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Deutsche Rohstoff **Buy**

Germany | Oil & gas

Beta Profile:

MCap: EUR116.4m

Target Price: EUR 40.00
Current Price: EUR 22.90
Up/downside: 74.7%
Market data: 14 October 2022

Bloomberg: DR0 GR Reuters: DR0G.DE
Free float 90%
Avg. daily volume (EURm) 0.6
YTD abs performance 12.8%
52-week high/low (EUR) 33.50/19.25

Strong Q3 2022 results, updated guidance, solid outlook with new JV

Key points:

- Q3 2022 results were released on Friday afternoon, with strong sales and earnings growth.
- US dollar strength should last into 2023. Oxy cooperation secures EBITDA of at least EUR100m in 2024. Very positive for shareholders, especially in current times, as some companies have not even provided guidance for 2022.
- Management may announce further wells in the coming months, which are not included in guidance. The group also holds c. 32,500 acres, where over 200 wells could be possible. We reiterate our Buy rating.

Q3 2022 results with over 100% growth YOY

- DRAG released its Q3 2022 results on Friday afternoon. Sales, EBITDA, and net income increased by over 100% YOY, both in Q3 and 9M 2022. Currency gains were c. EUR3.1m in Q3 2022.

Table 1: 9M 2022 and Q3 2022 results (EURm)

| | 9M 2022 | 9M 2021 | yoy %/bps | Q3 2022 | Q3 2021 | yoy %/bps |
|------------------------|---------|---------|-----------|---------|---------|-----------|
| Sales | 118.2 | 53.2 | 122% | 46.0 | 14.4 | 220% |
| EBITDA | 102.3 | 52.1 | 96% | 38.3 | 12.2 | 214% |
| Net income | 52.6 | 21.4 | 146% | 20.1 | 3.9 | 417% |
| Other operating income | 15.0 | 17.8 | -16% | 5.6* | 3.9 | 43% |
| Production (BOEPD) | 9,370 | 7,135 | 31% | 9,340 | 5,953 | 57% |

*=EUR3.1m from forex; Source: Deutsche Rohstoff

Lower-than-expected production due to delay in Utah and later increase of gas production at Knight pad

- Management has guided for a production range of 9,300 – 10,000 BOEPD for FY 2022. As of 9M 2022, production amounted to 9,370 BOEPD. The group now expects the full-year production to be at the lower range of this guidance, due to a delay in the production start for various wells in Utah (non-operating), which will now commence in Q1 2023. In addition, the Knight pad showed a higher-than-expected oil production, which translates into a later-than-previously-anticipated rise in gas production. As a result, revenues are higher than expected but production (BOE) is lower.
- The Knight pad (Cub Creek Energy in Colorado) produced c. 3,600 barrels of oil per day in Q3. In Wyoming, Cub Creek's three wells will be drilled in November 2022 (Lost Springs and Netz pads). Management may increase their initial plan of five gross (four net) wells to up to eight wells. Only five wells are included in the 2023 guidance.

Additional JV with Oxy announced, comprising a total of 15 wells

- DRAG also announced that it has entered into a further joint venture agreement with Occidental in the Powder River Basin/Wyoming.
- A total of 15 wells will be drilled, with production beginning at the first five wells in 2023 and the remaining ten in 2024.
- DRAG will invest a total of USD75 via its subsidiary Salt Creek.
- In 2023, the investment is expected to increase group sales by EUR10m, based on a WTI of USD75, a gas price of USD4 and a EUR/USD exchange rate of 1.12.
- Together with the first JV announced with Occidental in February 2022, the total investment volume amounts to USD140 and a total of 31 wells will be developed. The first six began production in September 2022, which will be followed by ten in H1 2023.
- The company does not rule out further possible development projects within the cooperation.

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New guidance for the coming two years announced

- As a result of the continued high oil and gas prices and the favourable EUR/USD, as well as stable production in Colorado and Wyoming, management has again increased its FY 2022 sales and EBITDA guidance.
- Sales are now expected to amount to EUR152-157m and EBITDA to EUR128-133m. Guidance is based on a WTI price of USD85 and a gas price of USD6 for Q4 2022.
- For 2023, management is also increasing its guidance due to the new cooperation with Occidental. Management is guiding for two scenarios based on a WTI price of either USD75 or USD85, which would generate an additional sales and EBITDA of EUR15m in the increased price scenario.
- As mentioned, management expects a further five wells to begin production from its new JV with Occidental in the Powder River Basin in 2023 (ten in 2024). The group is anticipating four additional net wells at Cub Creek until mid-2023. As a result, the group expects sales of at least EUR120 and EBITDA above EUR100m for 2024.

