

Deutsche Rohstoff (DRO)

Analyst: Linus Öberg

Target Price: € 74 | Upside: 137%

Drill Baby Drill

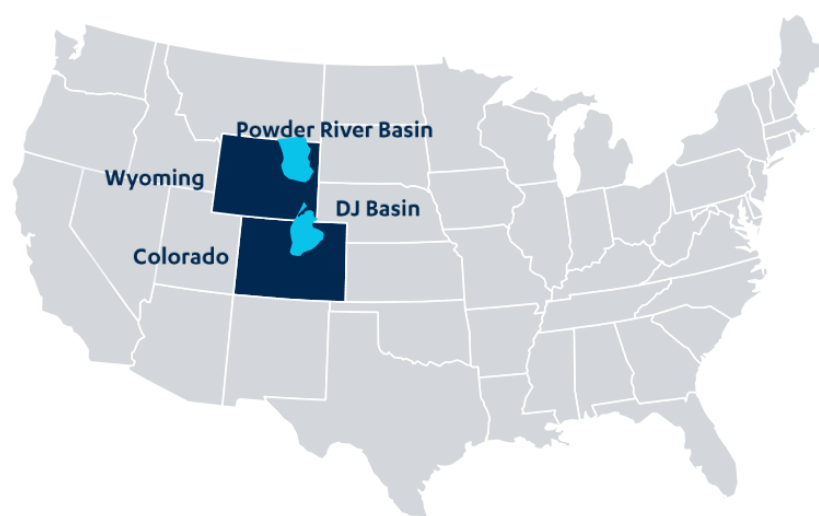
Let me introduce Deutsche Rohstoff: a € 154m small-cap oil company with a truly exceptional management trading at a steep discount to both its peers and reserves with even further value concealed. Being a small cap listed in Germany whilst holding all its assets in the U.S with a focus on fossil fuels has made them a severely overlooked stock with an attractive upside.

(in € m)	2022A	2023A	2024E	2025E	2026E
Revenue	165.4	196.7	216.4	199.8	194.2
<i>Growth</i>	126%	19%	10%	-8%	-3%
EBITDA	139.1	158.3	167.4	142.8	138.2
<i>Margin</i>	84%	80%	77%	71%	71%
<i>Growth</i>	110%	14%	6%	-15%	-3%
Net Income	66.2	67.5	48.5	36.2	36.2
<i>Margin</i>	40%	34%	22%	18%	19%
<i>Growth</i>	151%	2%	-28%	-25%	0%
FCF	70.6	-18	-67	3.9	37.3
<i>Margin</i>	43%	-9%	-31%	2%	19%
<i>Growth</i>	214%	-125%	272%	-106%	856%
EV/Sales	3.9x	1.5x	1.2x	1.4x	1.4x
EV/EBITDA	4.3x	1.8x	1.6x	1.9x	2.0x
P/E	1.9x	2.4x	3.1	4.3	4.3
P/FCF	1.8x	N.A	N.A	39.1x	4.2x
ND/EBITDA	0.4x	0.5x	0.9x	1.1x	1.0x
ROCE	33.3%	32.8%	17.5%	12.9%	12.4%

Background and Thesis

Deutsche Rohstoff AG is a upstream operator in the U.S Oil & Gas exploration and production (E&P) sector. Revenues are split 80% Oil, 10% Gas, and 10% Natural Gas Liquids (NGL).

The company is active in highly productive regions known for their low-cost drilling, with DRO:s break-even price being ~\$35, and high resource potential. Their upstream production sites are located in the DJ Basin (Colorado), and Powder River Basin (Wyoming). Wyoming represents the company's largest growth area, with over 100 future drilling locations, and was acquired during the 2020 oil downturn. Their timely acquisition in 2020 is not the first-time management has showcased an opportunistic and contrarian capital allocation capacity either, as will be showcased later.

