


Deutsche Rohstoff **Buy**

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Germany | Oil & gas

Beta Profile: 
MCap: EUR142.8m

Target Price: EUR43.00
Current Price: EUR28.55
Up/downside: 50.6%
Market data: 15 August 2023

Bloomberg: DR0 GR	Reuters: DR0G.DE
Free float	90%
Avg. daily volume (EURm)	0.2
YTD abs performance	9.8%
52-week high/low (EUR)	29.30/20.30

Solid Q2 numbers setting the scene for an attractive H2

Key points:

- Overall, Deutsche Rohstoff published a solid set of Q2 figures yesterday, which were as expected slightly weaker than the previous year. However, the ramp-up of the production expansion is starting in H2, which together with a steady oil price, should lead to a significant increase in the KPIs.
- We reiterate our Buy rating. Production expansion and rising oil prices are paving the way for a very attractive H2.
- A conference call (in German) will be held at 14:00 CET. To register, click [here](#).

Financials

- Q2 sales came in below the previous year's level, driven predominantly by the sharp drop in oil (-26.5%) and gas (-60%) prices in H1, high other income, non-recurring effects (EUR7.1m in come from the sale of shares), and exchange rate gains in H1 2022, leading to H1 2023 sales growth of 4% YOY.
- While the gross sales from oil and gas were below the previous year, the group also generated c. EUR17m less in hedging losses compared to H1 2022. The company's hedge book has been further expanded, with c. 1.3m barrels of oil hedged at a WTI of USD75 until mid-2025.
- Operating costs in H1 2022 were at USD8.28/BOE, below the average of FY 2022 at USD9.04/BOE.
- Operating cash flow was down YOY in Q2 mainly because of the lower earnings. However, operating cash flow in H1 2023 was above the level of H1 2022, also driven by favourable working capital development.
- As a result of Deutsche Rohstoff almost doubling its capex (EUR104m in H1 2023 compared to EUR59m in H1 2022), FCF was in the red at negative EUR33m, compared to EUR4m in the previous period.
- Management has also confirmed that it is looking at refinancing its 2019/24 bond (EUR100m) in the coming months.

Production

- Production increased significantly YOY in H1 2023, while Q2 production was slightly below the previous year at 10,212 BOEPD.
- Compared to the comparable Q2 in the previous year, the production mix has shifted to less gas and more oil.

Outlook

- Management confirms its FY 2023 guidance, expecting sales to come in at the upper end of the EUR150-170m range and EBITDA to reach the upper end of the EUR115-130m range based on a WTI oil price of USD75/bbl, a gas price of USD3/mcf, and a EUR/USD exchange rate of 1.12.
- Given that our in-house WTI estimate (USD86/bbl) is higher than Deutsche Rohstoff's WTI assumption (USD75/bbl), we forecast revenues of c. EUR173m and an EBITDA of c. EUR132m, i.e. above management's guidance range.
- The recent increase in oil prices over the past weeks comes exactly at the right time, as Deutsche Rohstoff is now on the brink of production expansion.
- The group has commissioned a total of 30 wells by early August with an average share of 28%.
- Operating cash flow in H2 2023 is thus expected to amount to c. EUR90-100, which together with EUR71m in H1 2023 and investments totalling c. EUR130m in FY 2023, FCF would amount c. EUR42m and would be equivalent to a FCF yield of 25%. The remaining EUR70m of the EUR200m in total investments are expected to be incurred in 2024.
- The production increase of c. 20% in H2 2023 is expected to drive the annual average production of 11,000-12,000 BOEPD for FY 2023.

Table 1: Q2 and H1 2023 results (EURm)

	Q2 2023	Q2 2022	YOY%	H1 2023	H1 2022	YOY%
Sales	32	44	-26%	75	72	4%
Oil	28	51	-45%	61	83	-26%
Gas (incl. NGL)	6	15	-61%	20	26	-23%
Production tax	-3	-6	na	-7	-10	na
Profit/(loss) from hedging	1	-16	na	1	-27	na
EBITDA	24	39	-39%	56	64	-13%
Net income (pre-minorities)	7	17	-60%	21	30	-28%
Operating cash flow	28	56	-50%	71	63	14%
Oil and gas production (BOEPD)	10,212	10,892	-6%	10,533	9,386	12%
Oil	4,793	6,069	-21%	5,056	5,162	-2%
Gas (incl. NGL)	5,419	4,823	12%	5,477	4,224	30%
Net debt (incl. current financial assets)	39	-12	na	88	88	0%

Source: Deutsche Rohstoff, Kepler Cheuvreux

Appendix 1: Research framework

Last model update: 23 June 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 also 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 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 in the coming years, should generate stable, long-term returns.

