

# Deutsche Rohstoff AG

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

Q3 results/profit  
 warning

**RATING**  
**PRICE TARGET** **ADD**  
**€ 22.30**  
 Return Potential 9.7%  
 Risk Rating High

## OUTPUT DIP AT CUB CREEK DENTS FULL YEAR GROUP NUMBERS

Q3/17 results showed a 240% jump in revenues to €7.3m (Q3/16: €2.2m) while EBITDA came in at €5.6m (Q3/16: €-0.5m). The Q3 report also contained a profit warning. Full year guidance for sales has been reduced from a range of €55-€65m to €50m and for EBITDA from €40m to a range of €35-€37m. Our previous forecasts were €48m and €42m respectively. The sales and EBITDA shortfall stems from lower than expected production at Cub Creek Energy's Vail and Markham production pads. The main problem at Vail and Markham was that excessively high pressure in the local gas network reduced production of both oil and gas. In recent weeks a new gas line has been added to the Markham well site thereby reducing pressure. Similar measures are planned for the Vail pad. There are likely to be no long term implications for production at Vail but DRAG state that a downward revision in the Markham pad's reserves may be necessary in the next reserve report which will be based on year-end numbers. At the same time management has undertaken that the 2017 dividend should be at least at the 2016 level of €0.60. We have modelled a 10% reduction in reserves at Markham and have also switched to a more conservative method of forecasting direct operating costs (USD3.00 per working interest barrel of oil equivalent instead of working interest in USD5,000 per well per month). We now see fair value for the DRAG share at €22.30 (previously: €26.90). The recommendation moves from Buy to Add.

**Q3/17 revenues up on higher number of producing wells** Q3/17 results revenues grew 240% to €7.3m (Q3/16: €2.2m; FBe €7.5m) while EBITDA came in at €5.6m (Q3/16: €-0.5m; FBe €1.0m). The revenue increase is due to a higher number of producing oil and gas wells. In Q3/16 DRAG was producing only from 11 wells at Elster Oil & Gas (EOG). Since then 28 wells have come on stream at Cub Creek Energy (CCE) and in late 2016 Salt Creek Oil and Gas (Salt Creek) acquired a working interest of ca. 8% in 60 producing wells in the Bakken and Three Forks plays of the Williston Basin in North Dakota. (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017E	2018E	2019E
Revenue (€m)	22.87	1.90	9.17	50.28	86.62	160.45
Y-o-y growth	28.8%	-91.7%	383.4%	448.3%	844.6%	219.1%
EBITDA (€m)	114.16	4.93	6.37	36.81	72.98	141.51
EBITDA margin	499.1%	260.0%	69.5%	73.2%	84.2%	88.2%
Net income (€m)	25.17	1.16	0.10	3.94	19.20	18.00
EPS (diluted) (€)	4.80	0.23	0.02	0.78	3.79	3.55
DPS (€)	0.50	0.55	0.60	0.70	1.00	1.00
FCF (€m)	82.10	-12.11	-57.26	-18.96	-62.95	-29.55
Net gearing	-63.7%	-40.5%	59.8%	66.0%	114.3%	124.2%
Liquid assets (€m)	92.82	71.04	28.09	34.43	24.17	18.41

### 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 21 Nov 2017

Closing Price	€ 20.33
Shares outstanding	5.06m
Market Capitalisation	€ 102.93m
52-week Range	€ 16.13 / 26.45
Avg. Volume (12 Months)	15,201

Multiples	2016	2017E	2018E
P/E	1007.1	26.1	5.4
EV/Sales	17.5	3.2	1.9
EV/EBITDA	25.2	4.4	2.2
Div. Yield	3.0%	3.4%	4.9%

### STOCK OVERVIEW



### COMPANY DATA

As of 30 Sep 2017

Liquid Assets	€ 28.36m
Current Assets	€ 36.91m
Intangible Assets	€ 38.06m
Total Assets	€ 194.43m
Current Liabilities	€ 12.03m
Shareholders' Equity	€ 61.75m

### SHAREHOLDERS

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



**Haley wells now producing above type curve** Encouragingly DRAG reported that the seven Haley wells at CCE, which came on stream in mid-September, recently reached daily production rates of 3,000 BOE and that production has continued to rise so far in November. This would put production at Haley (five wells in the Niobrara horizon, two wells in the Codell horizon) above the blended Niobrara/Codell type curve.

