

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.

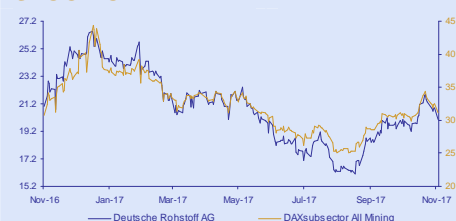
MARKET DATA

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 | | | 2018E | | | 2019E | | |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|-------------|----------------|----------------|---------------|
| | New | Old | Δ | New | Old | Δ | New | Old | Δ |
| Revenues | 50,282 | 48,243 | 4.2% | 86,625 | 80,812 | 7.2% | 160,454 | 155,827 | 3.0% |
| EBITDA | 36,809 | 42,363 | -13.1% | 72,978 | 72,403 | 0.8% | 141,510 | 146,822 | -3.6% |
| Depreciation and amortisation | 24,657 | 22,336 | | 32,542 | 33,041 | | 100,507 | 100,851 | |
| Operating income (EBIT) | 12,152 | 20,028 | -39.3% | 40,436 | 40,362 | 0.2% | 41,003 | 45,971 | -10.8% |
| 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 | |
| Net before minorities | 4,812 | 9,939 | | 22,828 | 22,802 | | 21,815 | 25,083 | |
| Minority interests | -876 | -1,839 | | -3,630 | -3,652 | | -3,817 | -4,442 | |
| Net income after mins. | 3,936 | 8,100 | -51.4% | 19,198 | 19,151 | 0.2% | 17,998 | 20,642 | -12.8% |
| EPS (€) | 0.78 | 1.60 | -51.4% | 3.79 | 3.78 | 0.4% | 3.56 | 4.08 | -12.8% |

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 |
| Total enterprise value | 170.8 | 178.5 |
| 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 |
| Total equity value | 112.9 | 136.0 |
| No shares (m) | 5.06 | 5.06 |
| Equity value per share (€) | 22.3 | 26.9 |

Source: First Berlin Equity Research estimates



INCOME STATEMENT

| All figures in € 000s | 2014A | 2015A | 2016A | 2017E | 2018E | 2019E |
|--------------------------------|----------------|--------------|---------------|---------------|---------------|----------------|
| Revenues | 22,871 | 1,897 | 9,170 | 50,282 | 86,625 | 160,454 |
| 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 |
| EBITDA | 114,160 | 4,933 | 6,374 | 36,809 | 72,978 | 141,510 |
| Depreciation and amortisation | 25,434 | 1,578 | 6,874 | 24,657 | 32,542 | 100,507 |
| Operating income (EBIT) | 88,726 | 3,355 | -500 | 12,152 | 40,436 | 41,003 |
| Net financial result | -4,065 | -3,912 | -1,454 | -4,749 | -5,315 | -7,442 |
| Non-operating expenses | 0 | 0 | 0 | 0 | 0 | 0 |
| Pre-tax income (EBT) | 84,661 | -557 | -1,953 | 7,403 | 35,120 | 33,562 |
| Taxes | -30,645 | 1,086 | 2,028 | -2,591 | -12,292 | -11,747 |
| Minority interests | -28,845 | 626 | 28 | -876 | -3,630 | -3,817 |
| Net income / loss | 25,171 | 1,155 | 102 | 3,936 | 19,198 | 17,998 |
| EPS (in €) | 4.80 | 0.23 | 0.02 | 0.78 | 3.79 | 3.55 |
| Ratios | | | | | | |
| 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% |
| Y-Y Growth | | | | | | |
| 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 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| Assets | | | | | | |
| Current assets, total | 98,203 | 79,267 | 51,874 | 48,425 | 61,038 | 97,571 |
| 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 |
| Non-current assets, total | 36,493 | 48,786 | 141,598 | 160,811 | 239,448 | 270,020 |
| 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 |
| Total assets | 134,696 | 128,053 | 193,472 | 209,237 | 300,486 | 367,590 |
| Shareholders' equity & debt | | | | | | |
| Current liabilities, total | 4,675 | 4,230 | 33,904 | 25,428 | 25,353 | 54,440 |
| 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 |
| Long-term liabilities, total | 63,147 | 57,955 | 75,243 | 86,860 | 158,900 | 178,900 |
| 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 |
| Consolidated equity | 62,488 | 61,840 | 66,121 | 91,948 | 111,232 | 129,250 |
| Deferred tax liabilities | 2,846 | 2,939 | 12,896 | 3,000 | 3,000 | 3,000 |
| Total consolidated equity and debt | 134,696 | 128,053 | 193,472 | 209,237 | 300,486 | 367,590 |
| Ratios | | | | | | |
| 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 |
|---|----------------|----------------|----------------|----------------|-----------------|-----------------|
| EBIT | 88,726 | 3,355 | -500 | 12,152 | 40,436 | 41,003 |
| Depreciation and amortisation | 25,434 | 1,578 | 6,874 | 24,657 | 32,542 | 100,507 |
| EBITDA | 114,160 | 4,933 | 6,374 | 36,809 | 72,978 | 141,510 |
| 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 |
| Operating cash flow | -18,976 | 1,194 | 2,914 | 25,826 | 48,230 | 109,114 |
| Investing cash flow | 101,073 | -13,307 | -60,177 | -44,783 | -111,179 | -138,667 |
| Free cash flow | 82,097 | -12,113 | -57,263 | -18,957 | -62,949 | -29,552 |
| 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 |
| Financing cash flow | -46,470 | -11,994 | 11,516 | 25,292 | 52,696 | 23,791 |
| Other | 0 | 0 | 2,246 | 0 | 0 | 0 |
| Change in cash and equivalents | 35,627 | -24,107 | -43,501 | 6,335 | -10,253 | -5,762 |
| FX/consolidation effects | 11,131 | 2,327 | 550 | 0 | 0 | 0 |
| Cash and cash equivalents, start of the year | 46,063 | 92,821 | 71,041 | 28,090 | 34,425 | 24,172 |
| Cash and cash equivalents, end of the year | 92,821 | 71,041 | 28,090 | 34,425 | 24,172 | 18,411 |
| EBITDA/share (in €) | 21.70 | 0.97 | 1.26 | 7.27 | 14.42 | 27.97 |
| Y-Y Growth | | | | | | |
| 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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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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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: <http://firstberlin.com/disclaimer-english-link/>

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