


Deutsche Rohstoff **Buy**

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Germany | Oil & gas

Beta Profile: 
MCap: EUR147.4m

Target Price: EUR39.00
Current Price: EUR29.00
Up/downside: 34.5%
Market data: 26 April 2023

Bloomberg: DR0 GR Reuters: DR0G.DE
Free float 88%
Avg. daily volume (EURm) 0.3
YTD abs performance 11.5%
52-week high/low (EUR) 33.50/20.30

Most successful year in history, but the best is yet to come

Key points:

- Deutsche Rohstoff confirms FY 2022 preliminary results. The year was marked by strong cash flow generation, high investments for future growth, and successful deleveraging, but the best is yet to come.
- FY 2023-24 guidance is raised on the back of higher production volumes due to the group's massive investments, implying a significant upward revision of consensus estimates for 2024.
- We reiterate our Buy rating amid a very attractive risk-reward profile. The group's profitable growth trajectory is set to continue with a more stable FCF profile. We also note the hidden value arising from the 100+ potential wells on the group's own acreage, for which we assume only a conservative 33% success rate over the coming years in our estimates.

Preliminary results confirmed; 2022 marks a strong cash flow generation, high investments, and successful deleveraging

- Deutsche Rohstoff confirms FY 2022 preliminary figures and raises FY 2023 and FY 2024 guidance.
- Sales, EBITDA and net income increased by more than 100% YOY in FY 2022.
- FCF increased from EUR22.5m in FY 2021 to EUR70.6m in FY 2022, with capex amounting EUR89m, 68% above the previous year, which the group allocated to various new non-operating and operating wells.
- As of FY 2022, the group's leverage (net debt/adj. EBITDA) decreased from 2.1x in FY 2021 to 0.5x in FY 2022. The equity ratio increased by c. 8ppt to 37% driven by the high net income.

Table 1: FY 2022 and Q4 results (EURm)

	FY 2022				Q4 2022			
	Actual	yoy%	KECH	Consensus	Actual	yoy%	KECH	Consensus
Sales	165.4	126%	167.7	166.5	47.2	134%	49.5	48.3
EBITDA	139.1	111%	142.4	140.5	36.8	163%	40.0	38.2
EBIT	91.4	181%	98.5	97.4	22.2	347%	29.2	28.1
Net income	60.8	145%	68.5	73.3	13.2	198%	20.9	25.7
BOEPD	9,594	35%	9,595	na	10,350	45%	10,586	na

Source: Deutsche Rohstoff, Kepler Cheuvreux, Bloomberg

- For the first time, management also reported comparative financial statements based on IFRS (as the group currently reports its statements based on HGB - German Gaap).
- Based on IFRS, sales in FY 2022 amounts EUR218m (32% higher than HGB), EBITDA amounts EUR150m (8% higher than HGB) and EBIT is 11% higher at EUR102m. Net income under IFRS is EUR78m, 19% higher than the comparative HGB statements.

Updated 2023-24 guidance implying significant estimate revision

- 2023 has started strong, with production in Q1 7% above management's expectation, at 10,500 BOEPD. Production is expected to amount 11,000-12,000 BOEPD in 2023, and 10-15% higher in 2024. Our current estimate for FY 2023 is 9,516 BOEPD and 8,915 BOEPD for FY 2024, i.e. noticeably below management's updated guidance.
- Management has raised its FY 2023-24 guidance (again). While the previous guidance raises in 2022 were, among other, driven predominantly by the oil price development, the current guidance raise is driven by higher production volumes due to the group's high investments into operating and non-operating wells.
- The company is investing EUR200m in capex over 2023-24, (of which EUR40m has been invested YTD), which will be financed via the internal cash flow and existing cash equivalents (EUR54.2m at end of FY 2022, undrawn credit line of USD80m could also be used) and expects c. EUR260m in EBITDA over 2023-24, implying a further strong cash flow generation in 2023 and beyond. Of the EUR200m, c. EUR110-120 will be invested in 2023.
- In total, EUR100m will be invested in the joint venture with Occidental over 2023-24, EUR90m will be invested for drilling at Cub Creek (own wells), and EUR10m in Utah.