Catalysts

- Higher-than-assumed economic viability in Wyoming in terms of development area or asset sale.
- 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 the group's core oil and gas assets by US state using a 25-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 EUR43.0.

Risk to our rating

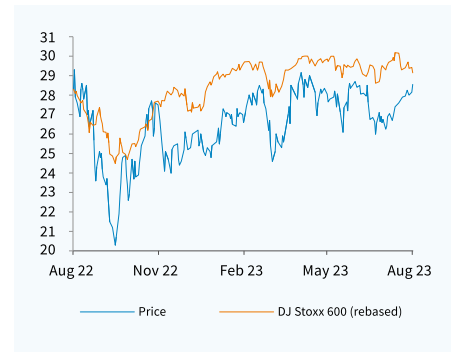
- Weaker-than-expected US dollar. Each USD0.05 move in our long-term EUR/USD assumption impacts our SOP by up to EUR3 per share.
- Lower demand leading to negative price movements in the WTI benchmark. Each USD3/bbl move in our long-term WTI oil price assumptions impacts our SOP by up to EUR2 per share.

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.

Mgmt	Jan-Philipp Weitz, CEO Henning Döring, CFO
Ownership	Free float: 90.00% Management and Supervisory Board: 9.00%

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, economic deterioration.

Appendix 5: Key financials

Last model update: 23 June 2023

Market data date: 15 August 2023

FY to 31/12 (EUR)	12/16	12/17	12/18	12/19	12/20	12/21	12/22	12/23E	12/24E	12/25E
Income Statement (EURm)										
Sales	9.2	53.7	109.1	41.2	38.7	73.3	165.4	172.5	177.9	142.4
% Change	383.4%	486.1%	103.0%	-62.2%	-6.1%	89.5%	125.6%	4.3%	3.1%	-20.0%
EBITDA adjusted	6.4	36.1	98.0	22.7	20.4	48.4	125.1	131.7	136.2	102.4
EBITDA adj. margin (%)	69.5%	67.2%	89.8%	55.2%	52.8%	66.0%	75.6%	76.3%	76.5%	71.9%
EBIT adjusted	-0.5	5.3	32.7	5.6	-19.6	14.9	77.4	86.7	87.0	61.4
EBIT adj. margin (%)	-5.9%	9.9%	30.0%	13.7%	-50.8%	20.3%	46.8%	50.2%	48.9%	43.1%
Net financial items & associates	-1.4	-4.0	-6.2	-5.4	-6.4	-5.5	-5.5	-5.2	-5.7	-5.6
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	2.0	6.4	-8.5	-0.1	6.4	-0.7	-19.8	-20.4	-20.3	-14.0
Net profit from continuing operations	0.1	7.7	18.0	0.2	-16.1	26.4	66.2	61.1	60.9	41.9
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	0.1	7.7	18.0	0.2	-16.1	26.4	66.2	61.1	60.9	41.9
Net profit reported	0.1	5.5	13.9	0.3	-15.5	24.8	60.8	56.1	56.0	38.4
Net profit adjusted	0.1	5.5	13.9	0.3	-19.0	7.1	46.8	56.1	56.0	38.4
Cash Flow Statement (EURm)										
Levered post tax CF before capex	35.3	47.7	87.4	30.0	-11.3	78.5	148.4	107.7	111.1	69.0
Capex	-66.1	-51.7	-66.2	-28.7	-36.8	-52.8	-88.9	-121.7	-95.0	-65.0
Free cash flow	-30.8	-4.0	21.2	1.3	-48.2	25.7	59.5	-14.0	16.1	4.0
Acquisitions & divestments	0.0	0.0	0.0	0.0	0.0	0.0	6.0	-13.5	0.0	0.0
Dividend paid	-2.7	-3.0	-3.2	-3.2	-0.5	0.0	-3.0	-6.5	-6.7	-6.7
Others	-7.5	-20.7	12.4	-28.2	6.3	-10.2	-20.1	0.0	0.0	0.0
Change in net financial debt	41.1	27.6	-30.5	30.1	42.3	-15.5	-42.3	34.0	-9.4	2.7
Balance Sheet (EURm)										
Intangible assets	40.6	33.8	16.9	22.1	21.9	29.8	33.9	33.9	33.9	33.9
Tangible assets	79.9	114.5	110.1	139.6	112.8	149.1	192.6	282.8	328.7	352.6
Financial & other non-current assets	24.6	24.0	36.3	42.1	50.3	43.8	40.7	40.7	40.7	40.7
