Deutsche Rohstoff AG

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

Contract for Sale of Windsor Project Signed

RATING	**ADD**
PRICE TARGET	**€29.00**
Return Potential	12.1%
Risk Rating	High

WINDSOR EXIT TERMS AT 3.2X MULTIPLE OF CAPITAL INVESTED

DRAG's subsidiary Tekton Energy has signed a contract (subject to the Buyer's due diligence) to sell the main assets of its Windsor oil/gas project. If the sale goes through, we estimate proceeds to DRAG after tax and minorities at c. €140m - equivalent to 3.2X the capital invested by DRAG since acquisition of the first block of land at Windsor, Colorado, in October 2011. Proceeds after deduction of debt and minorities are very close to the the sum of the parts estimate in our most recent studies of December and January. The terms of the Windsor exit contract are a spectacular demonstration of the capabilities of the Tekton management team which remains with the company and has already identified and evaluated a follow-up project. Negotiations to acquire acreage on this project started earlier this year. Against this background we raise our price target from €26 to €29 and maintain our Add recommendation.

Effective contract date of 1 Jan implies USD two digit investment refund DRAG has announced that its 72.2% owned subsidiary Tekton Energy has signed a contract to sell the main assets of its Windsor oil/gas project. The contract is subject to due diligence by the Buyer (who has not been named) which must be completed by 30 May. The purchase price is USD200m of which USD18m is due even if the outcome of due diligence is negative. The buyer also has a USD60m option on additional territory held by Tekton which management views as particularly prospective. If the contract goes through, it will be effective from 1 January 2014. This means that the buyer will refund all investment but will receive all income generated from 1 January. This implies net pretax proceeds to DRAG of a further double digit USD sum.

We assume taxation of proceeds at 15% DRAG has invested USD30m (€21.9m) of equity capital in the Windsor project. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2010	2011	2012	2013E	2014E	2015E
Revenue (€m)	0.04	15.20	3.10	19.47	11.73	12.91
Y-o-y growth	n.a.	37900.0%	-79.6%	529.2%	-39.7%	10.0%
EBIT (€m)	-0.53	7.77	0.68	2.45	156.70	0.65
EBIT margin	0.0	51.1%	22.0%	12.6%	1335.4%	5.0%
Net income (€m)	-0.90	10.82	3.15	0.06	113.18	1.15
EPS (diluted) (€)	-0.23	2.45	0.61	0.01	21.27	0.22
DPS (€)	0.00	0.00	0.10	0.10	0.10	0.10
FCF (€m)	0.00	-1.91	-16.49	-44.62	169.39	-2.21
Net gearing	0.0	-17.0%	-15.6%	77.2%	-78.1%	-76.3%
Liquid assets (€m)	4.92	9.79	12.26	38.95	181.88	177.48

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 Heidelberg, Germany.

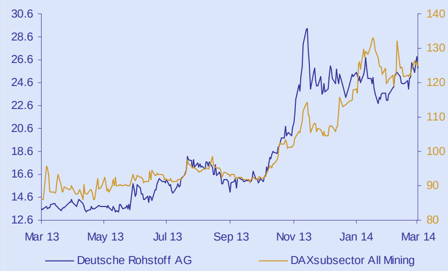
MARKET DATA

As of 06 Mar 2014

Closing Price	€ 25.87
Shares outstanding	5.32m
Market Capitalisation	€ 137.66m
52-week Range	€ 13.30 / 29.35
Avg. Volume (12 Months)	17,485

Multiples	2012	2013E	2014E
P/E	42.7	2124.0	1.2
EV/Sales	56.4	9.0	14.9
EV/EBIT	75.7	47.4	1.1
Div. Yield	0.4%	0.4%	0.4%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2013

Liquid Assets	€ 9.00m
Current Assets	€ 11.52m
Intangible Assets	€ 2.16m
Total Assets	€ 64.99m
Current Liabilities	€ 4.72m
Shareholders' Equity	€ 41.57m

SHAREHOLDERS

Management	20.2%
Private individuals	6.6%
BASF-VC	6.0%
Free float	67.2%

Analyst: Simon Scholes, Tel. +49 (0)30 - 80 93 96 94

Taxation of the profit made depends on how much of the proceeds are reinvested in oil/gas projects in the US over what time period. The press release states that Tekton has already identified a follow-up project in the US. We estimate that a tax rate of 15% would be reasonable for the Windsor transaction.

Exit terms at 3.2X multiple of capital invested DRAG has made USD30m in loans to Tekton. If the transaction goes through Tekton will repay these loans and the remaining proceeds of the transaction will be split between DRAG and the minority shareholders in Tekton. On the assumption that the Buyer pays the full USD260m and refunds investment less proceeds of production since 1 January, we estimate the after tax proceeds to DRAG in Euros after stripping out minorities at €140m. This is 3.2X DRAG's USD60m of capital invested in the project (USD30m of equity plus the USD30m loan to Tekton) since the acquisition of the first block of land at Windsor in October 2011.

We raise price target to €29 and maintain Add recommendation DRAG's management tells us that group net debt is currently around €37m. Deducting this figure from the €140m proceeds of the Windsor sale produces a net €103m. This is very close to the €102m in the sum of the parts valuation in our notes of December and January.

Figure 1: Revised Sum of the Parts Model

€m	New	Old
Tekton Energy (DRAG's stake: 72%)	155.0	159.2
Wolfram Camp Mining (DRAG's stake: 100%)	11.7	11.7
Tin International (DRAG's stake: 60%)	8.5	8.5
Rhein Petroleum (DRAG's stake: 10%)	8.0	8.0
Selten Erden Storkwitz (DRAG's stake: 52%)	6.8	6.8
Devonian Metals (DRAG's stake: 47%)	1.8	1.8
Total	191.8	196.0
Net debt	-37.0	-57.0
Total equity value	**154.8**	**139.0**
No shares (m)	5.32	5.32
Equity value per share (€)	**29.1**	**26.1**

Source: DRAG; First Berlin Equity Research estimates

On the assumption that the sales transaction goes through, DRAG will have succeeded in derisking the Windsor project and the Tekton management team will have provided a spectacular demonstration of its capabilities. The Tekton management team remains with the company and has already identified and evaluated a follow-up project. Negotiations to acquire acreage on this project started earlier this year. Against this background we raise our net valuation of Tekton after deduction of net debt of €37m (previously: €57m) from €102m to €118m as shown in the revised sum of the parts model (figure 1) above. Our price target moves from €26 to €29.

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...15	↓	↓	↓	↓
16	8 November 2013	€21.84	Add	€26.00
17	16 December 2013	€25.01	Add	€26.00
18	15 January 2014	€25.13	Add	€26.00
19	Today	€25.87	Add	€29.00

Simon Scholes

First Berlin
Equity Research GmbH

Mohrenstraße 34
10117 Berlin

Tel. +49 (0)30 - 80 93 96 94
Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com
www.firstberlin.com

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STRONG BUY: Expected return greater than 50% and a high level of confidence in management's financial guidance
BUY: Expected return greater than 25%
ADD: Expected return between 0% and 25%
REDUCE: Expected negative return between 0% and -15%
SELL: Expected negative return greater than -15%

Our risk ratings are Low, Medium, High and Speculative and are determined by ten factors: corporate governance, quality of earnings, management strength, balance sheet and financing risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, company size, free float and other company specific risks. These risk factors are incorporated into our valuation models and are therefore reflected in our price targets. Our models are available upon request to First Berlin clients.

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