

Deutsche Rohstoff AG

Germany / Raw materials
 Frankfurt
 Bloomberg: DR0 GR
 ISIN: DE000A0XYG76

Annual report/
 Q1 results

RATING
PRICE TARGET
 Return Potential
 Risk Rating

BUY
€ 23.00
 33.7%
 High

GROWTH RESUMPTION FROM 2020 AS NEW WELLS COME ON LINE

During most of 2018 we assumed that DRAG would begin producing from new wells at Cub Creek in 2019. However, drilling plans were put on hold during the oil price collapse from USD76 to USD42 in Q4 last year. The oil price has since rallied to over USD60 and DRAG has signalled that it will resume drilling at Cub Creek later this quarter. Given that new production will not be coming on stream until 2020, we expect DRAG's oil and gas output to fall in 2019 before climbing again next year. Management guidance for 2019 is revenue and EBITDA of €40-50m and €25-35m respectively and for 2020 revenue and EBITDA of €75-85m and €55-65m respectively. We maintain our Buy recommendation but lower the price target from €23.8 to €23.0 to account for a later production start at Cub Creek's Knight drilling pad than previously modelled.

Oil/gas production up 87% and 15% in 2018 and Q1/19 respectively DRAG has published its 2018 annual and Q1/19 reports. 2018 sales of €109.1m (2017: €53.7m) and EBITDA of €97.9m (2017: €36.1m) respectively matched the preliminary numbers published on 11 March. The 2018 and Q1/19 reports also showed production numbers for the four oil and gas subsidiaries, Cub Creek, Elster, Salt Creek, and Bright Rock.

Disposal of most of Salt Creek contributed €13.6m to 2018 EBITDA The 102.9% increase in 2018 revenue stemmed from an 86.6% rise in oil and gas production to 3.49m barrels of oil equivalent (2017: 1.87m BOE) as well as a 28% rise in the average oil price (West Texas Intermediate) to USD65.0 (2017: USD50.8). The jump in 2018 production was attributable to production starts from ca. 18 net 1-mile equivalent wells at Elster (production start: Q1/2018) and from ca. 13 net 1-mile equivalent wells at Cub Creek's Litzenberger project (production start: Q2/18). 2018 EBITDA was also helped by a profit of €13.6m on the spring 2018 sale of most of the Salt Creek assets and a €1.7m gain on the sale of Tin International's Sadisdorf deposit. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019E	2020E	2021E
Revenue (€m)	9.17	53.75	109.05	49.67	84.62	99.04
Y-o-y growth	383.4%	486.1%	102.9%	-54.5%	70.4%	17.0%
EBITDA (€m)	6.37	36.13	97.93	32.65	62.76	75.70
EBITDA margin	69.5%	67.2%	89.8%	65.7%	74.2%	76.4%
Net income (€m)	0.10	5.55	13.87	7.22	16.75	24.66
EPS (diluted) (€)	0.02	1.10	2.74	1.43	3.31	4.87
DPS (€)	0.60	0.65	0.70	0.70	0.80	0.80
FCF (€m)	-63.18	-13.93	2.47	-15.24	6.60	64.58
Net gearing	69.9%	132.6%	42.9%	52.9%	41.8%	-9.3%
Liquid assets (€m)	28.09	29.70	59.99	40.92	43.97	27.41

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 13 May 2019

Closing Price	€ 17.20
Shares outstanding	5.06m
Market Capitalisation	€ 87.08m
52-week Range	€ 13.86 / 25.95
Avg. Volume (12 Months)	8,165

Multiples	2018	2019E	2020E
P/E	6.3	12.1	5.2
EV/Sales	1.1	2.4	1.4
EV/EBITDA	1.2	3.7	1.9
Div. Yield	4.1%	4.1%	4.7%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2018

Liquid Assets	€ 56.84m
Current Assets	€ 74.07m
Intangible Assets	€ 21.45m
Total Assets	€ 224.83m
Current Liabilities	€ 36.82m
Shareholders' Equity	€ 79.31m

SHAREHOLDERS

Management	10.0%
Institutional shareholders	30.0%
Free float	60.0%



Q1/19 revenues down due to lower oil price/shift in output mix from oil to gas Q1/19 revenues fell 6.4% to €14.7m (Q1/18: €15.7m) despite a 15.3% rise in overall oil and gas output to 0.57m BOE (Q1/18: 0.49m BOE). The fall was due to a 13.4% decline in the average oil price to USD54.87 (Q1/18: USD62.89) and a shift in the volume mix to lower priced gas, which in Q1/19 accounted for 55% of volume (Q1/18: 41%). Volume at Elster jumped 147% because of the new production which came on stream in Q2/18 while volume at Salt Creek/Bright Rock declined 69% because of the sale of most of the Salt Creek assets in Q2/18. Volume at Cub Creek fell 8% despite new production at the Litzengerger project from Q2/18. In the Q1/19 report management attributes this decline to extremely cold weather and related problems in the downstream infrastructure of gas customers.

