


Deutsche Rohstoff Buy

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Germany | Oil & gas

Beta Profile: 
MCap: EUR142.8m

Target Price: EUR39.00
Current Price: EUR28.10
Up/downside: 38.8%
Market data: 10 May 2023

Bloomberg: DR0 GR
Free float 88%
Avg. daily volume (EURm) 0.4
YTD abs performance 8.1%
52-week high/low (EUR) 33.50/20.30

Reuters: DR0G.DE

Strong start to 2023

Key points:

- Q1 2023 enjoyed strong increase in sales, earnings, and production.
- Production is expected to accelerate in H2 as additional operating and non-operating wells commence production.
- Sales and EBITDA are in the upper end of FY guidance range. Management reiterates its FY 2023 guidance.

Strong start to 2023

- DRAG reported strong sales growth (52% YOY) with EBITDA and net income increasing by 28% and 14%, respectively.
- Production (BOEPD) increased by 38% YOY. DRAG realised an average WTI price (after hedging) of USD74 up, from USD68 in Q1 2022, as the group generated no losses in Q1 2023 from hedging (Q1 2022: hedging loss of USD23/barrel, i.e. loss of EUR10.5m).
- Operating cash flow increased significantly, despite only a 14% increase in net income, driven by a favourable working capital development. Capex was twice the amount of last year (EUR38.5m in Q1 2023).
- EBITDA increased on the back of higher volumes and a higher realised oil price. Other operating income only contributed EUR2.3m to the result (EUR4.2m in Q1 2022).
- Net debt (financial liabilities – cash and securities classified as current assets) decreased by 50% to EUR50m in Q1 2023, reflecting the very healthy leverage.

Table 1: Q1 2023 results (EURm)

	Q1 2023	Q1 2022	yoy%
Sales	42.7	28.1	52%
Oil	32.7	21.3	54%
Gas (incl. NGL)	14.0	6.8	105%
EBITDA	32.3	25.2	28%
Net income (pre-minorities)	14.6	12.8	14%
Operating cash flow	42.9	6.8	531%
Oil and gas production (BOEPD)	10,854	7,880	38%
Oil	5,318	4,255	25%
Gas (incl. NGL)	5,536	3,625	53%

Source: Company

Overview of new wells and investments

- The group will invest c. EUR200m over 2023-24 in new wells (operating and non-operating).
- **1876 Resources (formerly Cub Creek Energy):** The US-subsiary is completing three wells at the Lost Springs well pad in Q2. In H2, the group will commence a drilling programme encompassing eight additional wells. The company recently acquired a mid-stream asset, i.e. a pipeline infrastructure with a length of 59.3 km, as well as technical facilities and tank farms, supporting comprehensive and efficient acreage development (purchase price of USD14m).
- **Salt Creek:** 10 additional wells under Salt Creek's JV with Oxy will commence production in Q2. The first six wells in Wyoming have been producing for six months and production is overall in line with expectations or slightly exceeding expectations.
- **Elster Oil & Gas and Bright Rock Energy:** Production was in line with management's expectations, contributing 9% of group production due to the portfolio changes.

Outlook

- Management reiterates its FY 2023 guidance, expecting an EBITDA between EUR115-130m and sales in the range of EUR150-170m (base scenario: WTI of USD75/barrel and gas price of 3USD/mmBtu and an EUR/USD exchange rate of 1.12).
- Production is expected to amount 11,000-12,000 BOEPD in FY 2023.

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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: 10 May 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	3.2	na
P/E adjusted and fully diluted	na	18.6	7.7	na	na	11.6	2.1	2.7	3.2	na
P/BV	1.5	2.1	1.6	1.3	1.2	1.1	1.0	0.8	0.6	na
P/CF	2.5	2.2	1.2	2.7	na	1.0	0.9	1.5	1.9	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%	55.3%	-9.4%	24.2%	na
EV/Sales	16.1	3.5	1.5	4.0	4.5	2.6	1.1	1.3	1.3	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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	09/02/2023 05:48	Equity Research	Buy	39.00	26.90

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Local insight, European scale.



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