

Deutsche Rohstoff AG

Germany / Raw materials

Frankfurt

Bloomberg: DR0 GR

ISIN: DE000A0XYG76

9M/18 results

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€ 24.00**

41.2%

High

LONGTERM OUTPUT FCST REVISED UP AT ELSTER, CUB CREEK NEXT?

DRAG's nine months' revenues climbed 124.1% to €88.4m (9M/17A: €39.5m) as production of oil and gas more than doubled to 2.72m barrels of oil equivalent (9M/17A: 1.35m BOE). Sales outpaced volume due to a 36% increase in the average oil price (WTI) to USD66.9 (9M/17A: USD49.3) which was only partially cancelled out by a 6% weakening of the average USDEUR exchange rate to 0.85 (9M/17A: USD0.90). Strong production at Elster led to a decline in depreciation per BOE at the project from USD22.0 to USD19.5 implying an increase of over 10% in estimated ultimate recovery. Meanwhile prospects at Cub Creek appear to be stabilising and the installation of gas lifts holds out the prospect of a reversal of the recent increase in depreciation per BOE produced at this project. In the 9M/18 report DRAG raised FY2018 guidance for revenue to €100-110m (previously €90-100m) and for EBITDA to around €90m (previously €5-90m). We now see fair value for the DRAG share at €24.00 (previously €24.70) with the recent decline in near term oil futures outweighing the increase in management FY 2018 guidance. Our recommendation is now Buy (previously: Add) as we now see upside potential of over 25%.

Q3/18 Elster volume boosted by volume held over from Q2/18 The increase in volume was driven by new wells at both Cub Creek and Elster. At Cub Creek the Q3/18 vs. Q2/18 comparison was influenced by first production from the Litzenberg pad at the end of April. Litzenberg produced for three full months during Q3/18 but only just over two during Q2/18. At Elster, bottlenecks in the marketing partner's pipeline infrastructure meant that a significant part of the project's output could not be sold in Q2/18 and was held over to Q3/18. We gather from talking to management that without this bottleneck Q2/18 and Q3/18 oil volume would have been closer to 400,000 and 280,000 barrels respectively. As figure 2 overleaf shows, the reported numbers were respectively ca. 337,000 and 335,000 barrels. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018E	2019E	2020E
Revenue (€m)	1.90	9.17	53.75	109.72	92.41	101.13
Y-o-y growth	-91.7%	383.4%	486.1%	1096.5%	71.9%	-7.8%
EBITDA (€m)	4.91	6.37	36.13	89.18	62.41	70.13
EBITDA margin	258.6%	69.5%	67.2%	81.3%	67.5%	69.3%
Net income (€m)	1.16	0.10	5.55	13.80	-0.76	10.04
EPS (diluted) (€)	0.23	0.02	1.10	2.73	-0.15	1.98
DPS (€)	0.55	0.60	0.65	0.70	0.70	0.80
FCF (€m)	-12.11	-57.26	-13.05	25.66	6.22	28.34
Net gearing	-21.1%	69.9%	132.6%	49.7%	47.6%	18.9%
Liquid assets (€m)	71.04	28.09	29.70	38.82	41.50	66.29

RISKS

Risks include negative movements in the oil price and other raw materials prices, dry well risk, mechanical failure, loss of key personnel.

COMPANY PROFILE

Deutsche Rohstoff AG (DRAG) is a resources company with a portfolio of properties in oil/gas, so-called high tech metals such as tin and tungsten, base metals and rare earths. The business model is based on production in well explored areas in politically stable countries. DRAG is based in Mannheim, Germany.

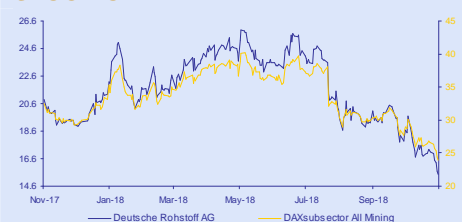
MARKET DATA

As of 19 Nov 2018

Closing Price	€ 17.00
Shares outstanding	5.06m
Market Capitalisation	€ 86.07m
52-week Range	€ 15.42 / 25.95
Avg. Volume (12 Months)	11,260

Multiples	2017	2018E	2019E
P/E	15.5	6.2	n.a.
EV/Sales	2.3	1.1	1.3
EV/EBITDA	3.4	1.4	2.0
Div. Yield	3.8%	4.1%	4.1%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2018

