

# Deutsche Rohstoff Reduce

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Germany | Oil & gas

**Beta Profile:** MOMENTUM

**MCap: EUR165.6m**

**Target Price:** EUR30.00  
**Current Price:** EUR33.10  
**Up/downside:** -9.4%  
**Market data:** 01 November 2024

Bloomberg: DR0 GR      Reuters: DR0G.DE  
Free float      90%  
Avg. daily volume (EURm)      0.8  
YTD abs performance      2.0%  
52-week high/low (EUR)      44.90/29.90

## 9M results: Strong sales amid expanding production

### Key points:

- Deutsche Rohstoff reported robust 9M 2024 results, driven by operational momentum in Wyoming and cost efficiencies in drilling. 9M sales and production increased by 29% and 24% YOY due to the continued expansion of its drilling programme.
- Peak production is expected in Q4 due to several new wells starting production. Margins are down YOY due to higher D&A and operating costs. The strong sales and accelerated production in Q4 imply DRAG should land at upper end of FY sales guidance.
- A CMD will be hosted on 20 November.

### Strong sales imply the group will land in upper end of full-year sales guidance range

- 9M sales of EUR171.6m (29% YOY; Q3: 3% YOY) and EBITDA of EUR122.2m (20% YOY; Q3: -16% YOY) position DRAG well within its annual guidance of EUR210-230m in revenue and EUR160-180m in EBITDA. For the former, the group's strong 9M sales indicate that our FY estimate of EUR219m, which is broadly in the mid-point of management's guidance, is too conservative as it would imply revenues of below EUR50m in Q4, a scenario we find highly unlikely and one that the group has not seen experienced since Q2 2023, especially given the expected acceleration of production in Q4.
- Net income and EBIT came in below last year, at EUR36.2m and EUR56.6m respectively, mainly due to higher D&A and other expenses, including the workovers of wells, the gas infrastructure and from the metal sector, as well as currency headwinds.
- 9M 2024 production (BOEPD) increased by 24% YOY, driven by a 40% increase in crude oil output, which now constitutes 59% of the total product mix. The company's production of 14,702 BOEPD is at the low end of its full-year guidance of 14,700 to 15,700 BOEPD for FY 2024, but Q4 is expected to see significantly higher production levels. Three wells in the Teapot formation have recently started production and six non-operated wells are expected to start production until end of December.
- Operationally, the group was successful in 9M 2024 by reducing well costs in Wyoming, notably bringing Niobrara wells down to c. USD10m per well. The current drilling and cost efficiency gains should continue to support margin expansion, given that Teapot well costs have decreased significantly to less than USD7m, down from last year's USD11m.
- The group has continued to scale up production and expanded its drilling programme, supported by a hedge book comprising c 1.4m hedged barrels at USD71.20. For 2025, management confirms its capex guidance of up to EUR110m, and an additional 10 Teapot wells are currently being evaluated.
- Operationally, Deutsche Rohstoff's performance underpins a favourable outlook, with enhanced cost efficiency, expanded acreage, and high production levels, supported by its strategic position in Wyoming and prudent capital management. However, we maintain a negative view on the stock light of our bearish outlook on WTI price development. We anticipate potential challenges with a downturn in Brent oil prices toward USD56 per barrel to a price that is still below the WTI future curve. We thus see a risk to 2025 guidance, which is based on WTI at USD75 per barrel.

Table 1: Q3 and 9M 2024 results (EURm)

|                    | Q3 2024 | Q3 2023 | YOY % | 9M 2024 | 9M 2023 | YOY % |
|--------------------|---------|---------|-------|---------|---------|-------|
| Sales              | 59.4    | 57.5    | 3%    | 171.6   | 132.6   | 29%   |
| EBITDA             | 38.4    | 45.6    | -16%  | 122.2   | 101.6   | 20%   |
| EBITDA margin %    | 65%     | 79%     |       | 71%     | 77%     |       |
| EBIT               | 16.8    | 25.7    | -35%  | 56.5    | 58.3    | -3%   |
| EBIT margin %      | 28%     | 45%     |       | 33%     | 44%     |       |
| EPS                | 2.36    | 4.24    | -44%  | 7.32    | 8.52    | -14%  |
| Production (BOEPD) | 14,580  | 14,600  | 0%    | 14,702  | 11,904  | 24%   |
| FCF                | -1      | -5      | na    | -34     | -38     | na    |

Source: Deutsche Rohstoff, Kepler Cheuvreux

**Appendix 1: Research framework**

Last model update: 31 October 2024

**Investment case**

- Deutsche Rohstoff AG’s strong operational performance in 2024 reinforces a positive long-term outlook. However, in light of our bearish outlook on WTI price development, we advise investors to sell their positions despite operational improvements.
- 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 as well as efficiencies in drilling costs.
- 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 USD56/bbl, our SOP points to a fair value of EUR30.