**No. of net 1 mile equivalent wells to treble over next 2 years** DRAG is planning strongly increasing oil and gas production over the next two years. The company is currently producing from around 33 equivalent 100% owned, 1 mile lateral wells. By Spring next year, we expect this figure to rise to 59 as 16 new wells at CCE's Litzenger pad (working interest 80%), 20 2.5 mile wells at EOG (working interest 24%) and six 2 mile wells (working interest 8%) come on stream at Salt Creek. By the end of 2019 we expect this number to reach 106.

**We assume 10% downward revision in Markham reserves** Figure 1 below shows changes to our forecasts. Our FY 2017 revenue estimate rises by 4.2% to €50.3m because a 9% increase in the oil price since our last update on 16 October outweighs a reduction to our FY 2017 production forecast. However, our 2017 EBITDA forecast falls because of costs incurred through the production dips and ensuing corrective measures at the Vail and Markham pads. For 2019 our profit forecasts are lower despite a higher oil price assumption. This is because we have switched to a more conservative method of calculating direct operating costs (USD3.00 per working interest barrel of oil equivalent instead of working interest in USD5,000 per well per month).

**Figure 1: Changes to our forecasts**

All figures in € 000s	2017E New	2017E Old	Δ	2018E New	2018E Old	Δ	2019E New	2019E Old	Δ
<b>Revenues</b>	<b>50,282</b>	<b>48,243</b>	<b>4.2%</b>	<b>86,625</b>	<b>80,812</b>	<b>7.2%</b>	<b>160,454</b>	<b>155,827</b>	<b>3.0%</b>
<b>EBITDA</b>	<b>36,809</b>	<b>42,363</b>	<b>-13.1%</b>	<b>72,978</b>	<b>72,403</b>	<b>0.8%</b>	<b>141,510</b>	<b>146,822</b>	<b>-3.6%</b>
Depreciation and amortisation	24,657	22,336		32,542	33,041		100,507	100,851	
<b>Operating income (EBIT)</b>	<b>12,152</b>	<b>20,028</b>	<b>-39.3%</b>	<b>40,436</b>	<b>40,362</b>	<b>0.2%</b>	<b>41,003</b>	<b>45,971</b>	<b>-10.8%</b>
Net financial result	-4,749	-4,737		-5,315	-5,281		-7,442	-7,381	
Pre-tax income (EBT)	7,403	15,291		35,120	35,081		33,562	38,590	
Income taxes	-2,591	-5,352		-12,292	-12,278		-11,747	-13,506	
<b>Net before minorities</b>	<b>4,812</b>	<b>9,939</b>		<b>22,828</b>	<b>22,802</b>		<b>21,815</b>	<b>25,083</b>	
Minority interests	-876	-1,839		-3,630	-3,652		-3,817	-4,442	
<b>Net income after mins.</b>	<b>3,936</b>	<b>8,100</b>	<b>-51.4%</b>	<b>19,198</b>	<b>19,151</b>	<b>0.2%</b>	<b>17,998</b>	<b>20,642</b>	<b>-12.8%</b>
<b>EPS (€)</b>	<b>0.78</b>	<b>1.60</b>	<b>-51.4%</b>	<b>3.79</b>	<b>3.78</b>	<b>0.4%</b>	<b>3.56</b>	<b>4.08</b>	<b>-12.8%</b>

Source: DRAG; First Berlin Equity Research estimates

**We lower price target from €26.9 to €22.3 and rating from Buy to Add** As figure 2 shows, we have reduced our enterprise valuation of DRAG's north American oil assets by 4.0% or €6.7m to €160.9m (previously: €167.6m). This accounts for 29% of the €23.1m reduction in our overall equity valuation of the group. Most of the remainder stems from the €15.3m rise in the group's net debt between the end of H1/17 and Q3/17. We now see fair value for the DRAG share at €22.30 (previously: €26.90). The recommendation moves from Buy to Add.

