

Deutsche Rohstoff **Buy**

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Germany | Oil & gas

Beta Profile:
MOMENTUM QUALITY

MCap: EUR213.1m

Target Price: EUR56.50
Current Price: EUR42.60
Up/downside: 32.6%
Market data: 10 May 2024

Bloomberg: DR0 GR Reuters: DR0G.DE
Free float 90%
Avg. daily volume (EURm) 0.7
YTD abs performance 31.3%
52-week high/low (EUR) 44.90/26.00

Q1: a solid start to the year

Key points:

- Q1 sales increased by 30%, EBITDA by 29%, and production (BOEPD) by 37% YOY.
- Bottom-line earnings growth (EBIT 9% and EPS 4% YOY) at a slightly lower rate and FCF slightly negative.
- The group's production outlook for the remainder of FY 2024 looks solid, with 23 wells beginning production in the coming quarters, and peak production expected in Q3. FY 2024 guidance is confirmed.

Sales and EBITDA up by c. 30% YOY, production outlook solid for remainder of year, peak production expected in Q3

- Q1 sales increased by 30%, EBITDA by 29%, EBIT by 9%, EPS by 4%, and production (BOEPD) by 37% YOY.
- In Q1, WTI was trading at an average price of USD77.5/bbl, and Deutsche Rohstoff realised an average oil price of USD73.22/bbl after hedges and USD72.74/bbl before hedges.
- While sales and EBITDA growth were broadly in line, bottom-line earnings grew at a lower rate due to disproportionately higher D&A (resulting from a higher oil share and more capital-intensive production in Wyoming), as well as higher interest expenses. FCF came in at c. negative EUR9m, down from EUR4.3m in the prior year, with capex roughly EUR7m higher in Q1 2024.
- For the remainder of the year, the group is planning on bringing 23 wells into production with a share of 65%, of which numerous wells will begin production in the current quarter (Q2) and coming quarter (Q3), when the group also expects peak production for this year. Ten wells within Deutsche Rohstoff's and Occidental Petroleum's JV started production in April. 13 further own wells will begin drilling soon. FY 2024 guidance, which was raised in April, has been confirmed.

Table 1: Q1 2024 results (EURm)

	Q1 2024	Q1 2023	YOY %
Sales	55.6	42.7	30%
EBITDA	41.7	32.3	29%
EBITDA margin %	75%	76%	
EBIT	22.4	20.6	9%
EBIT margin %	40%	48%	
EPS	2.99	2.86	4%
Production (BOEPD)	14,911	10,854	37%
Production (BO)	8,664	5,302	63%

Source: Deutsche Rohstoff

Appendix 1: Research framework

Last model update: 26 April 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 USD73/bbl, our SOP points to a fair value of EUR56.5.

Risk to our rating

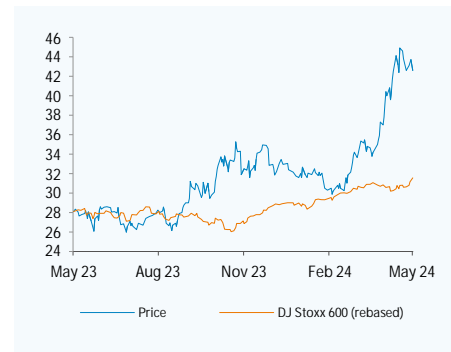
- Weaker-than-expected US dollar. Each USD0.05 move in our long-term EUR/USD assumption impacts our SOP by up to EUR3 per share.
- Lower demand leading to negative price movements in the WTI benchmark. Each USD3/bbl move in our long-term WTI oil price assumptions impacts our SOP by up to EUR2 per share.