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- Management has also updated its drilling programme and expects to drill 7 net (8 gross) wells in addition to the three wells in the Lost Springs Pad in H2 2023 and H1 2024.
- The group is due to hold a conference call at 15:00 CET today, in German.

Table 2: Updated 2023-24 company guidance

	2023						2024				
	Base scenario NEW	Base scenario OLD	Increased price scenario NEW	Increased price scenario OLD	KECH	Consensus	Base scenario	Increased price scenario	Previous guidance	KECH	Consensus
Sales	150-170	140-160	165-185	155-175	152	155	170-190	190-210	+120	129	139
EBITDA	115-130	110-125	125-140	125-140	123	122	130-145	155-170	+100	102	109
EUR/USD	1.12	1.12	1.12	1.12	1.10	na	1.12	1.12	na	1.10	na
Oil price (USD/b)	75	75	85	85	86	na	75	85	na	78	na
Gas price (USD/MMbtu)	3	4	4	4	5	na	3	4	na	4.5	na

Source: Kepler Cheuvreux

- While our current and consensus' FY 2023 estimates are within management's base scenario, our in-house oil price assumption is at USD86, while management's base scenario is based on an oil price of USD75/barrel.
- Our and consensus FY 2024 estimates are significantly below management's new guidance, implying an upward consensus revision. We will assess the figures accordingly.
- A dividend of EUR1.30 per share will be proposed at this year's AGM (FY 2021: EUR0.60).

Appendix 1: Research framework

Last model update: 13 March 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 for 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: 13 March 2023

