

Deutsche Rohstoff AG

Germany / Energy
 Frankfurt
 Bloomberg: DR0 GR
 ISIN: DE000A0XYG76

Update

RATING
BUY

PRICE TARGET
€ 34.00

Return Potential 35.5%
 Risk Rating High

ROBUST PRODUCTION PROMPTS FY/22 SALES/EBITDA GUIDANCE RAISE

In its preliminary Q3/22 results release on 14 October DRAG cautioned that FY/22 production would likely come in at the lower end of the guidance range of 9,300 to 10,000 boepd. However, better than expected output in October and November has prompted management to raise FY/22 sales and EBITDA guidance. Production after nine months was 9,339 boepd but in October and November averaged 11,000 boepd. The increase was attributable to a slower than expected decline in production at the Cub Creek subsidiary's Knight pad as well as good results from new wells in Utah and Wyoming. We have raised our FY/22 production forecast by 5.6% to 9,848 boepd (previously: 9,328 boepd). The mid-point of new FY/22 sales guidance of €163m-€168m is 7.1% above previous guidance of €152m-€157m while the mid-point of new FY/22 EBITDA guidance of €138m-€143m is 7.7% above the previous numbers (€128m-€133m). Management has not changed guidance for FY/2023 and FY/2024. We have raised our FY/22 forecasts but have lowered our forecasts for FY/23 and FY/24 to reflect both a decline in the oil futures curve and USD depreciation since our last note of 11 November. For the three year period 2023-25 NYMEX oil futures are on average ca. 5% lower while the USDEUR rate is 3% lower than at the time of our November note. We maintain our Buy recommendation but have lowered the price target from €38 to €34.

We believe Knight pad is main driver of positive volume surprise The Knight pad came online in November 2021. The pad's oil output peaked at a gross 6,000-7,000 bopd in spring this year. We estimate that on a net basis (net working interest, after deduction of royalties), the pad accounted for ca. 75% of DRAG's oil production in Q2/22. Given the Knight pad's importance, a favourable deviation from typical output decline rates, such as that seen in October and November, has a significant positive impact on overall production. We believe the Knight pad was the main driver of the positive volume surprise in October and November. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2019	2020	2021	2022E	2023E	2024E
Revenue (€m)	41.20	38.68	73.32	165.61	168.47	132.82
Y-o-y growth	-62.2%	-6.1%	89.5%	125.9%	1.7%	-21.2%
EBITDA (€m)	22.73	23.93	66.06	140.89	130.79	99.11
EBITDA margin	55.2%	61.9%	90.1%	85.1%	77.6%	74.6%
Net income (€m)	0.31	-15.51	24.79	69.76	63.35	43.26
EPS (diluted) (€)	0.06	-3.13	5.00	14.08	12.67	8.65
DPS (€)	0.10	0.00	0.60	1.00	1.00	1.00
FCF (€m)	-14.79	-22.85	-1.01	38.68	-7.15	42.20
Net gearing	75.9%	202.6%	100.2%	29.1%	26.1%	7.4%
Liquid assets (€m)	66.64	22.82	23.49	51.63	30.69	2.82

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 and so-called high tech metals such as tin and tungsten. 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 16 Dec 2022

Closing Price	€ 25.10
Shares outstanding	5.00m
Market Capitalisation	€ 125.45m
52-week Range	€ 19.35 / 33.10
Avg. Volume (12 Months)	18,740

Multiples	2021	2022E	2023E
P/E	5.0	1.8	2.0
EV/Sales	2.6	1.2	1.1
EV/EBITDA	2.9	1.4	1.5
Div. Yield	2.4%	4.0%	4.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2022

Liquid Assets	€ 34.28m
Current Assets	€ 67.23m
Intangible Assets	€ 32.87m
Total Assets	€ 347.08m
Current Liabilities	€ 33.05m
Shareholders' Equity	€ 135.00m