**Figure 2: Sum of the parts model**

€m	New	Old
Cub Creek Energy (DRAG's stake 79.9%)	129.5	138.8
Elster Oil & Gas (DRAG's stake: 93.0%)	15.5	15.7
Salt Creek Oil & Gas (DRAG's stake: 90.2%)	15.8	13.2
Almonty (13.3% equity stake plus CAD8.8m in convertible debentures, promissory notes)	14.4	15.4
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%)	1.0	1.0
Devonian Metals (DRAG's stake: 47%)	0.0	0.0
Hammer Metals (DRAG's stake: 17.8%)	1.0	1.0
Holding company costs	-10.0	-10.0
<b>Total enterprise value</b>	<b>170.8</b>	<b>178.5</b>
Cash and financial assets	36.0	47.1
Debt	93.8	89.6
Net cash and financial assets (30.09.2017E)	-57.8	-42.5
<b>Total equity value</b>	<b>112.9</b>	<b>136.0</b>
No shares (m)	5.06	5.06
<b>Equity value per share (€)</b>	<b>22.3</b>	<b>26.9</b>

Source: First Berlin Equity Research estimates



## INCOME STATEMENT

All figures in € 000s	2014A	2015A	2016A	2017E	2018E	2019E
<b>Revenues</b>	<b>22,871</b>	<b>1,897</b>	<b>9,170</b>	<b>50,282</b>	<b>86,625</b>	<b>160,454</b>
Direct operating costs	5,080	59	4	5,635	8,730	14,027
General & administrative costs	10,408	5,321	6,681	4,505	4,917	4,917
Other losses/currency losses	-106,777	-8,416	-3,889	3,333	0	0
<b>EBITDA</b>	<b>114,160</b>	<b>4,933</b>	<b>6,374</b>	<b>36,809</b>	<b>72,978</b>	<b>141,510</b>
Depreciation and amortisation	25,434	1,578	6,874	24,657	32,542	100,507
<b>Operating income (EBIT)</b>	<b>88,726</b>	<b>3,355</b>	<b>-500</b>	<b>12,152</b>	<b>40,436</b>	<b>41,003</b>
Net financial result	-4,065	-3,912	-1,454	-4,749	-5,315	-7,442
Non-operating expenses	0	0	0	0	0	0
<b>Pre-tax income (EBT)</b>	<b>84,661</b>	<b>-557</b>	<b>-1,953</b>	<b>7,403</b>	<b>35,120</b>	<b>33,562</b>
Taxes	-30,645	1,086	2,028	-2,591	-12,292	-11,747
Minority interests	-28,845	626	28	-876	-3,630	-3,817
<b>Net income / loss</b>	<b>25,171</b>	<b>1,155</b>	<b>102</b>	<b>3,936</b>	<b>19,198</b>	<b>17,998</b>
<b>EPS (in €)</b>	<b>4.80</b>	<b>0.23</b>	<b>0.02</b>	<b>0.78</b>	<b>3.79</b>	<b>3.55</b>
<b>Ratios</b>						
EBITDA margin on revenues	499.1%	260.0%	69.5%	73.2%	84.2%	88.2%
EBIT margin on revenues	387.9%	176.9%	-5.4%	24.2%	46.7%	25.6%
Net margin on revenues	110.1%	60.9%	1.1%	7.8%	22.2%	11.2%
Tax rate	36.2%	195.0%	103.8%	35.0%	35.0%	35.0%
<b>Y-Y Growth</b>						
Revenues	28.8%	-91.7%	383.4%	448.3%	72.3%	85.2%
Operating income	n.m.	-96.2%	n.m.	n.m.	232.7%	1.4%
Net income/ loss	n.m.	-95.4%	-91.2%	3751.7%	387.7%	-6.2%



