

# Quam quote

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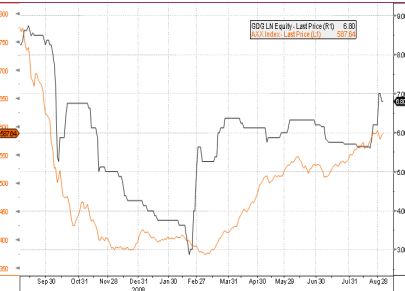
## Company profile

Green Dragon Gas, a gas supplier based in and operating within China, is the parent company of Greka Energy China. It focuses on the production, development, distribution and sales of natural gas from coal bed methane ("CBM"). CBM resources are located strategically in four provinces, Shanxi, Jiangxi, Anhui and Guizhou with a total acreage of 7,589km<sup>2</sup> and 3P gas reserves of 25tcf.

## Valuation metric

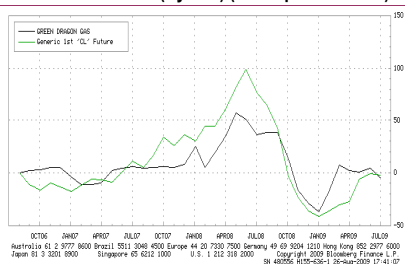
Price: USD\$ 6.80  
 52 week high: USD\$ 8.75 (12/09/08)  
 52 week low: USD\$ 2.88 (20/02/09)  
 Market cap: USD\$ 692.632M  
 Shares Outstanding: 101.86M  
 Float: 12.59M  
 2009E P/Sales: 0.00x P/E: 0.0x Div Yld: 0.0%

## GDG vs ^AIM (YTD performance)



Source: **Bloomberg**

## Crude Oil Lt Sweet (Nymex) (6-mth performance)



Source: **Bloomberg**

## quote is produced by Quam Institutional Business Unit

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## Green Dragon Gas (GDG LN)

Target price: USD\$8.21 – USD\$14.31  
**ACCUMULATE & HIGH RISK**

## Cooking With Gas

Green Dragon Gas ("GDG") is a gas supplier based in China exclusively focused on the production, development, distribution and sales of natural gas from coal bed methane ("CBM"). GDG is one of the initial private sector companies working with China United Coal Bed Methane Co. Ltd. ("CUCBM") towards commercializing significant CBM resources in China. This week it was announced that GDG had selected ConocoPhillips ("COP") to invest in a farm in agreement of three of GDG's world-class CBM reserves and resources in China. COP is a US listed company with a market capitalization of USD\$ 68B and a world-leader in developing and operating CBM projects. Additionally, COP has over 25 years of working experience with CBM and is the largest producer of CBM in the USA.

### Target price of USD\$8.21 – USD\$14.31

ConocoPhillips to invest up to USD\$ 170M for a 50% share of a CSG farm out agreement comprising:

- An up-front payment of USD\$ 20M;
  - Additional fixed contribution of USD\$ 30M for funding capital expenditure;
- Final Investment Decision (FID) expected end 2010; and
- Additional payment of USD\$ 120M to acquire 50% of GDG's interest in three CBM Production Sharing Contracts ("PSC")

Following completion of the transaction, GDG will have no net interest bearing debt and a significant cash balance.

### Green Dragon Gas ~ Jigsaw Pieces Keep Falling into Place.

Importance of CBM to China is highlight in National Energy Administration recently released report on inspection and acceptance for CBM treatment and utilization, core technology R&D and device development & manufacturing. Further CUCBM's Vice President of International Cooperation stated "Beijing has granted CUCBM green light to proceed with the development of its 50%-owned Panzhuang block and its 60%-owned Shizhuangnan block".

GDG owns a stake in one of these blocks. It provides confirmation that the Overall Development Plan required from CUCBM for commercial sales will be approved. Importantly it means that GDG will be able to start claiming back the development costs to date of the CBM fields as per their Production Sharing Contract ("PSC").

CUCBM also stated "Coal seam gas from these two projects will be transported via pipelines to end users Shanxi and Henan provinces, adding that the pipelines will be completed in March next year". Pipeline infrastructure built by CUCBM provides significant free rider upside to GDG shareholders.

