

# Deutsche Rohstoff AG

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

Update

<b>RATING</b>	<b>ADD</b>
<b>PRICE TARGET</b>	<b>€ 9.50</b>
Return Potential	3.3%
Risk Rating	High

## PRODUCTION CUT IN ANTICIPATION OF OIL PRICE RECOVERY

DRAG last week announced that it will reduce Q2/20 oil and gas production at its largest subsidiary Cub Creek to between 15% and 25% of the originally planned level at least until the end of June. The company stated at the end of February that 65% of budgeted H1/20 oil production was hedged at USD57.04/barrel. We previously forecast production of 743k barrels of oil (BO) in H1/20, suggesting hedged volume over the same period of 483k BO. Our new H1/20 oil production forecast is 421k BO. H1/20 hedged volume is reduced somewhat by the unwinding of hedges at the Elster subsidiary at the end of March. We now expect H1/20 oil production to be fully hedged. Our reworked valuation model assumes Q2/20 and H2/20 oil and gas production at Cub Creek at ca. 20% and 50% respectively of the level we previously modelled. We assume the oil and gas volume previously planned for 2020 will be produced in 2021. Our commodity price forecasts are unchanged on our note of 24 March. The Cub Creek volume transferred from 2020 to 2021 is unhedged. Our expectation that average realised unhedged oil prices in 2021 will be 20% above the 2020 level plays a role in the upward revision of our price target from €8.70 to €9.50 as do upward revisions to our production forecasts for the Salt Creek and Bright Rock subsidiaries following discussions with management. We downgrade the recommendation from Buy to Add because upside to the new price target is now lower than 25%.

### Unwinding Cub Creek hedge at <\$20 oil price would generate \$11m profit

DRAG can unwind its hedges and make profits equivalent to the difference between the hedge price and the futures curve without producing oil. DRAG unwound its hedges on Elster's production when the WTI (West Texas Intermediate) spot price was USD22, thereby generating a profit of USD1.8m. DRAG's management has indicated that the hedges on Cub Creek's production will be unwound if the oil price falls below USD20. (p.t.o.)

## FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019P	2020E	2021E
Revenue (€m)	9.17	53.75	109.05	41.10	38.31	57.78
Y-o-y growth	383.4%	486.1%	102.9%	-62.3%	-6.8%	50.8%
EBITDA (€m)	6.37	36.13	97.93	22.70	21.96	33.68
EBITDA margin	69.5%	67.2%	89.8%	55.2%	57.3%	58.3%
Net income (€m)	0.10	5.55	13.87	-0.65	-3.86	0.44
EPS (diluted) (€)	0.02	1.10	2.74	-0.13	-0.76	0.09
DPS (€)	0.60	0.65	0.70	0.00	0.00	0.15
FCF (€m)	-63.18	-13.93	2.47	-20.44	13.48	23.01
Net gearing	69.9%	132.6%	42.9%	99.4%	64.5%	38.6%
Liquid assets (€m)	28.09	29.70	59.99	66.13	55.11	61.42

## 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.

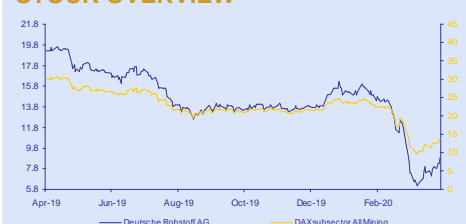
## MARKET DATA

As of 14 Apr 2020

Closing Price	€ 9.20
Shares outstanding	5.08m
Market Capitalisation	€ 46.75m
52-week Range	€ 6.12 / 19.65
Avg. Volume (12 Months)	6,938

Multiples	2019P	2020E	2021E
P/E	n.a.	n.a.	107.4
EV/Sales	2.9	3.1	2.1
EV/EBIT	5.3	5.5	3.6
Div. Yield	0.0%	0.0%	1.6%

## STOCK OVERVIEW



## COMPANY DATA

As of 30 Sep 2019

Liquid Assets	€ 24.77m
Current Assets	€ 32.86m
Intangible Assets	€ 22.42m
Total Assets	€ 214.56m
Current Liabilities	€ 8.71m
Shareholders' Equity	€ 76.65m

## SHAREHOLDERS

Management	10.0%
Institutional shareholders	30.0%
Free float	60.0%



On the basis of the current futures curve, this would generate a profit of USD11m. But as the oil price is currently above USD20, we have not included this in our forecasts.