## BALANCE SHEET

All figures in € 000s	2014A	2015A	2016A	2017E	2018E	2019E
<b>Assets</b>						
<b>Current assets, total</b>	<b>98,203</b>	<b>79,267</b>	<b>51,874</b>	<b>48,425</b>	<b>61,038</b>	<b>97,571</b>
Cash and cash equivalents	92,821	71,041	28,090	34,425	24,172	18,411
Inventories	38	55	139	280	737	1,583
Receivables	106	2,831	7,794	10,080	26,543	56,995
Prepayments	190	276	495	840	2,212	4,750
Other current assets	726	4,530	15,105	2,800	7,373	15,832
Deferred tax assets	4,322	534	251	0	0	0
<b>Non-current assets, total</b>	<b>36,493</b>	<b>48,786</b>	<b>141,598</b>	<b>160,811</b>	<b>239,448</b>	<b>270,020</b>
Intangible assets	12,279	17,501	40,614	39,614	38,614	37,614
Land and buildings	0	0	0	0	0	0
Producing oil plants	0	5,314	76,172	96,302	172,184	209,498
Exploration and evaluation	1,647	1,596	3,493	4,416	7,896	9,607
Plant and machinery	513	444	173	219	391	476
Other equipment	94	119	103	130	233	283
Equity investments	11,456	11,822	12,542	12,542	12,542	12,542
Loans to other investors			913	0		0
Securities classified as fixed assets	10,504	11,990	7,588	7,588	7,588	0
<b>Total assets</b>	<b>134,696</b>	<b>128,053</b>	<b>193,472</b>	<b>209,237</b>	<b>300,486</b>	<b>367,590</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>4,675</b>	<b>4,230</b>	<b>33,904</b>	<b>25,428</b>	<b>25,353</b>	<b>54,440</b>
Bank debt	414	7	0	0	0	0
Bond debt	0	0	0	15,800	0	0
Accounts payable	217	957	29,915	2,888	7,606	16,332
Other current liabilities	4,044	3,266	3,989	6,740	17,747	38,108
<b>Long-term liabilities, total</b>	<b>63,147</b>	<b>57,955</b>	<b>75,243</b>	<b>86,860</b>	<b>158,900</b>	<b>178,900</b>
Bond debt	57,111	51,555	66,705	58,400	88,400	108,400
Bank debt	5,993	6,400	8,538	28,460	70,500	70,500
Other long term liabilities	43	0	0	0	0	0
Provisions	1,540	1,089	5,308	2,000	2,000	2,000
Minority interests	2,331	2,566	9,698	10,574	14,204	18,020
Shareholders' equity	60,157	59,274	56,423	81,375	97,029	111,230
<b>Consolidated equity</b>	<b>62,488</b>	<b>61,840</b>	<b>66,121</b>	<b>91,948</b>	<b>111,232</b>	<b>129,250</b>
Deferred tax liabilities	2,846	2,939	12,896	3,000	3,000	3,000
<b>Total consolidated equity and debt</b>	<b>134,696</b>	<b>128,053</b>	<b>193,472</b>	<b>209,237</b>	<b>300,486</b>	<b>367,590</b>
<b>Ratios</b>						
Current ratio (x)	21.01	18.74	1.53	1.90	2.41	1.79
Quick ratio (x)	21.00	18.73	1.53	1.89	2.38	1.76
Financial leverage	-63.7%	-40.5%	59.8%	66.0%	114.3%	124.2%
Book value per share (€)	11.94	11.77	11.20	16.16	19.26	22.08
Net cash (debt)	39,807	25,069	-38,652	-60,647	-127,140	-160,489
Return on equity (ROE)	106.6%	0.9%	0.1%	6.1%	22.5%	18.1%



