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Deutsche Rohstoff **Buy**

Germany | Oil & gas

Beta Profile:

MCap: EUR143.8m

Target Price: EUR 40.00
Current Price: EUR 28.30
Up/downside: 41.3%
Market data: 11 July 2022

Bloomberg: DR0 GR Reuters: DR0G.DE
Free float 88%
Avg. daily volume 0.9 (EURm)
YTD abs performance 39.4%
52-week high/low (EUR) 33.50/15.25

Q2 preliminary results with strong growth

Key points:

- As expected, sales and earnings with over 100% growth in Q2 2022.
- Production increased in Q2 q-o-q due to peak production at the Knight wells. Full-year production guidance of 9,300-10,000 BOEPD reiterated by management.
- The share price underperformance in recent weeks is a result of recessionary risk, driven by inflationary pressure and Chinese lockdowns. However, we believe the high energy prices could be sustained in a recessionary environment.

Sales and earnings with growth of over 100% y-o-y

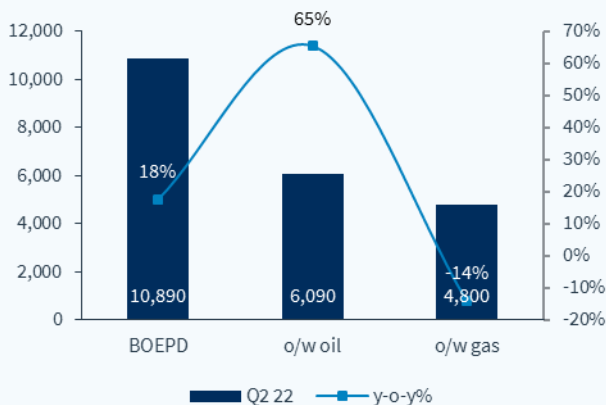
- Sales, EBITDA, and net income increased by more than 100% y-o-y in Q2 2022.
- Production (BOEPD) increased by 18% y-o-y in Q2 2022. Q2 production increased to 10,890 (from 7,880 in Q1 2022) due to the peak production of DRAG'S Knight wells in the second quarter.
- The hedging ratio was at 68% in H1 2022 and is expected to fall to c. 35% in H2 2022.

Table 1: Q2 2022 results with strong growth (EURm)

	Q2 22	Q2 21	y-o-y%
Sales	44.1	20.9	111%
EBITDA	38.8	18.6	108%
Net income (excl. minorities)	19.7	5.9	237%
EPS	3.88	1.15	237%