**Risk to our rating**

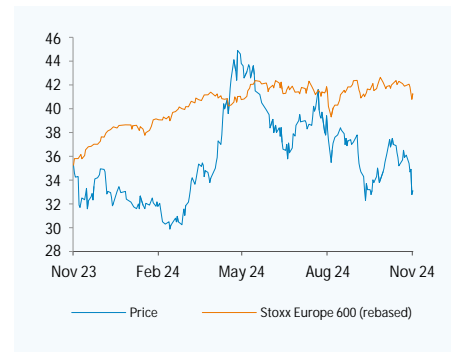
- Weaker-than-expected US dollar. Each USD0.1 move in our long-term EUR/USD assumption impacts our SOP by up to EUR6 per share.
- Lower demand leading to negative price movements in the WTI benchmark. Each USD2/bbl move in our long-term WTI oil price assumptions impacts our SOP by up to EUR2 per share.

**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
- Further increase in non-operative wells.

**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: 31 October 2024

Market data date: 01 November 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 |
|--|---------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Income Statement (EURm)</b>           |         |        |        |        |        |        |        |        |        |        |
| Sales                                    | 53.7    | 109.1  | 41.2   | 38.7   | 73.3   | 165.4  | 196.7  | 219.1  | 171.7  | 148.9  |
| % Change                                 | 486.1%  | 103.0% | -62.2% | -6.1%  | 89.5%  | 125.6% | 18.9%  | 11.4%  | -21.6% | -13.3% |
| EBITDA adjusted                          | 36.1    | 98.0   | 22.7   | 20.4   | 48.4   | 125.1  | 139.7  | 168.3  | 119.3  | 100.0  |
| EBITDA adj. margin (%)                   | 67.2%   | 89.8%  | 55.2%  | 52.8%  | 66.0%  | 75.6%  | 71.0%  | 76.8%  | 69.5%  | 67.2%  |
| EBIT adjusted                            | 5.3     | 32.7   | 5.6    | -19.6  | 14.9   | 77.4   | 75.4   | 98.3   | 57.3   | 43.7   |
| EBIT adj. margin (%)                     | 9.9%    | 30.0%  | 13.7%  | -50.8% | 20.3%  | 46.8%  | 38.3%  | 44.8%  | 33.4%  | 29.3%  |
| Net financial items & associates         | -4.0    | -6.2   | -5.4   | -6.4   | -5.5   | -5.5   | -8.2   | -10.3  | -9.2   | -8.0   |
| 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  | -22.0  | -12.0  | -8.9   |
| Net profit from continuing operations    | 7.7     | 18.0   | 0.2    | -16.1  | 26.4   | 66.2   | 67.5   | 66.0   | 36.1   | 26.7   |
| 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   | 66.0   | 36.1   | 26.7   |
| Net profit reported                      | 5.5     | 13.9   | 0.3    | -15.5  | 24.8   | 60.8   | 65.2   | 63.7   | 34.8   | 25.8   |
| Net profit adjusted                      | 5.5     | 13.9   | 0.3    | -19.0  | 7.1    | 46.8   | 46.6   | 63.7   | 34.8   | 25.8   |
| <b>Cash Flow Statement (EURm)</b>        |         |        |        |        |        |        |        |        |        |        |
| Levered post tax CF before capex         | 47.7    | 87.4   | 30.0   | -11.3  | 78.5   | 148.4  | 164.4  | 142.8  | 78.7   | 72.3   |
| Capex                                    | -51.7   | -66.2  | -28.7  | -36.8  | -52.8  | -88.9  | -198.7 | -172.2 | -95.0  | -79.5  |
| Free cash flow                           | -4.0    | 21.2   | 1.3    | -48.2  | 25.7   | 59.5   | -34.3  | -29.4  | -16.3  | -7.3   |
| 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   | -7.4   | -4.4   |
| 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   | 45.1   | 23.7   | 11.7   |
| <b>Balance Sheet (EURm)</b>              |         |        |        |        |        |        |        |        |        |        |
| 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  | 419.8  | 452.8  | 476.0  |
| 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  | 237.7  | 266.4  | 288.7  |
| 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               | 156.9   | 151.0  | 207.4  | 161.1  | 184.9  | 218.0  | 306.3  | 317.3  | 288.8  | 273.4  |
| Net debt                                 | 78.2    | 47.7   | 77.8   | 120.2  | 104.7  | 62.4   | 85.5   | 130.7  | 154.3  | 166.0  |
| Net financial debt                       | 78.2    | 47.7   | 77.8   | 120.2  | 104.7  | 62.4   | 85.5   | 130.7  | 154.3  | 166.0  |
| 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  | -57.8  | -50.2  | -45.0  |
| Invested capital                         | 108.5   | 89.3   | 111.9  | 102.2  | 131.3  | 154.2  | 262.1  | 363.0  | 403.6  | 432.0  |
| <b>Per share data (EUR)</b>              |         |        |        |        |        |        |        |        |        |        |
| EPS adjusted                             | 1.10    | 2.74   | 0.06   | -3.74  | 1.40   | 9.35   | 9.31   | 12.97  | 7.09   | 5.25   |
| EPS adj and fully diluted                | 1.10    | 2.74   | 0.06   | -3.74  | 1.40   | 9.35   | 9.31   | 12.97  | 7.09   | 5.25   |
| % Change                                 | 5328.9% | 150.5% | -97.8% | -chg   | +chg   | 569.6% | -0.4%  | 39.3%  | -45.4% | -25.9% |
| EPS reported                             | 1.10    | 2.74   | 0.06   | -3.05  | 4.88   | 12.15  | 13.03  | 12.97  | 7.09   | 5.25   |
| Cash flow per share                      | 9.42    | 17.27  | 5.91   | -2.23  | 15.44  | 29.67  | 32.87  | 29.07  | 16.03  | 14.71  |
| Book value per share                     | 9.73    | 12.99  | 12.66  | 7.76   | 14.31  | 25.78  | 36.05  | 46.48  | 52.06  | 56.42  |
| Dividend per share                       | 0.65    | 0.70   | 0.10   | 0.00   | 0.60   | 1.30   | 1.75   | 1.48   | 0.88   | 0.65   |
| 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   |
| <b>Ratios</b>                            |         |        |        |        |        |        |        |        |        |        |
| ROE (%)                                  | 10.5%   | 24.2%  | 0.5%   | -36.6% | 12.7%  | 46.4%  | 30.1%  | 31.2%  | 14.4%  | 9.7%   |
| ROIC (%)                                 | 4.6%    | 24.8%  | 4.2%   | -13.8% | 9.6%   | 40.7%  | 27.2%  | 23.6%  | 11.2%  | 7.8%   |
| ND(F+IFRS16) / EBITDA (x)                | 2.2     | 0.5    | 3.4    | 5.9    | 2.2    | 0.5    | 0.6    | 0.8    | 1.3    | 1.7    |
| Gearing (%)                              | 138.0%  | 64.7%  | 108.9% | 263.6% | 130.7% | 47.2%  | 45.6%  | 55.0%  | 57.9%  | 57.5%  |
| <b>Valuation</b>                         |         |        |        |        |        |        |        |        |        |        |
| P/E adjusted                             | 18.6    | 7.7    | na     | na     | 11.6   | 2.8    | 3.1    | 2.6    | 4.7    | 6.3    |
| P/E adjusted and fully diluted           | 18.6    | 7.7    | na     | na     | 11.6   | 2.8    | 3.1    | 2.6    | 4.7    | 6.3    |
| P/BV                                     | 2.1     | 1.6    | 1.3    | 1.2    | 1.1    | 1.0    | 0.8    | 0.7    | 0.6    | 0.6    |
| P/CF                                     | 2.2     | 1.2    | 2.7    | na     | 1.0    | 0.9    | 0.9    | 1.1    | 2.1    | 2.2    |
| Dividend yield (%)                       | 3.2%    | 3.3%   | 0.6%   | 0.0%   | 3.7%   | 4.9%   | 6.1%   | 4.5%   | 2.7%   | 2.0%   |
| 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 (%)                            | -5.9%   | 16.0%  | 1.8%   | -99.1% | 29.3%  | 41.0%  | -25.4% | -19.1% | -10.6% | -4.9%  |
| EV/Sales                                 | 3.5     | 1.5    | 4.0    | 4.5    | 2.6    | 1.2    | 1.2    | 1.4    | 1.9    | 2.3    |
| EV/EBITDA adj.                           | 5.2     | 1.7    | 7.3    | 8.5    | 4.0    | 1.6    | 1.7    | 1.8    | 2.8    | 3.4    |
| EV/EBIT adj.                             | 35.6    | 5.0    | 29.4   | na     | 13.0   | 2.6    | 3.1    | 3.1    | 5.8    | 7.9    |

