

Deutsche Rohstoff AG

Germany / Energy
 Frankfurt
 Bloomberg: DR0 GR
 ISIN: DE000A0XYG76

Update

RATING
BUY

PRICE TARGET
€ 50.00

Return Potential 56.3%
 Risk Rating High

RAISING PRICE TARGET FOLLOWING GUIDANCE UPGRADE

DRAG has raised base-case revenue and EBITDA guidance for 2023 by 20.6% and 16.7% respectively and for 2024 by 11.1% and 10.9% respectively. The new guidance updates numbers issued in the annual report at the end of April. The guidance increase is prompted by better than anticipated production from ten Occidental JV wells which came online in May (this bodes well for the Q3 results due on 31 October), the increase in the oil price since the end of August, and by a recent bond refinancing. Better than expected profitability and the bond refinancing have given DRAG the financial flexibility to increase its working interest in six recently drilled 1876 Resources wells and also to bring forward the start of production at four of these wells. We have revised up our forecasts and price target to reflect higher volume and pricing than we previously modelled and now see fair value for the DRAG share at €50.0 (previously: €44.0). We maintain our Buy recommendation.

Production start of four 1876 wells brought forward DRAG's JV with Occidental Petroleum started production at ten new wells in Wyoming in May, and three new wells (also in Wyoming) drilled by the subsidiary 1876 Resources came on line in June. Beginning in July, 1876 Resources drilled a further six wells in Wyoming. These new wells were originally scheduled to come on line in late 2023 or H1/24. 1876 Resources planned to drill a further two wells in Q4/23 with a projected 2024 production start. Under the new guidance given at the end of September, four of the six wells drilled during the summer will begin production in October and the other two in Q1/24. We gather that DRAG's working interest in these six wells will be ca. 98%. We had previously modelled 80%. We expect the other two 1876 Resources wells to come on stream in March next year. In addition, the Oxy JV will start production from a further five wells in early Q4/23 and a further 10 wells in H1/24. The scheduling of the start of production at these Oxy JV wells is unchanged in DRAG's updated guidance.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2019	2020	2021	2022	2023E	2024E
Revenue (€m)	41.20	38.68	73.32	165.44	188.56	208.73
Y-o-y growth	-62.2%	-6.1%	89.5%	125.6%	14.0%	10.7%
EBITDA (€m)	22.73	23.93	66.06	139.09	143.03	157.98
EBITDA margin	55.2%	61.9%	90.1%	84.1%	75.9%	75.7%
Net income (€m)	0.31	-15.51	24.79	60.77	64.85	72.33
EPS (diluted) (€)	0.06	-3.13	5.00	12.15	12.96	14.46
DPS (€)	0.10	0.00	0.60	1.30	1.30	1.30
FCF (€m)	-14.79	-22.73	0.63	60.27	-62.18	84.13
Net gearing	75.9%	202.6%	100.2%	33.0%	58.5%	13.4%
Liquid assets (€m)	66.64	22.82	23.49	54.20	16.12	53.25

RISKS

Risks include negative movements in the oil price and other raw materials prices, dry well risk, mechanical failure, loss of key personnel.

COMPANY PROFILE

Deutsche Rohstoff AG (DRAG) is a fast-growing oil and gas producer with 100% of its production in the United States. Critical metals such as tungsten account for around 10% of the company's assets. DRAG is based in Mannheim, Germany.

MARKET DATA

As of 24 Oct 2023

Closing Price	€ 32.00
Shares outstanding	5.00m
Market Capitalisation	€ 160.11m
52-week Range	€ 23.70 / 33.80
Avg. Volume (12 Months)	7,107

Multiples	2022	2023E	2024E
P/E	2.6	2.5	2.2
EV/Sales	1.4	1.3	1.1
EV/EBITDA	1.7	1.7	1.5
Div. Yield	4.1%	4.1%	4.1%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2023

Liquid Assets	€ 28.04m
Current Assets	€ 52.14m
Intangible Assets	€ 30.37m
Total Assets	€ 389.85m
Current Liabilities	€ 58.49m
Shareholders' Equity	€ 147.00m

SHAREHOLDERS

Management	10.0%
Institutional shareholders	19.0%
Free float	71.0%



CAPEX guidance also raised DRAG is now guiding towards combined CAPEX for 2023 and 2024 of €230m (previously: €200m). We now model €182m for 2023 and €50m for 2024 (previously: €139m and €96m). Management has indicated that there is scope to raise the 2024 CAPEX figure if commodity prices remain favourable.