SHAREHOLDERS

Management	10.0%
Institutional shareholders	30.0%
Free float	60.0%



New production in Utah and Wyoming exceeded expectations Approximately 46 wells were scheduled to commence production in Utah in H2/22 and Q1/23 with DRAG's Salt Creek subsidiary holding an average working interest of approximately 5%. However, in mid-October management indicated that the start of production at some wells originally planned for H2/22 would be delayed until Q1/23 and Q2/23. Despite this delay, new production from Utah came in above original expectations due to "very high initial production" at those wells which did come on stream. Commercial production from the first six Occidental JV wells in Wyoming (FBe: DRAG's working interest: 45%) began earlier this quarter. According to the press release of 12 December, initial production at all of these wells was either in line with or exceeded expectations.

Figure 1: DRAG guidance and FB forecasts

€m	DRAG	DRAG	DRAG	% Δ	DRAG	% Δ	FB Forecast		
	14.10.22 (base case)	14.10.22 (higher commodity price scenario)	12.12.22 (base case)		(base case 14.10.22)		12.12.22 (higher commodity price scenario)	(higher price scenario 14.10.22)	11.11.22
2022 volume (boepd)	9,300-10,000	9,300-10,00	9,300-10,000	0.0%	9,300-10,000	0.0%	9,315	9,848	2.1%
2023 volume (boepd)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	10,027	10,209	n.a.
2024 volume (boepd)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	8,661	8,703	n.a.
2022 revenue	152-157	152-157	163-168	7.1%	163-168	7.1%	157	166	0.1%
2022 EBITDA	128-133	128-133	138-143	7.7%	138-143	7.7%	132	141	0.3%
2023 revenue	140-160	155-175	140-160	0.0%	155-175	0.0%	185	168	2.1%
2023 EBITDA	110-125	125-140	110-125	0.0%	125-140	0.0%	147	131	-1.3%
2024 revenue	>120	>120	>120	0.0%	>120	0.0%	144	133	10.7%
2024 EBITDA	>100	>100	>100	0.0%	>100	0.0%	109	99	-0.9%
2022 oil price assumption (USD)*	85.00	85.00	85.00	0.0%	85.00	0.0%	87.32	82.33	-3.1%
2022 gas price assumption (USD)*	6.00	6.00	6.00	0.0%	6.00	0.0%	6.25	6.26	4.3%
2023 oil price assumption (USD)	75.00	85.00	75.00	0.0%	85.00	0.0%	80.78	74.10	-12.8%
2023 gas price assumption (USD)	4.00	4.00	4.00	0.0%	4.00	0.0%	5.13	5.31	32.9%
2024 oil price assumption (USD)	75.00	75.00	75.00	0.0%	75.00	0.0%	73.96	70.57	-5.9%
2024 gas price assumption (USD)	4.00	4.00	4.00	0.0%	4.00	0.0%	4.63	4.66	16.4%
2022 USDEUR exchange rate*	1.00	1.00	1.00	0.0%	1.00	0.0%	1.01	0.98	-2.4%
2023 USDEUR exchange rate	0.89	0.89	0.89	0.0%	0.89	0.0%	0.98	0.94	5.5%
2024 USDEUR exchange rate	0.89	0.89	0.89	0.0%	0.89	0.0%	0.98	0.94	5.5%

*estimates for Q4/22

Source: DRAG; First Berlin Equity Research estimates

As figure 1 above shows, we have raised our 2022 volume forecast by 5.6% to reflect stronger than expected production in November and December. We have also moved our 2022 sales and EBITDA forecasts into line with management's new guidance. However, we take a conservative view on the sustainability of type curve outperformance and have raised our 2023 and 2024 volume forecasts by only 1.8% and 0.5% respectively.

