MATELAN Research

Company Report

Verbio AG

➢ INCREDIBLE Q2 SUPPORTS EUR300M IN FY EBITDA

➢ INCREASED SUSTAINABLE EARNINGS LEVELS

➢ RISING FAIR VALUE DESPITE HIGHER DISCOUNT RATE

MATELAN Research

Company Report

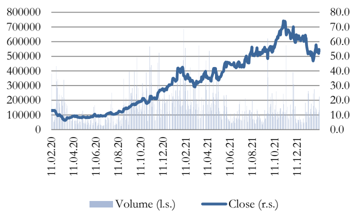
15 February 2022

Closing prices as of 14/02/22: €55.00

Company / Sector	Fair Value	Recommendation
Verbio AG	**€86.8**	**Buy**
Renewable Energy	(€81.3)	(unchanged)

Scaling an increasingly profitable business

Share price performance



Share data	
Reuters	VBKG.DE
No. of shares	63.00
Daily turnover	129,257
Free Float	28.4%
Market Cap.	3,465.0
EV	3,364.3
Sales 18-22	15.1%

Valuation	21/22	22/23
EV/Sales	2.3	2.5
EV/EBITDA	11.0	15.9
EV/EBIT	12.2	18.9
PER	18.0	28.3
Div. Yield	0.5%	0.5%
RoCE	45.3%	24.7%
RoE	27.9%	15.4%

Analyst

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Investment case

An incredible Q2 builds the base for an exceptional year 21/22. However, sustainable earnings levels have also improved and we have adjusted our model accordingly. A new record is already within sight based on current expansion plans. Phase 2 is about to be released and there is even more upside in our estimates. These already support a valuation 60% ahead of the current price even after raising our discount rate. Thus, the current share price appears a buying opportunity.

STRONG Q2 SUPPORTS EUR300M EBITDA TARGET

With an extraordinarily strong EBITDA of EUR147m in Q2 Verbio is clearly on its way to reach the new EUR300m target for the full year. "Business as usual" should now yield around EUR60m in the remaining two quarters. In addition, cash flow generation allows to finance current expansion plans from internal resources alone.

NEW RECORDS ALREADY WITHIN SIGHT

While it appears unlikely that the strong 21/22 results will be repeated in 22/23 we believe that more than EUR200m in EBITDA are sustainable. Moreover, current expansion plans should drive EBITDA to a new record high in 24/25. Management indicated to release Phase 2 of the investment plan already in the current quarter. A multitude of opportunities could drive earnings further up.

VALUATION INCREASES TO EUR86.8

New regulation has improved market conditions and we now see sustainable earnings at higher levels than so far anticipated. This has a more positive effect on valuation than reflecting potential risks from political tensions and rising interest rates. Our fair value thus increases to EUR86.8, a 60% upside from the current share price.

For additional disclosures please refer to the appendix

Forecasts	18/19	19/20	20/21	21/22e	22/23e
Sales (€m)	779.3	872.4	1026.4	1442.2	1365.6
EBITDA (€m)	95.1	122.1	166.3	306.8	210.9
EBIT (€m)	73.7	91.9	136.6	275.8	176.9
EPS (€)	0.84	1.01	1.48	3.05	1.94
Dividend (€)	0.20	0.20	0.20	0.25	0.25
Oper. CF (€m)	44.3	71.7	117.2	193.4	187.7
Free CF (€m)	-18.7	3.7	50.1	43.4	37.7

INCREDIBLE Q2 RESULTS

Extraordinarily strong performance in Q2

Against the background of the price rises at the end of the past financial year and the increase in the company's full year guidance on January 26th we had already upped our full year 2020/21 estimates including our expectations for the second quarter. Verbio now comes in marginally ahead of these revised estimates. It should be highlighted that our previous group EBITDA estimate for the second quarter stood at an already exceptional EUR113m while the company has now come in with EUR147m.

