

# Deutsche Rohstoff AG

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

Comprehensive  
 Update

**RATING**  
**PRICE TARGET**  
 Return Potential  
 Risk Rating

**BUY**  
**€23.00**  
 35.2%  
 High

## DRAG TO PRESS AHEAD WITH DRILLING PROGRAMME AT >USD40 OIL

DRAG's management has confirmed to us that production from horizontal wells at its projects in the Wattenberg field meets its return requirements at an oil price of USD40/barrel. That production is expected to be profitable at USD40/barrel is mainly attributable to the decline in services and drilling costs occasioned by the decline in the oil price. After discussions with management, we expect DRAG and its partners to drill ca. 160 one mile lateral equivalent horizontal wells at the Magpie, Northern Wattenberg and Greater Wattenberg projects by the end of 2018. Figures released in October for the first month of production at the Magpie project's first five wells were excellent showing average output of over 680 BOE per well per day. This bodes well for the projects' future success as does their similarity to the Windsor Oil and Gas Project with which DRAG achieved a pretax return on capital of 365% between acquisition in 2011 and sale in May 2014. We now see fair value for the share of €23.00 (previously: €25.00). The main explanation for the reduction in our price target is a revision to our oil price projections. We now expect the oil price to average USD50 in 2016 and USD60 from 2017 onwards. Our most recent study of 9 June was based on USD70 oil from 2016 onwards. The sensitivity of our share price target to a given percentage rise in the oil price is about 2.6x. We maintain our Buy recommendation.

**DRAG plans ca. 160 one mile lateral equivalent horizontal wells** In late 2014/early 2015 DRAG and its subsidiaries, Elster Oil & Gas (93.04% owned) and Cub Creek Energy (74% owned), announced plans to drill ca. 160 one-mile lateral equivalent horizontal wells at three separate projects (Magpie, Northern Wattenberg and Greater Wattenberg) in the Wattenberg field in Colorado.

**The Magpie Project is being operated by a partner company** DRAG originally acquired the Magpie Project as part of the Windsor Project in 2013 but Magpie was not sold along with the rest of that asset in mid-2014. The Magpie project is being operated by a partner. Elster Oil & Gas (EOG)... (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2012	2013	2014	2015E	2016E	2017E
Revenue (€m)	3.10	17.76	22.87	2.72	38.96	126.09
Y-o-y growth	-79.6%	473.9%	28.8%	-88.1%	1332.8%	223.7%
EBIT (€m)	0.68	-5.40	88.73	-0.20	16.06	61.78
EBIT margin	22.0%	-30.4%	387.9%	-7.2%	41.2%	49.0%
Net income (€m)	3.15	-8.31	25.17	-2.37	19.11	29.65
EPS (diluted) (€)	0.61	-1.56	4.80	-0.47	3.77	5.86
DPS (€)	0.10	0.00	0.50	0.00	1.00	1.50
FCF (€m)	0.00	-35.07	82.10	-7.50	-41.94	-53.88
Net gearing	0.0	65.4%	-46.9%	-36.9%	27.3%	72.9%
Liquid assets (€m)	12.26	46.06	92.82	79.21	57.27	41.32

### 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 13 Nov 2015

Closing Price	€ 17.01
Shares outstanding	5.06m
Market Capitalisation	€ 86.12m
52-week Range	€ 13.05 / 20.09
Avg. Volume (12 Months)	6,251

Multiples	2014	2015E	2016E
P/E	3.6	n.a.	4.5
EV/Sales	2.9	24.3	1.7
EV/EBIT	0.6	55.8	2.3
Div. Yield	2.9%	0.0%	5.9%

### STOCK OVERVIEW



### COMPANY DATA

As of 30 Jun 2015

Liquid Assets	€ 82.06m
Current Assets	€ 83.11m
Intangible Assets	€ 15.59m
Total Assets	€ 130.65m
Current Liabilities	€ 2.44m
Shareholders' Equity	€ 61.81m

### SHAREHOLDERS

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



has a 44% working interest in the project and a net share of 560 acres. In December 2014, EOG by agreement with its partner, announced plans to drill the first 9 horizontal wells at the Magpie Project during the spring and early summer of 2015. In the event, only five of the planned nine wells were drilled but EOG stated in late September that each of these wells will generate its required return on capital at an oil price of USD40/barrel.

**DRAG's subsidiary Cub Creek is the operator at both Northern and Greater Wattenberg** In January 2015, Cub Creek Energy (CCE), purchased acreage (CCE's net share: 78 acres) now known as the Northern Wattenberg Project for USD700k. The acreage is close to the Magpie project and CCE is the operator with a 50% working interest. CCE has obtained permits to drill 12 horizontal wells at the Northern Wattenberg Project. Drilling is scheduled to begin in December 2015 or January 2016. In March 2015, CCE entered into a Joint Development Agreement with a private oil and gas producer to drill up to 50 horizontal wells at a 2,000 acre site (the Greater Wattenberg Project). Here too, CCE is the operator but with a 75% working interest.

