

## Ramping up CBM production

Taking into account China's increasing focus on Coal Bed Methane (CBM), Green Dragon Gas comes across as a unique play on China's CBM strategy.

### Brief description

Green Dragon, a gas supplier based in and operating within China, is the parent company of Greka China. It focuses on the production, development, distribution and sales of natural gas from coal seams, commonly known as coal bed methane or CBM. Greka China is a pioneer in the appraisal and development of CBM projects in China. The company's CBM supply comes from its four projects in Shanxi, Jiangxi, Anhui and Guizhou provinces, with a total acreage holding of 7,589 km<sup>2</sup> and an estimated 25tcf of gas in place. The CBM distribution to customers is mainly in the form of compressed natural gas (CNG) and to a lesser extent, via pipeline in the form of piped natural gas (PNG)

### 3P reserves valued at USD7.2b, 2P at USD1.1b

According to its latest statements, Green Dragon has 3P gas reserves of 25tcf valued at USD7.2b, and 2P reserves of 258bcf valued at USD1.1b. Net per thousand cubic feet margins in China are expected to be approximately USD4-6 as compared to Australian margins that are in the USD1-2 range. In terms of drilling ramp-up, we expect Green Dragon to ramp up CBM commercial production in 2009 through an intensive drilling campaign. The company's surface-to-inseam drilling program was largely successful and we expect this to increase the extraction of the gas reserves. Green Dragon is also looking to develop mid and downstream opportunities to become a vertically integrated gas supplier and capture the value in the gas chain. It had USD72m of cash at the end of 1HCY08. But, has not yet disclosed any sources for funding the robust investing plans for the next two to three years.

### A unique play on China's CBM

CBM is likely to play an increasingly important part in the energy mix in China, and the government is actively promoting it. China is striving to reduce its burgeoning CO<sub>2</sub> emissions and is aggressively promoting the production of clean energy. CBM is also a domestic source of energy in China, which is becoming increasingly dependent on imports to meet energy demands. Green Dragon Gas is among a handful of focused publicly traded CBM pure-plays, with a large portfolio of attractive acreage with established reserves and resources. It is much ahead of most of its competitors in the exploitation of these reserves and resources.

### Bradley Way

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### Earnings estimates and Valuation Ratios

YE Dec (USD m)	2006	2007	2008	2009E
Revenue	0.0	0.0	22.5	105.2
EPS	-3.7	-0.09	-0.18	-0.13

Sources: Green Dragon Gas Ltd; Bloomberg estimates