Q2 21/22 review and changes in FY estimates

EURm	Q2 21/22	Q2 21/22e	Q2 20/21	Change	FY 20/21	FY 21/22e old	FY 21/22 new
Biodiesel	324.1	312.3	148.2	118.7%	729.9	1071.5	1041.9
Bioethanol	131.7	104.1	66.9	96.9%	286.6	362.8	389.1
Other	2.9	4.4	2.6	9.9%	9.8	11.1	11.2
Sales	458.7	420.8	217.7	110.7%	1026.4	1445.4	1442.2
Gross profit	177.6	164.7	47.7	272.6%	272.0	399.2	436.8
Margin	*38.7%*	*39.1%*	*21.9%*		*26.5%*	*27.6%*	*30.3%*
Biodiesel	96.1	102.7	13.8	596.4%	93.2	199.7	192.3
Bioethanol	50.2	40.7	12.6	298.4%	70.6	97.6	112.6
Other	0.7	0.7	0.7	3.1%	2.5	3.9	1.9
EBITDA	147.0	144.1	27.1	442.5%	166.3	301.2	306.8
Margin	*32.1%*	*34.2%*	*12.4%*		*16.2%*	*20.8%*	*21.3%*
EBIT	139.3	136.3	19.5	616.0%	136.6	268.2	275.8
Margin	*30.4%*	*32.4%*	*8.9%*		*13.3%*	*18.6%*	*19.1%*
Net Profit a.m.	97.6	94.1	12.4	689.2%	93.2	186.5	192.2

Source: Verbio, Matelan Research estimates

Biodiesel EBITDA in Q2 exceeds the entire previous year's level

The biodiesel side has developed quite spectacular. EBITDA in Q2 21/22 was seven times as high as the result of last year's second quarter on just a marginally higher production. In fact, the EBITDA produced in this quarter exceeded the result of the entire year 20/21.

Bioethanol EBITDA four times as high as last year

In bioethanol, EBITDA is four times as high as in the previous year's period. Here as well, improved prices and margins account for the predominant part of this development. However, with more than 68.000 tonnes production has also been higher than the usual level seen so far. Management has explained this with de-bottlenecking and claims that this is already part of the planned capacity expansion.

Above-average performance

It should be highlighted that the company's performance in both divisions is stronger than one would expect when just looking at market prices for the in- and output factors. The company's flexibility on the feedstock side and the timing of purchases give the company below average input costs and high CO_2 reductions as well as exploiting quota pricing give an additional benefit to the sales side.

Cash generation covering entire investment phase

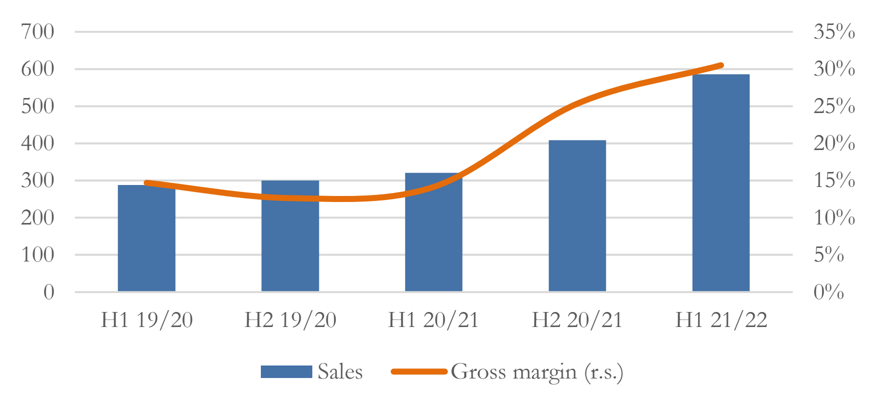
Operating cash flow in the quarter came to EUR77m despite a material increase in net working capital. Investments amounted to EUR22m, leaving the company with a free cash flow of EUR55m in Q2. Net cash thus increased to EUR140.5m. Despite investments of EUR150m in the current year, management expects net cash at year-end to come to EUR130m. Another EUR150m of investments next year to finish the current expansion phase can thus be financed completely from internal resources.

Earnings structure

Regulation drives gross margin and …

Looking into the cost structure of the company, we find that the biodiesel division has operated with a gross margin of around 15% at a sales level of EUR300m per half-year. A doubling of sales goes now hand in hand with a doubling of the margin. This is in particular the result of improving regulation having a positive effect on pricing.