**Excellent first production numbers from first five Magpie wells** DRAG announced numbers for the first month of production from the first five horizontal wells drilled at the Magpie Project in mid-October. Daily per well production amounted to 686 BOE. In the past, we have modelled initial production rates of 350 BOE/day for wells in the Wattenberg field and so the numbers from the Magpie Project were well above our expectations.

**The pace of drilling at the Magpie Project is determined by DRAG's partner...** The first five wells drilled at Magpie over the summer were commitment wells which means that DRAG's partner was obliged to drill them. The partner is required to drill a further four commitment wells by mid-2016. The very positive results from the first five horizontal wells drilled at the Magpie Project may encourage the partner to accelerate drilling. The partner has permitted 57 wells at Magpie but lack of visibility with regard to the partner's intentions causes us to push back our estimate of the schedule for the drilling of the non-commitment wells. We now pencil in 6 additional one-mile lateral equivalent horizontal wells at Magpie for 2016 (including the four commitment wells), 24 additional wells for 2017, and another 24 in 2018.

**...but CCE is in charge at Northern Wattenberg and Greater Wattenberg** CCE is the operator at both Northern Wattenberg and Greater Wattenberg and so is responsible for the drilling schedule at both projects. We expect CCE to drill a combined 36 one-mile lateral equivalent horizontal wells at these projects in 2016 and 34 in 2017.

**Falling drilling costs** Declining utilisation of drilling rigs and teams has caused the average cost of drilling a well in the Wattenberg field to fall from USD4.5m in mid-2014 (when the West Texas Intermediate oil price was over USD100/barrel) to USD3m currently. DRAG has stated that this allows it to achieve its required return on capital at an oil price of USD40/barrel.

**Successful Windsor Oil and Gas Project team remains largely in place** The co-founders of Cub Creek Energy are Tekton's previous Vice President Engineering, Robert Gardner and the Vice President Land and Business Development, Scott Bailey. Robert Gardner is President and CEO of the new company.



## VALUATION

### US OIL AND GAS ASSETS

Besides its three principal US oil and gas projects, the Magpie Project, the Northern Wattenberg Project and the Greater Wattenberg Project, DRAG retains the mineral rights to a piece of land near Windsor, Colorado it sold in September 2014. A horizontal well was drilled but not completed on this land in autumn 2014. Drilling of a further three wells was planned for early 2015 but was put on hold because of the low oil price.

We have valued the Magpie and the Northern and Greater Wattenberg Projects using DCF methodology.

**We assume USD45/barrel to end 2015; USD50 for 2016; USD60 thereafter** The valuation of DRAG's oil and gas assets in our most recent report of 9 June was based on an average oil price of USD60/barrel for H2 2015 and USD70/barrel for all subsequent periods. In view of the persistently oil price level of recent months, we now take a more conservative stance and model USD45/barrel for the remainder of this year, USD50/barrel for 2016 and USD60 for 2017 and subsequent years. We expect capital expenditure to average USD3.0m per well in 2016; USD3.5m per well in 2017 and USD3.8m per well for all subsequent years.

We have used a discount rate of 10% to value forecast after tax cash flows from the Magpie Project and the Northern and Greater Wattenberg Projects. The same figure was used by the consultant Ryder Scott in its valuation of DRAG's Windsor Oil and Gas Project in May 2013.

**US oil and gas assets account for 82% of our enterprise valuation** The explicit forecast period in our DCF valuations of the Magpie and extends to 2034 but for reasons of space, we have not shown all years. We assume that both projects will be largely depleted beyond 2034 and so we do not model a terminal period.

As figures 1, 2 and 3 below show, our valuation of the Magpie and the Northern and Greater Wattenberg Projects produces net present values of USD24.2m (€22.6m), USD15.1m (€14.1m) and USD63.7m (€59.5m) respectively. In its press release of September 2014, DRAG accorded the minerals rights with respect to the piece of land near Windsor Colorado a net present value of USD5m (€3.7m). The oil price is now 55% below its late September 2014 level and we now see fair value at USD2.5m (€2.3m). We have added this figure to our valuation of Elster Oil and Gas.