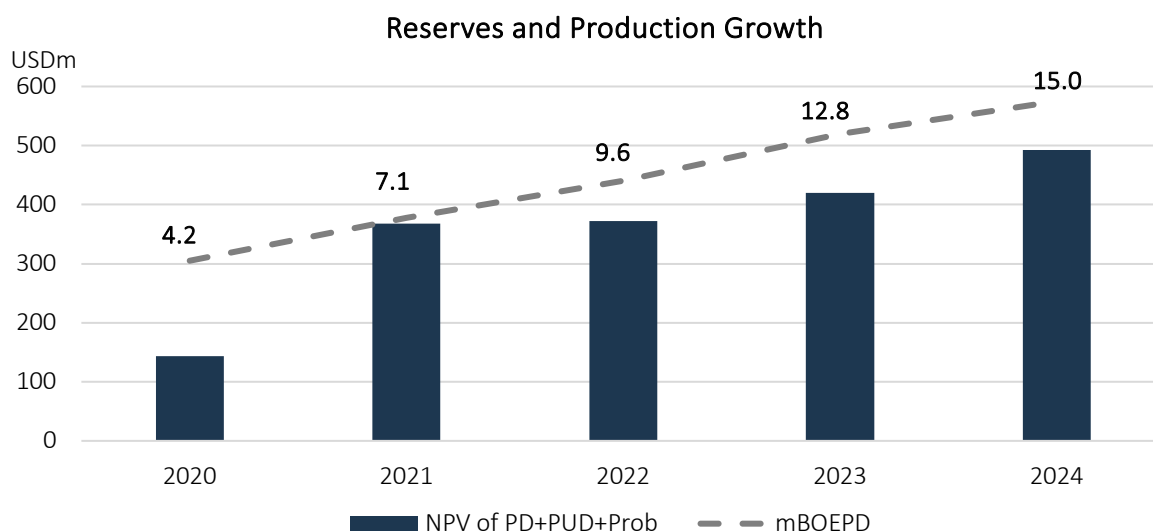


Despite holding essentially all assets in the U.S they are a German listed stock with headquarters in Mannheim making it a hard-to-spot investment. They trade at over 50% discount to peers despite significantly outperforming them over the last 10 years. If you discount their proven reserves, they represent a 55% upside to today's MCAP. Furthermore, if you add probable reserves, they represent a 77% upside to today's MCAP. But that's not all, they have significant unexplored acreage where they estimate a total of significantly over 100 wells are possible, as compared to today's 115 net wells, and they hold a minority stake in Almonty Industries worth €46 million, or around 25% of its current MCAP. The unexplored acreage positions have not been assessed by independent auditors like the proven and possible reserves and are thus not included in any valuations. Rohstoff conducts annual drilling on their acreage, with independent auditors valuing their positions each year, a process that has resulted in steadily rising valuations and more than doubled since 2020. In their latest reserve report, published in February 2025, they increased their reserves by 25% to 54 MMBOE (millions of barrels of oil equivalent). Once again, any future increase in their reserves has NOT been included in the valuation even though it seems more likely than not that it could increase.

Being a small cap listed in Germany whilst holding all its assets in the U.S with a focus on fossil fuels has made them a severely overlooked stock with an attractive upside.

Thesis 1 - Undervalued Reserves Limits Downside with Good Potential for More

Below is a chart showcasing the Company's strong growth in both production and reserves. Even though they have more than tripled their daily production rate (mBOEPD) since 2020 their reserves have significantly outpaced the depletion rate and grown at a CAGR of 128%.



Whilst past increases in reserves is not a guarantee of future increases, the current upside to proven developed reserves serves as good downside protection. Furthermore, the potential for future wells, with strong unit economics, stands as a key driver of increased production and reserves. The single well unit economics and future *possible wells* are showcased below.

Well Unit Economics	Bear	Base	Bull
Capex (USDm)	11	10	9
Oil reserves (bbl)	500,000	550,000	600,000
IRR (%)	31%	51%	85%
Payback (years)	2.8	1.9	1.4

*Assuming \$75/bbl and \$3.5/mcf flat.

Formation	Possible wells
Teapot	<10
Niobrara B	>100
Turner	<20
4 Mowry	>50
Total	~ 180

The "Possible" reserves/wells are not accounted for in the independently audited reserve report where only "Proven developed (PD)", "Proven Undeveloped (PUD)" and "Probable (Prob)" reserves are included. The continued exploration and drilling in these formations are therefore expected to continue the growth of reserves whilst new wells with strong unit economics in the PD+PUD+Prob increase production and revenue.