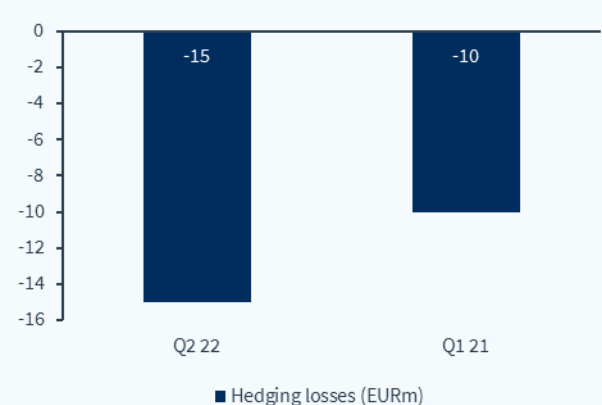
Source: DRAG

Chart 1: Production (BOEPD) in Q2 2022



Source: DRAG

Chart 2: Hedging losses (EURm) in H1 2022



Source: DRAG

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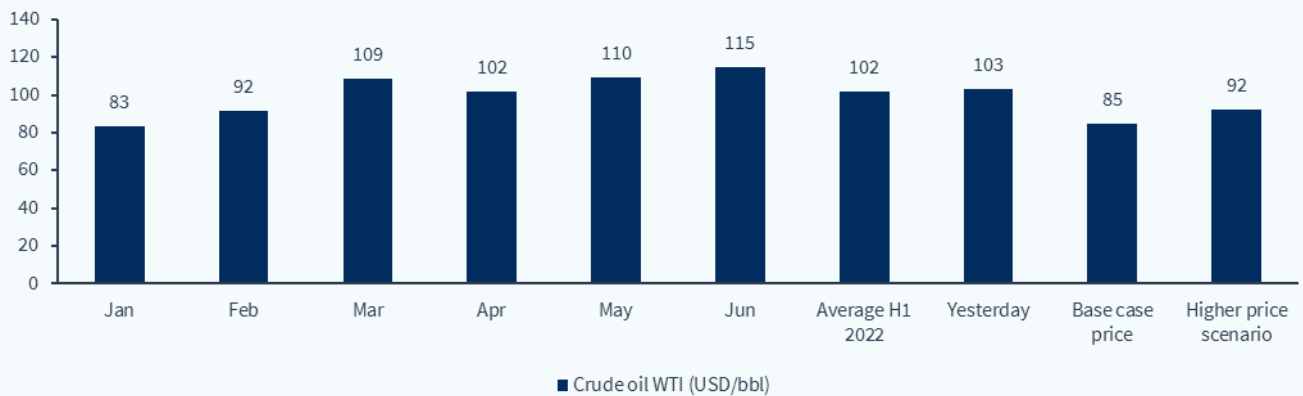
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H1 2022 within optimistic scenario of FY 2022 guidance

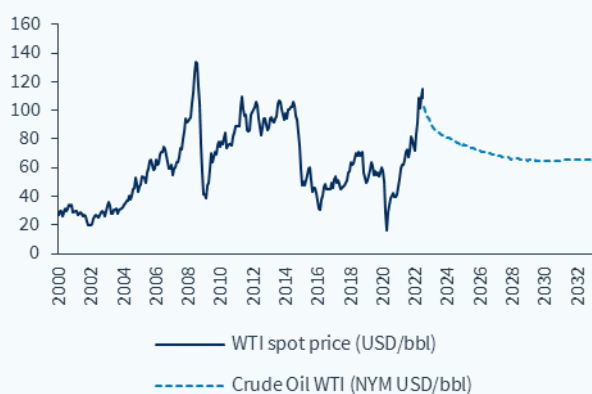
- As a reminder, management disclosed a base case and optimistic scenario for FY 2022-23 guidance based on the average oil price. If the average oil price is USD92 between April and December 2022, management expects sales amounting to EUR140-150m and EBITDA amounting to EUR120-130m.
- If the average oil price drops to USD85/bbl in the same period, revenues are expected to amount to EUR130-140m and EBITDA in the range of EUR110-120m.
- Management also reiterates its FY 2022 production guidance of 9,300-10,000 BOEPD.
- The H1 2022 results are within the optimistic scenario of DRAG’s guidance. With an average WTI price of USD102/bbl in H1 2022, in addition to the favourable EUR/USD (guidance is based on EUR/USD of 1.12), we think the group will generate sales and earnings even slightly above its higher cost scenario guidance range (as our estimates implicate).
- While the share price underperformance over the last month is a result of inherent recessionary risks driven by inflationary pressure and Chinese lockdowns, we believe the high energy prices could be sustained in a recessionary environment.
- However, crude oil and natural gas futures have come down in recent weeks.

Chart 3: Crude oil WTI (USD/bbl) in H1 2022 along with management’s oil price assumptions for 2022 guidance (base case and high price)



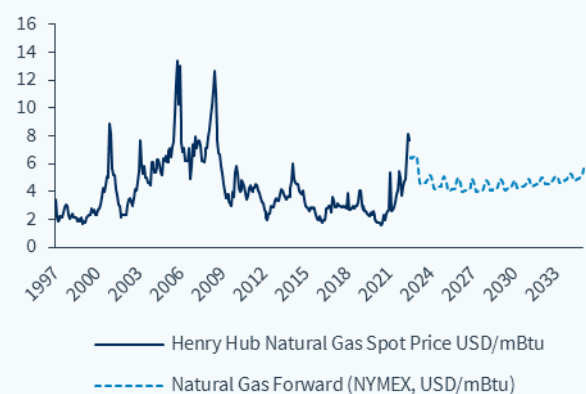
Source: EIA, DRAG, Kepler Cheuvreux

Chart 4: Crude oil futures have come down in recent weeks



Source: EIA, WSJ

Chart 5: Natural gas futures have also decreased



Source: EIA, WSJ

Appendix 1: Research framework

Last model update: 14 June 2022

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 a large number of manufacturing companies offering optimal opportunities for non-operative activities and participations.
- Assuming a c. 30% rate of success on the acquired acreage in Wyoming’s Powder River Basin (up to 100 well locations), our play-by-play model suggests that this could lead to a sustainable high level of DRAG's oil & gas production 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, should generate stable and long-term returns.