**Figure 1: DCF Valuation of the Magpie Project**

USD 000s	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Oil production (000 barrels)	320	898	1,512	2,959	2,798	1,878	1,526	1,322	1,170	1,054	959	878
Oil price period end (WTI -USD/barrel)	45	50	60	60	60	60	60	60	60	60	60	60
No. 1 mile-lateral equivalent wells period end	5.5	11.5	35.5	59.5	59.5	59.5	59.5	59.5	59.5	59.5	59.5	59.5
Gross revenue	9,132	30,085	62,415	122,108	115,478	77,492	62,994	54,560	48,300	43,503	39,586	36,231
EBITDA	1,274	9,898	21,941	40,098	36,308	22,291	16,941	13,829	11,519	9,749	8,304	7,066
Depreciation	-1,485	-4,171	-7,028	-13,749	-13,002	-8,725	-7,093	-6,143	-5,438	-4,898	-4,457	-4,080
EBIT	-211	5,727	14,914	26,349	23,305	13,565	9,848	7,686	6,081	4,851	3,846	2,986
NOPLAT	-137	3,722	9,694	17,127	15,148	8,818	6,401	4,996	3,952	3,153	2,500	1,941
Tax Rate (%)	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Depreciation	1,485	4,171	7,028	13,749	13,002	8,725	7,093	6,143	5,438	4,898	4,457	4,080
CAPEX	-6,435	-9,000	-42,000	-45,600	0	0	0	0	0	0	0	0
Working capital expenditure	-438	-1,412	-1,988	-3,671	408	2,336	892	519	385	295	241	206
Tax refund	1,287	1,800										
Free cashflow	-4,238	-718	-27,267	-18,395	28,559	19,879	14,386	11,658	9,776	8,346	7,198	6,227
PV free cashflow (10% discount rate)	-3,853	-645	-22,271	-13,659	19,278	12,199	8,026	5,912	4,507	3,498	2,743	2,157
Sum PV free cashflows		24,164										

Source: DRAG; First Berlin Equity Research estimates

**Figure 2: DCF Valuation of the Northern Wattenberg Project**

USD 000s	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Oil production (000 barrels)	928	576	382	299	248	213	188	169	153	140	129
Oil price period end (WTI -USD/barrel)	50	60	60	60	60	60	60	60	60	60	60
No. 1 mile-lateral equivalent wells period end	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Gross revenue	31,118	34,577	22,918	17,931	14,880	12,802	11,306	10,126	9,205	8,426	7,730
EBITDA	10,348	11,466	7,186	5,345	4,219	3,453	2,901	2,465	2,125	1,838	1,581
Depreciation	-4,030	-2,501	-1,658	-1,297	-1,076	-926	-818	-732	-666	-610	-559
EBIT	6,318	8,965	5,528	4,048	3,143	2,527	2,083	1,733	1,459	1,228	1,022
NOPLAT	4,107	5,827	3,593	2,631	2,043	1,642	1,354	1,126	949	799	664
Tax Rate (%)	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Depreciation	4,030	2,501	1,658	1,297	1,076	926	818	732	666	610	559
CAPEX	-18,000	0	0	0	0	0	0	0	0	0	0
Working capital expenditure	-1,914	-213	717	307	188	128	92	73	57	48	43
Tax refund	3,600										
Free cashflow	-8,177	8,116	5,968	4,235	3,307	2,696	2,264	1,931	1,671	1,456	1,266
PV free cashflow (10% discount rate)	-7,347	6,629	4,431	2,859	2,029	1,504	1,148	890	700	555	439
Sum PV free cashflows	15,123										

Source: DRAG; First Berlin Equity Research estimates

**Figure 3: DCF Valuation of the Greater Wattenberg Project**

USD 000s	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Oil production (000 barrels)	813	3,769	4,646	3,191	2,686	2,335	2,074	1,868	1,703	1,561	1,433
Oil price period end (WTI -USD/barrel)	50	60	60	60	60	60	60	60	60	60	60
No. 1 mile-lateral equivalent wells period end	24.0	58.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0	88.0
Gross revenue	27,233	155,561	191,758	131,691	110,840	96,360	85,583	77,114	70,302	64,412	59,129
EBITDA	10,659	67,767	83,299	56,601	47,334	40,898	36,108	32,344	29,316	26,698	24,350
Depreciation	-5,452	-25,290	-31,175	-21,410	-18,020	-15,666	-13,914	-12,537	-11,429	-10,472	-9,613
EBIT	5,207	42,477	52,124	35,192	29,314	25,232	22,194	19,807	17,886	16,226	14,737
NOPLAT	3,385	27,610	33,881	22,875	19,054	16,401	14,426	12,874	11,626	10,547	9,579
Tax Rate (%)	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Depreciation	5,452	25,290	31,175	21,410	18,020	15,666	13,914	12,537	11,429	10,472	9,613
CAPEX	-54,000	-89,250	-85,563	0	0	0	0	0	0	0	0
Working capital expenditure	-2,512	-11,838	-3,339	5,541	1,924	1,336	994	781	628	543	487
Tax refund	10,800										
Free cashflow	-36,876	-48,188	-23,846	49,825	38,997	33,402	29,334	26,192	23,684	21,562	19,679
PV free cashflow (10% discount rate)	-33,132	-39,360	-17,707	33,634	23,931	18,635	14,877	12,076	9,927	8,216	6,817
Sum PV free cashflows	63,749										

Source: DRAG; First Berlin Equity Research estimates

## SALT CREEK OIL & GAS (DRAG'S STAKE: 60%)

In June 2015, DRAG USA founded Salt Creek Oil & Gas together with the founders of Tekton Energy, Jerry Sommer and Earl Norris. Tekton Energy was responsible for developing the Windsor Project which DRAG sold in May 2014 for USD200m. Salt Creek Oil & Gas is currently evaluating acquisitions of oil and gas projects.