**Figure 1: Changes to our forecasts**

All figures in € 000s	2020E New	2020E Old	Δ	2021E New	2021E Old	Δ
<b>Revenues</b>	<b>38,306</b>	<b>56,217</b>	<b>-31.9%</b>	<b>57,779</b>	<b>37,258</b>	<b>55.1%</b>
<b>EBITDA</b>	<b>21,958</b>	<b>33,016</b>	<b>-33.5%</b>	<b>33,681</b>	<b>18,061</b>	<b>86.5%</b>
Depreciation and amortisation	18,927	26,288	-28.0%	28,235	19,179	47.2%
<b>Operating income (EBIT)</b>	<b>3,031</b>	<b>6,728</b>	<b>-55.0%</b>	<b>5,446</b>	<b>-1,118</b>	<b>n.a.</b>
Net financial result	-6,268	-6,268	n.a.	-4,961	-4,961	n.a.
Pre-tax income (EBT)	-3,237	460	n.a.	485	-6,079	n.a.
Income taxes	0	0	n.a.	0	0	n.a.
<b>Net before minorities</b>	<b>-3,237</b>	<b>460</b>	<b>n.a.</b>	<b>485</b>	<b>-6,079</b>	<b>n.a.</b>
Minority interests	-623	-1,480	n.m.	-50	-745	n.a.
<b>Net income after mins.</b>	<b>-3,860</b>	<b>-1,020</b>	<b>n.a.</b>	<b>435</b>	<b>-6,824</b>	<b>n.a.</b>
<b>EPS (€)</b>	<b>-0.76</b>	<b>-0.20</b>	<b>n.a.</b>	<b>0.09</b>	<b>-1.34</b>	<b>n.a.</b>

Source: First Berlin Equity Research estimates

Figure 1 above shows changes to our forecasts. The decrease in 2020 revenues and the increase in 2021 revenues reflect the transfer of production between the two years as described above. The 2020 forecast takes into account the USD1.8m profit on the unwinding of the Elster hedges as well as cost reductions which are currently being implemented. Management has found scope to cut production costs and has also reduced salaries for management at all group companies by 25% until the end of September. As described above, our forecasts are based on Q2/20 and H2/20 oil and gas production at Cub Creek at 20% and 50% respectively of the level we previously modelled. DRAG's original 2020 guidance given in the 2018 annual report was for revenues of €75-85m and EBITDA of €55-65m. Management has withdrawn this guidance and has not yet given any new P&L guidance. The company has indicated however that the 2019 dividend is likely to be lower than 2018's €0.70 or even suspended.

**Figure 2: DCF Valuation of Cub Creek Energy\***

USD 000s	2020E	2021E	2022E	2023E	2024E	2025E
Production (working interest): barrels of oil equivalent (000s)	894	1,839	804	1,919	1,089	826
Unhedged average oil price for period (WTI -USD/barrel)	38.03	45.40	49.41	52.11	54.23	55.95
<b>Net revenue (working interest after royalty and ad valorem tax)</b>	<b>27,916</b>	<b>53,619</b>	<b>24,507</b>	<b>66,255</b>	<b>36,715</b>	<b>27,064</b>
Cash operating costs	13,016	22,097	12,730	23,574	13,064	8,262
EBITDA	14,900	31,522	11,777	42,681	23,652	18,803
Depreciation	12,010	24,745	10,857	22,387	12,827	9,671
<b>EBIT</b>	<b>2,890</b>	<b>6,777</b>	<b>920</b>	<b>20,294</b>	<b>10,824</b>	<b>9,131</b>
NOPLAT	2,283	5,354	727	16,032	8,551	7,214
Tax Rate (%)	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
<b>CAPEX</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>47,688</b>	<b>0</b>	<b>0</b>
Working capital expenditure	-945	-3,856	4,367	-6,262	4,431	1,448
<b>Free cashflow</b>	<b>13,348</b>	<b>26,243</b>	<b>15,951</b>	<b>-15,532</b>	<b>25,809</b>	<b>18,333</b>
PV free cashflow (10% discount rate)	12,472	22,292	12,317	-10,903	16,471	10,636
<b>Sum PV free cashflows</b>	<b>103,198</b>					