Figure 1: Q1 2019 and FY 2018 results

€ 000s	Q1/19A	Q1/18A	% Δ y-o-y	FY/18A	FY/17A	% Δ y-o-y
Sales	14,665	15,661	-6.4%	109,052	53,746	102.9%
EBITDA	12,838	10,635	20.7%	97,933	36,138	171.0%
margin (%)	87.5%	67.9%	-	89.8%	67.2%	-

Source: DRAG

During most of 2018 we assumed that DRAG would begin producing from new wells at Cub Creek in 2019. However, drilling plans were put on hold during the oil price collapse from USD76 to USD42 in Q4 last year. The oil price has since rallied to over USD60 and DRAG has signalled that it will resume drilling at Cub Creek later this quarter. In our March study, we assumed that production would begin at 10-12 two-mile lateral horizontal wells in January 2020 and a further 10-12 two-mile lateral horizontal wells from August 2020. Following discussions with management, we now model new production from 11 two-mile lateral horizontal wells at the Olander pad from January 2020 and from a further 11 two-mile lateral horizontal wells at the Knight pad from January 2021. We assume an average working interest of 90% for the wells at both pads

Figure 2: Q1 2019 and FY 2018 oil and gas output

BOE	Q1/19A	Q1/18A	% Δ y-o-y	FY/18A	FY/17A	% Δ y-o-y
Cub Creek	247,838	269,349	-8.0%	1,707,443	1,392,875	22.6%
of which:						
oil	92,584	110,713	-16.4%	781,425	837,191	-6.7%
gas	155,254	158,636	-2.1%	926,018	555,684	66.6%
Elster	285,192	115,428	147.1%	1,600,180	166,361	861.9%
of which:						
oil	137,711	77,537	77.6%	937,000	62,746	1393.3%
gas	147,481	37,891	289.2%	663,180	103,615	540.0%
Salt Creek/Bright Rock	32,970	106,296	-69.0%	184,717	312,458	-40.9%
of which:						
oil	22,705	87,659	-74.1%	151,428	197,243	-23.2%
gas	10,265	18,637	-44.9%	33,289	115,215	-71.1%
Total	566,000	491,074	15.3%	3,492,340	1,871,694	86.6%
of which:						
oil	253,000	275,909	-8.3%	1,869,853	1,097,180	70.4%
gas	313,000	215,164	45.5%	1,622,487	774,514	109.5%

Source: DRAG

Guidance for positive net profit before minorities in both 2019 and 2020 Given that new production will not be coming on stream until 2020, we expect DRAG's oil and gas output to fall this year before climbing again from 2020. In the 2018 annual report management has given guidance for both 2019 and 2020 so as to capture the increase in revenues from next year.



Guidance for 2019 is for revenue and EBITDA of €40-50m and €25-35m respectively and for 2020 for revenue and EBITDA of €75-85m and €55-65m respectively. Management is also guiding towards a positive net profit before minorities in both years.

Figure 3 below shows changes to our forecasts. The 15.0% reduction in our 2020 revenue forecast reflects the shift in our forecast timing of the production start at Cub Creek's Knight pad from August 2020 to January 2021. We have also reduced our depreciation forecasts for both 2019 and 2020. The Q1/19 P&L shows depreciation per BOE at Cub Creek and Elster of USD14.7 and USD12.3 respectively. Management expects these figures to be sustainable going forward. Depreciation per BOE during the first nine months of 2018 at Cub Creek and Elster was USD26 and USD21 respectively. The reductions reflect the increase in end 2018 reserves described in our March report. For the first time we show a full 2021 P&L account.