## TIN INTERNATIONAL (DRAG'S STAKE: 60.3%)

Tin International (TIN) has exploration rights to three tin deposits in Saxony - at Geyer, Gottesberg and Sadisdorf. DRAG published a JORC-compliant resource estimate for its Geyer and Gottesberg tin deposits in Saxony in May 2012. In September 2014 a maiden resource estimate for Sadisdorf was published showing an inferred 3.36m tonnes grading 0.44% (15,000 tonnes of metal). The addition of Sadisdorf takes the combined resource estimate for all three deposits to 57.1 tonnes of ore grading 0.29% equating to 173,000 tonnes of metal.

The tin price has fallen 23.9% to around USD14,770 since the beginning of 2014 and by 4.2% since our last update of 9 June. The decline in the tin price prompted DRAG's management to write capitalised exploration costs of €2m for the Geyer and Gottesberg projects down to zero in the 2014 annual report.



We therefore exclude these projects' resource estimates from our valuation. Sadisdorf has not been written down because the resource is nearer to the surface than at either Geyer and Gottesberg and hence potentially less costly to mine.

Our valuation of Tin International is based on comparison of the company's Sadisdorf project resource estimate with the resource estimates for three tin exploration companies listed in Australia – Consolidated Tin Mines, Kasbah Resources and Stellar Resources. The share prices of these companies have fallen by over 25% since our last update of 9 June. Against this background we lower our EV/tonne estimate for TIN from USD50 to USD35. Our enterprise valuation of DRAG's 60% stake in TIN is now €0.3m (previously €0.4m).

**Figure 4: Tin International Peer Group\***

USD m	EV*	EV/Tonnes Resource (USD)	Ore (mt)	Grade (%)	Tin content (t 000s)	Location	Status
Consolidated Tin Mines Ltd	7.0	146.1	12.0	0.40%	48.2	Queensland	preliminary feasibility study completed
Kasbah Resources	4.8	24.8	23.3	0.83%	192.9	Morocco	definitive feasibility study completed
Stellar Resources Limited	3.5	49.3	6.3	1.14%	71.5	Tasmania	preliminary feasibility study completed
<b>Tin International</b>	<b>0.5</b>	<b>35</b>	<b>3.4</b>	<b>0.44%</b>	<b>14.8</b>	<b>Germany</b>	<b>exploration</b>

\* For Tin International our estimates; market valuations for other companies

Source: Company data; First Berlin Equity Research estimates

## ALMONTY INDUSTRIES (DRAG'S STAKE: 13.75% PLUS CAD10.0M OF CONVERTIBLES)

DRAG acquired the Australian tungsten mining operation, Wolfram Camp Mining (WCM) in 2011, but experienced difficulties in producing profitably on a sustained basis. At the end of June 2014, DRAG announced the transfer of WCM to the Canadian tungsten mine turnaround specialist, Almonty Industries. Under the final terms of the deal, DRAG received a 24.9% stake in Almonty Industries (12.21m shares) and CAD6.0m in the form of a 2.5 year 4% coupon bond convertible into Almonty shares at CAD 1.45 per share (the Almonty share price is currently CAD0.41).

In September 2015, Almonty merged with Vancouver-based Woulfe Mining Corp. Woulfe's main asset is the 100%-owned Sangdong Tungsten/Molybdenum Project located in South Korea 187km southeast of Seoul. The resource estimate for Woulfe's main asset, Sangdong, is over 44m tonnes indicated and inferred grading 0.42% (over 180,000 tonnes of tungsten trioxide). This dwarfs Almonty's existing combined resource estimate for its Wolfram Camp and Los Santos projects of 5.8m tonnes measured, indicated and inferred grading 0.27% (15,600 tonnes of tungsten trioxide). Both Wolfram Camp and Los Santos are currently in production. Production at Sangdong is scheduled to start in late 2017. With production from Sangdong, Almonty has the potential to become the leading tungsten producer outside China. China currently accounts for around 85% of global production of the metal.