Source: DRAG; First Berlin Equity Research estimates



Figure 3: DCF Valuation of Elster Oil &amp; Gas\*

USD 000s	2020E	2021E	2022E	2023E	2024E	2025E
Production (working interest): barrels of oil equivalent (000s)	395	270	166	144	127	114
Unhedged average oil price for period (WTI -USD/barrel)	38.03	45.40	49.41	52.11	54.23	55.95
<b>Net revenue (working interest after royalty and ad valorem tax)</b>	<b>9,779</b>	<b>7,253</b>	<b>5,499</b>	<b>4,933</b>	<b>4,489</b>	<b>4,017</b>
Cash operating costs	5,756	3,241	2,630	1,763	1,525	1,143
EBITDA	4,023	4,011	2,869	3,170	2,963	2,873
Depreciation	6,260	4,259	2,616	2,258	1,996	1,795
<b>EBIT</b>	<b>-2,236</b>	<b>-247</b>	<b>253</b>	<b>911</b>	<b>967</b>	<b>1,079</b>
NOPLAT	-1,767	-196	200	720	764	852
Tax Rate (%)	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
<b>CAPEX</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Working capital expenditure	1,579	379	263	85	67	71
<b>Free cashflow</b>	<b>6,072</b>	<b>4,442</b>	<b>3,079</b>	<b>3,063</b>	<b>2,827</b>	<b>2,718</b>
PV free cashflow (10% discount rate)	5,674	3,773	2,378	2,150	1,804	1,577
<b>Sum PV free cashflows</b>	<b>22,991</b>					

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 4: Sum of the parts model

€m	New	Old	% Δ
DCF valuation Cub Creek Energy (DRAG's stake 88.5%)	84.2	82.7	1.8%
DCF valuation Elster Oil & Gas (DRAG's stake: 93.0%)	19.7	19.2	2.6%
DCF valuation Salt Creek Oil & Gas/Bright Rock Energy (DRAG's stakes: 100.0%/ 97.6%)	7.3	5.5	32.7%
<b>Subtotal: US oil and gas activities</b>	<b>111.2</b>	<b>107.4</b>	<b>3.5%</b>
Almonty (12.8% equity stake plus promissory notes and debentures)	12.0	11.8	
Northern Oil and Gas	4.5	4.2	
Tin International (DRAG's stake: 74.1%)	1.0	1.0	
Rhein Petroleum (DRAG's stake: 10%)	3.0	3.0	
Ceritech (DRAG's stake: 63.7%)	0.0	0.0	
Hammer Metals (DRAG's stake: 12.63%)	0.3	0.2	
Holding company costs	-10.0	-10.0	
<b>Total enterprise value</b>	<b>121.9</b>	<b>117.6</b>	<b>3.7%</b>
Cash and securities held in current assets	48.6	48.6	
Bonds	114.5	114.5	
Other debt	7.8	7.8	
Net debt	73.7	73.7	
<b>Total equity value</b>	<b>48.3</b>	<b>44.0</b>	<b>9.8%</b>
No shares (m)	5.08	5.08	
<b>Equity value per share (€)</b>	<b>9.50</b>	<b>8.65</b>	<b>9.8%</b>

Source: First Berlin Equity Research estimates

#### Price target raised from €8.70 to €9.50 but recommendation lowered from Buy to Add

Our expectation that average realised unhedged oil prices in 2021 will be 20% above the 2020 level plays a role in the upward revision of our price target from €8.70 to €9.50 as do upward revisions to our production forecasts for the Salt Creek and Bright Rock subsidiaries following discussions with management. We downgrade the recommendation from Buy to Add because upside to the new price target is now lower than 25%.



