Transcription for Dana Gas

Q1 2014 Results Investor Call

15th May 2014

Presentation

Operator:
Welcome to the Dana Gas 1Q 2014 Earnings Webinar. Our presentation today will be followed by question and answer session. We'll give you instruction how to queue for these questions when we reach that stage. Finally if you experience any technical difficulties during today's seminar, please press star zero on your telephone keypad or send a chat message to Webinar support and now without any further delay, I'd like to turn your conference over to your first presenter Robinder Singh, please go ahead sir.

Robinder Singh:
Thank you very much Chris, and good morning and good afternoon to you ladies and gentlemen. My name is Robinder Singh. I am the IR Director of Dana Gas. Thank you for joining us on this on 1Q 2014 Earnings call.

With me on the call is Patrick Allman-Ward, CEO at Dana Gas. Azfar Aboobakar our head of Financial Control and Reporting. Also with me is Ranga Kishore our Head of Financing. Mark Fenton, our General Manager in Egypt has signed on also from Egypt, as has John Slater who's head of HSSE but he's also stepping in as the project head for Zora Gas project which is the new project we're working on in the UAE.

So before we start just word of caution that maybe statements that are made during the course of the presentation that maybe forward looking and to that extent please consider that, keep that in perspective while during those statements. Without any further ado, I'm now going to hand over the call to Patrick to take us to the first section of the presentation.

Patrick Allman-Ward:
Thank you, Robinder. So good day to you all, and welcome to Dana Gas Q1 2014 Financial Results call. I'm going to start off by spending a few minutes on the high level highlights of the quarter, and then I'm going to hand over to my colleagues who will go into further details with respect to both financials as well as the operations.

So my first highlight for you is that in the first quarter we had a 67% growth in operating quarterly profit at $45 million which is an increase over last year's quarter. Last review to hire a production and the increase sale of higher margin LPGs in the Kurdistan region of Iraq, coupled with lower operating cost.

We had an 18% growth in quarterly revenues, having achieved a 180 million in the first quarter of this year versus 152 million in the first quarter of last year. That's been hardly driven by higher average production which was at 68,800 barrels of oil equivalent per day (boepd) with respect to 61,400 boepd for the first quarter of 2013, and that is an indication we believe of the high quality of our underlying assets and the further growth potential that we have.

In further detail, we had a 17% volume growth in Egypt with the first quarter average production of 39,100 boepd that's to compare with the 33,400 from the first quarter of last year. In the Kurdistan region of Iraq we had 6% increase in production with an average over the quarter of 29,300 as opposed to 27,700 in the first quarter of 2013.

We have had challenges and certainly we've had lower collection in Egypt and the Kurdistan region in Iraq and that has resulted in our end quarter one cash balance being reduced to $155 million that leave you to lower levels of collections and also higher total trade receivables which now stand 583 million.

However, we are very encouraged that our Sukuk convertible bond holders have confidence in the company and they had put in requests for conversions over Sukuk totaling $65 million up to today of which $61 million have been converted today, and we believe that is a positive indication of the kind of investor sentiment out there and of course that will help us lower our cost of capital.

We have also I think to highlight, we've also had a very successful de-bottle necking and upgrading exercise of our El Wastani plants in Egypt which has taken our production up for capacity from 160 mmscfd to 200 mmscfd, representing just under a 25% increase, and that increase represents an incremental production of 6,650 barrels of oil equivalent which is quite a substantial increase and represents about 10% of our overall production. So I'm going to stop there and I'm going to hand over to Azfar Aboobakar who will take us through the details of our financial performance for the quarter.

Azfar Aboobakar:
Thank you, Patrick. Good afternoon and good morning everyone. I will now review with you our financial results for the first quarter of 2014 and will be referring to slides 6 to 10 in our presentations.

Dana Gas reported today a net profit of $45 million in Q1 as compared to a net profit of $35 million in Q4, and $66 million in Q1 of 2013 respectively.

We will start with slide number 6 where we have presented the summary of the financial results for Q1 of 2014 with comparatives for the last four quarters. This will provide you a good overview of our performance over the last five quarters.

If you see gross revenues, in Q1 it increased by 18% to $ 180 million compared to Q1 2013, and this was a 12% – this was mainly due to a 12% increase in group production.