Liquid Assets	€ 60.71m
Current Assets	€ 85.42m
Intangible Assets	€ 17.08m
Total Assets	€ 233.02m
Current Liabilities	€ 28.53m
Shareholders' Equity	€ 71.35m

SHAREHOLDERS

Management	9.7%
BASF-VC	6.3%
Free float	84.0%



Lowered depreciation per BOE at Elster Importantly, management left depreciation per BOE produced unchanged at USD26 for Cub Creek and for Elster lowered depreciation per BOE produced from USD22 to USD19.5. This number is important because it reflects expectations as to projects' estimated ultimate recovery. DRAG's share price has been under pressure in recent months, in part because the company revised up the depreciation figure per BOE produced at Cub Creek from USD22 to USD24.2 in the Q1/18 report and then to USD26 in the H1/18 report.

Figure 1: Recent quarterly results

€ 000s	Q3 17A	9M 17A	Q4 17A	2017A	Q1 18A	Q2 18A	Q3 18A	Q3/18A vs. Q2/18A	9M 18A	9M/18A vs. 9M/17A
Net production (BOE)	345,961	1,346,726	524,868	1,871,694	491,074	1,199,623	1,030,777	-14.1%	2,720,777	102.0%
of which:										
Oil	n.a.	n.a.	n.a.	1,097,180	275,909	664,091	577,607	-13.0%	1,517,607	n.a.
Gas	n.a.	n.a.	n.a.	774,514	215,165	535,533	452,473	-15.5%	1,203,170	n.a.
Oil/gas BOE split (%)										
Oil	n.a.	n.a.	n.a.	58.6%	56.2%	55.4%	56.0%		55.8%	
Gas	n.a.	n.a.	n.a.	41.4%	43.8%	44.6%	43.9%		44.2%	
Sales	7,339	39,459	14,287	53,746	15,661	38,457	34,317	-10.8%	88,436	124.1%
EBITDA	5,637	29,121	6,186	35,307	10,636	41,384	27,365	-33.9%	79,384	172.6%
<i>margin</i>	<i>76.8%</i>	<i>73.8%</i>	<i>43.3%</i>	<i>65.7%</i>	<i>67.9%</i>	<i>107.6%</i>	<i>79.7%</i>		<i>89.8%</i>	
Depreciation	5,031	-20,201	-9,800	-30,001	-7,773	-27,232	-19,804	-27.3%	-54,809	171.3%
<i>% revenue</i>	<i>-68.5%</i>	<i>51.2%</i>	<i>68.6%</i>	<i>55.8%</i>	<i>49.6%</i>	<i>70.8%</i>	<i>57.7%</i>		<i>62.0%</i>	
EBIT	606	8,920	-3,614	5,306	2,863	14,152	7,502		24,488	
<i>margin</i>	<i>8.3%</i>	<i>22.6%</i>	<i>-25.3%</i>	<i>9.9%</i>	<i>18.3%</i>	<i>36.8%</i>	<i>21.9%</i>		<i>27.7%</i>	
Financial items	-1,073	-2,819	-2,230	-4,842	-1,573	-1,888	-1,237		-4,297	
Pretax	-467	6,100	-5,637	464	1,290	12,636	6,265		20,191	
Tax	613	-915	7,293	6,378	-228	-3,645	-1,239		-5,112	
Tax rate (%)	0	0	0	-1376%	18%	29%	20%		25%	
Net prof. bef. minorities	146	5,185	1,656	6,842	1,061	8,992	5,128	-43.0%	15,181	192.8%

Source: DRAG

The consultant Ryder Scott produces a reserve report for DRAG's oil and gas assets once a year. At Cub Creek, oil volume during the first nine months of 2018 was about 10% below the level expected by Ryder Scott. In the first half of the fourth quarter it was slightly below the expected level. Meanwhile gas volume at Cub Creek during the first nine months was inline with the consultant's projection. In September, DRAG installed a gas lift at Cub Creek's Markham pad. The gas lift has so far boosted production of oil by around 30% and of gas by around 100%. Gas lifts will be installed at a second production pad, Vail (Cub Creek has four production pads) by the end of this year.