Market data date: 26 April 2023

FY to 31/12 (EUR)	12/16	12/17	12/18	12/19	12/20	12/21	12/22E	12/23E	12/24E	na
Income Statement (EURm)										
Sales	9.2	53.7	109.1	41.2	38.7	73.3	167.7	151.5	128.9	na
% Change	383.4%	486.1%	103.0%	-62.2%	-6.1%	89.5%	128.7%	-9.6%	-14.9%	na
EBITDA adjusted	6.4	36.1	98.0	22.7	20.4	48.4	142.4	123.3	102.2	na
EBITDA adj. margin (%)	69.5%	67.2%	89.8%	55.2%	52.8%	66.0%	84.9%	81.4%	79.3%	na
EBIT adjusted	-0.5	5.3	32.7	5.6	-19.6	14.9	98.5	81.9	67.1	na
EBIT adj. margin (%)	-5.9%	9.9%	30.0%	13.7%	-50.8%	20.3%	58.7%	54.1%	52.1%	na
Net financial items & associates	-1.4	-4.0	-6.2	-5.4	-6.4	-5.5	-5.9	-4.9	-4.5	na
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	na
Tax	2.0	6.4	-8.5	-0.1	6.4	-0.7	-17.1	-19.3	-15.7	na
Net profit from continuing operations	0.1	7.7	18.0	0.2	-16.1	26.4	75.5	57.8	47.0	na
Net profit from discontinuing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	na
Net profit before minorities	0.1	7.7	18.0	0.2	-16.1	26.4	75.5	57.8	47.0	na
Net profit reported	0.1	5.5	13.9	0.3	-15.5	24.8	68.5	52.8	44.0	na
Net profit adjusted	0.1	5.5	13.9	0.3	-19.0	7.1	68.5	52.8	44.0	na
Cash Flow Statement (EURm)										
Levered post tax CF before capex	35.3	47.7	87.4	30.0	-11.3	78.5	150.5	93.3	72.6	na
Capex	-66.1	-51.7	-66.2	-28.7	-36.8	-52.8	-64.6	-101.8	-35.1	na
Free cash flow	-30.8	-4.0	21.2	1.3	-48.2	25.7	85.9	-8.5	37.6	na
Acquisitions & divestments	0.0	0.0	0.0	0.0	0.0	0.0	-14.0	0.0	0.0	na
Dividend paid	-2.7	-3.0	-3.2	-3.2	-0.5	0.0	-3.0	-4.1	-3.0	na
Others	-7.5	-20.7	12.4	-28.2	6.3	-10.2	6.9	0.0	0.0	na
Change in net financial debt	41.1	27.6	-30.5	30.1	42.3	-15.5	-75.7	12.5	-34.5	na
Balance Sheet (EURm)										
Intangible assets	40.6	33.8	16.9	22.1	21.9	29.8	29.8	29.8	29.8	na
Tangible assets	79.9	114.5	110.1	139.6	112.8	149.1	183.8	244.2	244.2	na
Financial & other non-current assets	24.6	24.0	36.3	42.1	50.3	43.8	36.8	36.8	36.8	na
Total shareholders' equity	66.2	56.7	73.8	71.5	45.6	80.1	152.4	206.1	250.0	na
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	na
Liabilities and provisions	127.4	156.9	151.0	207.4	161.1	184.9	247.5	224.5	205.9	na
Net debt	50.6	78.2	47.7	77.8	120.2	104.7	29.0	41.5	7.0	na
Net financial debt	50.6	78.2	47.7	77.8	120.2	104.7	29.0	41.5	7.0	na
IFRS 16 debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	na
Net working capital	-23.0	-9.3	-22.4	-29.3	-11.9	-19.0	-26.0	-24.3	-20.7	na
Invested capital	63.7	108.5	89.3	111.9	102.2	131.3	159.1	221.2	224.8	na
Per share data (EUR)										
EPS adjusted	0.02	1.10	2.74	0.06	-3.74	1.40	13.70	10.56	8.80	na
EPS adj and fully diluted	0.02	1.10	2.74	0.06	-3.74	1.40	13.70	10.56	8.80	na
% Change	-91.2%	5328.9%	150.5%	-97.8%	-chg	+chg	881.2%	-22.9%	-16.6%	na
EPS reported	0.02	1.10	2.74	0.06	-3.05	4.88	13.70	10.56	8.80	na
Cash flow per share	6.97	9.42	17.27	5.91	-2.23	15.44	30.12	18.67	14.53	na
Book value per share	11.16	9.73	12.99	12.66	7.76	14.31	27.61	37.35	45.54	na
Dividend per share	0.60	0.65	0.70	0.10	0.00	0.60	0.80	0.60	0.60	na
Number of shares, YE (m)	5.06	5.06	5.06	5.08	5.08	5.08	5.08	5.08	5.08	na
Ratios										
ROE (%)	0.2%	10.5%	24.2%	0.5%	-36.6%	12.7%	65.0%	32.5%	21.2%	na
ROIC (%)	-1.1%	4.6%	24.8%	4.2%	-13.8%	9.6%	50.9%	32.3%	22.6%	na
ND(F+IFRS16) / EBITDA (x)	7.9	2.2	0.5	3.4	5.9	2.2	0.2	0.3	0.1	na
Gearing (%)	76.4%	138.0%	64.7%	108.9%	263.6%	130.7%	19.0%	20.1%	2.8%	na
Valuation										
P/E adjusted	na	18.6	7.7	na	na	11.6	2.1	2.7	3.3	na
P/E adjusted and fully diluted	na	18.6	7.7	na	na	11.6	2.1	2.7	3.3	na
P/BV	1.5	2.1	1.6	1.3	1.2	1.1	1.1	0.8	0.6	na
P/CF	2.5	2.2	1.2	2.7	na	1.0	1.0	1.6	2.0	na
Dividend yield (%)	3.5%	3.2%	3.3%	0.6%	0.0%	3.7%	2.8%	2.1%	2.1%	na
Dividend yield preference shares (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	na
FCF yield (%)	-35.2%	-5.9%	16.0%	1.8%	-99.1%	29.3%	53.5%	-9.1%	23.5%	na
EV/Sales	16.1	3.5	1.5	4.0	4.5	2.6	1.1	1.4	1.4	na
EV/EBITDA adj.	23.2	5.2	1.7	7.3	8.5	4.0	1.3	1.7	1.7	na
EV/EBIT adj.	na	35.6	5.0	29.4	na	13.0	1.9	2.5	2.6	na

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Rating Breakdown	A	B
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Hold	31%	25%
Reduce	8%	1%
Not Rated/Under Review/Accept Offer	3%	6%
Total	100%	100%

Source: Kepler Cheuvreux

A: % of all research recommendations

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Deutsche Rohstoff (EUR)	14/06/2022 04:40	Equity Research	Buy	40.00	31.00
	09/02/2023 05:48	Equity Research	Buy	39.00	26.90

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Local insight, European scale.



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