Figure 2: Detailed changes to our forecasts

All figures in € 000s	2022E	2022E	Δ	2023E	2023E	Δ	2024E	2024E	Δ
	New	Old		New	Old		New	Old	
Revenue	165,606	156,903	5.5%	168,472	185,238	-9.1%	132,820	144,130	-7.8%
EBITDA	140,890	132,056	6.7%	130,790	146,623	-10.8%	99,110	109,103	-9.2%
Dep. and amort.	42,000	42,000	0.0%	44,000	44,000	0.0%	38,617	40,047	-3.6%
Op. income (EBIT)	98,890	90,056	10%	86,790	102,623	-15%	60,493	69,057	-12%
Net financial result	-5,778	-5,778	n.a.	-5,250	-5,250	n.a.	-4,896	-4,896	n.a.
Pre-tax income (EBT)	93,112	84,278	10.5%	81,540	97,373	-16.3%	55,597	64,161	-13.3%
Income taxes	-18,157	-16,434	n.a.	-17,123	-20,448	n.a.	-11,675	-13,474	n.a.
Net before mins.	74,955	67,844	10.5%	64,417	76,925	-16.3%	43,922	50,687	-13.3%
Minority interests	-5,191	-5,030	n.a.	-1,068	-1,279	n.a.	-664	-774	n.a.
Net inc. after mins.	69,765	62,813	11.1%	63,348	75,646	-16.3%	43,258	49,913	-13.3%
EPS (€)	14.08	12.68	11.1%	12.67	15.14	-16.3%	8.65	9.99	-13.3%

Source: First Berlin Equity Research estimates



Buy recommendation maintained but price target lowered from €38 to €34 The reduction in our forecasts from 2023 onwards (see figure 2) reflects both a decline in the oil futures curve and USD depreciation since our last note of 11 November. For the three year period 2023-25 NYMEX oil futures are on average ca. 5% lower while the USDEUR rate is 3% lower than at the time of our note of 11 November. We maintain our Buy recommendation but the reductions to our forecasts from 2023 onward translate into a lowering of our price target from €38 to €34.

Figure 3: Changes to our valuation model

€m	New	Old	% Δ
DCF valuation Cub Creek Energy (DRAG's stake 98.0%)	164.1	175.7	-6.6%
DCF valuation Elster Oil & Gas (DRAG's stake: 93.0%)	17.6	18.9	-6.8%
DCF valuation Salt Creek Oil & Gas/Bright Rock Energy (DRAG's stakes: 100.0%/ 99%)	50.6	56.7	-10.7%
PV10 hedging gains/(losses)	-12.6	-14.3	n.a.
Subtotal: US oil and gas activities	219.7	237.0	-7.3%
Almonty (12.18% equity stake plus promissory notes and debentures)	23.1	25.7	-10.3%
Ceritech (DRAG's stake: 72.46%)	1.4	1.5	-10.0%
Northern Oil and Gas (DRAG's stake: 0.29%)	6.9	8.3	-17.8%
Beacon Energy/Rhein Petroleum	0.5	2.5	-80.0%
Tin International (DRAG's stake: 94.4%)	1.7	1.7	-0.6%
Holding company costs	-10.0	-10.0	0.0%
Total enterprise value	243.2	266.7	-8.8%
Cash and securities held in current assets	34.3	34.3	0.0%
Bonds	109.8	109.8	0.0%
Other debt	0.0	0.0	0.0%
Net debt	75.6	75.6	0.0%
Total equity value	167.7	191.2	-12.3%
No shares (m)	5.00	5.00	0.0%
Equity value per share (€)	33.54	38.25	-12.3%