We now expect H2/23 volume to exceed H1/23 level by over 30% DRAG's H1/23 production averaged 10,533 boepd. Ahead of the increase in guidance at the end of September, DRAG was guiding that H2/23 production would exceed the H1/23 level by 20%. Following news of better than expected output from the ten Oxy JV wells which came on line in May and that the start of production at four 1876 wells will be brought forward, we now expect H2/23 production to exceed the H1/23 level by over 30%.

Figure 1: DRAG guidance and First Berlin forecasts

€m	DRAG 27.09.23 (base case)	DRAG 26.04.23 (base case)	New DRAG base case vs old base case	FB forecast 24.10.23	FB forecast 25.08.23	New FB f/cast vs. DRAG base case	New vs. Old FB f/cast
2023 volume (boepd)	12,000-12,500	11,000-12,000	6.5%	12,466	11,640	1.8%	7.1%
2024 volume (boepd)	13,000-13,500	+10-15% vs 2023	2.4%	13,320	12,967	0.5%	2.7%
2023 revenue	188-198	150-170	20.6%	189	168	-2.3%	12.2%
2023 EBITDA	138-148	115-130	16.7%	143	126	0.0%	13.5%
2024 revenue	190-210	170-190	11.1%	209	190	4.4%	9.9%
2024 EBITDA	145-160	130-145	10.9%	158	146	3.6%	8.2%
Q4/23 oil price assumption (USD)	85.00	75.00	13.3%	88.02	79.00	3.6%	11.4%
Q4/23 gas price assumption (USD)	2.50	3.00	-16.7%	3.09	3.07	23.7%	0.7%
2024 oil price assumption (USD)	75.00	75.00	0.0%	82.13	76.14	9.5%	7.9%
2024 gas price assumption (USD)	3.00	3.00	0.0%	3.40	3.49	13.3%	-2.6%
Q4/23 USDEUR exchange rate	0.93	0.89	4.2%	0.93	0.92	0.0%	1.0%
2024 USDEUR exchange rate	0.89	0.89	-0.3%	0.94	0.92	6.0%	2.6%

Source: DRAG; First Berlin Equity Research estimates

As figure 1 above shows, DRAG has raised base-case revenue and EBITDA guidance for 2023 by 20.6% and 16.7% respectively and for 2024 by 11.1% and 10.9% respectively compared with the previous guidance issued at the end of April with the annual report. Our new forecasts and assumptions (see figure 1 above and figure 2 below) are close to those of DRAG with the exception of our gas price assumption (which is based on the NYMEX futures strip). However, gas only accounts for around 10% of DRAG's revenue and so this deviation only has a small effect on our forecasts.

Figure 2: Changes to our forecasts

All figures in € 000s	2023E New	2023E Old	Δ	2024E New	2024E Old	Δ
Volume (boepd)	12,466	11,640	7.1%	13,320	12,967	2.7%
Revenue	188,561	168,372	12.0%	208,730	190,217	9.7%
EBITDA	143,030	126,428	13.1%	157,976	146,439	7.9%
Dep. and amort.	52,327	48,857	7.1%	56,065	54,578	2.7%
Op. income (EBIT)	90,704	77,571	17%	101,911	91,861	11%
Net financial result	-7,076	-5,250	n.a.	-8,450	-6,950	n.a.
Pre-tax income (EBT)	83,627	72,321	15.6%	93,461	84,911	10.1%
Income taxes	-17,562	-15,187	n.a.	-19,627	-17,831	n.a.
Net before mins.	66,066	57,133	15.6%	73,834	67,079	10.1%
Minority interests	-1,213	-1,007	n.a.	-1,506	-1,299	n.a.
Net inc. after mins.	64,853	56,126	15.5%	72,328	65,781	10.0%
EPS (€)	12.96	11.22	15.5%	14.46	13.15	10.0%

