18%. This increase was mainly attributed to higher revenue driven by higher oil prices and higher production in Kurdistan Region of Iraq.

The Company's reported record net profit of AED1,025 mm as compared to a loss of AED1,390 mm in 9M20. The key drivers were higher oil prices, improved operational performance and other income. 9M21 net profit included Other Income of AED2,229 mm and a AED286 mm reversal of impairments related to Egypt assets.

The Company's average production in 9M21 was 63,200 boepd versus 63,000 boepd in 9M20. The slight increase was driven by an improvement in output of 7% in KRI to 34,000 boepd which offset the 4% decline in Egypt to 29,200 boepd as a result of natural field depletion.

P&L highlights

Dana's Net Revenue increased by 66.7% YOY to AED315 mm in 3Q21, up from AED189 mm in 3Q20. While the Operating costs declined by 16.3% YOY to AED113 mm in 3Q21, down from AED135 mm in 3Q20. Resultantly, the Gross profit strongly increased reaching AED202 mm in 3Q21, as compared to AED54 mm in 3Q20. Moreover, the Investment and finance income dropped by 88.5% YOY to AED3 Mn, down from AED26 mm in 3Q20. Other Income robustly increased to AED2,229 mm in 3Q21, mainly due to the award for damages in the first arbitration against NIOC, supporting the increase in the Net profit. Whereas the Net Impairment increased by 35.5% YOY to AED1,854 mm in 3Q21, up from AED1,368 mm in 3Q20. Therefore, the Net Operating income has strongly increased to AED559 mm in 3Q21, compared to a loss of AED1,288 mm in 3Q20. Furthermore, General & administrative expenses declined by 27.3% YOY to AED8 mm in 3Q21, down from AED11 mm in 3Q20. Similarly, the Finance costs have decreased by 73.3% YOY to AED4 mm in 3Q21, down from AED15 mm in 3Q20. Thus, the Profit before tax increased to AED547 mm in 3Q21, up from a loss of AED1,321 mm in 3Q20. Income tax stood at AED33 mm for the 3Q21 from a nil in 3Q20.

Balance sheet highlights

Total Assets increased by 1.5% YOY to AED9.79 Bn in 3Q21, up from AED9.64 Bn in 3Q20. Similarly, the Total Equity also increased by 8.4% YOY to AED8.51 Bn in 3Q21, as compared to AED7.85 Bn in 3Q20. While the Total Liabilities declined by 28.8% YOY to AED1.28 Bn in 3Q21, down from AED1.79 Bn in 3Q20.

Rating : BUY

First Look Note – 3Q21

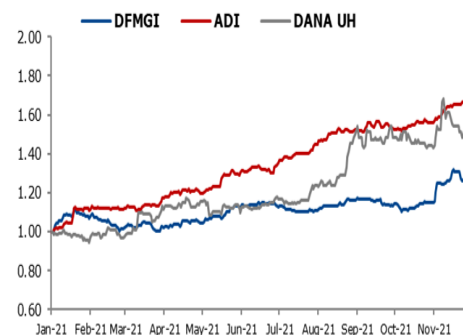
Sector: Energy

Recommendation

Current Price (30-Nov)	1.06
Target Price (1.25)	1.25
Upside/(Downside) (%)	+18%

Stock Information

Market Cap (mm)	7,415.10
Paid Up Capital (mm)	1,904.57
52 Week High	1.27
52 Week Low	0.67
3M Avg. daily value (AED)	20,173,480



Financial Ratios

Dividend Yield (12m)	5.19
Dividend Pay-out (%)	NA
Price-Earnings Ratio (x)	NA
Price-to-Book Ratio (x)	0.94
Book Value (AED)	0.31
Return-on Equity (%)	-15.76
Earning Per Share (AED)	-0.05
Beta	0.98

Stock Performance

5 Days	-1.85%
1 Months	2.91%
3 Months	0.00%
6 Months	30.22%
1 Year	55.88%
Month to Date (MTD)	3.92%
Quarter to Date (QTD)	0.00%
Year to Date (YTD)	48.46%

Target price and rating:

We maintain our BUY rating on Dana Gas with a revised target price of AED1.25. Dana Gas is the first and largest private sector natural gas company in the Middle East and the company. In terms of Operations, during the 9M21 the Group's operations continued normally with no interruption with an average 9M21 production of 62,300 boepd as compared to 63,000 in 9M20 and the KRI production increasing by 7% reaching 34,000 boepd in 9M21. In 9M21 the Pearl Petroleum expansion project resumed after lifting the force majeure status. The evaluation of the Block 6 Concession in Egypt is in process as well while maintenance work for over 5 onshore wells in Egypt are completed since beginning of 2021. It is worth noting that the price of Oil increased significantly in 2021 reaching USD68 per barrel for the Brent as at end of 9M21 as compared to USD41 per barrel same period last year. The group reported robust financial performance in 9M21 recording a Gross Profit of USD146 mm up from USD54 mm in 9M20, this increase was mainly driven by the increase in the Top Line increase in Revenues reaching USD334 mm as compared to USD262 mm in 9M20. The YTD EBITDA also increased significantly to USD179 mm in 9M21 up from USD110 mm in 9M20, an increase by 63% YOY. All this increase in the Group's profitability and Income is mainly due to resuming of Operations post-pandemic. The healthy financials of the company have led to reporting a Net Profit of USD279 mm in 9M21, being a company highest Profit ever, from a Loss of USD379 mm same period last year, while the Group was severely hit by the COVID-19 global pandemic. The adjusted Net Profit taking into consideration Impairment of Gas Assets for USD360 Mn, Impairment of Goodwill for USD145 Mn, Impairment of Financial Assets for USD1 mm and the Reversal of Impairment in Egypt for USD78 Mn, stands at USD99 mm in 9M21 compared to USD31 mm in 9M20. In a continuous effort to optimize costs the company decrease its General and Administrative Expenses in 9M21 to USD7 mm from USD 9M in 9M20, a decrease by 22.22% YOY and the company's lowest G&A levels in 10 years, while the OPEX witnessed an increase due to the increase in allocation of Egypt G&A to OPEX given the decrease in activity, leading to an increase in OPEX by 9.75% YOY to USD45 mm in 9M21 up from USD41 mm in 9M20. CAPEX, on the other hand, increased drastically reaching USD91 mm in 9M21 up from USD37mm in 9M20 out of which USD64mm are allocated to KRI and USD27 mm are allocated to Egypt. This increase is mainly driven by higher spending on drilling, workovers, and similar activities and due to the resumption of KM250 expansion project. The company recorded Free Cash Flow for USD135 mm in 9M21 substantially up from USD54 mm in 9M20 with a strong cash balance as at end of 9M21 at USD200 mm as compared to USD108 mm in 9M20 reflecting the Company's successful cash management. The company recorded its best collections in 5 years reaching USD256 mm in 9M21 dropping its receivables levels to lowest in several years to USD65 mm in 9M21 down from USD128 mm in 9M20, a decrease by 49.21% YOY. KRI collected 97% of its billed revenues reaching USD131 mm of collections. It is worth noting that the company's Total Borrowings stand at USD206 mm as of September 2021 consisting of USD81 mm being a credit facility and USD125 mm being non-recourse project debt at Pearl level. Finally, on the company level, the shares in EBGDCO were sold in 2Q21 for USD11.4 mm while retaining Egypt onshore Assets after termination of SPA and IPR Wastani. The company in its annual General Meeting held in April 2021 approved a Cash Dividend of AED5.5 fils per share for 2020 totalling USD105 mm while the Board proposed a total of AED7 fils per share Dividend, a 27% on the semi-annual Dividend, Based on the above, we assign a BUY rating on Dana Gas.

National Iranian Oil Company (NIOC) Arbitration Update: Dana Gas has been informed by Crescent Petroleum that an award for damages in the first arbitration against NIOC has been made by the international arbitration tribunal on 27 September 2021. This first arbitration covers the period of the first 8.5 years of the 25-year gas sales agreement from 2005 to mid-2014. The sum due to Dana Gas is \$608 mm (AED2,229 mm). In addition, a second arbitration with a much larger claim for the 16.5 years covering the remainder of the gas supply period from 2014 to 2030 is currently underway, with the final hearing fixed for October of next year (2022) in Paris, and for which a final award on damages is expected the following year in 2023.

Dana Gas - Relative Valuation

(at CMP)	2017	2018	2019	2020	2021F
PE (X)	106.0	-35.3	53.0	NM	6.1
PB (X)	2.6	2.9	2.8	3.4	3.0
Dividend yield (%)	0.9%	0.9%	5.7%	5.7%	6.7%

FABS estimate and Co data

Dana Gas - P&L

AED mm	3Q20	2Q21	3Q21	3Q21F	Var.	YOY Ch	QOQ Ch	2020	2021F	Change
Net Revenue	189	286	315	310	1.5%	66.7%	10.1%	824	1217	47.7%
Operating Costs & depletion	-135	-117	-113	-111	1.4%	-16.3%	-3.4%	-510	-448	-12.2%
Gross Profit	54	169	202	199	1.6%	NM	19.5%	314	769	NM
Investment & finance income	26	0	3	2	50.0%	-88.5%	NA	55	12	-79.1%
Impairment, net	-1368	290	-1854	276	NM	35.5%	NM	-1509	-1572	4.2%
Change in fair value of asset held for sale	0	0	0	0	NA	NA	NA	-66	-51	-22.7%
Change in fair value of investment property	0	0	0	0	NA	NA	NA	-7	0	NM
Share of loss of a JV	0	18	-3	10	NM	NA	NM	-7	15	NM
Exploration expenses/write off	0	0	-18	0	NA	NA	NA	-4	-18	NM
Other Income	0	0	2229	0	NA	NA	NA	4	2229	NM
Net Operating income / (loss)	-1288	477	559	487	NM	NM	17.2%	-1220	1384	NM
General and administrative expenses	-11	-7	-8	-7	8.8%	-27.3%	14.3%	-44	-32	-27.3%
Finance costs	-15	-3	-4	-3	36.1%	-73.3%	33.3%	-59	-14	-76.3%
Other expenses	-7	-19	0	-7	NM	NM	NM	-40	-26	-35.0%
Profit Before Tax	-1321	448	547	469	NM	NM	22.1%	-1363	1312	NM
Income tax expense	0	-25	-33	-26	27.5%	NA	32.0%	-15	-84	NM
Profit After Tax	-1321	423	514	444	NM	NM	21.5%	-1378	1227	NM
NCI	0	7	0	7	NM	NA	NM	0	7	NA
Attributable Profit	-1321	416	514	436	17.8%	NM	23.6%	-1378	1220	NM

FABS estimate & Co Data
Dana Gas - Margins

AED mm	3Q20	2Q21	3Q21	YOY Ch	QOQ Ch	2020	2021F	Change
GPM	28.6%	59.1%	64.1%	3556	504	38.1%	63.2%	2511
OPM	-681.5%	166.8%	177.5%	85894	1068	-148.1%	113.7%	26177
NPM	-698.9%	145.5%	163.2%	86212	1772	-167.2%	100.3%	26751

FABS estimate & Co. Data

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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