Sales and gross margin in the biodiesel division

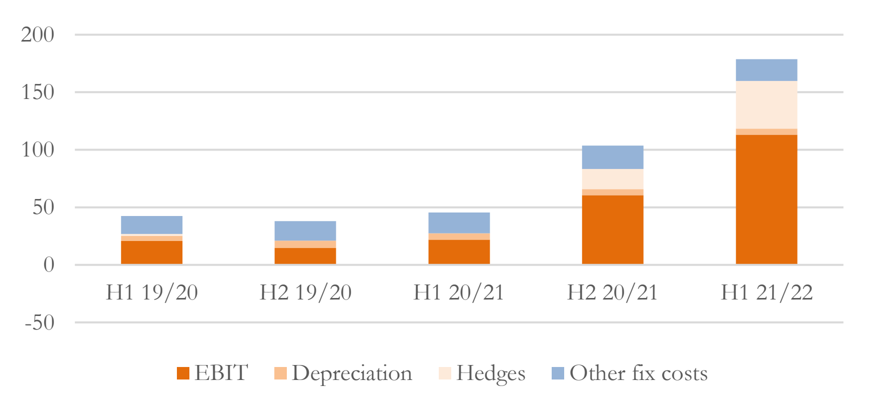


Source: Matelan Research based on Verbio data, in EURm

… scaling brings an additional benefit

The following chart illustrates the development of absolute gross profit and how this is translated into EBIT. We find that depreciation and other fix costs remain rather stable over time, which is a major achievement and allows for the additional gross profit to be almost fully converted into EBIT. The main factor that goes against this trend is hedging. Here, the division booked a negative impact of EUR17.5m in H2 20/21 and EUR41.6m in H1 21/22, meaning that results were higher by these amounts if the company had been unhedged. Moreover, it becomes clear that not only has the improved regulatory environment had a positive effect on gross margin, scaling brings an additional margin effect. With regard to hedging it should be highlighted that Verbio has already reduced its hedging position in the current quarter massively. The half year hedging loss thus relates almost exclusively to the first quarter which is an additional factor for the strongly improved results in Q2 compared to Q1 21/22.

EBIT conversion in the biodiesel division

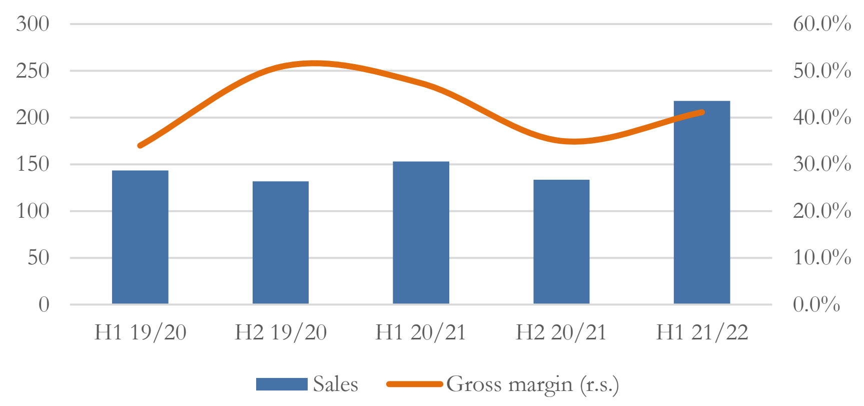


Source: Matelan Research based on Verbio data, in EURm

Gross margin in Bioethanol at around 40%

The above trends are less clear when looking at sales and margin development in the bioethanol division. Here, gross margin appears to vary around 40%. However, the combination of sales and gross margin yields a positive trend for absolute gross profit.

Sales and gross margin in the bioethanol division

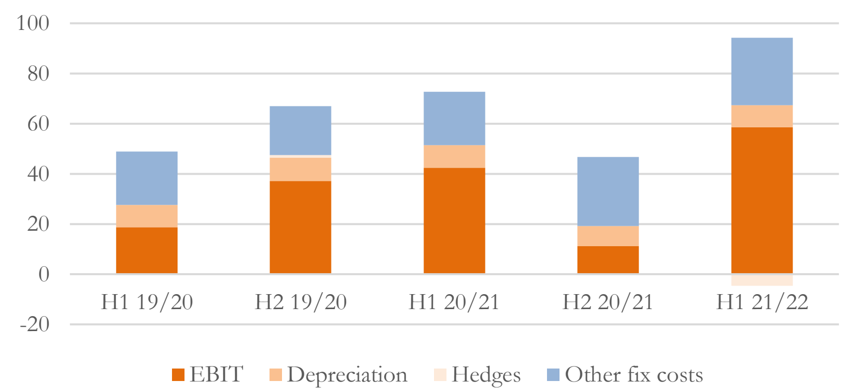


Source: Matelan Research based on Verbio data

Positive GP trend drives EBITDA

Except for the weak H2 20/21, which suffered from an extraordinary price trough in Q3, we see a clear upward development in gross profit. Moreover, we can observe only a slight increase in the fix cost level. So here again, the increasing GP is almost fully converted into additional EBIT and EBITDA.