GDG is to be the upstream CBM operator and COP to provide personnel to the projects and enhance the PSC development scale and efficiency through their extensive CBM experience. Again a free rider benefit for GDG shareholders.

COPs' investment gives us confidence in the commerciality of CBM in China. The joint venture combines GDG's extensive CBM reserves and resources and operational capabilities, with COPs' proven CBM development and operating capabilities. We believe the farm in will deliver both companies with a strong and competitive position in a rapidly growing market for natural gas.

COMPANY NAME	PRICE (\$USD)	OUTSTANDING SHARES	MARKET CAP. (Mil)	RESERVES (BCF)		MARKET CAP. / BCF OF RESOURCE		
	28/8/2009			2P	3P	EV/2P	EV/3P	
<b>USD</b>								
SANTOS LTD	13.35	830.47	11,085	1,155	2,286	9.60	4.85	
ORIGIN ENERGY	12.92	874.83	9,494	4,512	9,686	2.10	0.98	
ARROW ENERGYLTD	3.90	727.79	2,383	1,260	2,670	1.89	0.89	
EASTERN STAR GAS	0.87	840.33	617	757	1,238	0.81	0.50	
AJ LUCAS GROUP	3.60	65.14	197	447	251	0.44	0.78	
MOLOPO AUSTRALIA	1.01	182.85	155	176	359	0.88	0.43	
METGASCO LTD	0.37	185.99	58	119	1,125	0.48	0.05	
<b>AVERAGE VALUE OF ALL COMPANIES</b>						<b>2.32</b>	<b>1.21</b>	
<b>AVERAGE VALUE OF COMPANIES IN RECENT TRANSACTIONS (ORIGIN / SANTOS / ARROW ENERGY)</b>						<b>4.53</b>	<b>2.24</b>	
<b>GREEN DRAGON GAS</b>	<b>6.25</b>	<b>101.86</b>	<b>637</b>	<b>258</b>	<b>2,161</b>	<b>2.47</b>	<b>0.29</b>	

Source: Company data and Quam analysis

<b>Sum-of-the-parts USD '000</b>	Low	High
Resource verified by Netherland Sewell	759,568	1,397,563
Well drilling	6,960	6,960
Pipeline gas distribution and gas station income	91,000	91,000
<b>Total</b>	<b>857,528</b>	<b>1,495,523</b>
<b>NAV per share USD</b>	<b>8.21</b>	<b>14.31</b>

Source: Company data and Quam analysis

## Valuation

On the basis of the Sum-of-the-parts of Green Dragon Gas' integrated business we have estimated the full underlying value of GDG shares to be in the range of **USD8.21 and USD14.31**. The assessed value was derived from employing peer comparison EV/3P multiples. GDG's share of the upstream CBM asset is valued in the range of USD758.6mn - USD1.40bn based on GDG's 2,161bcf 3P reserve base evaluated by independent reserve engineers Netherland Sewell & Associates ("NSAI") as of 31 December 2008.

The full underlying value of GDG's other business segments namely the well-drilling and combined gas distribution and gas station business have been estimated to worth USD98mn. These businesses were valued primarily on multiples of 2009 forward estimated Sales (EV/Sales of 2X) and Operating Profit (EV/Operating Profit of 35X) which were derived from industry comparisons. Our analysis assumes a current exchange rate of AU\$1 – US\$0.84.

Rating Definitions	Disclaimer and Risk Statement
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<b>ACCUMULATE</b> The share is undervalued to a less extent and investors can accumulate on weakness to secure more unrealized value.	
<b>HOLD</b> The share is fairly priced and investors can continue to hold the share unless unfavorable developments occur.	
<b>REDUCE</b> The share is not attractively priced and investors should reduce exposure.	
<b>SELL</b> The share is overvalued and investors should sell it.	
<b>LOW RISK</b> Earnings predictability is high. Investors can own relatively high exposure of the share.	
<b>MEDIUM RISK</b> Earnings predictability is medium. Investors can own medium exposure of the share.	
<b>HIGH RISK</b> Earnings predictability is low. Exposure should be strictly controlled.	