


Deutsche Rohstoff **Buy**

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Germany | Oil & gas

Beta Profile: 
MCap: EUR138.7m

Target Price: EUR39.00
Current Price: EUR27.30
Up/downside: 42.9%
Market data: 10 March 2023

Bloomberg: DR0 GR Reuters: DR0G.DE
Free float 88%
Avg. daily volume (EURm) 0.3
YTD abs performance 5.0%
52-week high/low (EUR) 33.50/20.30

FY 2022 preliminary results

Key points:

- Deutsche Rohstoff reported FY 2022 headline numbers within the guidance range.
- Besides the strong operating results, the group generated significant one-off income from the sale of its shares and acreage but also saw some impacts on the bottom line in Q4 due to a residual write down and higher tax payments.
- Given the group's massive expansion program (capex of EUR98m in 2023 and EUR35m in 2024), production is expected to be significantly above 10,000 BOEPD in FY 2023 (FY 2022: 9,600 BOEPD).

Over 100% growth for sales and earnings in Q4 and FY 2022

- Deutsche Rohstoff reported headline numbers for FY 2022 and Q4 2022 with growth rates of over 100% across the board. FY 2022 sales came in at EUR165.4m (FY 2022 guidance: EUR163-168m; KECH: EUR167.6m) with an EBITDA of EUR139.1m (FY 2022 guidance: EUR138-143m; KECH: EUR142.2m) and net income pre-minorities amounting to EUR66.1m (FY 2021: EUR26.4m; KECH: EUR75.5m).
- Production amounted to 9,600 BOEPD in FY 2022 and management expects production to significantly exceed 10,000 BOEPD in FY 2023.
- Other operating income amounted EUR24.9m, of which EUR7m are gains from the sale of 0.44m shares in Northern Oil & Gas, EUR3m from the sale of its acreage in North Dakota and EUR3m in net foreign exchange gains.
- The tax charge on deferred taxes was EUR2.5m higher in Q4 compared to previous quarters, which together with the write-down of EUR2.5m for the residual carrying amount of Rhein Petroleum as well as EUR2.4m in exchange rate losses led to a lower net income in Q4 qoq, despite growth rates of over 100%.
- In FY 2022, the group recorded losses of EUR38.9m from oil and gas hedging (FY 2021: EUR14.3m). The realised oil price amounted to USD76.50/bbl after hedges and USD91.5/bbl before hedges at an average WTI price of USD94.9/bbl.
- As of FY 2022, cash amounted to EUR67.3m and net debt (financial debt minus cash) decreased from EUR80.3m to EUR42.5m.
- The annual report is due on 27 April.

Table 1: FY 2022 preliminary headline results (EURm)

| | FY 2022 | FY 2021 | yoy% |
|---|---------|---------|------|
| Sales | 165.4 | 73.3 | 126% |
| EBITDA | 139.1 | 66.1 | 111% |
| Operating EBITDA (adj. for EUR14m one-offs) | 125.1 | 48.4 | 159% |
| Net income | 66.2 | 26.4 | 151% |
| EPS | 13.22 | 5.19 | 155% |

Source: Deutsche Rohstoff

Appendix 1: Research framework

Last model update: 09 February 2023

Investment case

- As one of the few European companies offering direct exposure to US shale, DRAG has extensive experience as an operator in the field. There are a large number of manufacturing companies offering optimal opportunities for non-operative activities and participations.
- Assuming a c. 30% success rate on the acquired acreage in Wyoming’s Powder River Basin (+100 well locations), our play-by-play model suggests this could lead to a sustainable high oil & gas production level for DRAG in the medium term.
- The minority stake in Almonty Industries, which is expected to ramp up production at one of the largest tungsten mines outside China, should generate stable, long-term returns.

Catalysts

- Higher-than-assumed economic viability in Wyoming in terms of development area.
- Price movements in the WTI benchmark.
- Production start at Almonty's Sangdong mine in South Korea.