## INCOME STATEMENT

All figures in € 000s	2016A	2017A	2018A	2019P	2020E	2021E
<b>Revenues</b>	<b>9,170</b>	<b>53,746</b>	<b>109,052</b>	<b>41,100</b>	<b>38,306</b>	<b>57,779</b>
Cost of purchased services	4	8,069	19,019	7,168	6,681	10,077
Personnel expenses	3,457	4,711	3,919	4,115	4,238	4,366
Net other operating income	665	-4,840	11,819	-7,117	-5,429	-9,656
<b>EBITDA</b>	<b>6,374</b>	<b>36,126</b>	<b>97,933</b>	<b>22,700</b>	<b>21,958</b>	<b>33,681</b>
Depreciation and amortisation	6,915	30,822	58,037	16,035	18,927	28,235
<b>Operating income (EBIT)</b>	<b>-541</b>	<b>5,304</b>	<b>39,896</b>	<b>6,665</b>	<b>3,031</b>	<b>5,446</b>
Net financial result	-1,413	-4,011	-13,432	-5,279	-6,268	-4,961
<b>Pre-tax income (EBT)</b>	<b>-1,953</b>	<b>1,293</b>	<b>26,464</b>	<b>1,386</b>	<b>-3,237</b>	<b>485</b>
Taxes	2,028	6,379	-8,520	-1,164	0	0
Profit before minorities	75	7,672	17,944	222	-3,237	485
Minority interests	28	-2,124	-4,072	-871	-623	-50
<b>Net income / loss</b>	<b>103</b>	<b>5,548</b>	<b>13,872</b>	<b>-650</b>	<b>-3,860</b>	<b>435</b>
<b>EPS (in €)</b>	<b>0.02</b>	<b>1.10</b>	<b>2.74</b>	<b>-0.13</b>	<b>-0.76</b>	<b>0.09</b>
<b>Ratios</b>						
EBITDA margin on revenues	69.5%	67.2%	89.8%	55.2%	57.3%	58.3%
EBIT margin on revenues	-5.9%	9.9%	36.6%	16.2%	7.9%	9.4%
Net margin on revenues	1.1%	10.3%	12.7%	-1.6%	-10.1%	0.8%
Tax rate	103.8%	-493.3%	32.2%	84.0%	0.0%	0.0%
<b>Y-Y Growth</b>						
Revenues	383.4%	486.1%	102.9%	-62.3%	-6.8%	50.8%
Operating income	n.m.	n.m.	652.2%	-83.3%	-54.5%	79.7%
Net income/ loss	-91.1%	5311.9%	150.0%	n.m.	n.m.	n.m.



## BALANCE SHEET

All figures in € 000s	2016A	2017A	2018A	2019P	2020E	2021E
<b>Assets</b>						
<b>Current assets, total</b>	<b>51,874</b>	<b>42,502</b>	<b>75,860</b>	<b>74,737</b>	<b>63,335</b>	<b>73,830</b>
Cash and cash equivalents	28,090	29,699	59,990	66,127	55,108	61,421
Inventories	139	170	156	200	191	288
Receivables	7,794	9,090	13,443	6,500	6,211	9,368
Prepayments	495	833	711	525	502	757
Other current assets	15,105	1,324	337	1,385	1,323	1,996
Deferred tax assets	251	1,386	1,223	0	0	0
<b>Non-current assets, total</b>	<b>141,598</b>	<b>171,072</b>	<b>148,985</b>	<b>200,663</b>	<b>184,735</b>	<b>159,500</b>
Intangible assets	40,614	33,837	16,932	22,300	21,300	20,300
Land and buildings	0	0	0	0	0	0
Producing oil plants	76,172	73,760	107,878	113,303	101,284	81,771
Exploration and evaluation	3,493	40,557	2,048	27,000	24,136	19,486
Plant and machinery	173	99	36	20	18	14
Other equipment	103	108	91	400	358	289
Equity investments	12,542	15,569	14,385	16,843	16,843	16,843
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	19,073	19,073	19,073
<b>Total assets</b>	<b>193,472</b>	<b>213,574</b>	<b>224,845</b>	<b>275,400</b>	<b>248,070</b>	<b>233,331</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>33,904</b>	<b>31,121</b>	<b>38,912</b>	<b>34,600</b>	<b>43,907</b>	<b>28,683</b>
Bank debt	0	55	16,086	7,800	0	0
Bond debt	0	15,741	0	0	16,700	0
Accounts payable	29,915	5,236	6,840	8,500	8,629	9,097
Other current liabilities	3,989	10,089	15,986	18,300	18,578	19,586
<b>Long-term liabilities, total</b>	<b>75,243</b>	<b>90,780</b>	<b>77,299</b>	<b>131,200</b>	<b>97,800</b>	<b>97,800</b>
Bond debt	66,705	66,599	66,599	131,200	97,800	97,800
Bank debt	8,538	24,181	10,700	0	0	0
Other long term liabilities	0	0	0	0	0	0
Provisions	5,308	27,997	19,312	23,000	2,000	2,000
Difference from capital consolidation	0	195	0	0	0	0
Minority interests	9,698	7,427	8,087	8,000	8,623	8,673
Shareholders' equity	56,423	49,248	65,750	63,600	80,740	81,175
<b>Consolidated equity</b>	<b>66,121</b>	<b>56,675</b>	<b>73,837</b>	<b>71,600</b>	<b>89,363</b>	<b>89,848</b>
Deferred tax liabilities	12,896	6,806	15,485	15,000	15,000	15,000
<b>Total consolidated equity and debt</b>	<b>193,472</b>	<b>213,574</b>	<b>224,845</b>	<b>275,400</b>	<b>248,070</b>	<b>233,331</b>
<b>Ratios</b>						
Current ratio (x)	1.53	1.37	1.95	2.16	1.44	2.57
Quick ratio (x)	1.53	1.36	1.95	2.15	1.44	2.56
Financial leverage	69.9%	132.6%	42.9%	99.4%	64.5%	38.6%
Book value per share (€)	11.15	9.73	12.99	12.57	15.96	16.04
Net cash (debt)	-46,240	-75,153	-31,671	-71,149	-57,668	-34,655
Return on equity (ROE)	0.1%	12.5%	27.5%	0.3%	-4.0%	0.0%