EBIT conversion in the ethanol division



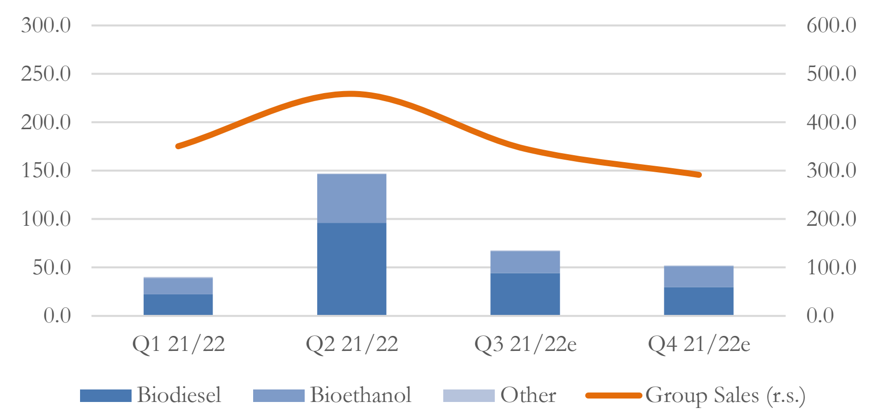
Source: Matelan Research based on Verbio data

Outlook for the full year

EUR300m in EBITDA is a reasonable target for FY 21/22

Ahead of the release of Q2 results, Verbio had already raised its full year guidance from EUR230m to EUR300m in EBITDA. Looking into the performance realised in the second quarter and the current forward curves we still feel that this is a very reasonable target, without being overly ambitious. Pricing has already come down from the peaks seen in Q2 but demand remains high, in particular in view of the improved regulation in Germany that came into effect on January, 1st 2022. Positive effects should arise on the biomethane side as fossil gas is no longer accountable against the quota, advanced fuels exceeding the minimum requirement count double and the penalty for not fulfilling the quota has been raised. On the other hand, it should also be remembered that the switch to the summer specification in biodiesel always has some effect on pricing, in particular in Verbio's fourth quarter. Still, we are looking at an EBITDA on group level of around EUR60m for the coming two quarters. This assumes a "business as usual" and does not include any new price squeezes in the second half of the year.

Group sales and divisional EBITDA development by quarter



Source: Matelan Research based on Verbio data and Matelan estimates

Sustainability of Margins

Regulation has improved market dynamics

In view of Verbio's excellent results in the second quarter and the new record earnings the company is likely to achieve in FY 21/22, a key question is now how much of this performance is sustainable in the coming years. Extreme price peaks have supported Q2 results. In addition, the company benefits from the time lag between the purchase of raw materials and the sale of the final products in times of rising prices. On the other hand, it is also obvious that changes in regulation have clearly improved market conditions in order to attract the investments necessary for an actual reduction of CO_2 emissions. Moreover, Verbio has given clear evidence of its ability to generate superior margins as a result of its flexibility.

EU targets for the transport sector will be tightened further

In order to determine margin levels that can realistically be sustained in the coming years we are looking into the main factors driving supply and demand for Verbio's major products. Demand is predominantly driven by regulation. Here, the European Union sets the general framework. Its latest "Fit for 55" initiative stipulates the target to reduce CO_2 emissions by 55% until 2030 compared to the base year 1990. For the transport sector, the Renewable Energy Directive (RED) is particularly relevant and the latest edition, RED II, requires a 14% share of renewable sources in the energy consumed in road and rail transport by 2030. Biofuels and biomass from food and feed crops are capped to the 2020 level +1pp with a maximum of 7%. The minimum share of advanced biofuels according to Annex IX A of the directive shall rise from 0.2% in 2022 to 3.5% by 2030. These RED rules are consistent with the previous 40% CO_2 reduction target by 2030 and still need to be amended to meet the new "Fit for 55" target.

Steep increase in CO_2 reductions in the German transport sector required

The EU framework is translated into national law. While we believe that a number of European countries need to adapt their laws to meet an amended RED II, the latest revision of the German regulation on transport fuels appears to have already taken account of the "Fit for 55" agenda. In Germany, parties that sell fuels are obliged to reduce the CO_2 emissions of these fuels. This is traditionally done by blending fossil fuels with biofuels. The latest law now stipulates that CO_2 reductions must reach 7% in 2022 and this amount rises up to 25% in 2030. For advanced biofuels, a minimum share has been set to 0.2% in 2022 and this goes up to 2.6% in 2030. Advanced biofuels exceeding this minimum share count twice with regard to fulfilling the above-mentioned quotas.