Thesis 2 - Proven Capital Allocators

Deutsche Rohstoff has proven themselves as exceptional capital allocators. Most recently, in 2020, during the short-term oil crash the company swiftly cut production to preserve reserves and mitigate exposure to depressed prices. When questioned by shareholders about the stark downturn in oil-prices they responded:

*After analyzing the available data, we quickly became certain that oil prices like those in March and April 2020 could not last, as they would drag down the oil industry worldwide. We judged such a scenario to be extremely unlikely. **We have therefore decided to take action at various levels to take advantage of the tense situation.***

The result? Its hedging strategy generated EUR 12 million. With a strong liquidity position, Deutsche Rohstoff took a contrarian approach by investing up to \$25 million in undervalued stocks and bonds, a move that proved highly profitable as it realized EUR 8 million in gains in early 2021. The company also secured significant future potential through the acquisition of large acreage in the Powder River Basin at a highly favorable price, effectively obtaining undeveloped land at no cost. These strategic actions positioned Deutsche Rohstoff for a strong post-crisis recovery and demonstrated their ability to deploy capital effectively in a cyclical commodity market. In their 2022 annual report, they further commented their acquisition in the Powder River Basin during the downturn:

***For the first time** in the Oil and Gas business area, in addition to the very high production base, we now have a portfolio of development acreage in Wyoming that could carry us for **well over 10 years** at the current rate of development. On the basis of all potentially **possible wells**, even **significantly longer**.*

This is not their first time proving they understand the cyclical oil and gas market either... In May 2014 they effectively sold all their oil assets for USD 200m, right before Crude oil prices went from USD 97/barrel in July 2014 to USD 43/barrel in January 2015 and then USD 27/barrel in January 2016. Their comments:

*This is not a bad starting position for Deutsche Rohstoff. From the middle of the year we commenced an intensive search for potential acquisition targets. We took our time and were patient in our hunt for first class projects. At the beginning of the year, we were able to announce the first successful deals – initially in the USA and shortly afterwards in Australia. The time was well spent. The value of our current project portfolio is higher than ever before, and we are certain that we will be able to expand it further. **Sooner or later, we will reap the benefits.***

In their 2016 annual report they noted the reaped benefits:

*With these investments we have laid the foundations for strong revenue and profit growth in 2017 and the next few years. [...] **[I]n the past three years we have created a reserve value of approximately USD 300 million from virtually nothing.***

What a move...

Thesis 3 - Operational Excellence

Deutsche Rohstoff has sustained steady operational performance in its U.S. oil and gas assets. Production increased to 11,624 barrels of oil equivalent per day (BOEPD) in 2023, a 13% rise from 2022, and reached 12,074 BOEPD in 2024, driven by drilling activity and partnerships. DRO:s approach integrates lean cost management, joint ventures, and midstream investments to support its operations.

Break-even prices are a critical metric for Deutsche Rohstoff and other oil companies. In the Powder River Basin, they have a break-even of approximately \$35/bbl. Regional comparisons show Powder River Basin averages ranging from \$59-\$70/bbl for new wells in 2024 according to Dallas Fed Energy Survey, with TGS Well Economics citing a basin-wide average of \$50/bbl. DRO:s \$35/bbl figure reflects lower-than-average costs, attributed to efficient drilling, well design and superior locations. Continuing on single well unit economics where Deutsche Rohstoffs IRR on wells range between 31% in bear case to 51% in a base case, which stands in stark contrast to TGS Economics average of 21% in the Powder River Basin. Simply put, they have demonstrated operational excellency.

Joint ventures play a significant role in DRO:s strategy. A collaboration with Occidental Petroleum (Oxy) in the Powder River Basin, managed through Salt Creek Oil & Gas, completed 15 wells in 2023 and added 10 more in Q2 2024. These non-operated wells have met or exceeded production targets and added growth whilst keeping overhead cost low.

Deutsche Rohstoff have also invested in midstream infrastructure. In 2023, their subsidiary 1876 Resources acquired gas gathering pipelines in the Powder River Basin, funded by cash flow, to transport gas from its wells and serve third parties. Additional investments in water handling systems support its 35,000-acre position which decreases completion costs. This infrastructure underpins plans for new wells with lower development and operational expenses.

A lean overhead structure is central to DRO:s efficiency. The Company operates with a small overhead team, fewer than 20 full-time staff across its German headquarters and U.S. subsidiaries, minimizing G&A costs. In 2023, G&A expenses were approximately €4.2 million, or less than 3% of sales, a notably low ratio compared to mid-sized U.S. independents, where G&A often exceeds 5-7% of revenue (Rystad Energy data). This low overhead allows the Company to allocate capital primarily to drilling, development and shareholders rather than administrative bloat.

