



# Green Dragon all fired up

Investment programme should see gas production increase massively by 2012

Tom Sieber

**D**espite a limited free float Chinese-based coal bed methane specialist **Green Dragon Gas (GDG:AIM)** is worth buying at \$6.88 ahead of a substantial increase in gas production over the next two years.

The group, which has an integrated structure with downstream, midstream and upstream assets, plans to spend \$250 million over that period, drilling around 100 wells a year. This programme, combined with an extension to its pipeline network, should see output rise from a forecast one billion cubic feet (bcf) at the end of 2010 to 18 bcf by the conclusion of 2011.

Such an ambitious capital expenditure programme is likely to be funded from the \$20 million in cash the firm already has on its balance sheet, cash flow from gas sales and debt financing, in addition to existing resources provided by an initial agreement with US energy giant **ConocoPhillips (COP:NYSE)**. A further \$120 million from the American firm will become available should it exercise an option to take up a 50% interest in three of Green Dragon's six coal bed methane blocks.

Green Dragon has already made progress in developing its various upstream assets. An independent report showed its total

reserves increased by 8% in volume last year but by a more significant 29% in value, supported by higher Chinese gas prices and the advanced horizontal drilling techniques it has brought to bear on its acreage.

The £535 million market cap's main focus in terms of selling its own gas involves converting it to compressed natural gas (CNG) and then trucking it to retail stations where it can be sold for vehicle use. This allows the company to benefit from a deregulated gas price, which at around \$13 per million cubic feet (mcf) is nearly twice the price of gas sold for regulated domestic use. The group already has two operating CNG retail stations in Zhengzhou, around 220 kilometres from its Shizhuang South block which was the first, and to date, only block to go in to full-scale production. Green Dragon plans to expand the number of outlets through acquisitions in the future.

The stock is tightly held, as chief executive officer (CEO) Randeep Grewal has a 75% stake. He points out there are still around six or seven million shares freely available to trade in the market and in *Shares'* view a 3.5% bid-offer spread should not detract from the strong growth story.

**Shares says: Impressive growth prospects.** + Buy