Figure 3: Changes to our forecasts

All figures in € 000s	2019E	2019E	Δ	2020E	2020E	Δ	2021E
	New	Old		New	Old		New
Revenues	49,667	48,732	1.9%	84,621	97,813	-13.5%	99,039
EBITDA	32,647	24,732	32.0%	62,763	66,813	-6.1%	75,700
Depreciation and amortisation	19,130	27,556	-30.6%	30,669	38,925	-21.2%	34,628
Operating income (EBIT)	13,518	-2,824	n.m.	32,095	27,888	15.1%	41,072
Net financial result	-4,599	-4,637	n.m.	-4,671	-4,817	n.m.	-698
Pre-tax income (EBT)	8,918	-7,461	n.m.	27,423	23,071	18.9%	40,375
Income taxes	0	0	n.m.	-5,759	-4,845	n.m.	-8,479
Net before minorities	8,918	-7,461	n.m.	21,664	18,226	18.9%	31,896
Minority interests	-1,699	-1,466	n.m.	-4,916	-3,645	n.m.	-7,238
Net income after mins.	7,219	-8,926	n.m.	16,748	14,581	14.9%	24,658
EPS (€)	1.43	-1.76	n.m.	3.31	2.88	14.9%	4.87

Source: First Berlin Equity Research estimates

We maintain our Buy recommendation but lower the price target from €23.8 to €23.0

As figure 6 shows, our overall valuation of DRAG is now €23.0 per share (previously: €23.8). The reduction is mainly attributable to the 11.3% reduction in our valuation of Cub Creek which is explained mainly by the shift in the production start at the Knight pad from Summer 2020 into early 2021. This is not cancelled out by a higher valuation for the Almonty stake (due to the recent rise in the share price) and lower net debt. We maintain our Buy recommendation.

Figure 4: DCF Valuation of Cub Creek Energy*

USD 000s	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Production (working interest): barrels of oil equivalent (000s)	1,002	2,385	3,077	1,777	1,346	1,048	868
Oil price period end (WTI -USD/barrel)	60.34	59.35	55.97	54.26	56.11	53.48	53.44
No. 1 mile-lateral equivalent wells period end (working interest)	36.0	55.8	75.6	75.6	75.6	75.6	75.6
Net revenue (working interest after royalty and ad valorem tax)	32,024	83,028	101,599	57,056	44,724	33,480	27,863
EBITDA	22,617	64,767	79,099	43,031	33,529	24,269	19,854
Depreciation	12,331	26,833	33,898	19,888	15,174	11,526	9,551
EBIT	10,286	37,934	45,201	23,143	18,355	12,743	10,303
NOPLAT	8,126	29,968	35,709	18,283	14,501	10,067	8,140
Tax Rate (%)	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
CAPEX	54,450	54,450	0	0	0	0	0
Working capital expenditure	-1,282	-3,487	-2,786	6,681	1,850	1,687	843
Free cashflow	-35,275	-1,137	66,822	44,853	31,525	23,280	18,533
PV free cashflow (12% discount rate)	-32,254	-928	48,708	29,191	18,319	12,078	8,585
Sum PV free cashflows	107,279						

Source: DRAG; First Berlin Equity Research estimates



Figure 5: DCF Valuation of Elster Oil & Gas*

USD 000s	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Production (working interest): barrels of oil equivalent (000s)	1,057	626	607	500	428	376	336
Oil price period end (WTI -USD/barrel)	60.34	59.35	55.97	54.26	56.11	53.48	53.44
No. 1 mile-lateral equivalent wells period end (working interest)	22.6	22.6	22.6	22.6	22.6	22.6	22.6
Net revenue (working interest after royalty and ad valorem tax)	21,724	12,629	11,661	9,372	8,306	7,058	6,364
EBITDA	14,659	8,322	7,474	5,872	5,268	4,354	3,916
Depreciation	8,627	7,464	4,976	4,102	3,513	3,085	2,758
EBIT	6,032	858	2,498	1,770	1,755	1,269	1,158
NOPLAT	4,765	678	1,973	1,398	1,387	1,003	915
Tax Rate (%)	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
CAPEX	0	0	0	0	0	0	0
Working capital expenditure	5,103	4,080	145	343	160	187	104
Free cashflow	18,496	12,221	7,094	5,843	5,059	4,275	3,777
PV free cashflow (12% discount rate)	16,912	9,977	5,171	3,803	2,940	2,218	1,750
Sum PV free cashflows	46,511						

Source: DRAG; First Berlin Equity Research estimates

* our valuation models for CCE and EOG extend to 2039 but for reasons of space we show numbers only out to 2025