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: 26 April 2024

Market data date: 10 May 2024

FY to 31/12 (EUR)	12/17	12/18	12/19	12/20	12/21	12/22	12/23	12/24E	12/25E	12/26E
Income Statement (EURm)										
Sales	53.7	109.1	41.2	38.7	73.3	165.4	196.7	221.6	203.5	182.9
% Change	486.1%	103.0%	-62.2%	-6.1%	89.5%	125.6%	18.9%	12.7%	-8.2%	-10.1%
EBITDA adjusted	36.1	98.0	22.7	20.4	48.4	125.1	139.7	167.2	144.4	126.5
EBITDA adj. margin (%)	67.2%	89.8%	55.2%	52.8%	66.0%	75.6%	71.0%	75.4%	71.0%	69.2%
EBIT adjusted	5.3	32.7	5.6	-19.6	14.9	77.4	75.4	99.7	86.7	74.8
EBIT adj. margin (%)	9.9%	30.0%	13.7%	-50.8%	20.3%	46.8%	38.3%	45.0%	42.6%	40.9%
Net financial items & associates	-4.0	-6.2	-5.4	-6.4	-5.5	-5.5	-8.2	-10.1	-8.3	-6.4
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	6.4	-8.5	-0.1	6.4	-0.7	-19.8	-18.3	-22.4	-19.6	-17.1
Net profit from continuing operations	7.7	18.0	0.2	-16.1	26.4	66.2	67.5	67.2	58.8	51.3
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	7.7	18.0	0.2	-16.1	26.4	66.2	67.5	67.2	58.8	51.3
Net profit reported	5.5	13.9	0.3	-15.5	24.8	60.8	65.2	64.9	56.8	49.6
Net profit adjusted	5.5	13.9	0.3	-19.0	7.1	46.8	46.6	64.9	56.8	49.6
Cash Flow Statement (EURm)										
Levered post tax CF before capex	47.7	87.4	30.0	-11.3	78.5	148.4	164.4	138.2	107.7	92.9
Capex	-51.7	-66.2	-28.7	-36.8	-52.8	-88.9	-198.7	-149.8	-101.8	-65.0
Free cash flow	-4.0	21.2	1.3	-48.2	25.7	59.5	-34.3	-11.6	5.9	27.9
Acquisitions & divestments	0.0	0.0	0.0	0.0	0.0	6.0	0.0	0.0	0.0	0.0
Dividend paid	-3.0	-3.2	-3.2	-0.5	0.0	-3.7	-6.7	-8.8	-7.5	-7.2
Others	-20.7	12.4	-28.2	6.3	-10.2	-19.5	17.9	-7.0	0.0	0.0
Change in net financial debt	27.6	-30.5	30.1	42.3	-15.5	-42.3	23.1	27.3	1.6	-20.8
Balance Sheet (EURm)										
Intangible assets	33.8	16.9	22.1	21.9	29.8	33.9	23.5	23.5	23.5	23.5
Tangible assets	114.5	110.1	139.6	112.8	149.1	192.6	317.6	399.9	444.0	457.3
Financial & other non-current assets	24.0	36.3	42.1	50.3	43.8	40.7	36.9	36.9	36.9	36.9
Total shareholders' equity	56.7	73.8	71.5	45.6	80.1	132.4	187.5	238.9	290.2	334.3
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	156.9	151.0	207.4	161.1	184.9	218.0	306.3	314.8	302.2	288.0
Net debt	78.2	47.7	77.8	120.2	104.7	62.4	85.5	112.9	114.5	93.8
Net financial debt	78.2	47.7	77.8	120.2	104.7	62.4	85.5	112.9	114.5	93.8
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	-9.3	-22.4	-29.3	-11.9	-19.0	-39.6	-56.5	-53.9	-49.5	-44.5
Invested capital	108.5	89.3	111.9	102.2	131.3	154.2	262.1	347.0	395.5	413.8
Per share data (EUR)										
EPS adjusted	1.10	2.74	0.06	-3.74	1.40	9.35	9.31	13.21	11.56	10.09
EPS adj and fully diluted	1.10	2.74	0.06	-3.74	1.40	9.35	9.31	13.21	11.56	10.09
% Change	5328.9%	150.5%	-97.8%	-chg	+chg	569.6%	-0.4%	41.9%	-12.5%	-12.8%
EPS reported	1.10	2.74	0.06	-3.05	4.88	12.15	13.03	13.21	11.56	10.09
Cash flow per share	9.42	17.27	5.91	-2.23	15.44	29.67	32.87	28.14	21.91	18.92
Book value per share	9.73	12.99	12.66	7.76	14.31	25.78	36.05	46.72	56.75	65.37
Dividend per share	0.65	0.70	0.10	0.00	0.60	1.30	1.75	1.50	1.44	1.25
Number of shares, YE (m)	5.06	5.06	5.08	5.08	5.08	5.00	5.00	5.00	5.00	5.00
Ratios										
ROE (%)	10.5%	24.2%	0.5%	-36.6%	12.7%	46.4%	30.1%	31.7%	22.3%	16.5%
ROIC (%)	4.6%	24.8%	4.2%	-13.8%	9.6%	40.7%	27.2%	24.5%	17.5%	13.9%
ND(F+IFRS16) / EBITDA (x)	2.2	0.5	3.4	5.9	2.2	0.5	0.6	0.7	0.8	0.7
Gearing (%)	138.0%	64.7%	108.9%	263.6%	130.7%	47.2%	45.6%	47.2%	39.5%	28.0%
Valuation										
P/E adjusted	18.6	7.7	na	na	11.6	2.8	3.1	3.2	3.7	4.2
P/E adjusted and fully diluted	18.6	7.7	na	na	11.6	2.8	3.1	3.2	3.7	4.2
P/BV	2.1	1.6	1.3	1.2	1.1	1.0	0.8	0.9	0.8	0.7
P/CF	2.2	1.2	2.7	na	1.0	0.9	0.9	1.5	1.9	2.3
Dividend yield (%)	3.2%	3.3%	0.6%	0.0%	3.7%	4.9%	6.1%	3.5%	3.4%	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 (%)	-5.9%	16.0%	1.8%	-99.1%	29.3%	41.0%	-25.4%	-6.5%	1.8%	12.3%
EV/Sales	3.5	1.5	4.0	4.5	2.6	1.2	1.2	1.5	1.7	1.8
EV/EBITDA adj.	5.2	1.7	7.3	8.5	4.0	1.6	1.7	2.0	2.3	2.5
EV/EBIT adj.	35.6	5.0	29.4	na	13.0	2.6	3.1	3.4	3.9	4.3

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Hold	32%	29%
Reduce	9%	7%
Not Rated/Under Review/Accept Offer	3%	4%
Total	100%	100%

Source: Kepler Cheuvreux

A: % of all research recommendations

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	02/10/2023 04:41	Equity Research	Buy	45.00	30.00
	27/11/2023 05:35	Equity Research	Buy	48.00	34.10
	29/01/2024 05:31	Equity Research	Buy	42.00	32.10
	15/04/2024 04:31	Equity Research	Buy	47.00	40.00
	25/04/2024 06:12	Equity Research	Buy	49.00	43.20
	26/04/2024 05:26	Equity Research	Buy	56.50	42.40

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Local insight, European scale.



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