Figure 2: Recent oil/gas production by project

BOE	9M/17A	Q1/18A	Q2/18A	H1/18A	Q3/18A	Q3/18A vs. Q2/18A	9M/18A	Q4/18E	FY/18E
Cub Creek	n.a.	269,349	468,481	737,830	553,275	18.1%	1,291,105	289,223	1,580,328
of which:									
oil	n.a.	110,713	263,590	374,303	242,876	-7.9%	617,179	92,393	709,572
gas	n.a.	158,636	204,892	363,528	310,398	51.5%	673,926	196,830	870,756
Elster	n.a.	115,428	652,722	768,150	474,641	-27.3%	1,242,791	240,000	1,482,791
of which:									
oil	n.a.	77,537	336,732	414,269	334,731	-0.6%	749,000	140,000	889,000
gas	n.a.	37,891	315,990	353,881	139,910	-55.7%	493,791	100,000	593,791
Salt Creek	n.a.	106,296	78,421	184,717	0	n.a.	184,717	0	184,717
of which:									
oil	n.a.	87,659	63,769	151,428	0	n.a.	151,428	0	151,428
gas	n.a.	18,637	14,652	33,289	0	n.a.	33,289	0	33,289
Total	1,346,726	491,074	1,199,623	1,690,697	1,027,915	-14.3%	2,720,777	529,223	3,250,000
of which:									
oil	n.a.	275,909	664,091	940,000	577,607	-13.0%	1,517,607	232,393	1,750,000
gas	n.a.	215,164	535,533	750,697	450,308	-15.9%	1,203,170	296,830	1,500,000

Source: DRAG



Clearly, if production at Cub Creek continues to rebound relative to the type curve, there may be scope to lower depreciation per BOE at Cub Creek. At Elster, oil production was about 50% above Ryder Scott's expectations during the first nine months - hence the reduction in depreciation per BOE produced from USD22 to USD19.5.

Following strong Q3/18 performance, DRAG has raised FY 2018 guidance for revenue and EBITDA. Management is now looking for revenue of €100-110m (previously €90-100m) and EBITDA of around €90m (previously €85-90m). We have adjusted our forecasts as shown in the table below. In the 9M/18 report, management states that 24 wells with 2 mile laterals are being planned but that execution of the drilling plans will depend on "further technical developments, financing considerations and oil price developments". The model in our note of 24 August already incorporated the drilling of 24 net wells with two 2 mile laterals. In the August note we assumed drilling of half these wells in 2019 and the other half in 2020. We maintain this assumption in this study.

Figure 3: Changes to our forecasts

All figures in € 000s	2018E	2018E	Δ	2019E	2019E	Δ	2020E	2019E	Δ
	New	Old		New	Old		New	Old	
Revenues	109,725	98,230	11.7%	92,411	100,978	-8.5%	101,127	107,633	-6.0%
EBITDA	89,185	86,362	3.3%	62,411	70,978	-12.1%	70,127	76,633	-8.5%
Depreciation and amortisation	62,009	67,433		55,643	55,643		47,228	47,228	
Operating income (EBIT)	27,175	18,929	43.6%	6,768	15,335	-55.9%	22,899	29,405	-22.1%
Net financial result	-5,430	-5,452		-4,152	-4,183		-4,230	-4,223	
Pre-tax income (EBT)	21,746	13,477		2,617	11,152		18,669	25,182	
Income taxes	-4,567	-2,830		-550	-2,342		-3,920	-5,228	
Net before minorities	17,179	10,647		2,067	8,810		14,748	19,894	
Minority interests	-3,380	-1,056		-2,829	-3,745		-4,712	-5,434	
Net income after mins.	13,799	9,592	43.9%	-762	5,065	n.a.	10,036	14,459	-30.6%
EPS (€)	2.73	1.90	43.5%	-0.15	1.00	n.a.	1.98	2.86	-30.6%

Source: First Berlin Equity Research AG, DRAG

Figure 3 above shows changes to our forecasts. The increases to our 2018 forecasts reflect the good Q3/18 performance and management's increased guidance while the decreases in our forecasts for 2019 and 2020 reflect the recent decline in the near term oil and gas futures curves. As figure 4 shows, we now see fair value for the DRAG share at €24.00 (previously: €24.70). Our recommendation is now Buy (previously: Add) as we now see upside potential of over 25%.