Figure 6: Sum of the parts model

€m	New	Old	% Δ
DCF valuation Cub Creek Energy (DRAG's stake 88.5%)	84.5	95.9	-11.9%
DCF valuation Elster Oil & Gas (DRAG's stake: 93.0%)	38.5	40.0	-3.7%
DCF valuation Salt Creek Oil & Gas/Bright Rock Energy (DRAG's stake: 100.0%)	8.3	7.0	18.1%
Subtotal: US oil and gas activities	131.3	142.9	-8.1%
Almonty (12.8% equity stake) plus CAD6.0m convertible debenture)	21.6	18.5	
Tin International (DRAG's stake: 61.5%)	1.5	2.1	
Rhein Petroleum (DRAG's stake: 10%)	3.0	2.0	
Ceritech (DRAG's stake: 67.9%)	1.0	2.2	
Devonian Metals (DRAG's stake: 47%)	0.0	0.0	
Hammer Metals (DRAG's stake: 17.8%)	0.6	0.4	
Holding company costs	-10.0	-10.0	
Total enterprise value	149.0	158.2	-5.8%
Cash and financial assets	56.8	55.2	
Debt	89.4	93.0	
Net debt	32.5	37.8	
Total equity value	116.5	120.4	-3.3%
No shares (m)	5.06	5.06	
Equity value per share (€)	23.0	23.8	-3.3%

Source: First Berlin Equity Research estimate



INCOME STATEMENT

All figures in € 000s	2016A	2017A	2018A	2019E	2020E	2021E
Revenues	9,170	53,746	109,052	49,667	84,621	99,039
Cost of purchased services	4	8,069	19,019	8,662	14,758	17,273
Personnel expenses	3,457	4,711	3,919	4,115	4,238	4,366
Net other operating income	665	-4,840	11,819	-4,243	-2,862	-1,700
EBITDA	6,374	36,126	97,933	32,647	62,763	75,700
Depreciation and amortisation	6,915	30,822	58,037	19,130	30,669	34,628
Operating income (EBIT)	-541	5,304	39,896	13,518	32,095	41,072
Net financial result	-1,413	-4,011	-13,432	-4,599	-4,671	-698
Other financial items	0	0	0	0	0	0
Pre-tax income (EBT)	-1,953	1,293	26,464	8,918	27,423	40,375
Taxes	2,028	6,379	-8,520	0	-5,759	-8,479
Profit before minorities	75	7,672	17,944	8,918	21,664	31,896
Minority interests	28	-2,124	-4,072	-1,699	-4,916	-7,238
Net income / loss	103	5,548	13,872	7,219	16,748	24,658
EPS (in €)	0.02	1.10	2.74	1.43	3.31	4.87
Ratios						
EBITDA margin on revenues	69.5%	67.2%	89.8%	65.7%	74.2%	76.4%
EBIT margin on revenues	-5.9%	9.9%	36.6%	27.2%	37.9%	41.5%
Net margin on revenues	1.1%	10.3%	12.7%	14.5%	19.8%	24.9%
Tax rate	103.8%	-493.3%	32.2%	0.0%	21.0%	21.0%
Y-Y Growth						
Revenues	383.4%	486.1%	102.9%	-54.5%	70.4%	17.0%
Operating income	n.m.	n.m.	652.2%	-66.1%	137.4%	28.0%
Net income/ loss	-91.1%	5311.9%	150.0%	-48.0%	132.0%	47.2%