Catalysts

- Higher-than-assumed economic viability in Wyoming (50-100 potential net wells for BRE's part alone).
- Price movements in the WTI benchmark.
- Production start of 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 Cub Creek, Elster Oil & Gas and Bright Rock Energy/Salt Creek Oil and Gas using a 27-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 EUR40.0.

Risks to our rating

- Weaker-than-expected US dollar. Each USD0.05 move in our long-term EUR/USD assumption impacts our SOP by EUR1.5-2.0 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 c. EUR1-2 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.

Management	Thomas Gutschlag, CEO Jan-Philipp Weitz, CFO
Key shareholders	Free float: 87.50% Management: 10.00% Treasury shares: 2.52% Institutional investors: 20.00%

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

Appendix 5: Key financials

Last model update: 14 June 2022

Market data date: 11 July 2022

FY to 31/12 (EUR)	12/15	12/16	12/17	12/18	12/19	12/20	12/21	12/22E	12/23E	12/24E
Income Statement (EURm)										
Sales	1.9	9.2	53.7	109.1	41.2	38.7	73.3	152.7	142.0	108.3
% Change	-91.7%	383.4%	486.1%	102.9%	-62.2%	-6.1%	89.5%	108.3%	-7.0%	-23.7%
EBITDA adjusted	4.9	6.4	36.1	97.9	22.7	20.4	48.4	133.1	118.2	85.3
EBITDA adj. margin (%)	na	69.5%	67.2%	89.8%	55.2%	52.8%	66.0%	87.2%	83.3%	78.7%
EBIT adjusted	2.4	-0.5	5.3	32.7	5.6	-19.6	14.9	90.8	82.8	57.3
EBIT adj. margin (%)	na	-5.9%	9.9%	30.0%	13.7%	-50.8%	20.3%	59.4%	58.3%	52.9%
Net financial items & associates	-3.0	-1.4	-4.0	-6.2	-5.4	-6.4	-5.5	-5.5	-5.5	-5.5
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	1.1	2.0	6.4	-8.5	-0.1	6.4	-0.7	-21.3	-19.3	-12.9
Net profit from continuing operations	0.5	0.1	7.7	17.9	0.2	-16.1	26.4	63.9	57.9	38.8
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	0.5	0.1	7.7	17.9	0.2	-16.1	26.4	63.9	57.9	38.8
Net profit reported	1.2	0.1	5.5	13.9	0.3	-15.5	24.8	61.5	55.9	37.1
Net profit adjusted	1.2	0.1	5.5	13.9	0.3	-19.0	7.1	61.5	55.9	37.1
Cash Flow Statement (EURm)										
Levered post tax CF before capex	1.2	2.9	37.8	68.7	13.9	14.0	51.8	108.2	113.8	83.1
Capex	-10.0	-66.1	-51.7	-66.2	-28.7	-36.8	-52.8	-61.0	-40.9	-60.0
Free cash flow	-8.8	-63.2	-13.9	2.5	-14.8	-22.9	-1.0	47.2	72.9	23.1
Acquisitions & divestments	-4.6	3.1	-2.0	0.1	-2.8	-3.9	-0.3	0.0	0.0	0.0
Dividend paid	-2.5	-2.7	-3.0	-3.2	-3.2	-0.5	0.0	-3.0	-4.1	-3.0
Others	-4.1	21.8	-8.8	31.1	-9.3	-15.1	16.8	0.0	0.0	0.0
Change in net financial debt	20.0	41.1	27.6	-30.5	30.1	42.3	-15.5	-44.1	-68.8	-20.1
Balance Sheet (EURm)										
Intangible assets	12.3	29.3	46.0	12.1	14.4	15.1	21.6	50.2	52.8	70.0
