

Deutsche Rohstoff Buy

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Germany | Oil & gas

Beta Profile:
MOMENTUM QUALITY

MCap: EUR189.6m

Target Price: EUR56.50
Current Price: EUR37.90
Up/downside: 49.1%
Market data: 14 August 2024

Bloomberg: DR0 GR Reuters: DR0G.DE
Free float 90%
Avg. daily volume (EURm) 0.8
YTD abs performance 16.8%
52-week high/low (EUR) 44.90/26.15

Strong half-year performance, guidance confirmed

Key points:

- A strong H1 performance (sales and EBITDA up by 50%, production up by 40% YOY), but the company faced some operational issues, particularly maintenance issues affecting gas infrastructure and the underperformance of the Wilma pad.
- However, these were offset by the strong performance of other wells and ongoing drilling activities, which are expected to deliver further positive results in the coming months.
- The company's performance in H1 positions it well to meet its full-year targets and the full-year guidance has been confirmed.

Strong financials driven mostly by volume increase

- A Q2 with further stellar growth in sales and earnings, H1 sales and EBITDA were up by c. 50%, respectively from EUR75m to EUR112m and EBITDA from EUR56m to EUR84m. Bottom-line earnings grew at double-digit rates too, albeit slightly slower than sales and EBITDA due to higher D&A from higher investments and production volumes. This positions the group well to reach its full-year targets, EUR210-230m in sales and EUR160-180m in EBITDA at a WTI of USD75/bbl.
- Deutsche Rohstoff has been investing heavily in growth, with capital expenditure reaching EUR113.8m in H1 2024 for the development of oil and gas wells. This compares to EUR101.7m in the previous year. The group is maintaining an investment target of EUR145-165m for the full-year. FCF as of H1 2024 was in line with last year and in the red, albeit with Q2 slightly improving compared to the previous year. Operating cash flow improved from EUR71m in H1 2023 to EUR85m in H1 2024.

Table 1: Deutsche Rohstoff's Q2 and H1 results (EURm)

	Q2 2024	Q2 2023	YOY %	H1 2024	H1 2023	YOY %
Sales	56.6	32.5	74%	112.2	75.2	49%
EBITDA	42.1	23.7	78%	83.8	56.0	50%
EBITDA margin %	74%	73%		75%	75%	
EBIT	17.3	12.0	45%	39.7	32.6	22%
EBIT margin %	31%	37%		35%	43%	
EPS	1.97	1.42	39%	4.96	4.28	16%
Production (BOEPD)	14,615	10,212	43%	14,763	10,533	40%
FCF	-23.5	-36.6	na	-32.5	-32.3	na

Source: Deutsche Rohstoff

Production and operational development

- Production amounted to 14,762 BOEPD in H1 2024, up from 10,533 in the previous year. Q2 BOEPD slightly fell to 14,615 BOEPD after 14,911 BOEPD in Q1 2024. Total production for H1 was 2.7m BOE, a notable increase from 1.9m BOE in the previous year. For FY 2024, the group is planning production of 14,700-15,700 BOEPD. Overall, production is positive, as the strong performance of some wells was able to offset the underperformance of the Wilma pad.
- A total of 18 wells in Wyoming commenced production by mid-July, including the completion of the Oxy JV with ten wells. While initial production was on schedule, recent curtailments due to gas infrastructure maintenance have affected output.
- Bright Rock Energy completed its drilling programme, yielding positive results, especially from wells in the Mowry and Niobrara formations, with the Mowry well exceeding expectations.
- 1876 Resources drilled six of its planned 8-10 wells for 2024, and overall production met the group's expectations. The first three Niobrara wells started production in July below expectations but are anticipated to improve.
- While Bright Rock faced higher-than-expected costs, 1876 Resources benefited from a positive cost trend. The company plans to finalise additional drilling in late Q3 or early Q4.

Hedge book further expanded; guidance confirmed

- To mitigate price risks, Deutsche Rohstoff further expanded its hedge book, covering 1.5m barrels at an average price of USD72.60 per barrel for 2024-26.
- Deutsche Rohstoff AG has confidently reaffirmed its guidance for FY 2024, projecting sales in the range of EUR210-230m and EBITDA in the range of EUR160-180m. This outlook is based on a WTI oil price of USD 75/bbl, a gas price of USD2/mcf, and a EUR/USD exchange rate of 1.12.

Appendix 1: Research framework

Last model update: 13 May 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

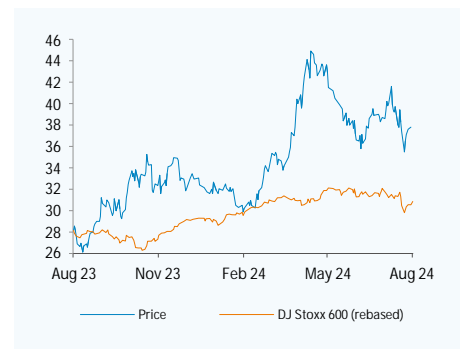
- Weaker-than-expected US dollar. Each USD0.05 move in our long-term EUR/USD assumption impacts our SOP by up to EUR3 per share.
- Lower demand leading to negative price movements in the WTI benchmark. Each USD3/bbl move in our long-term WTI oil price assumptions impacts our SOP by up to EUR2 per share.

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: 13 May 2024

Market data date: 14 August 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	2.9	3.3	3.8
P/E adjusted and fully diluted	18.6	7.7	na	na	11.6	2.8	3.1	2.9	3.3	3.8
P/BV	2.1	1.6	1.3	1.2	1.1	1.0	0.8	0.8	0.7	0.6
P/CF	2.2	1.2	2.7	na	1.0	0.9	0.9	1.3	1.7	2.0
Dividend yield (%)	3.2%	3.3%	0.6%	0.0%	3.7%	4.9%	6.1%	4.0%	3.8%	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 (%)	-5.9%	16.0%	1.8%	-99.1%	29.3%	41.0%	-25.4%	-7.3%	2.0%	13.8%
EV/Sales	3.5	1.5	4.0	4.5	2.6	1.2	1.2	1.4	1.6	1.6
EV/EBITDA adj.	5.2	1.7	7.3	8.5	4.0	1.6	1.7	1.9	2.2	2.3
EV/EBIT adj.	35.6	5.0	29.4	na	13.0	2.6	3.1	3.1	3.6	4.0

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Rating Breakdown	A	B
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Hold	33%	27%
Reduce	9%	5%
Not Rated/Under Review/Accept Offer	2%	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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Deutsche Rohstoff (EUR)	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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