Electric vehicles might not reach their anticipated share

It is clear that the steep increase in the German CO_2 reduction quota cannot be fulfilled through biofuels alone, in particular as food and feed crop-based biofuels are capped. The introduction of electric vehicles is expected to account for a major part of the CO_2 reductions. However, 96% of the German passenger car pool is currently using either petrol or diesel and this is also true for the entire European Union. Moreover, still 60% of new registrations in the EU in 2021 were petrol or diesel cars and another 20% were hybrid. It must thus be expected that we will still be looking at a very significant market share of traditional cars and traditional fuels well into the next decade, of which petrol should enjoy an increasing share at the expense of diesel. On top, we might even see a noticeable shortfall in the anticipated share of electric vehicles due to missing infrastructure. The European automotive association ACEA currently expects that just above half of the chargers needed to support the "Fit for 55" target with sufficient electric vehicles could become available in time.

Advanced biofuels are a growth market

Demand for biofuels should thus show diverging trends. In biodiesel, we expect some market decline as a result of fewer diesel cars on the streets. In bioethanol, the decline in car sales is much less pronounced and an increasing number of hybrid cars provides a compensating effect. Moreover, E10 is likely to become the standard in Europe with older cars getting out of the market. Sweden and the UK have successfully introduced E10 recently and the use of E10 in Germany, which has so far been rather subdued, finally shows some acceleration. Against this background, Verbio even expects a 50% increase in ethanol demand on a European level at the latest by 2027. Finally, demand for advanced biofuels such as biomethane should grow in line with the regulatory requirements and there is now an incentive to do more. We also expect these minimum targets to be raised as soon as more product becomes available.

Biodiesel capacity remains stable

With regard to supply, we currently see no capacity additions on the biodiesel side. Nameplate capacity of first-generation biodiesel should have been stable in 2021 at around 21bn litres, of which 58% are in use. Looking forward, it doesn't make too much sense to add sizeable capacity in Europe in view of the expected market decline. Imports also developed quite stable in 2021 at around 3bn litres, with Argentina retaining the number one spot and China replacing Malaysia and Indonesia as runner-up.

Capacity increases in bioethanol follows demand

On the bioethanol side, capacities for first-generation products should also have been stable in 2021 at around 8bn litres, of which 61% were in use. 2022 should see Vivergo coming back to production, adding 420,000 litres in annual capacity. This is, however, a move to serve the additional demand created by the introduction of E10 in the UK. Moreover, Verbio has announced to raise its German ethanol capacities by 50%, i.e. adding 130,000 tonnes by mid-2023. Here again, the move is aimed to serve the additional demand that is expected. European ethanol fuel imports have remained stable at around 900,000 litres, half of which come from the US and another quarter from Brazil. Despite major price differences between the EU and the American markets, 2022 so far shows rather a decline of imports, mainly as a result of demand in the overseas markets. In addition, the backwardation in the forward curve and the different specifications needed for the European market appear to prevent too much additional material from being shipped into Europe.

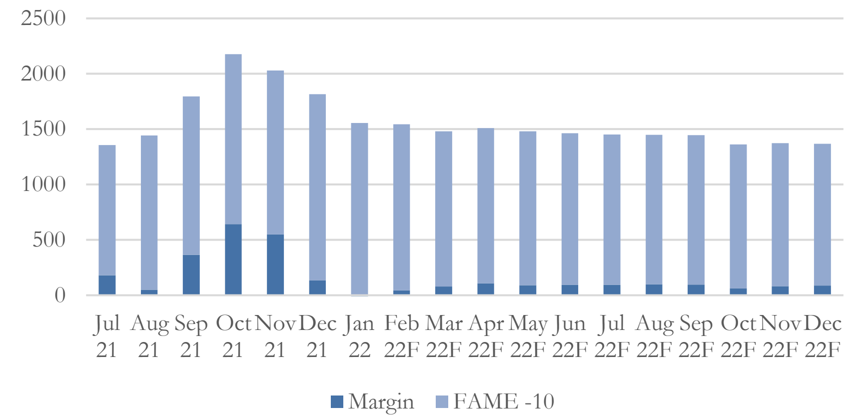
Tangible projects to support growth in advanced biofuels are still rare