Gross revenues when compared to Q4 of 2013 were lower by 3% due to a planned 9 days shutdown of the El Wastani Plant in Egypt. Moving to the next draft which is for growth profitability, in Q1 our gross profit increase to $87 million as compared to $75 million in Q1 of 2013.

This was achieved because of a higher contribution from increased production in Egypt, higher sales of LPG in Kurdistan, coupled with a (tighter) cost control. Net profit on the quarter and quarter basis shows a declined in Q1 of 2014 compared to Q1 of 2013, and this was mainly due to partial sale of (MOL) shares amounting to $39 million which was recorded in Q1.

If you had to exclude this and look at our profitability on an operating basis, our profitability in Q1 has actually been higher by 67% as compared to what was achieved in Q1 of 2013. As I mentioned earlier, this mainly resulted from improving production performance and a strong focus on decreasing cost.

We will now move to slide number 7. Here for your ease, we have presented a profit after Tax Bridge which will show the key (variances) in profitability between Q1 2013 and Q1 2014. As mentioned earlier more so the increase in profitability came from increase in production.

Net profit in Q1 in period off one gain from (partial sale of MOL) of $39 million and this is shown as a negative variance within the investment and finance income. In summary if we are to exclude the one off gain which was included in Q1, our profit from core operations has increased by 67% during Q1 of 2014.

Moving on to slide number 8, here we have presented the production growth for Egypt and Kurdistan. As you will see in Egypt our production increased by 17% to 39,100 boepd compared to 33,000 boepd in Q1 2013.

In Kurdistan, our 40% share of production increased by 6% to 29,300 boepd. Further detail analysis of production will be covered by my colleague in the business highlight section.

On slide number nine we have presented a comparison of average realized prices, for Q1 2013, and also for quarter four 2013. This will give you a comparison on the trailing quarter and the quarter on quarter basis.

While realized prices will lower by $4 in Q1 2014 compared to the corresponding period LPG prices were slightly higher by $2 and this (sort of) compensated the declined partially compensated the decline in our current state revenue.

Comparing Q1 2014 to Q4 2013, there was a minor change and prices mostly remained flat. We move to slide number 10, which I'm sure will be of interest to most of you. Here we have presented an analysis of our collections and total receivables.

In Egypt our billing and collection ratio in quarter stood at 91% compared to 78% in 2013 was on the ratio basis it is pretty good. If you look into the details we have received $3 million in cash with further offsets being agreed with EGPC for block-6 signature one that's worth $20 million and payable to government-owned contractors for $17 million thereby saving cash to the company.

Our receivable balance in Egypt stood at $278 million a very normal increase of $4 million compared to what it was at the year end of 2013. We continue to work with the Egyptian Government to make about solution to the outstanding receivables and my colleague Mark Fenton will provide more details on that.

In Kurdistan no cash was received during Q1 2014 and as a result our total receivables of our 40% share as the period end increased to $583 million compared to $515 million at the end of December 2013.

With this I would like to end the financial review for quarter one and hand over to Mark Fenton, our General Manager in Dana Gas Egypt who will take you through the business highlights.

Mark Fenton:
Thank you, Azfar. Good morning, ladies and gentlemen. My name is Mark Fenton, I'm the General Manager of Dana Gas Egypt and it's my great pleasure to briefly take you through to the highlights of the last quarter at the Dana Gas Egypt.

So if we move over to slide number 12, we have a graph here that shows you the production for Egypt over the course of 2013 and we continue to obtain a substantial increase in production during that time, and I might add that the really key part to the story is that Dana Gas Egypt managed to increase its production despite the typical economic circumstances that the company faced within Egypt at the time and outstanding effort to increase our production by 17% over that period.

Can't point your finger on anyone particular activity that's increased the production; there's been a number of excellent production optimization efforts that have been done during the course of the year ranging from fast far to south, but ultimately we managed to get our production up from 17% on a quarter to quarter basis over the 12 months period and now run in an average of 39,100 boepd.

Patrick Allman-Ward:
Well let me continue from where Mark left off and to say that indeed it was an exception achievement under the challenging circumstances in Egypt both in terms of operating environment, political security environment, as well as financial environment that we managed to increase production steadily over the course of 2013 and held those gains into 2014.