Total shareholders' equity	66.2	56.7	73.8	71.5	45.6	80.1	132.4	186.9	241.2	276.3
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	127.4	156.9	151.0	207.4	161.1	184.9	218.0	215.3	217.4	195.9
Net debt	50.6	78.2	47.7	77.8	120.2	104.7	62.4	96.4	87.1	89.8
Net financial debt	50.6	78.2	47.7	77.8	120.2	104.7	62.4	96.4	87.1	89.8
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	-23.0	-9.3	-22.4	-29.3	-11.9	-19.0	-39.6	-39.8	-39.7	-32.8
Invested capital	63.7	108.5	89.3	111.9	102.2	131.3	154.2	244.2	290.1	321.0
Per share data (EUR)										
EPS adjusted	0.02	1.10	2.74	0.06	-3.74	1.40	9.35	11.21	11.18	7.68
EPS adj and fully diluted	0.02	1.10	2.74	0.06	-3.74	1.40	9.35	11.21	11.18	7.68
% Change	-91.2%	5328.9%	150.5%	-97.8%	-chg	+chg	569.6%	19.9%	-0.2%	-31.3%
EPS reported	0.02	1.10	2.74	0.06	-3.05	4.88	12.15	11.21	11.18	7.68
Cash flow per share	6.97	9.42	17.27	5.91	-2.23	15.44	29.67	21.53	22.21	13.79
Book value per share	11.16	9.73	12.99	12.66	7.76	14.31	25.78	35.69	45.53	51.87
Dividend per share	0.60	0.65	0.70	0.10	0.00	0.60	1.30	1.34	1.34	0.92
Number of shares, YE (m)	5.06	5.06	5.06	5.08	5.08	5.08	5.00	5.00	5.00	5.00
Ratios										
ROE (%)	0.2%	10.5%	24.2%	0.5%	-36.6%	12.7%	46.4%	36.5%	27.5%	15.8%
ROIC (%)	-1.1%	4.6%	24.8%	4.2%	-13.8%	9.6%	40.7%	32.6%	24.4%	15.1%
ND(F+IFRS16) / EBITDA (x)	7.9	2.2	0.5	3.4	5.9	2.2	0.5	0.7	0.6	0.9
Gearing (%)	76.4%	138.0%	64.7%	108.9%	263.6%	130.7%	47.2%	51.6%	36.1%	32.5%
Valuation										
P/E adjusted	na	18.6	7.7	na	na	11.6	2.8	2.5	2.6	3.7
P/E adjusted and fully diluted	na	18.6	7.7	na	na	11.6	2.8	2.5	2.6	3.7
P/BV	1.5	2.1	1.6	1.3	1.2	1.1	1.0	0.8	0.6	0.6
P/CF	2.5	2.2	1.2	2.7	na	1.0	0.9	1.3	1.3	2.1
Dividend yield (%)	3.5%	3.2%	3.3%	0.6%	0.0%	3.7%	4.9%	4.7%	4.7%	3.2%
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 (%)	-35.2%	-5.9%	16.0%	1.8%	-99.1%	29.3%	41.0%	-13.3%	7.8%	0.4%
EV/Sales	16.1	3.5	1.5	4.0	4.5	2.6	1.0	1.3	1.2	1.6
EV/EBITDA adj.	23.2	5.2	1.7	7.3	8.5	4.0	1.4	1.7	1.6	2.2
EV/EBIT adj.	na	35.6	5.0	29.4	na	13.0	2.2	2.5	2.5	3.6

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Kepler Cheuvreux rating split as of 16 August 2023

Rating Breakdown	A	B
Buy	61%	66%
Hold	30%	28%
Reduce	6%	0%
Not Rated/Under Review/Accept Offer	3%	6%
Total	100%	100%

Source: Kepler Cheuvreux

A: % of all research recommendations

B: % of issuers to which material services of investment firms are supplied

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Company Name	Date	Business Line	Rating	Target Price	Closing Price
Deutsche Rohstoff (EUR)	09/02/2023 05:48	Equity Research	Buy	39.00	26.90
	23/06/2023 05:16	Equity Research	Buy	43.00	28.10

Credit research does not issue target prices. Left intentionally blank.

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Local insight, European scale.



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