With regard to biofuels according to the Annexes IX A and B, we see mainly hydrogenation derived renewable diesel (HDRD) and cellulosic bioethanol. While HDRD already accounted for a European production of around 3.8bn litres in 2021, cellulosic bioethanol production should come to only 50m litres. Biomethane also counts among advanced biofuels, with Verbio producing around 800 MWh in 2021. While we have seen that advanced biofuels are a major growth market, capacity additions appear to be rather limited. There are lots of research and test projects, including the development of synthetic fuels, biogenic CO_2 and renewable hydrogen. However, Verbio's decision to double its 50.000 tonnes of waste-based biodiesel capacity as well as its 175.000 MWh biomethane capacity in Pinnow are probably the most tangible projects at this point in time.

Biodiesel price might settle at lower levels

Looking at the above described supply and demand developments we believe that the biodiesel market might not sustain the high price levels that it has enjoyed in particular in the fourth quarter of the calendar year 2021. Looking at the current forward curve for FAME -10 suggests some price decline to around EUR1350/tonne. This is a gradual decline from the levels already seen in January 2022 and appears to be realistic in view of the upcoming expected market dynamics. Assuming Rapeseed oil also showing a gradual decline leaves us with normalised margins in a range of EUR50-150/tonne, though temporary variations remain possible.

FAME -10 prices and margins

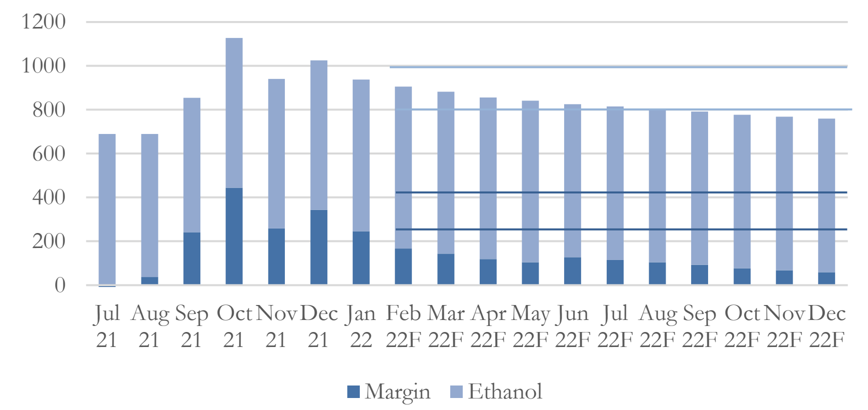


Source: Argus, Reuters, CME, in EUR/tonne

Bioethanol price should remain in a high range

In bioethanol, the situation is different. Although the forward curve also shows some backwardation, this curve has been pushed sideways and upwards for some time now. In view of a rising ethanol demand and only limited capacity additions we would expect prices to sustain in the rather high range of EUR800-1000/m³. On the other hand, wheat prices should also remain at an elevated level for some time. Here we are calculating with a range of EUR240-260/tonne. This yields a spread of EUR270-425/m³.

Ethanol prices and margins



Source: Platts, Reuters, CME, in EUR/m3

Biomethane prices likely to rise further

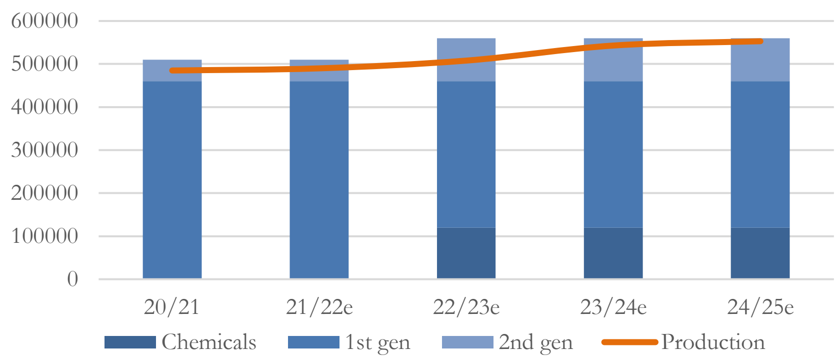
With regard to biomethane we currently observe two trends: firstly, the gas price has more than doubled from EUR36/MWh at the beginning of July to EUR85/MWh at the end of September 2021. This should clearly have a positive effect on the value of Verbio's physical biomethane. In addition, the CO_2 reduction certificates associated to the biomethane have traded close to the penalty companies have to pay if they are not able to fulfil their quota requirements. This penalty is now being raised from EUR470/tonne CO_2 to EUR620/tonne CO_2. In view of the limited availability of product to fulfil in particular the obligations with regard to advanced biofuels further price increases up to the new penalty appear possible. Translating this into the price that can be realised per kWh of biomethane we would expect a range of 13-19EURcts, which should give a further boost to Verbio's profitability.