We did of course have a scheduled shut down for the El Wastani plant in Egypt, that actually shut down with actually was carried out in nine days versus a plant shut down schedule of 12 days. So that was an extremely good result and that has helped also in terms of our production statistics for the first quarter.

So we've now de-bottle necked as I mentioned earlier from a 160 mmscfd to 200 mmscfd and prepared the stage as it were for increased development and production opportunities in Egypt going forward.

Moving on to slide 13, we had a number of development leases granted to us during the course of the first quarter of this year or amended the outlines of which were amended as a result of discoveries made in 2012, 2013.

The first is the El Basant development lease which you can see that covering the Balsam discovery. We made a modification and we're ground to the modifications to the outline and be able to development lease to cover the Allium discovery that was made the end of 2012.

We have also made a change to the summer development lease to cover the (wet sum) discovery also in 2012. We are currently in application for Begonia development lease which should cover the discovery of the same name that was made in that area in the beginning of 2013.

I think I've covered most of the other items on this slide just to highlight that we also brought on stream the Salma-Tulip field rather during the course of the quarter, this first phase one of that field development, and we will be completing phase two of that development during the course of the first half of this year.

You would like me also to cover the next slide which is on the operations in Kurdistan which are some of less dramatic in terms of – it's more of a steady state picture in the Kurdistan region of Iraq Dana Gas of course continuous to produce that share of 40% share of production there which amounted to 29,300 boepd as you've heard in the first quarter of this year.

Our share of total gas production being a 130 mmscfd today and our share of the common state production about 6,000 barrels a day with a 150 tons of LPG. We continue to increase LPG production resulting from the restarting of our LPG loading facilities in the middle of last year, and we are currently loading an off taking between three and 500 tons of LPG per day.

The amount of lifting however is limited by the nomination of the MNR in the Kurdistan region of Iraq under the actual capacity of the plant to produce at this time. In terms of our assets in Kurdistan, I think the exciting thing about that is the very, very substantial resource base and this was substantiated by an external petroleum consultant Gaffney Cline who provided an external independent review of the in place hydro carbon volumes for both the Khor Mor and Chemchemal fields.

The date of that evaluation was date stamped 31st of December 2012 though the actual results were released in September of last year. Now there are a number of different fault locks with the Khor Mor and Chemchemal fields and the P50 best estimate to resource in place volumes aggregated over those different fault locks with 22 TCF for the Khor Mor field and 30 TCF for the Chemchemal field.

So our share of course our 40% share that amounts to 22 TCF. Now these are in place volumes and they are un-risk so you need to discount both for production factors and also geological risk but given the fact that these are very well geologically calibrated and the recovery factors will be relatively high. This obviously means that this is still a very, very substantial resource base and very material on a world scale.

In addition, we have identified that the fields have considerable additional upside potential. There is a possibility that certain blocks in the Khor Mor field may contain oils rather than gas and those oil volumes have been as attained to be on a 100 basis and as far as I can remember that was nearly 2 billion boepd in place volumes again and that would replace about 3 TCF of gas in those blocks.

So potentially also a very substantial oil upside as well, for that as I say is yet to be tested and yet to be seen. Moving on to the Zora project closer to home, we are now in full swing with the Zora project. We have awarded a number of different contracts for a platform, for onshore gas treatment plants, for the laying of the (onshore) pipeline and for pipeline procurement, as well as for the platform transportation and installation.

So we've covered most of the outstanding contracts to date made either contract awards or letters of intent to that effect. And so we're on track to deliver the project and we hope that we'll be indeed able to deliver first gas in the first half of 2015 to a production level of 40 mmscfd which is about 6,650 barrels of oil per day equivalent or about 10% of our overall production.

So then let me move on to the summary and then after the summary we'll be able to take your questions and I think the overall we've achieved a good result with an increase in overall production in sales with the tight control of operation and capital expenditure costs. Clearly the ongoing macroeconomic challenges in Egypt are matter of concern but we are in continuing dialogue and we feel that we are close to resolution for a solution that would provide a sustainable income stream for our products delivery in Egypt.

And that will benefit both parties because once we have got such a payment scheme in place then we have the ability through the development of discovered but undeveloped fields and the redevelopment of discovered fields that have additional capacity. We have the ability to significantly enhance production over relatively short term timeframe once that agreement has being put in place.

