

Deutsche Rohstoff Buy

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Germany | Oil & gas

Beta Profile:
MOMENTUM QUALITY

MCap: EUR168.4m

Target Price: EUR42.00
Current Price: EUR33.65
Up/downside: 24.8%
Market data: 11 March 2024

Bloomberg: DR0 GR Reuters: DR0G.DE
Free float 90%
Avg. daily volume (EURm) 0.4
YTD abs performance 3.7%
52-week high/low (EUR) 35.25/24.60

Strong momentum in Q4 and early 2024

Key points:

- Deutsche Rohstoff published FY 2023 prelims, with significantly higher-than-expected sales and volume growth in Q4.
- EBITDA was slightly above our estimate, while bottom-line earnings were below our expectations due to higher D&A and interest.
- The company is well-positioned for further profitable growth with the expansion of its drilling programmes and its prudent financial management. The strong production momentum has continued into the early months of 2024.

Strong revenue and volume growth in Q4, momentum expected to continue

- Q4 preliminary sales are 11% above our estimates, EBITDA with a 2% beat.
- Production in Q4 was at an all-time high of 15,300 BOEPD, versus our estimate of 14,252 BOEPD. This surge was largely attributed to the successful addition of nine wells with 1876 Resources and Salt Creek Oil & Gas, which notably exceeded expectations. The momentum continued into the early months of 2024, with production rates about 20% higher than planned, averaging around 15,500 BOEPD.
- Bottom-line earnings, despite increasing significantly in Q4 and by 7% in FY 2023, were below our estimates, as the group incurred higher D&A due to the higher production levels, as well as higher interest (EUR9.7m, up from EUR6.9m) due to increased bank and bond liabilities and higher interest rates in the US.
- The higher production drove revenues and EBITDA in FY 2023. After hedging, Deutsche Rohstoff realised an oil price of USD74/BBL, slightly down from USD76.50/BBL in the previous year. For gas, the average realised price after hedges was USD2.90/mcf, down from USD4.25/mcf in the previous year. The company has proactively expanded its hedging positions amid recent rises in WTI prices, securing around 2m barrels for 2024 and 2025 at approximately USD75/BBL.
- EUR20.7m of other income was generated through one-offs, of which EUR18.1m are from the sale of the Utah asset. Adjusted for these one-offs, EBITDA grew by 10% versus the adj. EBITDA of c. EUR125m in the prior year.
- FCF (Op. CF – capex) was at negative EUR65m, driven by EUR200m in investments in FY 2023. Operating cash flow at EUR135m was slightly below the previous year's level of EUR142m.
- Net debt/EBITDA (company definition) slightly increased from 0.4x to 0.5x.
- Deutsche Rohstoff's record production levels and strategic hedging have positioned the company well for continued success. With a solid foundation of reserves, a promising drilling outlook, and prudent financial management, the company remains an attractive investment in the energy sector.
- The final FY 2023 results with the annual report will be published on 23 April 2024.

Table 1: Q4 and FY 2023 preliminary results (EURm) versus our expectations and YOY (%)

	Q4 2023	YOY%	Q4 2023E	FY 2023	YOY%	FY 2023E	Q4 vs. KECH est.	FY 23 vs. KECH est.
Sales	64.0	35%	57.6	196.6	19%	190.2	11%	3%
EBITDA	56.6	54%	55.5	158.2	14%	157.1	2%	1%
margin %	88.5%		96.5%	80.5%		82.6%		
Net income	22.5	70%	27.0	65.1	7%	69.6	-17%	-6%
EPS	4.49	70%	5.39	13.01	7%	13.91	-17%	-6%
BOEPD	15,300	48%	14,252	12,700	32%	12,480	7%	2%

Source: Deutsche Rohstoff, Kepler Cheuvreux

Appendix 1: Research framework

Last model update: 29 January 2024

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 S. 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 EUR42.0.