## CASH FLOW STATEMENT

All figures in € 000s	2016A	2017A	2018A	2019P	2020E	2021E
<b>Net profit before minorities</b>	<b>74</b>	<b>7,672</b>	<b>17,944</b>	<b>222</b>	<b>-3,237</b>	<b>485</b>
Writedowns/writeups of fixed assets	6,874	30,500	59,637	16,035	18,927	28,235
Increase/decrease in provisions	4,232	-107	7,316	0	0	0
Changes in working capital	-5,809	-2,577	-889	10,011	790	-2,707
Gains/losses from disposal of fixed assets	1,310	-3	-15,132	0	0	0
Interest expense/income	1,413	4,012	6,227	0	0	0
Tax paid/received	-2,028	-6,379	8,519	0	0	0
Income tax payments	3,752	11,317	218	0	0	0
Other	-6,904	-6,587	-15,166	0	0	0
<b>Operating cash flow</b>	<b>2,914</b>	<b>37,848</b>	<b>68,674</b>	<b>26,268</b>	<b>16,481</b>	<b>26,013</b>
Investment in property, plant equipment	-47,182	-49,733	-63,754	-46,705	-3,000	-3,000
Investment in intangible assets	-18,916	-2,042	-2,454	0	0	0
<b>Free cash flow</b>	<b>-63,184</b>	<b>-13,927</b>	<b>2,466</b>	<b>-20,437</b>	<b>13,481</b>	<b>23,013</b>
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
<b>Investing cash flow</b>	<b>-38,791</b>	<b>-51,265</b>	<b>-28,268</b>	<b>-46,705</b>	<b>-3,000</b>	<b>-3,000</b>
Equity financing	1,241	-740	-493	0	0	0
Debt financing	39,233	33,072	15,241	64,601	0	0
Debt repayment	-22,148	0	-30,239	-18,986	8,900	-16,700
Interest paid	-3,981	-4,636	-6,925			
Dividends, share buybacks	-2,714	-2,961	-6,210	-3,544	0	0
Other	-115	0	0	0	0	0
<b>Financing cash flow</b>	<b>11,516</b>	<b>24,735</b>	<b>-28,626</b>	<b>42,071</b>	<b>8,900</b>	<b>-16,700</b>
Other	-19,175	-9,709	18,511	-15,496	-33,400	0
<b>Change in cash and equivalents</b>	<b>-43,536</b>	<b>1,609</b>	<b>30,291</b>	<b>6,137</b>	<b>-11,019</b>	<b>6,313</b>
FX/consolidation effects	585	0	0	0	0	0
<b>Cash and cash equivalents, start of the year</b>	<b>71,041</b>	<b>28,090</b>	<b>29,699</b>	<b>59,990</b>	<b>66,127</b>	<b>55,108</b>
<b>Cash and cash equivalents, end of the year</b>	<b>28,090</b>	<b>29,699</b>	<b>59,990</b>	<b>66,127</b>	<b>55,108</b>	<b>61,421</b>
<b>EBITDA/share (in €)</b>	<b>1.26</b>	<b>7.14</b>	<b>19.35</b>	<b>4.49</b>	<b>4.34</b>	<b>6.66</b>
<b>Y-Y Growth</b>						
Operating cash flow	144.1%	1198.8%	81.4%	-61.8%	-37.3%	57.8%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	70.7%
EBITDA/share	29.9%	466.8%	171.1%	-76.8%	-3.3%	53.4%

**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...30	↓	↓	↓	↓
31	14 May 2019	€17.20	Buy	€23.00
32	30 September 2019	€13.85	Buy	€18.10
33	24 March 2020	€6.66	Buy	€8.70
34	Today	€9.20	Add	€9.50

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Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy <sup>1</sup>	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%

<sup>1</sup> 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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- valuation methods and principles
- sensitivity of valuation parameters

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