Risk/Concerns

Investing in Deutsche Rohstoff involves risks tied to volatility in commodity prices which could erode revenues, while operational disruptions from equipment, environmental incidents, or tighter regulations may increase costs. Currency fluctuations, particularly a stronger euro against the dollar, could shrink its U.S.-based earnings. Furthermore, institutional investors refraining from investing in fossil fuels could mean a multiple detraction. Additionally, being a small-cap listed in Germany with assets in the U.S. means there is no clear institutional coverage. However, they currently trade at a low multiple so downside is protected, and institutional ownership is limited at 3.3% of shares outstanding, but one should not expect any multiple expansion either as the stock will likely remain overlooked. Whilst the current U.S administration will likely improve regulatory constraints they are keen on lowering energy prices which could hurt oil prices.

Management

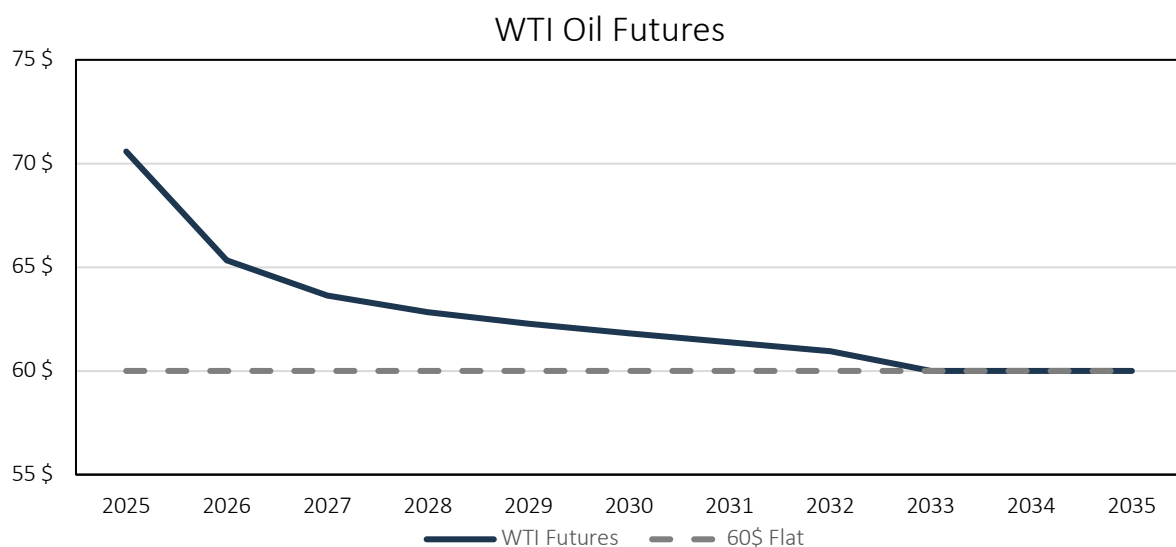
Management owns 10% of shares outstanding and is led by CEO Jan-Philip Weitz whom has been a part of the team since 2010 and stepped up to the CEO role in 2022, serving as CFO beforehand. CFO Henning Döring is an outside hire who took over after Weitz as CFO in 2022 with previous experience as CFO for PVA Tepla Group, an industrial- and semiconductor solutions company, and Schunk Group, a semiconductor technology company. The executive board is complemented by a supervisory board lead by chair and co-founder Dr. Thomas Gutschlag. As showcased in thesis 2 management have a proven track record of capital allocation and their inside ownership ensure alignment with shareholders. However, the relatively new appointment of Weitz as CEO and Döring as CFO is a concern. Since the beginning of 2024 management have been net purchasing shares.

Valuation

Below is summary of Deutsche Rohstoffs reserve value. The reserves are divided into Proved Developed, Proved Undeveloped and Probable. They are discounted at the industry standard of 10%, even though DRO:s WACC is lower at 9%. Cash flow from reserves are derived using WTI Oil futures for oil prices as base case and an oil price of 60\$/bbl flat for bear case. Important to note is that the reserve valuation does not include “possible” wells which are estimated to be around 180 since these have not been independently audited and the timeframe for production is unknown. For the new wells in PUD+Prob I estimate they will add 6 wells per year for 9 years and use the base case estimates for single well unit economics.