In the course of the transaction, Woulfe shares were exchanged for Almonty shares. At the same time, DRAG subscribed CAD4m to a further Almonty convertible bond issue. The new bond has a two year maturity, a 5% coupon and a conversion price of CASD0.81. It is secured against the shares in Woulfe Mining. As a consequence of the Woulfe transaction, DRAG's stake in Almonty fell to 13.75%. The terms of DRAG's first convertible did not change. Our valuation of DRAG's stake in Almonty is based on the combined value of the share and convertible bonds holding which is currently €10.5m.



## **RHEIN PETROLEUM (DRAG'S STAKE: 10%)**

DRAG co-founded Rhein Petroleum (RP) in late 2007. The business concept is to apply modern exploration and drilling technology in order to restart production at former oil fields in southern Germany. In March 2015, RP announced that it had recovered several cubic metres of oil from Schwarzbach 1, a test well near Riedstadt-Goddelau in Hesse. The oil was discovered at a depth of 1,700m in the so-called Pechelbronner Strata. Eight million barrels of oil were recovered from the Pechelbronner Strata at nearby Stockstadt during 1952-94. Test production will begin at Schwarzbach 1 over the next couple of months to determine whether commercial production is viable. RP is also exploring the Mindelheim licensing area in the Lower Allgäu area of Bavaria together with a 50% consortium partner, Wintershall GmbH, the oil and gas subsidiary of BASF. In August 2014 the consortium drilled a well near Lauben and in September 2014 drilled a further well at Bedernau. Test production began at Bedernau in October.

RP completed seismic surveys over a total area of 747km<sup>2</sup> in the Rhine valley, Hesse and Bavaria in 2011 and 2012. The drilling of further wells is currently planned for 2016.

Our valuation of DRAG's 10% stake in RP is based on our estimate of the real option value of RP's exploration efforts. In view of the 21.4% decline in the price of Brent crude since the beginning of this year, we lower our valuation for this asset from €4.0m to €3.0m.

## **CERITECH (DRAG'S STAKE: 72.91%)**

Ceritech is now focused solely on the development of rare earth extraction from mineral dumps. The company is negotiating with two global mining companies with a view to rare earth extraction from mineral dumps in South America. Ceritech is currently analysing bulk samples from Brazil. According to Ceritech's management, preconcentrates produced so far from the bulk samples have been of high quality. If the economic parameters of the project prove to be favourable, Ceritech plans to conclude long term cooperation agreements with its South American partners. The cost of rare earths production from mineral waste dumps would be far below the cost level of hard rock miners such as Lynas and Molycorp. Pending further news of the South American project, we continue to see fair enterprise value for Ceritech at €1m.

## **DEVONIAN METALS (DRAG'S STAKE: 47%)**

DRAG holds a 47% stake in Devonian Metals of New Westminster British Columbia, which in turn holds 49% in MacKenzie Mountain Metals (MMMI), a joint venture between Devonian and Glencore-Xstrata. MMMI is developing a zinc-lead-silver project at Wrigley in Canada's North West Territories province. In July 2010 DRAG concluded a farm-out agreement with Glencore which stipulated that the Swiss company invest CAD10m in exploration at Wrigley in return for a 51% stake. In June 2011, the sum to be invested for the 51% stake was adjusted downward to CAD6.5m. In December 2013, DRAG stated that no exploration had taken place over the preceding year and that it intended to sell its own share. DRAG has since been unable to find a buyer. The HSBC global zinc/lead mining index is currently only 7% below its end June 2011 level and 17% below its April 2011 all-time high. However, in view of the clear difficulty in finding a buyer for the asset, our enterprise valuation remains at €1.3m.



## HAMMER METALS (DRAG'S STAKE: 16.4%)

DRAG holds a 16.4% stake in the Australian exploration company, Hammer Metals. In addition DRAG holds an AUD650k convertible bond as well as 8.47m call options. The bond matures in July 2017, has a coupon of 10% and converts at AUD0.060. The option strike price is AUD0.10. The Hammer share price is currently AUD0.050. Hammer has exploration licenses in several regions of Australia. The most important of these are for 2,000 km<sup>2</sup> in the Mount Isa region of North West Queensland. There are several world class mines in the Mount Isa area including Glencore's Mount Isa, Ernest Henry and George Fisher properties as well as BHP Billiton's Cannington mine.

DRAG's management believe that geophysical and drilling results show great similarities between Hammer's Mount Isa licenses and producing mines in the area. Hammer has carried out an extensive exploration program at its Mount Isa licenses in recent months including geophysical, aeromagnetic and induced polarisation tests. In addition, the company has drilled 2,800m at the targets Overlander, Andy's Hill and Hammertime.

In August, Hammer released a new JORC compliant resource estimate for its Overlander deposit which showed 1.77m tonnes of ore grading 1.2% Cu at a cut-off grade of 0.7% Cu.

We value DRAG's 16.4% equity stake in Hammer and the AUD650k at EUR1.1m using the current share price of AUD0.050 and the nominal value of the convertible bond. We have not included the options in our valuation.