With respect to the Kurdistan region of Iraq despite the ongoing arbitration we continued to meet all of our contractual obligations and we continue to operate our gas production facilities at Khor Mor full capacity and that of course provides gas which in turn is the feed stock for the much needed power generation for the people of that region. We're very encouraged by the ongoing requests for exchanging the convertible Sukuk to equity and I think that's a reflection of the investor confidence in the company as well of course as enabling us to lower our debt obligations.

So despite these challenges that we face we remain optimistic about the company's future potential and particularly about its underlying growth potential I think as you've seen illustrated by the growth of production during this quarter and we continue to focus on delivering maximum value to our shareholders. That's it for me. Let me pass you back to Robinder who will conduct and organize the question-and-answer session.

Robinder Singh:
Thank you, Patrick. Operator please we're now open to take questions.

Question and Answer Session

Operator:

Thank you, sir. If you'd like to ask a question you need to press star one on your telephone keypad and wait for your name to be announced. Once again that's star one if you wish to cancel your request you need to press the hash key. Please stand by. First question comes from the line of Ridha Raza please go ahead sir.

Ridha Raza:

Hi. I'd like to ask you a question. I've been recently investing into your company but I've seen that since 2005 to now they have never been paid any dividends and cash dividends been paid to the investors, do you have any idea as to when in the future you will be able to pay dividends to shareholders?

Patrick Allman-Ward:

Thank you for that question. I think that the question that we frequently face and I think its perhaps at this point useful to point out that typically commodity companies Oil and Gas companies and specifically those who are in early phases of developments and growth that they typically do not deliver dividends to their shareholders because all of the money generated out to their operations are fed back into their operations in order to further grow the business.

And it's the nature of commodity companies and particularly Oil and Gas that you are facing decline curves all the time so in order to be able to stand still you have to actually continue to invest in order to stay still and you have to invest even more in order to further grow the business. So if you are looking for a steady stream of dividends then small young growing Oil and Gas companies are not the best place to look for in order to get steady dividends stream.

Ridha Raza:

No, what I meant is when you expect it would be around, this is your 9th year

Patrick Allman-Ward:
Well that's a forward looking question which I can't respond to but clearly there will come a point sometime in the future when we have invested sufficient amounts of money that we have a sustainable business, we have sufficient large reserves and be able to sustain steady state production profiles and on that basis and at that time the company will be able to start returning some cash to its shareholders.

Ridha Raza:
All right. Thank you very much.

Operator:
Thank you. The next question comes from the line of Khaled Majeed please ask your question sir.

Khaled Majeed:
Hello. I have two questions in fact one is if you could give us an update on any potential developments with regards to your oil pipeline sorry gas pipeline from Iran and the second is if you could comment on sort of the investments capital. I understand that the receivables, sorry the money you're getting from receivables from Egypt are covering your operating expenses but not any exploration budget so if you could comment on those two subjects for me please. Thank you.

Patrick Allman-Ward:
Let me first cover the gas pipeline and the gas project from Iran as you know that the gas that was contracted to be supplied in 2006 was never delivered as a consequence of that the company who had contracted for the supply of that gas namely Crescent Petroleum that has commence arbitration in 2009 I believe with the Iranian entities and that's arbitration process we believe is going to come to an end by the end of this month.

So in the meantime we continue to maintain and keep our facilities namely, the offshore riser platform, the pipeline and our onshore gas sweetening plant we continued to keep these facilities on standby on care and maintenance and with an ability to restart operations as and when required.

With respect to investment capital you're absolutely correct, we have continuing our policy of calibrating our expenditures in Egypt to the collections that we received in Egypt and that has necessarily meant that we have not exercised any exploration activities in Egypt since January of 2013 but as I mentioned earlier we are very hopeful that we will be able to reach a resolution with the government soon which will allow us to put a steady payment schedule in place and in anticipation of that we hope or as a result of that we hope that we'll be restarting a very significant investment campaign in the drilling of development and exploration and appraisal wells over the course of the next two to three years.

Khaled Majeed:
That's great. Thank you very much.

Operator:
And the next question comes from the line of Zafar Nazim please ask your question.

Zafar Nazim:
Hi. This is Zafar Nazim from J.P. Morgan. I have a couple of questions. First I guess if I can talk about the old cash flow so in the first quarter of the year you burned at least $50 million of cash and if I look at your cash profile I think it's, you know, cost as well as CapEx profile it's fair to say that unless you started get in three months from Egypt and Kurdistan which you know it's kind of uncertain right now, you will be burning $50-$60 million a quarter.