Source: First Berlin Equity Research estimates



€20.5m of 2024 bond now outstanding instead of €100m In September DRAG succeeded in refinancing its five-year €100m 5.25% December 2024 bond with a five-year €100m 7.5% September 2028 bond. Holders of €59m of the 2024 bond swapped the old bond for the new bond. DRAG made use of its right to prepay half of the outstanding amount of the 2024 bond with the result that only €20.5m of the old 2024 bond is still outstanding.

DRAG is hedging 50% of new and existing oil production on an ongoing basis DRAG has made use of the high oil prices of recent weeks to expand its hedge book. For Q4/23 330,000 barrels of oil are hedged at USD77/barrel. For 2024, around one 1 million barrels of oil are hedged at USD76. These numbers correspond to 47% of our Q4/23 production estimate and 41% of our 2024 production estimate. DRAG has stated that it is now hedging new and existing production at approximately 50% on an ongoing basis.

Price target raised to €50 (previously: €44). Buy recommendation maintained We have raised our price target from €44 to €50 to reflect the increased volume, price, revenue and EBITDA assumptions shown in figures 1 and 2 as well as a 6% rise in the average level of the NYMEX oil futures strip for the five year period January 2024 to December 2028. We maintain our Buy recommendation.

Figure 3: Changes to our valuation model

€m	New	Old	% Δ
DCF valuation 1876 Resources (DRAG's stake 96.09%)	176.3	157.9	11.7%
DCF valuation Elster Oil & Gas (DRAG's stake: 93.0%)	14.4	15.9	-9.3%
DCF valuation Salt Creek Oil & Gas/Bright Rock Energy (DRAG's stakes: 100.0%/ 98.49%)	68.0	59.6	14.2%
Other proven reserves (DRAG's stake:100%)	62.9	48.5	29.6%
PV11 hedging gains/(losses)	-9.6	-2.1	356.6%
Subtotal: US oil and gas activities	312.0	279.8	11.5%
Almonty (14.07% equity stake plus promissory notes and debentures)	20.5	20.4	0.5%
Ceritech (DRAG's stake: 72.46%)	0.5	0.7	-30.7%
Northern Oil and Gas (DRAG's stake: 0.26%)	8.0	8.1	-1.5%
Holding company costs	-10.0	-10.0	0.0%
Total enterprise value	331.0	298.9	10.7%
Cash and securities held in current assets	28.0	28.0	0.1%
Proceeds from option exercise	5.8	5.8	0.5%
Bonds	100.0	100.0	0.0%
Net debt	66.1	66.1	0.0%
Equity value	264.9	232.8	13.8%
No. shares outstanding (m)	5.00	5.00	0.1%
Fully diluted no shares	5.29	5.29	0.1%
Equity value per share (€)	50.03	43.97	13.8%

Source: First Berlin Equity Research estimates



INCOME STATEMENT

All figures in € 000s	2019A	2020A	2021A	2022A	2023E	2024E
Revenues	41,204	38,683	73,321	165,439	188,561	208,730
Cost of materials	11,342	11,630	18,106	30,343	34,415	36,136
Personnel/G&A expenses	11,559	12,118	12,118	21,719	23,239	24,401
Net other operating income	4,422	8,999	22,962	25,710	12,123	9,783
EBITDA	22,725	23,935	66,058	139,088	143,030	157,976
Depreciation and amortisation	17,095	40,070	33,469	47,656	52,327	56,065
Operating income (EBIT)	5,630	-16,135	32,590	91,431	90,704	101,911
Net financial result	-5,368	-6,388	96	-5,493	-7,076	-8,450
Other financial items	0	0	0	0	0	0
Pre-tax income (EBT)	262	-22,524	27,056	85,938	83,627	93,461
Taxes	-76	6,425	-699	-19,752	-17,562	-19,627
Profit before minorities	186	-16,099	26,357	66,186	66,066	73,834
Minority interests	122	589	-1,563	-5,420	-1,213	-1,506
Net income / loss	308	-15,510	24,794	60,766	64,853	72,328
EPS (in €)	0.06	-3.13	5.00	12.15	12.96	14.46