Valuation Methodology

- Our valuation is based on an SOP of its oil & gas assets, Deutsche Rohstoff’s minority investments in metals, and its investment portfolio.
- We value Cub Creek, Elster Oil & Gas, and Bright Rock Energy/Salt Creek Oil and Gas using a 27-year NPV model with a 10% WACC.
- Under our current long-term WTI oil price assumption of USD68/bbl, our SOP points to a fair value of EUR39.0.

Risk to our rating

- Weaker-than-expected US dollar. Each USD0.05 move in our long-term EUR/USD assumption impacts our SOP by EUR1-2 per share.
- Lower demand leading to negative price movements in the WTI benchmark. Each USD3/bbl move in our long-term WTI oil price assumptions impacts our SOP by c. EUR1-2 per share.

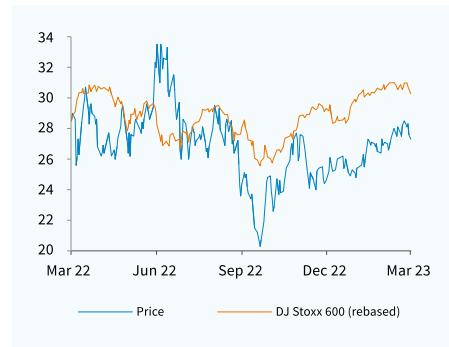
Appendix 2: Company description

Deutsche Rohstoff is a Germany-based holding company that specialises in investing in resource projects. The current portfolio is mainly focused on the oil & gas sector, but it also holds minority stakes in high-tech metals such as tungsten. Its management team has longstanding expertise in the sector, and the group focuses on well-explored areas in the US.

Management Jan-Philipp Weitz, CEO | Henning Döring, CFO

Key shareholders Free float: 87.50% | Management: 10.00% | Institutional investors: 20.00%

Appendix 3: share price perf.



Appendix 4: SWOT analysis

Strengths

- Solid oil and gas asset portfolio with an extensive drilling pipeline.
- Diversified portfolio
- Expert management with experience in resource-based activities

Opportunities

- Efficiency gains in drilling could allow additional costs savings
- New land acquisitions
- Investments in electro mobility

Weaknesses

- No control over non-operating wells
- Lower transparency compared to US oil and gas peers.
- The majority of mining investments are not producing yet.

Threats

- Price increases from field services companies leading to higher capex
- Direct competition from extractor Oil & Gas in land purchase.
- Euro/US dollar currency fluctuations