Reserves as of 31-12-2024*	Proved		Probable	Total
USDm	Proved Developed (PD)	Proved Undeveloped (PUD)	Proved Total	PD+PUD+Prob
MMBOE in reserves	25	20	45	54
Net wells	115	39	154	170
Revenue (WTI Future Oil Price)	1,064	1,038	2,102	2,588
Production tax	116	118	234	290
OPEX	377	249	626	741
Operational Cash Flow	571	671	1,242	1,557
CAPEX	9	374	383	539
Cash Flow	562	297	859	1,017
PV FCF	381	70	451	493

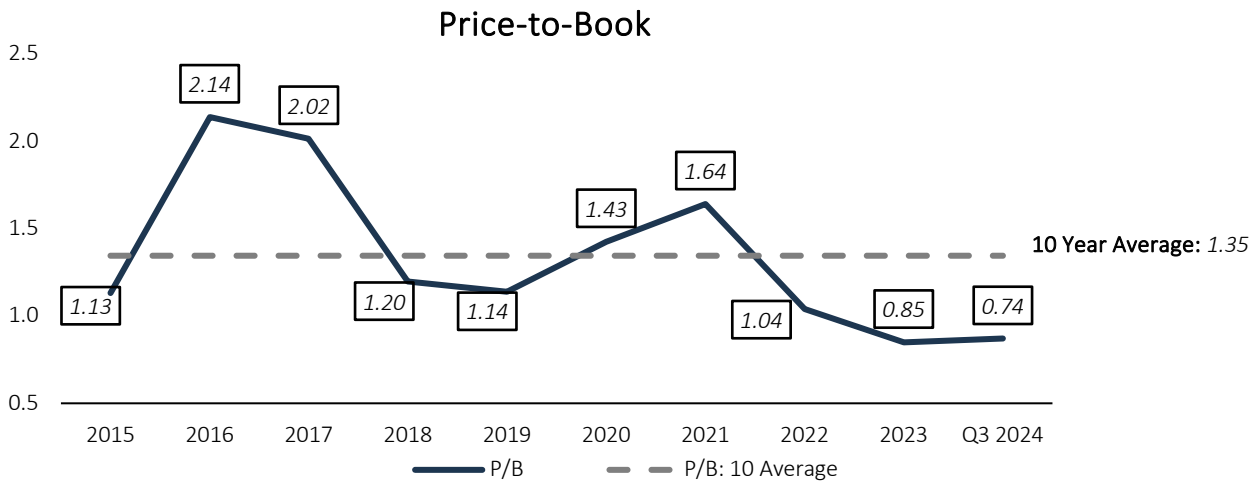
Bear Case Oil Price Scenario				
PV FCF 60\$/bbl Flat	320	46	366	394



Valuation Summary in EUR			
EURm	PV FCFF: WTI Oil Futures w/ Prob	PV FCFF: WTI Oil Futures w/o Prob	PV FCFF: 60\$/bbl Flat w/Prob
EV	454	415	362
(-) net debt	134	134	134
MCAP	320	281	228
Upside	108%	83%	48%

Furthermore, Deutsche Rohstoff owns a 11.3% minority stake in Almonty Industries (ALI), a tungsten mining company that's gaining investor attention due to strong market trends for rare earth minerals. Almonty's growth is fueled by its Sangdong mine in South Korea, poised to be a key non-Chinese supplier as China, controlling over 80% of global tungsten, tightens export controls from February 2025. With the US also limiting tungsten from "hostile" nations, Almonty stands out as a rare and transparent Western source, especially after its recent move to redomicile in the US. Rising demand for tungsten in tech and defense coupled with above geopolitical trends has more than **Doubled** Almonty's share price since January, boosting Deutsche Rohstoff's stake to € 46m. Worth mentioning is that current analyst coverage average another 100% upside to fair value. If you add the current stake worth € 46m to the MCAP based on WTI Oil Futures, you get an MCAP of € 366m which is equivalent to an upside of 137%.