Source: First Berlin Equity Research estimates



INCOME STATEMENT

All figures in € 000s	2019A	2020A	2021A	2022E	2023E	2024E
Revenues	41,204	38,683	73,321	165,606	168,472	132,820
Cost of materials	11,342	11,630	18,106	28,461	28,717	25,447
Personnel/G&A expenses	11,559	12,118	12,118	15,829	11,206	10,179
Net other operating income	4,422	8,999	22,962	19,574	2,241	1,916
EBITDA	22,725	23,935	66,058	140,890	130,790	99,110
Depreciation and amortisation	17,095	40,070	33,469	42,000	44,000	38,617
Operating income (EBIT)	5,630	-16,135	32,590	98,890	86,790	60,493
Net financial result	-5,368	-6,388	96	-5,778	-5,250	-4,896
Other financial items	0	0	0	0	0	0
Pre-tax income (EBT)	262	-22,524	27,056	93,112	81,540	55,597
Taxes	-76	6,425	-699	-18,157	-17,123	-11,675
Profit before minorities	186	-16,099	26,357	74,955	64,417	43,922
Minority interests	122	589	-1,563	-5,191	-1,068	-664
Net income / loss	308	-15,510	24,794	69,765	63,348	43,258
EPS (in €)	0.06	-3.13	5.00	14.08	12.67	8.65
Ratios						
EBITDA margin on revenues	55.2%	61.9%	90.1%	85.1%	77.6%	74.6%
EBIT margin on revenues	13.7%	-41.7%	44.4%	59.7%	51.5%	45.5%
Net margin on revenues	0.7%	-40.1%	33.8%	42.1%	37.6%	32.6%
Tax rate	29.0%	-28.5%	2.6%	19.5%	21.0%	21.0%
Y-Y Growth						
Revenues	-62.2%	-6.1%	89.5%	125.9%	1.7%	-21.2%
Operating income	-85.9%	n.m.	n.m.	203.4%	-12.2%	-30.3%
Net income/ loss	-97.8%	n.m.	n.m.	181.4%	-9.2%	-31.7%



BALANCE SHEET

All figures in € 000s	2019A	2020A	2021A	2022E	2023E	2024E
Assets						
Current assets, total	80,455	36,354	53,151	84,823	64,427	29,870
Cash and cash equivalents	66,637	22,815	23,492	51,627	30,694	2,817
Inventories	165	186	175	395	402	317
Receivables	9,935	3,505	17,898	26,497	26,955	21,251
Prepayments	1,156	1,047	893	1,656	1,685	1,328
Other current assets	1,161	7,327	8,529	2,484	2,527	1,992
Deferred tax assets	1,401	1,474	2,164	2,164	2,164	2,164
Non-current assets, total	198,470	170,368	211,840	250,840	322,840	319,223
Intangible assets	22,136	21,892	29,821	32,165	34,509	36,853
Land and buildings	0	0	0	0	0	0
Producing oil plants	138,433	110,203	143,612	178,929	246,042	240,298
Exploration and evaluation	648	2,227	5,225	6,510	8,952	8,743
Plant and machinery	143	123	111	138	190	186
Other equipment	331	225	107	133	183	179
Equity investments	16,688	17,773	14,552	14,552	14,552	14,552
Loans to other investors	1,902	4,711	4,782	4,782	4,782	4,782
Securities classified as fixed assets	18,189	13,214	13,630	13,630	13,630	13,630
Total assets	278,925	206,722	264,991	335,663	387,267	349,093
Shareholders' equity & debt						
Current liabilities, total	26,927	27,077	31,790	32,503	123,081	18,196
Bank debt	22	190	1,089	0	0	0
Bond debt	0	16,658	0	9,815	100,000	0
Accounts payable	17,114	2,901	20,764	2,484	2,527	1,992
Other current liabilities	9,791	7,328	9,937	20,204	20,554	16,204
Long-term liabilities, total	139,089	111,533	116,303	100,000	0	35,000
Bond debt	131,077	97,761	97,761	100,000	0	0
Bank debt	8,012	13,772	18,542	0	0	35,000
Other long term liabilities	0	0	0	0	0	0
Provisions	25,222	7,336	18,842	33,121	33,694	26,564
Minority interests	7,184	6,170	7,351	12,542	13,610	14,274
Shareholders' equity	64,317	39,419	72,723	140,498	199,883	238,058
Consolidated equity	71,501	45,589	80,074	153,039	213,492	252,332
Deferred tax liabilities	16,186	15,187	17,982	17,000	17,000	17,000
Total consolidated equity and debt	278,925	206,722	264,991	335,663	387,267	349,093
Ratios						
Current ratio (x)	2.99	1.34	1.67	2.61	0.52	1.64
Quick ratio (x)	2.98	1.34	1.67	2.60	0.52	1.62
Financial leverage	75.9%	202.6%	100.2%	29.1%	26.1%	7.4%
Book value per share (€)	12.98	7.96	14.68	28.36	39.33	48.05
Net cash (debt)	-54,285	-92,352	-80,270	-44,558	-55,676	-18,553
Return on equity (ROE)	0.3%	-27.5%	41.9%	64.3%	35.1%	0.0%