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: 29 January 2024

Market data date: 11 March 2024

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	190.2	168.0	150.1
% Change	383.4%	486.1%	103.0%	-62.2%	-6.1%	89.5%	125.6%	15.0%	-11.7%	-10.7%
EBITDA adjusted	6.4	36.1	98.0	22.7	20.4	48.4	125.1	157.1	123.1	104.6
EBITDA adj. margin (%)	69.5%	67.2%	89.8%	55.2%	52.8%	66.0%	75.6%	82.6%	73.3%	69.7%
EBIT adjusted	-0.5	5.3	32.7	5.6	-19.6	14.9	77.4	105.7	69.7	56.8
EBIT adj. margin (%)	-5.9%	9.9%	30.0%	13.7%	-50.8%	20.3%	46.8%	55.6%	41.5%	37.9%
Net financial items & associates	-1.4	-4.0	-6.2	-5.4	-6.4	-5.5	-5.5	-4.7	-4.2	-3.3
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	-25.3	-16.4	-13.4
Net profit from continuing operations	0.1	7.7	18.0	0.2	-16.1	26.4	66.2	75.8	49.1	40.2
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	75.8	49.1	40.2
Net profit reported	0.1	5.5	13.9	0.3	-15.5	24.8	60.8	69.6	45.1	36.9
Net profit adjusted	0.1	5.5	13.9	0.3	-19.0	7.1	46.8	69.6	45.1	36.9
Cash Flow Statement (EURm)										
Levered post tax CF before capex	35.3	47.7	87.4	30.0	-11.3	78.5	148.4	137.6	90.9	81.7
Capex	-66.1	-51.7	-66.2	-28.7	-36.8	-52.8	-88.9	-153.0	-55.6	-65.0
Free cash flow	-30.8	-4.0	21.2	1.3	-48.2	25.7	59.5	-15.4	35.3	16.7
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	-6.8	-5.4
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	8.4	-28.4	-11.3
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	280.7	282.9	300.2
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	201.6	244.0	278.7
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	233.7	217.2	207.1
Net debt	50.6	78.2	47.7	77.8	120.2	104.7	62.4	70.8	42.4	31.1
Net financial debt	50.6	78.2	47.7	77.8	120.2	104.7	62.4	70.8	42.4	31.1
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	-45.1	-37.8	-35.2
Invested capital	63.7	108.5	89.3	111.9	102.2	131.3	154.2	236.8	246.2	266.1
Per share data (EUR)										
EPS adjusted	0.02	1.10	2.74	0.06	-3.74	1.40	9.35	13.91	9.02	7.37
EPS adj and fully diluted	0.02	1.10	2.74	0.06	-3.74	1.40	9.35	13.91	9.02	7.37
% Change	-91.2%	5328.9%	150.5%	-97.8%	-chg	+chg	569.6%	48.8%	-35.2%	-18.3%
EPS reported	0.02	1.10	2.74	0.06	-3.05	4.88	12.15	13.91	9.02	7.37
Cash flow per share	6.97	9.42	17.27	5.91	-2.23	15.44	29.67	27.50	18.16	16.33
Book value per share	11.16	9.73	12.99	12.66	7.76	14.31	25.78	38.38	46.04	52.32
Dividend per share	0.60	0.65	0.70	0.10	0.00	0.60	1.30	1.36	1.08	0.96
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%	43.3%	21.4%	15.0%
ROIC (%)	-1.1%	4.6%	24.8%	4.2%	-13.8%	9.6%	40.7%	40.6%	21.6%	16.6%
ND(F+IFRS16) / EBITDA (x)	7.9	2.2	0.5	3.4	5.9	2.2	0.5	0.5	0.3	0.3
Gearing (%)	76.4%	138.0%	64.7%	108.9%	263.6%	130.7%	47.2%	35.1%	17.4%	11.2%
Valuation										
P/E adjusted	na	18.6	7.7	na	na	11.6	2.8	2.4	3.7	4.6
P/E adjusted and fully diluted	na	18.6	7.7	na	na	11.6	2.8	2.4	3.7	4.6
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	1.2	1.9	2.1
Dividend yield (%)	3.5%	3.2%	3.3%	0.6%	0.0%	3.7%	4.9%	4.1%	3.2%	2.9%
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%	-12.8%	18.6%	8.0%
EV/Sales	16.1	3.5	1.5	4.0	4.5	2.6	1.0	1.2	1.2	1.3
EV/EBITDA adj.	23.2	5.2	1.7	7.3	8.5	4.0	1.4	1.4	1.6	1.8
EV/EBIT adj.	na	35.6	5.0	29.4	na	13.0	2.2	2.1	2.8	3.3

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Local insight, European scale.



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