VERBIO'S GROWTH STRATEGY

Shifting traditional biodiesel to chemicals and expanding in 2nd generation

We feel that Verbio's expansion plans perfectly suit the above described market trends. With regard to biodiesel it should be highlighted that the company's results give clear evidence of the fact it counts among the cost leaders in the industry. This should secure profitability even if margins should come under pressure. Moreover, the company currently invests in two sites, one producing the catalyst for a metathesis and one for an ethenolysis, which together allow for a conversion the company's RME into chemical products such as 9-DAME, 1-Decene and Hepten, thereby serving the chemical industry with products such as green solvents for soaps or cosmetics. This would complement the company's glycerine and sterol sales to the chemical industry and would reduce its first-generation biodiesel production by around 120,000 tonnes in this first step. Finally, the company has decided to double its existing waste-based biodiesel production in Schwedt to 100,000 tonnes, thereby further addressing the second-generation part of the market.

Biodiesel capacity and production in Germany

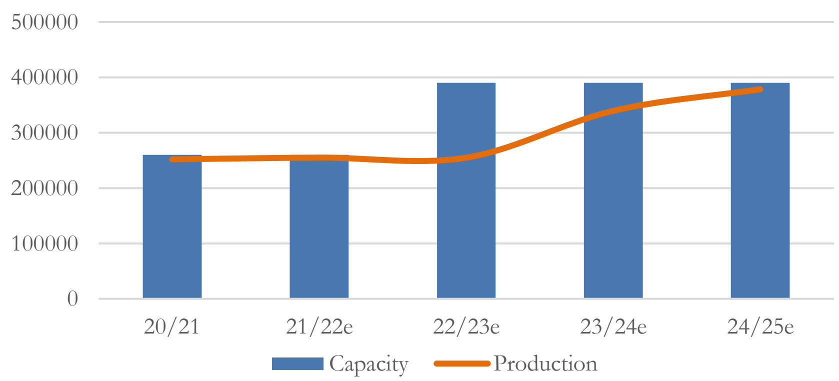


Source: Matelan Research, in tonnes

German bioethanol capacity increases by 50%

In bioethanol, the company has announced to increase its German capacity of 260,000 tonnes by 50% until mid-2023, adding 130,000 tonnes. This is in line with their expected market growth. As the company is using the mash from the ethanol production as an input factor for its biomethane production, this growth is additionally spurring growth in advanced biofuels.

Bioethanol capacity and production in Germany

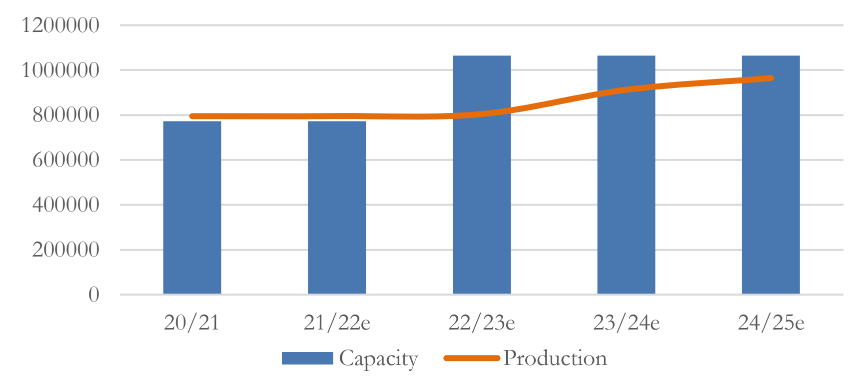


Source: Matelan Research, in tonnes

German biomethane capacity should reach 120MW by mid-2023

On top of the additional biomethane that can be produced from the capacity increase in bioethanol, Verbio has decided to double its biomethane capacity from straw in Pinnow to 40 MW by mid-2023. Total biomethane capacity in Germany should then amount to 120MW. Verbio has already made it clear that it intends to exploit further ways of marketing their biomethane in future. Firstly, the company has already invested in two own filling station, where the gas is currently sold as CNG, and this number is expected to rise to 20. The next big step is the planned entry into the European BioLNG market. Here, the company invests in a 60,000 tonnes liquefaction facility in Zörbig which shall be ready by mid-2023. Serving the European market for gas driven heavy-duty vehicles would require an additional scaling of the company's biomethane capacities.