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Unless otherwise stated, all prices are aligned with the "Market Data date" on the front page of this report.

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|-------------------|--------------|--|
| Deutsche Rohstoff | DE000A0XYG76 | KEPLER CHEUVREUX and the issuer have agreed that KEPLER CHEUVREUX will produce and disseminate investment research on the said issuer as a service to the issuer |

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Name of the Research Analyst(s): Sven Sauer

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#### Kepler Cheuvreux rating split as of 04 November 2024

| Rating Breakdown                    | A    | B    |
|-------------------------------------|------|------|
| Buy                                 | 54%  | 63%  |
| Hold                                | 35%  | 26%  |
| Reduce                              | 8%   | 5%   |
| Not Rated/Under Review/Accept Offer | 3%   | 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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The below table shows the history of recommendations and target prices changes issued by KEPLER CHEUVREUX research department (Equity and Credit) over a 12 months period.

| Company Name            | Date             | Business Line   | Rating | Target Price | Closing Price |
|-------------------------|------------------|-----------------|--------|--------------|---------------|
| Deutsche Rohstoff (EUR) | 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         |
|                         | 31/10/2024 05:26 | Equity Research | Reduce | 30.00        | 34.90         |

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| Location   | Regulator                                       | Abbreviation |
|--|---|--------------|
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| KEPLER CHEUVREUX, Madrid branch                  | Comisión Nacional del Mercado de Valores        | CNMV         |
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