Ratios

EBITDA margin on revenues	55.2%	61.9%	90.1%	84.1%	75.9%	75.7%
EBIT margin on revenues	13.7%	-41.7%	44.4%	55.3%	48.1%	48.8%
Net margin on revenues	0.7%	-40.1%	33.8%	36.7%	34.4%	34.7%
Tax rate	29.0%	-28.5%	2.6%	23.0%	21.0%	21.0%

Y-Y Growth

Revenues	-62.2%	-6.1%	89.5%	125.6%	14.0%	10.7%
Operating income	-85.9%	n.m.	n.m.	180.6%	-0.8%	12.4%
Net income/ loss	-97.8%	n.m.	n.m.	145.1%	6.7%	11.5%



BALANCE SHEET

All figures in € 000s	2019A	2020A	2021A	2022A	2023E	2024E
Assets						
Current assets, total	80,455	36,354	53,151	89,814	56,237	97,542
Cash and cash equivalents	66,637	22,815	23,492	54,196	16,124	53,246
Inventories	165	186	175	130	450	498
Receivables	9,935	3,505	17,898	28,733	33,941	37,571
Prepayments	1,156	1,047	893	863	1,886	2,087
Other current assets	1,161	7,327	8,529	4,884	2,828	3,131
Deferred tax assets	1,401	1,474	2,164	1,008	1,008	1,008
Non-current assets, total	198,470	170,368	211,840	260,512	390,185	384,120
Intangible assets	22,136	21,892	29,821	33,652	35,996	38,340
Advanced payments	0	0	0	277	277	277
Producing oil plants	138,433	110,203	143,612	161,897	268,907	261,840
Exploration and evaluation	648	2,227	5,225	30,357	50,422	49,097
Plant and machinery	143	123	111	276	458	446
Other equipment	331	225	107	109	181	176
Equity investments	16,688	17,773	14,552	15,407	15,407	15,407
Loans to other investors	1,902	4,711	4,782	6,489	6,489	6,489
Securities classified as fixed assets	18,189	13,214	13,630	12,048	12,048	12,048
Total assets	278,925	206,722	264,991	350,326	446,423	481,663
Shareholders' equity & debt						
Current liabilities, total	26,927	27,077	31,790	49,942	61,418	45,294
Bank debt	22	190	1,089	77	0	0
Bond debt	0	16,658	0	9,815	20,500	0
Accounts payable	17,114	2,901	20,764	11,376	5,657	6,262
Other current liabilities	9,791	7,328	9,937	28,674	35,261	39,032
Long-term liabilities, total	139,089	111,533	116,303	100,000	120,000	100,000
Bond debt	131,077	97,761	97,761	100,000	100,000	100,000
Bank debt	8,012	13,772	18,542	0	20,000	0
Other long term liabilities	0	0	0	0	0	0
Provisions	25,222	7,336	18,842	32,653	37,712	41,746
Minority interests	7,184	6,170	7,351	3,403	4,616	6,122
Shareholders' equity	64,317	39,419	72,723	128,962	187,503	253,326
Consolidated equity	71,501	45,589	80,074	132,365	192,119	259,448
Accruals and deferrals	0	0	0	174	174	174
Deferred tax liabilities	16,186	15,187	17,982	35,192	35,000	35,000
Total consolidated equity and debt	278,925	206,722	264,991	350,326	446,423	481,663
Ratios						
Current ratio (x)	2.99	1.34	1.67	1.80	0.92	2.15
Quick ratio (x)	2.98	1.34	1.67	1.80	0.91	2.14
Financial leverage	75.9%	202.6%	100.2%	33.0%	58.5%	13.4%
Book value per share (€)	12.98	7.96	14.68	25.78	37.47	50.63
Net cash (debt)	-54,285	-92,352	-80,270	-43,648	-112,328	-34,706
Return on equity (ROE)	0.3%	-27.5%	41.9%	62.3%	40.7%	32.7%