## CASH FLOW STATEMENT

All figures in € 000s	2014A	2015A	2016A	2017E	2018E	2019E
<b>EBIT</b>	<b>88,726</b>	<b>3,355</b>	<b>-500</b>	<b>12,152</b>	<b>40,436</b>	<b>41,003</b>
Depreciation and amortisation	25,434	1,578	6,874	24,657	32,542	100,507
<b>EBITDA</b>	<b>114,160</b>	<b>4,933</b>	<b>6,374</b>	<b>36,809</b>	<b>72,978</b>	<b>141,510</b>
Changes in working capital	1,524	-4,625	-5,809	-14,743	-7,141	-13,208
Interest paid	-4,263	-3,912	-1,413	-4,749	-5,315	-7,442
Tax paid/received	-29,091	1,086	1,724	8,509	-12,292	-11,747
Profit/loss from sale of Tekton Energy	-103,605	0	0	0	0	0
Other adjustments	2,299	3,712	2,038	0	0	0
<b>Operating cash flow</b>	<b>-18,976</b>	<b>1,194</b>	<b>2,914</b>	<b>25,826</b>	<b>48,230</b>	<b>109,114</b>
<b>Investing cash flow</b>	<b>101,073</b>	<b>-13,307</b>	<b>-60,177</b>	<b>-44,783</b>	<b>-111,179</b>	<b>-138,667</b>
<b>Free cash flow</b>	<b>82,097</b>	<b>-12,113</b>	<b>-57,263</b>	<b>-18,957</b>	<b>-62,949</b>	<b>-29,552</b>
Dividends, share buybacks	-38,929	-3,100	-2,714	-3,038	-3,544	-3,797
Equity financing	0	0	1,126	0	0	0
Debt financing	0	0	39,233	27,417	72,040	20,000
Debt repayment	-8,540	-6,182	-22,148	0	-15,800	0
Other	999	-2,712	-3,981	913	0	7,588
<b>Financing cash flow</b>	<b>-46,470</b>	<b>-11,994</b>	<b>11,516</b>	<b>25,292</b>	<b>52,696</b>	<b>23,791</b>
Other	0	0	2,246	0	0	0
<b>Change in cash and equivalents</b>	<b>35,627</b>	<b>-24,107</b>	<b>-43,501</b>	<b>6,335</b>	<b>-10,253</b>	<b>-5,762</b>
FX/consolidation effects	11,131	2,327	550	0	0	0
<b>Cash and cash equivalents, start of the year</b>	<b>46,063</b>	<b>92,821</b>	<b>71,041</b>	<b>28,090</b>	<b>34,425</b>	<b>24,172</b>
<b>Cash and cash equivalents, end of the year</b>	<b>92,821</b>	<b>71,041</b>	<b>28,090</b>	<b>34,425</b>	<b>24,172</b>	<b>18,411</b>
<b>EBITDA/share (in €)</b>	<b>21.70</b>	<b>0.97</b>	<b>1.26</b>	<b>7.27</b>	<b>14.42</b>	<b>27.97</b>
<b>Y-Y Growth</b>						
Operating cash flow	n.m.	n.m.	144.1%	786.3%	86.7%	126.2%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	5954.7%	-95.5%	29.2%	477.5%	98.3%	93.9%

**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...23	↓	↓	↓	↓
24	12 December 2016	€23.91	Buy	€31.00
25	20 February 2017	€23.66	Buy	€34.00
26	16 October 2017	€19.59	Buy	€26.90
27	Today	€20.33	Add	€22.30

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**PRICE TARGET DATES**

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

**AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY**

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:

**STRONG BUY:** An expected favourable price trend of more than 50% combined with sizeable confidence in the quality and forecast security of management.

**BUY:** An expected favourable price trend of more than 25% percent.

**ADD:** An expected favourable price trend of between 0% and 25%.

**REDUCE:** An expected negative price trend of between 0% and -15%.

**SELL:** An expected negative price trend of more than -15%.

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- 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: <http://firstberlin.com/disclaimer-english-link/>

**SUPERVISORY AUTHORITY:** Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt

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