


Deutsche Rohstoff **Buy**

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Germany | Oil & gas

Beta Profile: 
MCap: EUR163.1m

Target Price: EUR45.00
Current Price: EUR32.60
Up/downside: 38.0%
Market data: 20 November 2023

Bloomberg: DR0 GR	Reuters: DR0G.DE
Free float	90%
Avg. daily volume (EURm)	0.6
YTD abs performance	25.4%
52-week high/low (EUR)	35.25/24.00

Optimistic after Utah asset sale and robust Wyoming performance

Key points:

- Deutsche Rohstoff has recently made significant strides in its operational and financial activities. These developments have placed the company in a robust position, fostering optimism for its future prospects.
- The highly attractive sale of its Utah assets expected to close at year-end brings in c. EUR44m for c. 10% of the group production, reflecting a very liquid market at prices significantly above book value. In addition, the group's Wyoming operations have exceeded expectations with plans for further development including drilling three new wells.
- The group will host its third virtual capital markets day on 22 November at 11:00 CET. To register, click [here](#).

Highly attractive sale of Utah assets reinforcing the company's track record

- Deutsche Rohstoff announced the sale of its Utah assets (250 non-operating wells with a c. 2.3% working interest) by its subsidiary, Salt Creek Oil & Gas, culminating in two separate transactions. This strategic divestment resulted in substantial financial gains, including a cash inflow of EUR44m, equivalent to net income of EUR17m in Q4 from the sale of the asset.
- The Utah asset transaction is subject to standard review processes and purchase price adjustment rules, with completion expected by the year's end.
- As a result, the company projects an increase in its 2023 EBITDA to EUR152-162m (from EUR138-148m previously), while the forecast for 2024 shows a slight reduction due to the transaction's effects, from EUR145-160m to EUR130-145m in the base price scenario (WTI at USD75, EUR/USD at 1.12, natural gas price at USD3). The increased price scenario, which is based on a WTI of USD85 in 2024, projects an EBITDA of EUR150-165m (from EUR165-180m previously). The reduction in the 2024 forecast entirely reflects the effect of the transaction. The 2023 net income is expected to surpass the 2022 figure of EUR66.2m.
- The forecast adjustment also hinges on the assumption that the transaction will close by the end of 2023. If the closing is delayed to 2024, the forecast adjustment's effects may also be postponed.
- As described in our own report from October 2018 ([link](#)), Bright Rock acquired a total of c. 4,600 net acres in the Uinta Basin (Utah) for USD2.5m, which at that time produced 66 BOEPD with reserves of c. 150,000 BOE. The whole Utah asset presumably also includes further acquired areas from various mineral owners until the end of 2019. In 2022, the Utah asset was sold to Salt Creek Oil & Gas. According to our estimates, we assume the 2023 revenue contribution of Utah is c. EUR18-20m, with production of c. 1,000 BOEPD in 2023.
- At a cash inflow of EUR44m, we can assume a net return on invested capital significantly north of 30%. The price of the Utah asset is very attractive at c. USD44,000 per flowing BOE. Deutsche Rohstoff at the group level is currently valued at c. USD20,000 per flowing BOE (EV of c. EUR250m, EUR90m in net debt, at 2023 production of c. 12,200 BOEPD). At the deal price's multiple, the fair value of Deutsche Rohstoff at group level (including the Utah asset) would be almost 3x that of its current value. The current US market seems to be very liquid, and valuations are significantly above book level for these types of assets, as other (larger) deals in recent weeks have also shown.
- With this deal, long-term shareholders will again benefit from management's solid track record in taking advantage of tense commodity situations by buying assets at low prices and selling in cycles when prices are high (e.g. Tekton Energy, Rhein Petroleum, Georgetown gold mine, the acquisition of the acreage in Wyoming's Powder River Basin in 2020).

Accelerating growth in Wyoming - A strategic focus shift

- As a result of this sale, the company's operational and regional focus has now shifted to Wyoming and its legacy well pads in Colorado, where no new wells are planned.
- The company provided an update on its Wyoming operations ahead of its CMD on 22 November. The Wyoming assets were acquired in 2020 and 2021 and comprise c. 70,000 acres of leases together with the wells from the JV with Oxy.

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- In the last 14 months, 28 wells have commenced production - 23 in the Niobrara formation and five in the Turner formation. Notably, 21 of these wells are a part of the joint venture with Oxy. The performance of these wells has exceeded initial expectations. The average production expectation is around 500,000 barrels of oil per well over their entire production period.
- Bright Rock Energy, holding around half of the acreage in Wyoming, plans to drill three wells near the "Buster" well in December. This includes two in the Niobrara formation and a pioneering well in the deeper Mowry formation. Successful drilling in Mowry could significantly enhance the potential and value of Bright Rock's acreage. The working interest of these three wells is expected to amount 77%.
- Planned investments of around EUR80m for the coming year and the scheduled start of 12 additional wells in the first half of the year highlight the company's commitment to further developing the Wyoming region. The three new wells by Bright Rock will push the total to 15, increasing the upstream investment to approximately EUR110m.
- **The group is holding its third virtual Capital Markets Day on 22 November at 11:00. To register, click on this [link](#).**

Appendix 1: Research framework

Last model update: 02 November 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 EUR45.0.