Table 2: Higher guidance for 2022 and 2023 due to dollar strength in 2023 and cooperation with Oxy ensuring EBITDA of at least EUR100m in 2024

| | Base scenario | | Increased price scenario | Base scenario | | Increased price scenario | Base scenario | | Increased price scenario |
|---------------------------|-------------------|---------|--------------------------|-------------------|---------|--------------------------|----------------|----------------|--------------------------|
| | Previous guidance | | New guidance 2022 | Previous guidance | | New guidance | New guidance | | 2024 |
| | 2022 | 2022 | | 2023 | 2023 | | 2023 | 2023 | |
| Sales (EURm) | 130-140 | 140-150 | 152-157 | 125-135 | 140-150 | 140-160 | 155-175 | >120 | |
| EBITDA (EURm) | 110-120 | 120-130 | 128-133 | 100-110 | 115-125 | 110-125 | 125-140 | >100 | |
| WTI price (USD) | 85 | 92 | 85* | 75 | 85 | 75 | 85 | 75 | |
| Henry Hub gas price (USD) | 4 | 4 | 6* | 4 | 4 | 4 | 4 | 4 | |
| EUR/USD | 1.12 | 1.12 | 1.00* | 1.12 | 1.12 | 1.12 | 1.12 | 1.12 | |

*= Q4 2022 assumption; Source: Deutsche Rohstoff

Some more details on Q3 and general operations

- Salt Creek sold its remaining acreage in North Dakota for a total of USD6.6m. The wells were producing c. 70 BOEPD. Since 2016, when the acreage was acquired for USD7.5m, it generated c. USD3 of cash flow.
- Salt Creek will focus on non-operating wells in Utah and Wyoming. It acquired Bright Rock Energy’s Utah acreage, from which DRAG expects a cash flow of over USD70m over the coming five years (based on a WTI of USD80).
- 46 non-operating wells will begin production in H1 2022 and Q1 2023. Salt Creek holds c. 5%.
- The group’s bank loan amounting to USD23m was repaid during Q3.
- DRAG invested c. USD15.5m for the acquisition of minority interests in Cub Creek (9.5%) and Bright Rock Energy.
- 30% of total production in Q4 is hedged at USD66/barrel. For 2023, c. 15% is hedged at USD74/barrel and the hedge ratio is expected to increase in the coming months (30% by the end of 2022).
- 230,000 shares in Northern Oil & Gas were still held at the end of September. DRAG generated a profit of EUR0.9m in Q3 from its share portfolio. The current portfolio amounts to c. EUR10m including shares in mining (gold and lithium) companies.
- On the group’s undeveloped acreage comprising over 32,500 acres, over 200 potential wells could be developed in the future. For 2023, management is preparing a potential drilling programme of four to six wells, which are not part the group’s guidance. A final decision will be made in early 2023. The first well (Buster well pad) continues to deliver solid results, well above management’s expectations. The well has produced c. 160,000 barrels of oil and paid back its investment volume of USD10.5m after eleven months.

Appendix 1: Research framework

Last model update: 11 August 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 Jan-Philipp Weitz, CEO | Henning Döring, CFO

Key shareholders Free float: 89.96% | Management: 10.04% | 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 October 2022

