

# Deutsche Rohstoff Buy

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Germany | Oil &amp; gas

 Beta Profile: 
**MCap: EUR155.6m**

**Target Price:** EUR43.00  
**Current Price:** EUR31.10  
**Up/downside:** 38.3%  
**Market data:** 27 September 2023

Bloomberg: DR0 GR	Reuters: DR0G.DE
Free float	90%
Avg. daily volume (EURm)	0.3
YTD abs performance	19.6%
52-week high/low (EUR)	31.20/20.30

## 2023-24 guidance raised, capitalising on current environment

### Key points:

- Yesterday, Deutsche Rohstoff AG announced an upward revision of its sales and EBITDA guidance for both 2023 and 2024.
- The group expects higher revenue and EBITDA for both years, driven by favourable market conditions and operational developments, i.e. increased drilling programme efficiency, reflecting the company's strengthened position.
- A higher oil price and a stronger US dollar as well as the successful placement of the bond, expanded hedging activities, and accelerated drilling projects contribute to the improved outlook, positioning Deutsche Rohstoff AG for further growth.

### Guidance raised, further action taken to exploit attractive price environment

- **2023:** Deutsche Rohstoff has raised its revenue projection to EUR188-198m, up from the prior guidance of EUR150-170m for the base case scenario and EUR165-185m for the increased price scenario. The revised EBITDA guidance for 2023 now stands at EUR138-148m, an increase from the prior guidance of EUR115-130m (base case) and EUR125-140m for the increased price scenario. The group assumes a WTI of 85 USD/BBL in Q4 and a gas price of 2.5 USD/MMBtu with a EUR/USD rate of 1.08.
- **2024:** For 2024, Deutsche Rohstoff increases its revenue guidance under its base scenario (*WTI of USD75, a natural gas price of USD3, and a EUR/USD exchange rate of 1.12*) from EUR170-190m to EUR190-210m. The EBITDA guidance under its base scenario is raised from EUR130-145m to EUR145-160m. Under the group's increased price scenario (*WTI of USD85, all else equal*), revenues are expected to increase to EUR210-230m (from previously EUR190-210m) and EBITDA guidance is raised from EUR155-170m to EUR165-180m.
- **Taking advantage of current environment:** Jan-Philipp Weitz, CEO of Deutsche Rohstoff AG, highlighted the enhanced planning certainty provided by the successful bond placement, enabling the group to capitalise on the current favourable price environment and expedite current drilling projects as well as develop new wells at rates higher than planned.

### Factors driving the revision

- **Successful bond placement:** The successful issuance of the corporate bond 2023/2028 has provided the company with enhanced planning certainty and a solid financial foundation.
- **Strong oil price performance:** The WTI oil price has risen significantly, reaching USD90 per barrel, resulting in increased revenues in September and Q4. The group now anticipates oil prices of USD 85/BBL WTI in Q4.
- **Favourable USD exchange rate:** A stronger US dollar, at 1.06 EUR/USD compared to the previous guidance of 1.12 EUR/USD, has positively impacted revenues and earnings.
- **Operational developments:** The group's accelerated completion of drilling programmes, particularly in Wyoming, has exceeded expectations and in combination with the attractive oil price, has resulted in the group expediting the begin of production for its four wells in Wyoming to November, which were only drilled in July and August.
- **Record hedge book:** The group has significantly expanded its hedging activities to capitalise on high oil prices, resulting in the highest volume ever hedged by Deutsche Rohstoff. For 2024, DRAG has hedged c. 1m barrels of oil (BO) at a price of USD76/barrel, and for 2025, they have already secured 300,000 BO at USD70/barrel. This cumulative hedging activity now totals 1.6m BO. The company maintains ongoing hedging for both new and existing production, covering c. 50% of its production volumes.
- **Increased working interest:** DRAG is also executing other wells with a significantly higher working interest than initially budgeted, contributing to increased capital expenditure of EUR30m, now totalling c. EUR230m for 2023-24.

**Appendix 1: Research framework**

Last model update: 16 August 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**

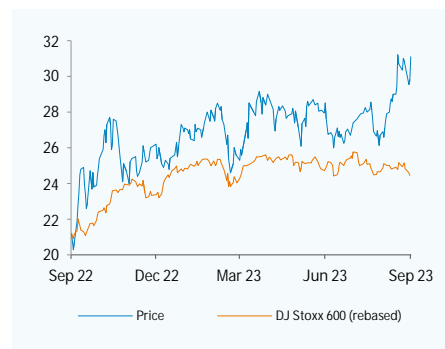
- Weaker-than-expected US dollar. Each USD0.05 move in our long-term EUR/USD assumption impacts our SOP by up to EUR3 per share.
- Lower demand leading to negative price movements in the WTI benchmark. Each USD3/bbl move in our long-term WTI oil price assumptions impacts our SOP by up to EUR2 per share.

**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.

<b>Mgmt</b>	Jan-Philipp Weitz, CEO   Henning Döring, CFO
<b>Ownership</b>	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: 16 August 2023

Market data date: 27 September 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
<b>Income Statement (EURm)</b>										
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
<b>Cash Flow Statement (EURm)</b>										
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
<b>Balance Sheet (EURm)</b>										
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
<b>Per share data (EUR)</b>										
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
<b>Ratios</b>										
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%
<b>Valuation</b>										
P/E adjusted	na	18.6	7.7	na	na	11.6	2.8	2.8	2.8	4.0
P/E adjusted and fully diluted	na	18.6	7.7	na	na	11.6	2.8	2.8	2.8	4.0
P/BV	1.5	2.1	1.6	1.3	1.2	1.1	1.0	0.9	0.7	0.6
P/CF	2.5	2.2	1.2	2.7	na	1.0	0.9	1.4	1.4	2.3
Dividend yield (%)	3.5%	3.2%	3.3%	0.6%	0.0%	3.7%	4.9%	4.3%	4.3%	3.0%
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%	-12.2%	7.1%	0.3%
EV/Sales	16.1	3.5	1.5	4.0	4.5	2.6	1.0	1.4	1.3	1.7
EV/EBITDA adj.	23.2	5.2	1.7	7.3	8.5	4.0	1.4	1.8	1.7	2.3
EV/EBIT adj.	na	35.6	5.0	29.4	na	13.0	2.2	2.7	2.6	3.8

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Hold	30%	28%
Reduce	7%	1%
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Total	100%	100%

Source: Kepler Cheuvreux

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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

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# Local insight, European scale.



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