Figure 4: Sum-of-the-parts model

€m	New	Old	% Δ
DCF valuation Cub Creek Energy (DRAG's stake 88.5%)	105.5	115.6	-8.8%
DCF valuation Elster Oil & Gas (DRAG's stake: 93.0%)	38.9	40.7	-4.3%
Subtotal: US oil and gas activities	144.4	156.3	-7.6%
Almonty (12.8% equity stake) plus CAD6.0m convertible debenture)	17.7	17.8	
Tin International (DRAG's stake: 61.5%)	1.5	1.5	
Rhein Petroleum (DRAG's stake: 10%)	2.0	2.0	
Ceritech (DRAG's stake: 67.9%)	2.2	2.2	
Devonian Metals (DRAG's stake: 47%)	0.0	0.0	
Hammer Metals (DRAG's stake: 17.8%)	0.7	0.4	
Holding company costs	-10.0	-10.0	
Total enterprise value	158.5	170.2	-6.9%
Cash and financial assets	62.4	54.0	
Debt	99.3	99.1	
Net cash and financial assets	-36.9	-45.1	
Total equity value	121.6	125.2	-2.9%
No shares (m)	5.06	5.06	
Equity value per share (€)	24.0	24.7	-2.9%

Source: First Berlin Equity Research estimates





INCOME STATEMENT

All figures in € 000s	2015A	2016A	2017A	2018E	2019E	2020E
Revenues	1,897	9,170	53,746	109,725	92,411	101,127
Cost of purchased services	59	4	8,069	18,000	18,000	18,500
General & administrative costs	5,460	13,289	10,675	20,673	12,000	12,500
Other operating income	8,528	10,497	1,124	18,133	0	0
EBITDA	4,906	6,374	36,126	89,185	62,411	70,127
Depreciation and amortisation	2,487	6,915	30,822	62,009	55,643	47,228
Operating income (EBIT)	2,419	-541	5,304	27,175	6,768	22,899
Net financial result	-2,976	-1,413	-4,011	-5,430	-4,152	-4,230
Other financial items	0	0	0	0	0	0
Pre-tax income (EBT)	-557	-1,953	1,293	21,746	2,617	18,669
Taxes	1,086	2,028	6,379	-4,567	-550	-3,920
Profit before minorities	529	75	7,672	17,179	2,067	14,748
Minority interests	626	28	-2,124	-3,380	-2,829	-4,712
Net income / loss	1,155	103	5,548	13,799	-762	10,036
EPS (in €)	0.23	0.02	1.10	2.73	-0.15	1.98
Ratios						
EBITDA margin on revenues	258.6%	69.5%	67.2%	81.3%	67.5%	69.3%
EBIT margin on revenues	127.5%	-5.9%	9.9%	24.8%	7.3%	22.6%
Net margin on revenues	60.9%	1.1%	10.3%	12.6%	-0.8%	9.9%
Tax rate	195.0%	103.8%	-493.3%	21.0%	21.0%	21.0%
Y-Y Growth						
Revenues	-91.7%	383.4%	486.1%	104.2%	-15.8%	9.4%
Operating income	-97.3%	n.m.	n.m.	412.4%	-75.1%	238.3%
Net income/ loss	-95.4%	-91.1%	5311.9%	148.7%	n.m.	n.m.