Appendix 5: Key financials

Last model update: 09 February 2023

Market data date: 10 March 2023

| FY to 31/12 (EUR) | 12/15 | 12/16 | 12/17 | 12/18 | 12/19 | 12/20 | 12/21 | 12/22E | 12/23E | 12/24E |
|--|--------|--------|---------|--------|--------|--------|--------|--------|--------|--------|
| Income Statement (EURm) | | | | | | | | | | |
| Sales | 1.9 | 9.2 | 53.7 | 109.1 | 41.2 | 38.7 | 73.3 | 167.7 | 151.5 | 128.9 |
| % Change | -91.7% | 383.4% | 486.1% | 103.0% | -62.2% | -6.1% | 89.5% | 128.7% | -9.6% | -14.9% |
| EBITDA adjusted | 4.9 | 6.4 | 36.1 | 98.0 | 22.7 | 20.4 | 48.4 | 142.4 | 123.3 | 102.2 |
| EBITDA adj. margin (%) | na | 69.5% | 67.2% | 89.8% | 55.2% | 52.8% | 66.0% | 84.9% | 81.4% | 79.3% |
| EBIT adjusted | 2.4 | -0.5 | 5.3 | 32.7 | 5.6 | -19.6 | 14.9 | 98.5 | 81.9 | 67.1 |
| EBIT adj. margin (%) | na | -5.9% | 9.9% | 30.0% | 13.7% | -50.8% | 20.3% | 58.7% | 54.1% | 52.1% |
| Net financial items & associates | -3.0 | -1.4 | -4.0 | -6.2 | -5.4 | -6.4 | -5.5 | -5.9 | -4.9 | -4.5 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Tax | 1.1 | 2.0 | 6.4 | -8.5 | -0.1 | 6.4 | -0.7 | -17.1 | -19.3 | -15.7 |
| Net profit from continuing operations | 0.5 | 0.1 | 7.7 | 18.0 | 0.2 | -16.1 | 26.4 | 75.5 | 57.8 | 47.0 |
| Net profit from discontinuing activities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net profit before minorities | 0.5 | 0.1 | 7.7 | 18.0 | 0.2 | -16.1 | 26.4 | 75.5 | 57.8 | 47.0 |
| Net profit reported | 1.2 | 0.1 | 5.5 | 13.9 | 0.3 | -15.5 | 24.8 | 68.5 | 52.8 | 44.0 |
| Net profit adjusted | 1.2 | 0.1 | 5.5 | 13.9 | 0.3 | -19.0 | 7.1 | 68.5 | 52.8 | 44.0 |
| Cash Flow Statement (EURm) | | | | | | | | | | |
| Levered post tax CF before capex | -0.2 | 35.3 | 47.7 | 87.4 | 30.0 | -11.3 | 78.5 | 150.5 | 93.3 | 72.6 |
| Capex | -10.0 | -66.1 | -51.7 | -66.2 | -28.7 | -36.8 | -52.8 | -64.6 | -101.8 | -35.1 |
| Free cash flow | -10.3 | -30.8 | -4.0 | 21.2 | 1.3 | -48.2 | 25.7 | 85.9 | -8.5 | 37.6 |
| Acquisitions & divestments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -14.0 | 0.0 | 0.0 |
| Dividend paid | -2.5 | -2.7 | -3.0 | -3.2 | -3.2 | -0.5 | 0.0 | -3.0 | -4.1 | -3.0 |
| Others | -7.2 | -7.5 | -20.7 | 12.4 | -28.2 | 6.3 | -10.2 | 6.9 | 0.0 | 0.0 |
| Change in net financial debt | 20.0 | 41.1 | 27.6 | -30.5 | 30.1 | 42.3 | -15.5 | -75.7 | 12.5 | -34.5 |
| Balance Sheet (EURm) | | | | | | | | | | |
| Intangible assets | 17.5 | 40.6 | 33.8 | 16.9 | 22.1 | 21.9 | 29.8 | 29.8 | 29.8 | 29.8 |
| Tangible assets | 7.5 | 79.9 | 114.5 | 110.1 | 139.6 | 112.8 | 149.1 | 183.8 | 244.2 | 244.2 |
| Financial & other non-current assets | 46.4 | 24.6 | 24.0 | 36.3 | 42.1 | 50.3 | 43.8 | 36.8 | 36.8 | 36.8 |
| Total shareholders' equity | 61.8 | 66.2 | 56.7 | 73.8 | 71.5 | 45.6 | 80.1 | 152.4 | 206.1 | 250.0 |