Figure 5 summarises the changes to our sum of the parts model explained in the text above.

**Figure 5: Sum of the parts model**

€m	New	Old
Elster Oil and Gas (DRAG's stake: 93%)	23.2	34.5
Cub Creek Energy (DRAG's stake 74%)	54.3	41.8
Almonty (DRAG's stake: 13.75% plus CAD 10.0m in convertibles)	10.5	9.0
Tin International (DRAG's stake: 60.3%)	0.3	0.4
Rhein Petroleum (DRAG's stake: 10%)	3.0	4.0
Ceritech (DRAG's stake: 72.91%)	1.0	1.0
Devonian Metals (DRAG's stake: 47%)	1.3	1.3
Hammer Metals (DRAG's stake: 16.4% plus AUD650k convertible)	1.0	1.0
<b>Total</b>	<b>94.6</b>	<b>93.0</b>
Cash and financial assets (less Almonty/Hammer shares/convertibles)	78.2	99.1
Debt	58.0	63.5
Net cash and financial assets	20.2	35.5
<b>Total equity value</b>	<b>114.8</b>	<b>128.5</b>
No shares (m)	5.06	5.06
<b>Equity value per share (€)</b>	<b>22.7</b>	<b>25.4</b>

Source: DRAG; First Berlin Equity Research estimates



## H1 RESULTS AND P&L FORECAST

DRAG's H1 2015 results published at the end of September were as shown in figure 6 below. As a consequence of the sale of the Windsor Oil and Gas Project in H1 2014 and the transfer of the tungsten operations to Almonty in September 2014, DRAG had no consolidated revenue generating operations in H1/15. The €2.7m in EBIT booked in H1/15 was a function solely of currency gains stemming from the conversion of DRAG's US Dollar denominated assets into Euros. On the basis of the unexpectedly strong H1 result, management revised 2015 guidance for net profit before minorities up from a high single digit million loss to a low single digit million loss. This is in line with our forecast of €-2.5m.

**Figure 6: H1 results**

in €m	H1-15A	H1-15E	Δ vs. H1-15E	H1-14A	Δ vs. H1-14A
Revenue	0.0	0.0	n.m.	22.1	-100.0%
EBIT	2.7	-3.0	n.m.	98.4	-97.3%
Net profit	0.3	-5.0	n.m.	36.7	-99.2%
EPS (€)	0.06	-0.99	n.m.	6.90	-99.1%

Source: DRAG

Figure 7 below shows changes to our forecasts for 2015, 2016 and 2017.

Our revenue forecast for 2016 falls 37.6% mainly because of the 28.6% decrease in our oil price projection from USD70/barrel to USD50/barrel. In addition, due to the uncertainty attaching to the near-term intentions, of DRAG's partner, we now model only six 1 mile equivalent lateral horizontal wells at the Magpie Project in 2016. Previously we modelled over twice this number.

Net profit before minorities however rises due to the availability until the end of 2016 of a refund of up to USD40m - equivalent to the taxes paid on the USD100m profit made on the sale of the Windsor Oil and Gas Project in 2014. The scale of the refund will be determined by the extent of that part of DRAG's expenditure on oil and gas assets termed by the authorities as intangible. We have assumed a total refund to DRAG of USD16.2m in 2016.

For 2017 our revenue forecast also falls by 10.6%. However, the impact of the 14.3% decrease in our oil price projection from USD70/barrel to USD60/barrel is to some extent counteracted by the drilling of wells at Magpie which we have previously pencilled in for 2016.

**Figure 7: Changes to forecasts**

All figures in € 000s	2015E	2015E	Δ	2016E	2016E	Δ	2017E	2017E	Δ
	New	Old		New	Old		New	Old	
<b>Revenues</b>	<b>2,719</b>	<b>3,087</b>	<b>-11.9%</b>	<b>38,955</b>	<b>62,422</b>	<b>-37.6%</b>	<b>126,093</b>	<b>141,020</b>	<b>-10.6%</b>
EBITDA	1,186	1,507		28,773	45,959		94,195	109,195	
Depreciation and amortisation	1,383	1,040		12,711	18,302		32,417	40,881	
<b>Operating income (EBIT)</b>	<b>-197</b>	<b>467</b>	<b>n.m.</b>	<b>16,062</b>	<b>27,657</b>	<b>-41.9%</b>	<b>61,778</b>	<b>68,314</b>	<b>-9.6%</b>
Net financial result	-3,546	-3,548		-2,664	-2,221		-3,506	-4,365	
Pre-tax income (EBT)	-3,743	-3,081		13,397	25,437		58,272	63,959	
Income taxes	1,198	0		10,393	-3,815		-20,395	-9,594	
<b>Net before minorities</b>	<b>-2,544</b>	<b>-3,081</b>		<b>23,791</b>	<b>21,621</b>		<b>37,877</b>	<b>54,365</b>	
Minority interests	178	216		-4,685	-4,185		-8,230	-10,308	
<b>Net income after mins.</b>	<b>-2,366</b>	<b>-2,865</b>		<b>19,106</b>	<b>17,436</b>		<b>29,646</b>	<b>44,057</b>	
<b>EPS (€)</b>	<b>-0.47</b>	<b>-0.57</b>	<b>-18.0%</b>	<b>3.77</b>	<b>3.44</b>	<b>9.7%</b>	<b>5.86</b>	<b>8.70</b>	<b>-32.7%</b>