BALANCE SHEET

All figures in € 000s	2015A	2016A	2017A	2018E	2019E	2020E
Assets						
Current assets, total	79,267	51,874	42,502	60,221	53,038	82,783
Cash and cash equivalents	71,041	28,090	29,699	38,821	41,495	66,291
Inventories	55	139	170	1,070	577	825
Receivables	2,831	7,794	9,090	17,120	9,234	13,194
Prepayments	276	495	833	1,070	577	825
Other current assets	4,530	15,105	1,324	2,140	1,154	1,649
Deferred tax assets	534	251	1,386	0	0	0
Non-current assets, total	48,786	141,598	171,072	147,594	145,931	131,091
Intangible assets	17,501	40,614	33,837	32,837	31,837	30,837
Land and buildings	0	0	0	0	0	0
Producing oil plants	5,314	76,172	73,760	59,283	58,856	49,942
Exploration and evaluation	1,596	3,493	40,557	32,597	32,362	27,461
Plant and machinery	444	173	99	80	79	67
Other equipment	119	103	108	87	86	73
Equity investments	11,822	12,542	15,569	15,569	15,569	15,569
Loans to other investors		913	1,724	1,724	1,724	1,724
Securities classified as fixed assets	11,990	7,588	5,418	5,418	5,418	5,418
Total assets	128,053	193,472	213,574	207,815	198,968	213,874
Shareholders' equity & debt						
Current liabilities, total	4,230	33,904	31,121	16,000	8,630	78,930
Bank debt	7	0	55	0	0	0
Bond debt	0	0	15,741	0	0	66,599
Accounts payable	957	29,915	5,236	4,800	2,589	3,699
Other current liabilities	3,266	3,989	10,089	11,200	6,041	8,632
Long-term liabilities, total	57,955	75,243	90,780	87,835	87,835	21,236
Bond debt	51,555	66,705	66,599	77,099	77,099	10,500
Bank debt	6,400	8,538	24,181	10,736	10,736	10,736
Other long term liabilities	0	0	0	0	0	0
Provisions	1,089	5,308	27,997	2,000	2,000	2,000
Difference from capital consolidation	0	0	195	0	0	0
Minority interests	2,566	9,698	7,427	10,807	13,636	18,348
Shareholders' equity	59,274	56,423	49,248	84,367	80,061	86,554
Consolidated equity	61,840	66,121	56,675	95,174	93,697	104,902
Deferred tax liabilities	2,939	12,896	6,806	6,806	6,806	6,806
Total consolidated equity and debt	128,053	193,472	213,574	207,815	198,968	213,874
Ratios						
Current ratio (x)	18.74	1.53	1.37	3.76	6.15	1.05
Quick ratio (x)	18.73	1.53	1.36	3.70	6.08	1.04
Financial leverage	-21.1%	69.9%	132.6%	49.7%	47.6%	18.9%
Book value per share (€)	11.71	11.15	9.73	16.67	15.82	17.11
Net cash (debt)	13,079	-46,240	-75,153	-47,290	-44,616	-19,820
Return on equity (ROE)	0.9%	0.1%	12.5%	22.6%	2.2%	14.9%



CASH FLOW STATEMENT

All figures in € 000s	2015A	2016A	2017A	2018E	2019E	2020E
EBIT	2,419	-541	5,304	27,175	6,768	22,899
Depreciation and amortisation	2,487	6,915	30,822	62,009	55,643	47,228
EBITDA	4,906	6,374	36,126	89,185	62,411	70,127
Changes in working capital	-4,625	-5,809	-6,463	-9,307	2,487	-1,249
Interest paid	-2,976	-1,413	-4,011	-5,430	-4,152	-4,230
Tax paid/received	1,086	1,724	10,735	-4,567	-550	-3,920
Profit/loss from sale of Tekton Energy	0	0	0	0	0	0
Other adjustments	2,803	2,038	0	0	0	0
Operating cash flow	1,194	2,914	36,387	69,881	60,197	60,727
Investing cash flow	-13,307	-60,177	-49,439	-44,222	-53,979	-32,388
Free cash flow	-12,113	-57,263	-13,052	25,659	6,218	28,339
Dividends, share buybacks	-3,100	-2,714	-3,038	-3,291	-3,544	-3,544
Equity financing	0	1,126	0	0	0	0
Debt financing	0	39,233	31,333	0	0	0
Debt repayment	-6,182	-22,148	0	-18,741	0	0
Other	-2,712	-3,981	913	0	7,588	7,589
Financing cash flow	-11,994	11,516	29,208	-22,032	4,044	4,045
Other	0	2,246	-14,548	5,496	-7,588	-7,589
Change in cash and equivalents	-24,107	-43,501	1,609	9,122	2,674	24,795
FX/consolidation effects	2,327	550	0	0	0	0
Cash and cash equivalents, start of the year	92,821	71,041	28,090	29,699	38,821	41,495
Cash and cash equivalents, end of the year	71,041	28,090	29,699	38,821	41,495	66,291
EBITDA/share (in €)	0.97	1.26	7.14	17.63	12.33	13.86
Y-Y Growth						
Operating cash flow	n.m.	144.1%	1148.7%	92.1%	-13.9%	0.9%
Free cash flow	n.m.	n.m.	n.m.	n.m.	-75.8%	355.8%
EBITDA/share	-95.5%	29.9%	466.8%	146.9%	-30.0%	12.4%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	22 July 2010	€7.45	Buy	€13.20
2...25	↓	↓	↓	↓
26	22 November 2017	€20.33	Buy	€22.30
27	11 January 2018	€20.90	Buy	€29.30
28	24 August 2018	€20.80	Add	€24.70
29	Today	€17.00	Buy	€24.00

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The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

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- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

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