| Pension provisions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Liabilities and provisions | 66.2 | 127.4 | 156.9 | 151.0 | 207.4 | 161.1 | 184.9 | 247.5 | 224.5 | 205.9 |
| Net debt | 9.5 | 50.6 | 78.2 | 47.7 | 77.8 | 120.2 | 104.7 | 29.0 | 41.5 | 7.0 |
| Net financial debt | 9.5 | 50.6 | 78.2 | 47.7 | 77.8 | 120.2 | 104.7 | 29.0 | 41.5 | 7.0 |
| IFRS 16 debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net working capital | 1.1 | -23.0 | -9.3 | -22.4 | -29.3 | -11.9 | -19.0 | -26.0 | -24.3 | -20.7 |
| Invested capital | 9.9 | 63.7 | 108.5 | 89.3 | 111.9 | 102.2 | 131.3 | 159.1 | 221.2 | 224.8 |
| Per share data (EUR) | | | | | | | | | | |
| EPS adjusted | 0.23 | 0.02 | 1.10 | 2.74 | 0.06 | -3.74 | 1.40 | 13.70 | 10.56 | 8.80 |
| EPS adj and fully diluted | 0.23 | 0.02 | 1.10 | 2.74 | 0.06 | -3.74 | 1.40 | 13.70 | 10.56 | 8.80 |
| % Change | -95.2% | -91.2% | 5328.9% | 150.5% | -97.8% | -chg | +chg | 881.2% | -22.9% | -16.6% |
| EPS reported | 0.23 | 0.02 | 1.10 | 2.74 | 0.06 | -3.05 | 4.88 | 13.70 | 10.56 | 8.80 |
| Cash flow per share | -0.05 | 6.97 | 9.42 | 17.27 | 5.91 | -2.23 | 15.44 | 30.12 | 18.67 | 14.53 |
| Book value per share | 11.71 | 11.16 | 9.73 | 12.99 | 12.66 | 7.76 | 14.31 | 27.61 | 37.35 | 45.54 |
| Dividend per share | 0.55 | 0.60 | 0.65 | 0.70 | 0.10 | 0.00 | 0.60 | 0.80 | 0.60 | 0.60 |
| Number of shares, YE (m) | 5.06 | 5.06 | 5.06 | 5.06 | 5.08 | 5.08 | 5.08 | 5.08 | 5.08 | 5.08 |
| Ratios | | | | | | | | | | |
| ROE (%) | 1.9% | 0.2% | 10.5% | 24.2% | 0.5% | -36.6% | 12.7% | 65.0% | 32.5% | 21.2% |
| ROIC (%) | 30.3% | -1.1% | 4.6% | 24.8% | 4.2% | -13.8% | 9.6% | 50.9% | 32.3% | 22.6% |
| ND(F+IFRS16) / EBITDA (x) | 1.9 | 7.9 | 2.2 | 0.5 | 3.4 | 5.9 | 2.2 | 0.2 | 0.3 | 0.1 |
| Gearing (%) | 15.4% | 76.4% | 138.0% | 64.7% | 108.9% | 263.6% | 130.7% | 19.0% | 20.1% | 2.8% |
| Valuation | | | | | | | | | | |
| P/E adjusted | 72.4 | na | 18.6 | 7.7 | na | na | 11.6 | 2.0 | 2.6 | 3.1 |
| P/E adjusted and fully diluted | 72.4 | na | 18.6 | 7.7 | na | na | 11.6 | 2.0 | 2.6 | 3.1 |
| P/BV | 1.4 | 1.5 | 2.1 | 1.6 | 1.3 | 1.2 | 1.1 | 1.0 | 0.7 | 0.6 |
| P/CF | na | 2.5 | 2.2 | 1.2 | 2.7 | na | 1.0 | 0.9 | 1.5 | 1.9 |
| Dividend yield (%) | 3.3% | 3.5% | 3.2% | 3.3% | 0.6% | 0.0% | 3.7% | 2.9% | 2.2% | 2.2% |
| Dividend yield preference shares (%) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| FCF yield (%) | -11.6% | -35.2% | -5.9% | 16.0% | 1.8% | -99.1% | 29.3% | 56.9% | -9.7% | 24.9% |
| EV/Sales | 50.4 | 16.1 | 3.5 | 1.5 | 4.0 | 4.5 | 2.6 | 1.1 | 1.3 | 1.3 |
| EV/EBITDA adj. | 19.4 | 23.2 | 5.2 | 1.7 | 7.3 | 8.5 | 4.0 | 1.3 | 1.6 | 1.6 |
| EV/EBIT adj. | 39.6 | na | 35.6 | 5.0 | 29.4 | na | 13.0 | 1.8 | 2.4 | 2.5 |

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| | 09/02/2023 05:48 | Equity Research | Buy | 39.00 | 26.90 |

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