CASH FLOW STATEMENT

All figures in € 000s	2019A	2020A	2021A	2022E	2023E	2024E
Net profit before minorities	186	-16,099	26,357	74,955	64,417	43,922
Writedowns/w riteups of fixed assets	16,307	37,702	32,805	42,000	44,000	38,617
Increase/decrease in provisions	17,380	-11,411	-927	0	0	0
Changes in working capital	-9,195	2,712	6,907	2,729	429	-5,334
Gains/losses from disposal of fixed assets	-31	-286	-736	0	0	0
Gains/losses from disposal of securities	0	-1,433	-18,093	0	0	0
Interest expense/income	5,368	6,388	5,533	0	0	0
Tax paid/received	76	-6,425	792	0	0	0
Income tax payments	158	0	0	0	0	0
Other	-16,311	2,843	-816	0	0	0
Operating cash flow	13,938	13,991	51,822	119,684	108,845	77,205
Investment in property, plant equipment	-22,513	-30,731	-41,876	-76,000	-111,000	-30,000
Investment in intangible assets	-6,214	-6,110	-10,953	-5,000	-5,000	-5,000
Free cash flow	-14,789	-22,850	-1,007	38,684	-7,155	42,205
Proceeds from disposal of intangible assets	0	119	1,633	0	0	0
Management of short term financial assets, other	-5,511	-12,008	21,850	0	0	0
Investing cash flow	-34,238	-48,730	-29,346	-81,000	-116,000	-35,000
Equity financing	-18	-97	0	0	0	0
Debt financing	62,000	7,322	19,006	-6,488	0	0
Debt repayment	-16,115	-16,658	-31,729	-1,089	-9,815	-65,000
Interest paid	-6,638	-7,515	-6,515	0	0	0
Dividends, share buybacks	-3,937	-743	-328	-2,972	-3,963	-5,082
Other	0	0	-145	0	0	0
Financing cash flow	35,292	-17,691	-19,711	-10,549	-13,778	-70,082
Other	1,004	8,608	-2,088	0	0	0
Change in cash and equivalents	6,647	-43,822	677	28,135	-20,933	-27,877
FX/consolidation effects	0	0	0	0	0	0
Cash and current cash equivalents, start of the year	59,990	66,637	22,815	23,492	51,627	30,694
Cash and current cash equivalents, end of the year	66,637	22,815	23,492	51,627	30,694	2,817
EBITDA/share (in €)	4.60	4.83	13.33	28.44	26.17	19.83
Y-Y Growth						
Operating cash flow	-79.7%	0.4%	270.4%	131.0%	-9.1%	-29.1%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	-76.8%	5.1%	176.0%	113.3%	-8.0%	-24.2%

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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

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The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

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.

RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

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...33	↓	↓	↓	↓
34	19 October 2020	€7.82	Add	€9.50
35	20 April 2021	€12.05	Buy	€17.00
36	29 July 2021	€15.50	Buy	€24.00
37	7 October 2021	€21.10	Buy	€28.00
38	13 December 2021	€20.50	Buy	€31.00
39	9 June 2022	€32.00	Buy	€43.00
40	13 July 2022	€27.40	Buy	€36.00
41	11 November 2022	€26.20	Buy	€38.00
42	Today	€25.10	Buy	€34.00

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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Legally required information regarding

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

can be accessed through the following internet link: <https://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main

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