Source: DRAG; First Berlin Equity Research estimates





## INCOME STATEMENT

All figures in € 000s	2012A	2013A	2014A	2015E	2016E	2017E
<b>Revenues</b>	<b>3,095</b>	<b>17,762</b>	<b>22,871</b>	<b>2,719</b>	<b>38,955</b>	<b>126,093</b>
EBITDA	2,309	1,907	114,160	1,186	28,773	94,195
Depreciation and amortisation	1,629	7,302	25,434	1,383	12,711	32,417
<b>Operating income (EBIT)</b>	<b>680</b>	<b>-5,395</b>	<b>88,726</b>	<b>-197</b>	<b>16,062</b>	<b>61,778</b>
Net financial result	-21	-2,414	-4,065	-3,546	-2,664	-3,506
Non-operating expenses	0	0	0	0	0	0
<b>Pre-tax income (EBT)</b>	<b>659</b>	<b>-7,809</b>	<b>84,661</b>	<b>-3,743</b>	<b>13,397</b>	<b>58,272</b>
Taxes	1,621	154	-30,645	1,198	10,393	-20,395
Minority interests	866	-650	-28,845	178	-4,685	-8,230
<b>Net income / loss</b>	<b>3,145</b>	<b>-8,305</b>	<b>25,171</b>	<b>-2,366</b>	<b>19,106</b>	<b>29,646</b>
<b>EPS (in €)</b>	<b>0.61</b>	<b>-1.56</b>	<b>4.80</b>	<b>-0.47</b>	<b>3.77</b>	<b>5.86</b>
<b>Ratios</b>						
EBIT margin on revenues	22.0%	-30.4%	387.9%	-7.2%	41.2%	49.0%
EBITDA margin on revenues	74.6%	10.7%	499.1%	43.6%	73.9%	74.7%
Net margin on revenues	101.6%	-46.8%	110.1%	-87.0%	49.0%	23.5%
Tax rate	-246.0%	2.0%	36.2%	32.0%	-77.6%	35.0%
<b>Y-Y Growth</b>						
Revenues	-79.6%	473.9%	28.8%	-88.1%	1332.8%	223.7%
Operating income	-91.3%	n.m.	n.m.	n.m.	n.m.	284.6%
Net income/ loss	-70.9%	n.m.	n.m.	n.m.	n.m.	55.2%