So that is the cash on your balance sheet enough for the remainder of this year. If I can just talk to what exactly the plan B is over here in the event that you do not get cash from Kurdistan or the Egyptian governments what do you plan to do?

Patrick Allman-Ward:
So you're correct the burn rates that we have at the moment which incorporates G&A for Egypt, G&A for head office costs, Sukuk profit repayments and the investments in the Zora project do amount the moment to about $50 million per quarter so that is a correct analysis and we clearly are going to put in place a number of initiatives.

We first of all of course are resolving the Egyptian receivables issue along the lines that I have described. We are continuing to optimize our costs and reduce costs going forwards, we are continuing of course also to experience conversion of Sukuk which is helping decrease our profit payment obligations and on top of that we are also looking at a number of different options which I can't go into for obvious reasons in order to be able to sustain a future for the company going forward.

Zafar Nazim:
Is there a plan to raise additional financing in the short fall, I mean, your covenants I guess you can it's additional data needed so is that something that you may consider during the course of this year?

Patrick Allman-Ward:
Absolutely. We are looking at a number of different options and we are very encouraged actually by some of the potential interests that we ever heard from the investor community and from the banking community with respect to some of these options.

Zafar Nazim:
OK. And just on the Egyptian side, I understand the Egyptians are having a problem in terms of paying FX, you know, in dollar payments but what I guess, I'm little bit unclear is that the Egyptian pound (denominated) payments because I guess your, you know, and not even significant portion of your expenses and CapEx are local currency denominators so why aren't you getting payment on a regular basis and Egyptian fund?

Patrick Allman-Ward:
But I think the issue in Egypt is not just the question of a dollar access to dollar funds but it is a general shortage of cash all the way round. We are getting paid in Egypt and partly in Egyptian pounds so the receivables that we get in Egypt pound the collections we get in Egypt are frequently partially in dollars, partially in pounds and so but you are right in your assumption that the majority of our investments in Egypt are denominated in Egyptian pounds so we don't actually face any kind of foreign exchange risk or exposure in that regard.

Zafar Nazim:
And so I mean any clarity on what kind of a plan we might put in place in terms of getting the payments from the Egyptian government in the near term or they will get some of the local currency payments I mean in a bit the fund component I guess that's difficult to explain but the law.

Patrick Allman-Ward:
There are number of things one is that we have a close to agreeing a scheme of regular payments from the Egyptian government that would be monthly payments linked and related to the raise of our G&A costs and OpEx cost in the country. The second thing is that we are in discussions with the Egyptian government about the possibility of taking part cargos in exchange for receivables and we are in discussions with them about taking a number of those and as you've probably read in the press you've seen that the petroleum minister has indicated that in June that the government is intending to make a repayment to the petroleum sectors as a whole between $1 and $1-1/2 billion dollars and of course we would expect and anticipate as we did in December of last year to get our share of that repayment, the petroleum sector as a whole.

So there are a number of indications of mechanisms by which we will be recompense during the course of this year from the Egyptian government and of course we have on top of that this mechanism that I don't particular want to discuss in detail right now but it's a mechanism by which we would get payments in hard currency going forward.

Zafar Nazim:
And the agreement on the monthly payment is that imminent and in the current quarter or is it going to take longer you think?

Patrick Allman-Ward:
We would hope indeed that there will have such an agreement in place before the end of this current quarter.

Zafar Nazim:
OK. And just one last question on the CapEx side what should we use as a CapEx number for the year end modeling purposes. I know it's kind of a moving number depending on your info on Egyptian receive but any rough guideline would be very helpful.

Patrick Allman-Ward:
Well and we continue to invest in the KRG to the extent of covering our ongoing operating costs so there's no CapEx provision for the KRI at the moment but in Egypt as I said our investments in Egypt are going to calibrated against our collections and so it'll be a no pain, no gain results in Egypt over the course of the year.

Zafar Nazim:
OK. Thank you very much.

Operator:
As a reminder, if you like to ask a question you need to press star one on your telephone. The next question comes from the line of Dinesh Saboo please ask your question.