BALANCE SHEET

All figures in € 000s	2016A	2017A	2018A	2019E	2020E	2021E
Assets						
Current assets, total	51,874	42,502	75,860	62,387	67,890	47,852
Cash and cash equivalents	28,090	29,699	59,990	40,916	43,970	27,406
Inventories	139	170	156	1,074	1,196	1,022
Receivables	7,794	9,090	13,443	17,177	19,135	16,357
Prepayments	495	833	711	1,074	1,196	1,022
Other current assets	15,105	1,324	337	2,147	2,392	2,045
Deferred tax assets	251	1,386	1,223	0	0	0
Non-current assets, total	141,598	171,072	148,985	176,957	193,391	158,763
Intangible assets	40,614	33,837	16,932	15,932	14,932	13,932
Land and buildings	0	0	0	0	0	0
Producing oil plants	76,172	73,760	107,878	136,278	153,367	120,403
Exploration and evaluation	3,493	40,557	2,048	2,587	2,912	2,286
Plant and machinery	173	99	36	45	51	40
Other equipment	103	108	91	115	129	102
Equity investments	12,542	15,569	14,385	14,385	14,385	14,385
Loans to other investors	913	1,724	1,724	1,724	1,724	1,724
Securities classified as fixed assets	7,588	5,418	5,891	5,891	5,891	5,891
Total assets	193,472	213,574	224,845	239,345	261,281	206,615
Shareholders' equity & debt						
Current liabilities, total	33,904	31,121	38,912	33,460	114,375	31,864
Bank debt	0	55	16,086	0	0	0
Bond debt	0	15,741	0	0	77,099	0
Accounts payable	29,915	5,236	6,840	10,038	11,183	9,559
Other current liabilities	3,989	10,089	15,986	23,422	26,093	22,305
Long-term liabilities, total	75,243	90,780	77,299	93,099	16,000	16,000
Bond debt	66,705	66,599	66,599	77,099	0	0
Bank debt	8,538	24,181	10,700	16,000	16,000	16,000
Other long term liabilities	0	0	0	0	0	0
Provisions	5,308	27,997	19,312	2,000	2,000	2,000
Difference from capital consolidation	0	195	0	0	0	0
Minority interests	9,698	7,427	8,087	9,786	14,703	19,455
Shareholders' equity	56,423	49,248	65,750	85,514	98,717	121,810
Consolidated equity	66,121	56,675	73,837	95,300	113,420	141,265
Deferred tax liabilities	12,896	6,806	15,485	15,485	15,485	15,485
Total consolidated equity and debt	193,472	213,574	224,845	239,345	261,281	206,615
Ratios						
Current ratio (x)	1.53	1.37	1.95	1.86	0.59	1.50
Quick ratio (x)	1.53	1.36	1.95	1.83	0.58	1.47
Financial leverage	69.9%	132.6%	42.9%	52.9%	41.8%	-9.3%
Book value per share (€)	11.15	9.73	12.99	16.90	19.51	24.07
Net cash (debt)	-46,240	-75,153	-31,671	-50,459	-47,405	13,130
Return on equity (ROE)	0.1%	12.5%	27.5%	10.5%	20.8%	0.0%



CASH FLOW STATEMENT

All figures in € 000s	2016A	2017A	2018A	2019E	2020E	2021E
Net profit before minorities	74	7,672	17,944	13,518	32,095	41,072
Writedowns/writeups of fixed assets	6,874	30,500	59,637	19,130	30,669	34,628
Increase/decrease in provisions	4,232	-107	7,316	0	0	0
Changes in working capital	-5,809	-2,577	-889	3,810	1,367	-1,939
Gains/losses from disposal of fixed assets	1,310	-3	-15,132	0	0	0
Interest expense/income	1,413	4,012	6,227	-4,599	-4,671	-698
Tax paid/received	-2,028	-6,379	8,519	0	-5,759	-8,479
Income tax payments	3,752	11,317	218	0	0	0
Other	-6,904	-6,587	-15,166	0	0	0
Operating cash flow	2,914	37,848	68,674	31,859	53,700	64,585
Investment in property, plant equipment	-47,182	-49,733	-63,754	-47,102	-47,102	0
Investment in intangible assets	-18,916	-2,042	-2,454	0	0	0
Free cash flow	-63,184	-13,927	2,466	-15,244	6,598	64,585
Proceeds from disposal of intangible assets	2,878	57	38,391	0	0	0
Management of short term financial assets, other	24,429	453	-451	0	0	0
Investing cash flow	-38,791	-51,265	-28,268	-47,102	-47,102	0
Equity financing	1,241	-740	-493	0	0	0
Debt financing	39,233	33,072	15,241	-286	0	0
Debt repayment	-22,148	0	-30,239	0	0	-77,099
Interest paid	-3,981	-4,636	-6,925	0	0	0
Dividends, share buybacks	-2,714	-2,961	-6,210	-3,544	-3,544	-4,050
Other	-115	0	0	0	0	0
Financing cash flow	11,516	24,735	-28,626	-3,830	-3,544	-81,149
Other	-19,175	-9,709	18,511	0	0	0
Change in cash and equivalents	-43,536	1,609	30,291	-19,074	3,054	-16,565
FX/consolidation effects	585	0	0	0	0	0
Cash and cash equivalents, start of the year	71,041	28,090	29,699	59,990	40,916	43,970
Cash and cash equivalents, end of the year	28,090	29,699	59,990	40,916	43,970	27,406
EBITDA/share (in €)	1.26	7.14	19.35	6.45	12.40	14.96
Y-Y Growth						
Operating cash flow	144.1%	1198.8%	81.4%	-53.6%	68.6%	20.3%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	878.9%
EBITDA/share	29.9%	466.8%	171.1%	-66.7%	92.2%	20.6%

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...27	↓	↓	↓	↓
28	24 August 2018	€20.80	Buy	€24.70
29	20 November 2018	€17.00	Buy	€24.00
30	19 March 2019	€18.40	Buy	€23.80
31	Today	€17.20	Buy	€23.00

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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.

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