Price-to-Book

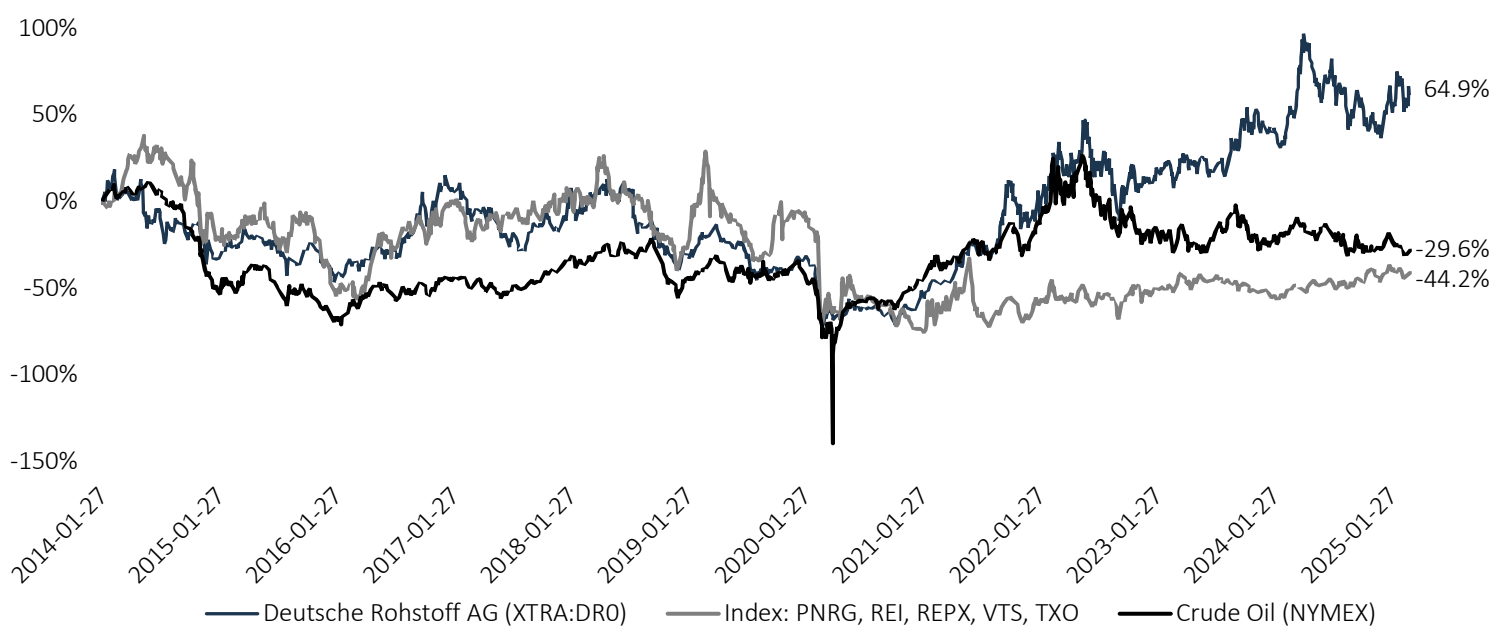


Additionally, they trade at an 82% discount to historical P/B despite having a large portfolio of development acreage in Wyoming which projects the longest growth runway in the Company's recorded history. If you recall, they got the undeveloped land in Wyoming basically for free and it is therefore not accounted for in the balance sheet. This is worth repeating, despite having the longest potential growth runway in their history, not accounted for in the balance sheet, they still trade at a historically low P/B. The market is missing this. The only reason why I can think of, except for being severely overlooked, is that they have historically traded at low multiples of current earnings and based on the reserves outlined in the reserve report which doesn't include the possible wells, which they historically have not had.

Peer Comparison

The relative valuation highlights Deutsche Rohstoff as undervalued on both its earnings, book value and reserve value (EV/2P) compared to its small cap peers in the U.S. This despite outperforming them for the last 10 years, as showcased in the chart below. Using the median multiples for EV/EBITDA, P/E, P/B and EV/2P an average upside of 103% is attained.

Peers	MCAP	EV	EV/EBITDA	P/E	P/B	EV/2P
Company name	EURm	EURm	LTM	LTM	Last filing	Last filing
TXO Partners (TXO)	747	892	14.2	23.4	1.32	0.94
Riley Exploration Permian (REPX)	591	841	3.9	4.9	1.25	0.6
Ring Energy (REI)	219	594	2.7	3.5	0.28	0.6
Prime Energy Resources (PNRG)	343	345	2,9	9.7	1.8	1.35
Vitesse Energy (VTS)	815	926	7.1	27.7	1.5	1.37
Average	543	719	5.9	10.4	1.2	1.0
Median	591	841	3.4	7.3	1.3	0.94
Deutsche Rohstoff (DRO)	154	288	1.7	2.6	0.74	0.59



Conclusion

Deutsche Rohstoff stands out as undervalued by any metric used despite having limited downside due to its reserves. This is further backed up by an exceptional management team with a proven operational- and capital allocation capacity which is why I think they are a buy with a target price of € 74, equivalent to an upside of 137%.