## BALANCE SHEET

All figures in € 000s	2012A	2013A	2014A	2015E	2016E	2017E
<b>Assets</b>						
<b>Current assets, total</b>	<b>26,140</b>	<b>60,909</b>	<b>98,203</b>	<b>80,335</b>	<b>59,720</b>	<b>45,810</b>
Cash and cash equivalents	12,259	46,063	92,821	79,207	57,267	41,321
Inventories	3,830	3,763	38	338	736	1,347
Receivables	781	1,319	106	451	981	1,795
Prepayments	144	137	190	226	491	898
Deferred tax assets	3,970	4,157	4,322	0	0	0
Other current assets	5,156	5,470	726	113	245	449
<b>Non-current assets, total</b>	<b>37,311</b>	<b>70,624</b>	<b>36,493</b>	<b>41,101</b>	<b>103,802</b>	<b>193,580</b>
Intangible assets	2,237	4,541	12,279	12,279	12,279	12,279
Land and buildings	69	1,856	0	700	1,500	1,500
Producing oil plants	4,088	32,802	0	0	0	0
Mines under construction	17,208	0	0	0	0	0
Exploration and evaluation	4,500	20,153	1,647	4,503	49,734	115,335
Plant and machinery	5,662	2,873	513	1,402	15,491	35,924
Other equipment	230	209	94	257	2,838	6,583
Other long term assets, participations	3,316	8,190	21,960	21,960	21,960	21,960
<b>Total assets</b>	<b>63,451</b>	<b>131,533</b>	<b>134,696</b>	<b>121,436</b>	<b>163,522</b>	<b>239,390</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>11,473</b>	<b>18,221</b>	<b>4,675</b>	<b>3,626</b>	<b>2,092</b>	<b>2,140</b>
Bank debt	4,634	3,256	414	0	0	0
Accounts payable	2,678	13,928	217	2,417	1,394	1,427
Other current liabilities	4,160	1,037	4,044	1,209	697	713
<b>Long-term liabilities, total</b>	<b>175</b>	<b>72,021</b>	<b>63,147</b>	<b>59,103</b>	<b>78,932</b>	<b>121,938</b>
Bond debt	0	62,237	57,111	51,700	51,700	51,700
Bank debt	0	5,993	5,993	7,000	27,000	70,000
Other long term liabilities	175	3,791	43	403	232	238
Provisions	1,675	1,993	1,540	2,000	2,000	2,000
Minority interests	4,846	9,723	2,331	2,152	6,838	15,067
Shareholders' equity	44,093	29,171	60,157	53,355	71,660	95,244
<b>Consolidated equity</b>	<b>48,938</b>	<b>38,894</b>	<b>62,488</b>	<b>55,507</b>	<b>78,498</b>	<b>110,311</b>
Deferred tax liabilities	1,190	404	2,846	1,200	2,000	3,000
<b>Total consolidated equity and debt</b>	<b>63,451</b>	<b>131,533</b>	<b>134,696</b>	<b>121,436</b>	<b>163,522</b>	<b>239,390</b>
<b>Ratios</b>						
Current ratio (x)	2.28	3.34	21.01	22.16	28.55	21.41
Quick ratio (x)	1.94	3.14	21.00	22.06	28.20	20.78
Financial leverage	-15.6%	65.4%	-46.9%	-36.9%	27.3%	72.9%
Book value per share (€)	8.29	5.48	11.94	10.59	14.23	18.91
Net cash (debt)	7,624	-25,423	29,303	20,507	-21,433	-80,379
Return on equity (ROE)	5.7%	-17.4%	106.6%	-4.3%	35.5%	40.1%



## CASH FLOW STATEMENT

All figures in € 000s	2012A	2013A	2014A	2015E	2016E	2017E
<b>EBIT</b>	<b>680</b>	<b>-5,395</b>	<b>88,726</b>	<b>-197</b>	<b>16,062</b>	<b>61,778</b>
Depreciation and amortisation	1,629	7,302	25,434	1,383	12,711	32,417
<b>EBITDA</b>	<b>2,309</b>	<b>1,907</b>	<b>114,160</b>	<b>1,186</b>	<b>28,773</b>	<b>94,195</b>
Changes in working capital	2,147	-2,546	1,524	-343	-3,030	-1,982
Interest paid	-21	-35	-4,263	-3,546	-2,664	-3,506
Tax	1,621	154	-29,091	1,198	10,393	-20,395
Profit/loss from sale of Tekton Energy	0	0	-103,605	0	0	0
Other adjustments	-9,218	-1,248	2,299	0	0	0
<b>Operating cash flow</b>	<b>-3,162</b>	<b>-1,768</b>	<b>-18,976</b>	<b>-1,504</b>	<b>33,472</b>	<b>68,312</b>
Investing cash flow	-11,842	-33,304	101,074	-5,991	-75,412	-122,195
<b>Free cash flow</b>	<b>-15,004</b>	<b>-35,072</b>	<b>82,098</b>	<b>-7,496</b>	<b>-41,940</b>	<b>-53,883</b>
Dividends, share buybacks	0	-2,661	-38,929	-1,300	0	-5,063
Equity financing	15,483	4,558	0	0	0	0
Debt financing	3,000	67,600	0	0	20,000	0
Debt repayment	-1,011	-2,749	-8,540	-5,600	0	-10,000
Other	1	6,526	18,235	-9,722	0	53,000
<b>Change in cash and equivalents</b>	<b>2,469</b>	<b>38,202</b>	<b>52,864</b>	<b>-24,118</b>	<b>-21,940</b>	<b>-15,946</b>
<b>Cash and financial assets, start of the year</b>	<b>9,790</b>	<b>12,259</b>	<b>50,461</b>	<b>103,325</b>	<b>79,207</b>	<b>57,267</b>
<b>Cash and financial assets, end of the year</b>	<b>12,259</b>	<b>50,461</b>	<b>103,325</b>	<b>79,207</b>	<b>57,267</b>	<b>41,321</b>
<b>EBITDA/share (in €)</b>	<b>0.44</b>	<b>0.36</b>	<b>21.70</b>	<b>0.23</b>	<b>5.69</b>	<b>18.62</b>
<b>Y-Y Growth</b>						
Operating cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	104.1%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	-77.9%	-19.4%	5954.7%	-98.9%	2325.3%	227.4%

**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...20	↓	↓	↓	↓
21	9 October 2014	€19.06	Buy	€26.00
22	29 January 2015	€15.05	Buy	€21.00
23	9 June 2015	€17.94	Buy	€25.00
24	Today	€17.01	Buy	€23.00

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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