CASH FLOW STATEMENT

All figures in € 000s	2019A	2020A	2021A	2022A	2023E	2024E
Net profit before minorities	186	-16,099	26,357	66,186	66,066	73,834
Writedowns/w riteups of fixed assets	16,307	37,702	32,805	39,790	52,327	56,065
Increase/decrease in provisions	17,380	-11,411	-927	18,882	0	0
Changes in working capital	-9,195	2,712	6,907	2,527	1,432	4,228
Gains/losses from disposal of fixed assets	-31	-286	-736	-10,145	0	0
Gains/losses from disposal of securities	0	-1,433	-18,093	1,868	0	0
Interest expense/income	5,368	6,388	5,533	5,493	0	0
Tax paid/received	76	-6,425	792	17,863	0	0
Income tax payments	158	0	0	0	0	0
Other	-16,311	2,843	-816	267	0	0
Operating cash flow	13,938	13,991	51,822	142,732	119,824	134,127
Investment in property, plant equipment	-22,513	-30,731	-41,876	-82,915	-177,000	-45,000
Investment in intangible assets	-6,214	-6,110	-10,953	-6,034	-5,000	-5,000
Proceeds from disposal of tangible/intangible assets	0	119	1,633	6,490	0	0
Free cash flow	-14,789	-22,731	626	60,273	-62,176	84,127
Management of short term financial assets, other	-5,511	-12,008	21,850	10,295	0	0
Investing cash flow	-34,238	-48,730	-29,346	-72,164	-182,000	-50,000
Equity financing	-18	-97	0	-16,173	0	0
Debt financing	62,000	7,322	19,006	21334	30,685	0
Debt repayment	-16,115	-16,658	-31,729	-29,439	0	-40,500
Interest paid	-6,638	-7,515	-6,515	-6,725	0	0
Dividends, share buybacks	-3,937	-743	-328	-3,728	-6,504	-6,504
Other	0	0	-145	0	0	0
Financing cash flow	35,292	-17,691	-19,711	-34,732	24,181	-47,004
Other	1,004	8,608	-2,088	-5,132	-77	0
Change in cash and equivalents	6,647	-43,822	677	30,704	-38,072	37,122
FX/consolidation effects	0	0	0	0	0	0
Cash and current cash equivalents, start of the year	59,990	66,637	22,815	23,492	54,196	16,124
Cash and current cash equivalents, end of the year	66,637	22,815	23,492	54,196	16,124	53,246
EBITDA/share (in €)	4.60	4.83	13.33	27.80	28.59	31.57
Y-Y Growth						
Operating cash flow	-79.7%	0.4%	270.4%	175.4%	-16.0%	11.9%
Free cash flow	n.m.	n.m.	n.m.	9528.3%	n.m.	n.m.
EBITDA/share	-76.8%	5.1%	176.0%	108.5%	2.8%	10.4%

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PRICE TARGET DATES

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ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	22 July 2010	€7.45	Buy	€13.20
2...37	↓	↓	↓	↓
38	13 December 2021	€20.50	Buy	€31.00
39	9 June 2022	€32.00	Buy	€43.00
40	13 July 2022	€27.40	Buy	€36.00
41	11 November 2022	€26.20	Buy	€38.00
42	19 December 2022	€25.10	Buy	€34.00
43	23 March 2023	€25.70	Buy	€38.00
44	4 May 2023	€27.20	Buy	€40.00
45	25 August 2023	€26.15	Buy	€44.00
46	Today	€32.00	Buy	€50.00

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

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Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

can be accessed through the following internet link: <https://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main

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