Dinesh Saboo:
Hi. Thank you for taking my question. I have one question on the KRI business. I just want to understand as to where are we in terms of the arbitration for the KRI and if you can give some color on when do you expect some resolution on this issue to happen?

Patrick Allman-Ward:
Yes. Again the arbitration we made an application for arbitration at the end of October of 2013 and that resulted in the formation of the Arbitral Tribunal which took place in January of this year since when the arbitration process has been taken its course and proceeding. As you know these things are little bit difficult to define exactly how long they're going to take but we would expect and anticipate based on our current state of knowledge that we would hope to have some kind of outcome by the middle of next year.

Dinesh Saboo:
Sure. Thank you. Just one last question on Egypt side I understand that in Q1 receivables received for the Egyptian business but in your (slide) you have mentioned that there are some off setting against the receivables with EGPC and some other adjustment so if you can explain that adjustment and tell us that if there kind of (billing to collection) ratio continues for the next two, three quarters is it safe to resume that Egypt will be getting around $40-50 million USD per quarter in terms of the cash realization?

Patrick Allman-Ward:
Now, I'll give me advice to the rest of this point and I invite Azfar to take over and address your question.

Azfar Aboobakar:
In respect of your first part of the question on collection in Egypt which was $40 million and of that we had $3 million in cash, we had to pay EGPC which is the Egyptian Counter Party, a $20 million signature bonus for the block 6 concession which was awarded to us. Instead of making a cash payment which would have, drained our cash further, we agreed with them that it would be an offset against our receivables. In addition, we had certain payables to Government related contractors who work for us and it will be a matter of either paying them cash or working with EGPC to offset it against our receivables. So we agreed for an offset. The two offsets were $37 million and our cash collection of $3 million.

Now going forward I think it's a function of, what is agreed in terms of from monthly plan with them thereby as Patrick mentioned they pay us, a monthly cash to the extent of our operating cost and also what will happen in June as announced by the minister in terms of allocation of billion and a half dollars to the Oil and Gas industry in Egypt.

Dinesh Saboo:
Sure. Thank you. Just one follow up question on your answer. In terms of the payment expected from Egypt up to $1.5 billion in June how much do you think Dana will be able to collect. I understand last year they were around $53 million was realized from Egyptian government or do you have any (further) for that?

Azfar Aboobakar:
Well. This is an announcement which was made by the minister and we will expect an equitable allocation to be made as well as done in December.

Dinesh Saboo:
Sure. Thank you.

Operator:
OK. The next question comes from the line of Zafar Nazim you can ask …

Zafar Nazim:
Yes. Thanks (Zafar) again. Just on the arbitration just a follow up on that so is there any mechanism under the arbitration that you get some kind of an interim decision that at least only to get some cash flow from what you're selling to the, you know, into the region, you know, to stop (inaudible) or is everything going to be blocked up until you get a final resolution middle of next year?

Patrick Allman-Ward:
I'm afraid that under the arbitral process and we are bound under confidentiality on the mechanism that you'd describe is an available mechanism and of course so we are considering all of our options under the rules of the LCIA.

Zafar Nazim:
And just one cash flow related question maybe Azfar can answer this one and (ask) if I look at your cash flow statement your cash outflow related to taxes and I just want to know if you are not collecting anything, are you still liable to pay that taxes?

Azfar Aboobakar:
(Zafar) as you rightly said it appears in the cash flow but it appear as an adjustment to the profit -- we don't show it as a payment. In Egypt, the agreement we have with the government is that the taxes will be taken from the share of revenue entitlement. It is set off against the government share of revenue so there is no payment which you have to make in cash.

But from a financial perspective, it is shown below the line and hence in the cash flow appears as an adjustment to the profit but it's not necessarily a payment, hope that's clear.

Zafar Khan:
That's clear, yes. Thank you.

Operator:
Quick reminder you need to press star one if you wish to ask a question. It appears we don't have any more questions at this time, sir. Please go ahead. Hello.

Robinder Singh:
All right. If there are no further questions I think we can wrap this up and say thank you to all of you for having attended. And as always we look forward to engaging with you with an ongoing basis during the quarter and of course of the earnings call for the next quarter and in 2Q 2014. Thank you and good day.

Operator:
Thank you everyone for (attending). Now that does conclude our conference for today you may all now disconnect.