Tangible assets	12.6	91.2	102.2	114.8	147.0	119.4	157.2	176.2	178.0	189.4
Financial & other non-current assets	46.5	24.7	24.1	36.4	42.5	50.5	43.9	30.2	30.2	30.2
Total shareholders' equity	61.8	66.2	56.7	73.8	71.5	45.6	80.1	140.9	194.8	230.5
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	66.2	127.4	156.9	151.0	207.4	161.1	184.9	198.5	217.8	230.7
Net debt	9.5	50.6	78.2	47.7	77.8	120.2	104.7	60.5	-8.3	-28.3
Net financial debt	9.5	50.6	78.2	47.7	77.8	120.2	104.7	60.5	-8.3	-28.3
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	1.1	-23.0	-9.3	-22.4	-29.3	-11.9	-19.0	-36.4	-55.7	-68.6
Invested capital	15.0	74.9	96.2	94.1	119.3	108.8	139.4	141.1	123.6	122.1
Per share data (EUR)										
EPS adjusted	0.23	0.02	1.10	2.74	0.06	-3.74	1.40	12.10	11.00	7.30
EPS adj and fully diluted	0.23	0.02	1.10	2.74	0.06	-3.74	1.43	12.42	11.30	7.50
% Change	-95.2%	-91.2%	5328.9%	150.0%	-97.8%	-chg	+chg	766.6%	-9.1%	-33.6%
EPS reported	0.23	0.02	1.10	2.74	0.06	-3.05	4.88	12.10	11.00	7.30
Cash flow per share	0.24	0.58	7.48	13.56	2.74	2.75	10.20	21.30	22.39	16.35
Book value per share	11.71	11.16	9.73	12.99	12.66	7.76	14.31	25.81	36.01	42.71
Dividend per share	0.55	0.60	0.65	0.70	0.10	0.00	0.60	0.80	0.60	0.60
Number of shares, YE (m)	5.06	5.06	5.06	5.06	5.08	5.08	5.08	5.08	5.08	5.08
Ratios										
ROE (%)	1.9%	0.2%	10.5%	24.1%	0.5%	-36.6%	12.7%	60.3%	35.6%	18.6%
ROIC (%)	15.7%	-0.8%	4.0%	22.3%	3.4%	-11.2%	7.8%	42.1%	40.6%	30.3%
ND(F+IFRS16) / EBITDA (x)	1.9	7.9	2.2	0.5	3.4	5.9	2.2	0.5	-0.1	-0.3
Gearing (%)	15.4%	76.4%	138.0%	64.7%	108.9%	263.6%	130.7%	43.0%	-4.2%	-12.3%
Valuation										
P/E adjusted	72.4	na	18.6	7.7	na	na	11.6	2.3	2.6	3.9
P/E adjusted and fully diluted	72.4	na	18.6	7.7	na	na	11.3	2.3	2.5	3.8
P/BV	1.4	1.5	2.1	1.6	1.3	1.2	1.1	1.1	0.8	0.7
P/CF	67.9	30.0	2.7	1.6	5.8	3.4	1.6	1.3	1.3	1.7
Dividend yield (%)	3.3%	3.5%	3.2%	3.3%	0.6%	0.0%	3.7%	2.8%	2.1%	2.1%
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 (%)	-9.8%	-72.1%	-15.5%	-1.5%	-18.2%	-46.4%	-3.1%	31.1%	49.3%	14.9%
EV/Sales	50.4	16.1	3.5	1.5	4.0	4.5	2.6	1.4	1.0	1.2
EV/EBITDA adj.	19.4	23.2	5.2	1.7	7.3	8.5	4.0	1.6	1.2	1.5
EV/EBIT adj.	39.6	na	35.6	5.0	29.4	na	13.0	2.4	1.8	2.3

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Hold	30%	24%
Reduce	6%	0%
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Source: Kepler Cheuvreux

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	29/09/2021 04:58	Equity Research	Buy	27.30	19.80
	21/02/2022 05:48	Equity Research	Buy	36.00	24.30
	14/06/2022 04:40	Equity Research	Buy	40.00	31.00

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Local insight, European scale.



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