

Deutsche Rohstoff

Oil & gas
27 September 2018

Strong free cash flow expected in H218

Deutsche Rohstoff's (DRAG's) business model has been built around management's ability to identify, develop and monetise assets across multiple resources. In H118 the group delivered a 68% increase in revenue and a 121% increase in EBITDA y-o-y, driven by increased oil and gas production, profits on asset sales and higher commodity prices. In April 2018, Salt Creek Oil & Gas signed a sale and purchase agreement with Northern Oil & Gas to divest most of its acreage in the Williston Basin, resulting in \$40m of cash proceeds, \$7.6m reimbursement for investments made and 6m shares, valued at \$21.5m as at 21 September 2018.

Management expects continued FCF growth (excluding Salt Creek divestment) in H218, driven by strong production performance from Elster Oil & Gas with realisations at current commodity prices. A mid-year cash position and securities held of €63.6m (up from €47.1m at June 2017) was driven by the Salt Creek sale proceeds and issue of a €10.7m convertible bond in March 2018 (3.625% coupon and €28 strike price).

Growth in US production and realisations

In H118, production increased significantly to 1.69mboe compared to 1.0mboe in H117. Of this, c 56% was oil; the remainder was natural gas and condensates. Production from Elster was above management expectations, offsetting a weaker than expected outturn for Cub Creek. The non-cash depreciation charge at Cub Creek increased in H118. However, at €52m EBITDA was a material improvement on the prior year (€23.4m), driven by higher production, realised prices and lower overheads. Management has increased revenue expectations for 2018 from €75–85m to €90–100m, and EBITDA from €65–70m to €85–90m.

Valuation: At a discount to 1P and 2P value

DRAG's most recent independent 1P CPR valuation of its oil and gas assets totals €178.3m, including Elster Oil & Gas and Cub Creek Energy. We include net sale proceeds for Salt Creek and assume the company's mining assets are valued at book value (with listed investments marked to market), adding in end 2017 net debt to reflect the oil asset CPR discount date. This amounts to a SOTP valuation of c €124.4m or €24.6/share, rising to €28.7/share including 2P reserves. DRAG trades at a 26% discount to its 1P reserve value and a 47% discount to its 2P reserve value on this basis.

Consensus estimates						
Year end	Revenue (€m)	EBITDA (€m)	EPS (€)	DPS (€)	Capex (€)	Yield (%)
12/16	9.2	6.4	0.02	0.60	(38.8)	3.0
12/17	53.7	36.1	1.10	0.65	(51.6)	3.3
12/18e	90.6	78.3	3.11	0.73	(12.3)	3.7
12/19e	95.0	73.4	2.89	0.73	(71.1)	3.7

Source: Deutsche Rohstoff, Bloomberg

Price €19.76
Market cap €100m

Share price graph



Share details

Code	DR0
Listing	Deutsche Börse Scale
Shares in issue	5.06m
Net debt as at 30 June 2018	€54.0m

Business description

Deutsche Rohstoff identifies, develops and monetises resource projects in North America, Australia and Europe. The company's focus is on the development of oil and gas opportunities in the US.

Bull

- Track record of value creation.
- Acquisition opportunities US onshore.
- Technology driving increased US returns.

Bear

- Diverse commodity focus for a small company.
- Disparate US peer group.
- High operational leverage if oil prices fall.

Analysts

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Financials

Consensus expectations for 2018 are towards the lower end of management guidance for both revenue and EBITDA, but have scope to be revised upwards if commodity prices remain close to spot levels. DRAG's cash position and securities held at €63.6m provides liquidity to invest in the company's existing asset footprint, a newly founded company named Bright Rock Energy with a focus on Utah/North Dakota and the potential acquisition of further proven developed producing reserves on an opportunistic basis.

Exhibit 1: Financial summary and consensus forecasts					
German GAAP (€000s)	2015	2016	2017	2018e	2019e
Income statement					
Sales revenue	1,899	9,170	53,746	90,600	95,000
Growth %	(92%)	383%	486%	888%	5%
EBITDA	4,906	6,374	36,126	78,300	73,400
EBITDA margin %	258%	70%	67%	86%	77%
EBIT	2,419	(541)	5,300	45,800	47,600
Net profit (after minority interests)	(557)	102	5,549	16,600	15,700
Number of shares (000s)	5,063	5,063	5,063	5,063	5,063
EPS adj. (€/share)	(0.11)	0.02	1.10	3.11	2.89
DPS	0.55	0.60	0.65	0.73	0.73
Balance sheet – selected data					
Cash and cash equivalents	83,032	28,090	29,699		
Total assets	128,054	193,472	213,574		
Total debt	57,962	75,243	106,576		
Total liability	62,185	109,146	121,901		
Shareholders' equity	61,840	66,121	56,675		
Cash flow statement					
Net cash from operating activities	1,193	2,914	37,848		
Net cash from investing activities	(15,100)	(38,791)	(51,625)		
Net cash from financing activities	(14,066)	11,516	24,735		
Net cash flow	(27,972)	(24,360)	10,958		
Bank balances (including investments)	48,445	24,634	28,368		
Net debt/(cash)	(25,070)	47,153	76,877		

Source: Deutsche Rohstoff, Bloomberg, Edison Investment Research

Valuation

If oil prices remain at current spot levels, a significant upwards revision to Elster reserve value at end 2018 should be expected, with WTI having risen from c \$60/bbl at year-end 2017 to c \$75/bbl spot. Current exchanges rates are similar to 2017 year-end. An updated SOTP valuation is provided below; it moves marginally from our May 2018 [update](#) (+4%) driven by currency rates and the sale proceeds from Salt Creek Oil & Gas.

Exhibit 2: DRAG assets and per-share value					
Asset	Value basis	CPR net NPV₁₀ 1P		CPR net NPV₁₀ 2P	
		Value (€m)	Value per share (€)	Value (€m)	Value per share (€)
Oil & gas					
- Ryder Scott CPR* (Cub Creek and Elster)	CPR	126.1	24.9	146.9	29.0
- Salt Creek SPA**	Sales proceeds based on Northern share price***	52.2	10.3	52.2	10.3
Mining assets	Book value FY17 (listed investments as of 13 Sept 2017)	22.9	4.5	22.9	4.5
Cash at bank	Book value FY17	29.7	5.9	29.7	5.9
Debt	Book value FY17	(106.6)	(21.0)	(106.6)	(21.0)
Total equity valuation		124.4	24.6	145.1	28.7
Market value		98.8	19.5	98.8	19.5
Delta		26%	26%	47%	47%

Source: Deutsche Rohstoff, Edison Investment Research. Note: US\$/€1.21. *CPR dated December 2017. **DRAG owns 90% of Salt Creek. ***Share price as at 21 September 2018.

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