Market data date: 14 October 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 | 132.8 | 118.2 | 85.3 |
| EBITDA adj. margin (%) | na | 69.5% | 67.2% | 89.8% | 55.2% | 52.8% | 66.0% | 87.0% | 83.3% | 78.7% |
| EBIT adjusted | 2.4 | -0.5 | 5.3 | 32.7 | 5.6 | -19.6 | 14.9 | 90.4 | 82.8 | 57.3 |
| EBIT adj. margin (%) | na | -5.9% | 9.9% | 30.0% | 13.7% | -50.8% | 20.3% | 59.2% | 58.3% | 52.9% |
| Net financial items & associates | -3.0 | -1.4 | -4.0 | -6.2 | -5.4 | -6.4 | -5.5 | -6.3 | -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 | -17.7 | -19.3 | -12.9 |
| Net profit from continuing operations | 0.5 | 0.1 | 7.7 | 17.9 | 0.2 | -16.1 | 26.4 | 66.5 | 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 | 66.5 | 57.9 | 38.8 |
| Net profit reported | 1.2 | 0.1 | 5.5 | 13.9 | 0.3 | -15.5 | 24.8 | 63.0 | 55.9 | 37.1 |
| Net profit adjusted | 1.2 | 0.1 | 5.5 | 13.9 | 0.3 | -19.0 | 7.1 | 63.0 | 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 | 107.2 | 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 | 46.1 | 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 | -43.1 | -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 | 143.5 | 197.4 | 233.1 |
| 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 | 194.8 | 214.1 | 227.1 |
| Net debt | 9.5 | 50.6 | 78.2 | 47.7 | 77.8 | 120.2 | 104.7 | 61.6 | -7.2 | -27.3 |
| Net financial debt | 9.5 | 50.6 | 78.2 | 47.7 | 77.8 | 120.2 | 104.7 | 61.6 | -7.2 | -27.3 |
| 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 | -32.7 | -52.0 | -65.0 |
| Invested capital | 15.0 | 74.9 | 96.2 | 94.1 | 119.3 | 108.8 | 139.4 | 144.8 | 127.2 | 125.7 |
| Per share data (EUR) | | | | | | | | | | |
| EPS adjusted | 0.23 | 0.02 | 1.10 | 2.74 | 0.06 | -3.74 | 1.40 | 12.40 | 11.00 | 7.30 |
| EPS adj and fully diluted | 0.23 | 0.02 | 1.10 | 2.74 | 0.06 | -3.74 | 1.43 | 12.73 | 11.30 | 7.50 |
| % Change | -95.2% | -91.2% | 5328.9% | 150.0% | -97.8% | -chg | +chg | 788.0% | -11.2% | -33.6% |
| EPS reported | 0.23 | 0.02 | 1.10 | 2.74 | 0.06 | -3.05 | 4.88 | 12.40 | 11.00 | 7.30 |
| Cash flow per share | 0.24 | 0.58 | 7.48 | 13.56 | 2.74 | 2.75 | 10.20 | 21.09 | 22.39 | 16.35 |
| Book value per share | 11.71 | 11.16 | 9.73 | 12.99 | 12.66 | 7.76 | 14.31 | 26.11 | 36.31 | 43.01 |
| 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% | 61.3% | 35.3% | 18.4% |
| ROIC (%) | 15.7% | -0.8% | 4.0% | 22.3% | 3.4% | -11.2% | 7.8% | 41.4% | 39.6% | 29.4% |
| 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% | 42.9% | -3.6% | -11.7% |
| Valuation | | | | | | | | | | |
| P/E adjusted | 72.4 | na | 18.6 | 7.7 | na | na | 11.6 | 1.8 | 2.1 | 3.1 |
| P/E adjusted and fully diluted | 72.4 | na | 18.6 | 7.7 | na | na | 11.3 | 1.8 | 2.0 | 3.1 |
| P/BV | 1.4 | 1.5 | 2.1 | 1.6 | 1.3 | 1.2 | 1.1 | 0.9 | 0.6 | 0.5 |
| P/CF | 67.9 | 30.0 | 2.7 | 1.6 | 5.8 | 3.4 | 1.6 | 1.1 | 1.0 | 1.4 |
| Dividend yield (%) | 3.3% | 3.5% | 3.2% | 3.3% | 0.6% | 0.0% | 3.7% | 3.5% | 2.6% | 2.6% |
| 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% | 36.6% | 60.9% | 18.4% |
| EV/Sales | 50.4 | 16.1 | 3.5 | 1.5 | 4.0 | 4.5 | 2.6 | 1.2 | 0.9 | 1.0 |
| EV/EBITDA adj. | 19.4 | 23.2 | 5.2 | 1.7 | 7.3 | 8.5 | 4.0 | 1.4 | 1.0 | 1.2 |
| EV/EBIT adj. | 39.6 | na | 35.6 | 5.0 | 29.4 | na | 13.0 | 2.1 | 1.5 | 1.8 |

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Kepler Cheuvreux rating split as of dd 00 yyyy

| Rating Breakdown | A | B |
|-------------------------------------|------|------|
| Buy | 59% | 68% |
| Hold | 31% | 25% |
| Reduce | 5% | 0% |
| Not Rated/Under Review/Accept Offer | 5% | 7% |
| Total | 100% | 100% |

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|-------------------------|------------------|-----------------|--------|--------------|---------------|
| Deutsche Rohstoff (EUR) | 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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