Risk to our rating

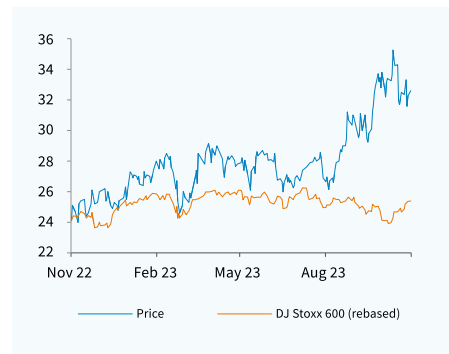
- Weaker-than-expected US dollar. Each USD0.05 move in our long-term EUR/USD assumption impacts our SOP by up to EUR3 per share.
- Lower demand leading to negative price movements in the WTI benchmark. Each USD3/bbl move in our long-term WTI oil price assumptions impacts our SOP by up to EUR2 per share.

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: 02 November 2023

Market data date: 20 November 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	193.1	197.6	157.4
% Change	383.4%	486.1%	103.0%	-62.2%	-6.1%	89.5%	125.6%	16.7%	2.4%	-20.4%
EBITDA adjusted	6.4	36.1	98.0	22.7	20.4	48.4	125.1	142.9	149.0	111.5
EBITDA adj. margin (%)	69.5%	67.2%	89.8%	55.2%	52.8%	66.0%	75.6%	74.0%	75.4%	70.9%
EBIT adjusted	-0.5	5.3	32.7	5.6	-19.6	14.9	77.4	96.1	97.7	70.3
EBIT adj. margin (%)	-5.9%	9.9%	30.0%	13.7%	-50.8%	20.3%	46.8%	49.8%	49.4%	44.7%
Net financial items & associates	-1.4	-4.0	-6.2	-5.4	-6.4	-5.5	-5.5	-5.5	-5.7	-5.0
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	-22.7	-23.0	-16.3
Net profit from continuing operations	0.1	7.7	18.0	0.2	-16.1	26.4	66.2	68.0	69.0	49.0
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	0.1	7.7	18.0	0.2	-16.1	26.4	66.2	68.0	69.0	49.0
Net profit reported	0.1	5.5	13.9	0.3	-15.5	24.8	60.8	62.4	63.3	45.0
Net profit adjusted	0.1	5.5	13.9	0.3	-19.0	7.1	46.8	62.4	63.3	45.0
Cash Flow Statement (EURm)										
Levered post tax CF before capex	35.3	47.7	87.4	30.0	-11.3	78.5	148.4	126.4	119.9	74.0
Capex	-66.1	-51.7	-66.2	-28.7	-36.8	-52.8	-88.9	-150.2	-80.0	-65.0
Free cash flow	-30.8	-4.0	21.2	1.3	-48.2	25.7	59.5	-23.8	39.9	9.0
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	-7.5	-7.6
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	43.8	-32.4	-1.4
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	309.5	338.3	362.1
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	193.8	255.3	296.8
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	235.6	236.1	211.3
Net debt	50.6	78.2	47.7	77.8	120.2	104.7	62.4	106.2	73.8	72.4
Net financial debt	50.6	78.2	47.7	77.8	120.2	104.7	62.4	106.2	73.8	72.4
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	-45.8	-44.5	-36.3
Invested capital	63.7	108.5	89.3	111.9	102.2	131.3	154.2	264.9	294.9	327.0
Per share data (EUR)										
EPS adjusted	0.02	1.10	2.74	0.06	-3.74	1.40	9.35	12.47	12.66	9.00
EPS adj and fully diluted	0.02	1.10	2.74	0.06	-3.74	1.40	9.35	12.47	12.66	9.00
% Change	-91.2%	5328.9%	150.5%	-97.8%	-chg	+chg	569.6%	33.4%	1.5%	-28.9%
EPS reported	0.02	1.10	2.74	0.06	-3.05	4.88	12.15	12.47	12.66	9.00
Cash flow per share	6.97	9.42	17.27	5.91	-2.23	15.44	29.67	25.27	23.96	14.79
Book value per share	11.16	9.73	12.99	12.66	7.76	14.31	25.78	36.95	48.11	55.60
Dividend per share	0.60	0.65	0.70	0.10	0.00	0.60	1.30	1.49	1.52	1.08
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%	39.8%	29.8%	17.4%
ROIC (%)	-1.1%	4.6%	24.8%	4.2%	-13.8%	9.6%	40.7%	34.4%	26.2%	17.0%
ND(F+IFRS16) / EBITDA (x)	7.9	2.2	0.5	3.4	5.9	2.2	0.5	0.7	0.5	0.6
Gearing (%)	76.4%	138.0%	64.7%	108.9%	263.6%	130.7%	47.2%	54.8%	28.9%	24.4%
Valuation										
P/E adjusted	na	18.6	7.7	na	na	11.6	2.8	2.6	2.6	3.6
P/E adjusted and fully diluted	na	18.6	7.7	na	na	11.6	2.8	2.6	2.6	3.6
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	1.3	1.4	2.2
Dividend yield (%)	3.5%	3.2%	3.3%	0.6%	0.0%	3.7%	4.9%	4.6%	4.7%	3.3%
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%	-18.0%	21.0%	3.1%
EV/Sales	16.1	3.5	1.5	4.0	4.5	2.6	1.0	1.3	1.1	1.4
EV/EBITDA adj.	23.2	5.2	1.7	7.3	8.5	4.0	1.4	1.8	1.5	2.0
EV/EBIT adj.	na	35.6	5.0	29.4	na	13.0	2.2	2.6	2.3	3.2

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Rating Breakdown	A	B
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Reduce	8%	6%
Not Rated/Under Review/Accept Offer	3%	4%
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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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
	02/10/2023 04:41	Equity Research	Buy	45.00	30.00

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

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