Biomethane capacity and production in Germany

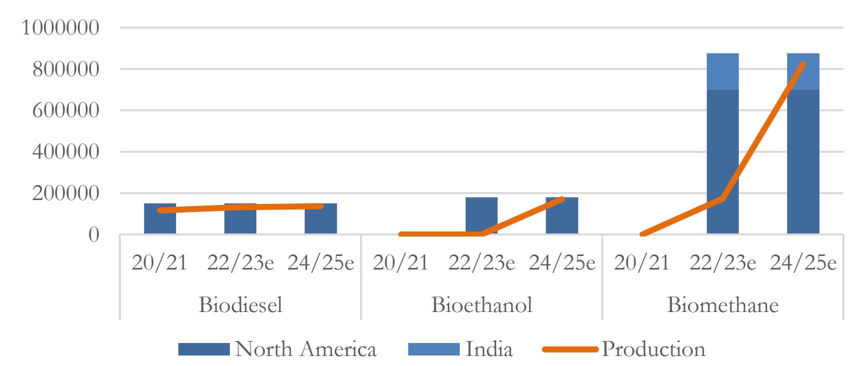


Source: Matelan Research, in MWh

Internationalisation in full swing

While Verbio has recently shifted its investment focus back to Germany as a result of the country's improved regulatory framework, the company's internationalisation plans remain in full swing. Verbio has just finished the construction of two 20MW biomethane plants, one in the US and one in India. First volumes have already been produced and the ramp-up is in progress. In addition, construction of a 60m gallon ethanol site in the US is in progress and shall be finished by the end of 2022. US biomethane capacity will grow on the base of the expansion of bioethanol to reach 80MW. In contrast, expansion in India depends on increasing profitability and any scaling shall be executed together with the Indian partner IndianOil.

Capacity and production of overseas projects



Source: Matelan Research, in tonnes, biomethane in MWh

Further projects in the pipeline

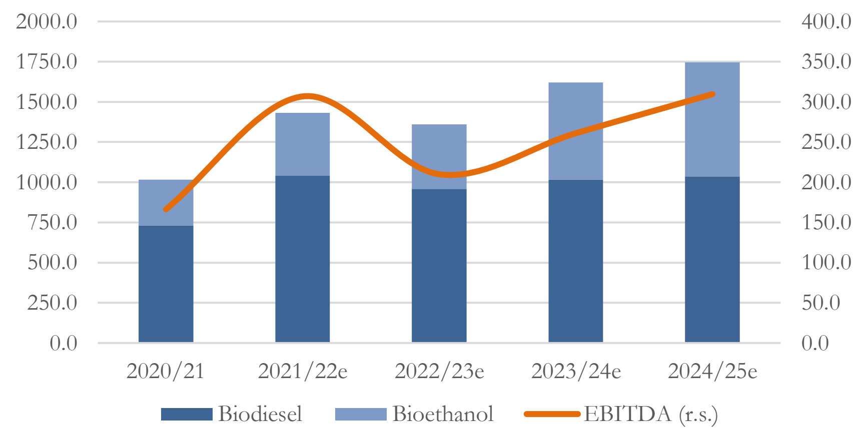
All of the above-described projects are part of the current investment plan which runs up to mid-2023. Investment decisions have been made and construction is in progress. However, management has already made it clear that this is only the first phase of its expansion and follow-up investments will be presented most likely Q2 2022. As already highlighted, the exploitation of the European BioLNG market requires additional biomethane sites. Moreover, management has declared synthetic fuels as a field of major interest. The company intends to use the CO_2 generated in the production of its biomethane from straw as a by-product and convert this into gas (CH4) through the addition of renewable hydrogen. This qualifies as synthetic fuel and thus also belongs to the growth part of the market. The company now intends to take an investment decision for a pilot plant. The market for biofuels is becoming a global business and Verbio is opening a trading desk in the US to take advantage of differences in the local markets. Arbitrage opportunities might thus be exploited. In addition, a potential decision of the EU to enable a cross border transport of biomethane (without losing the incentive) and the prospect of two LNG terminals being built in Germany would further facilitate Verbio's business model.

FINANCIAL DEVELOPMENT

More than EUR200m in EBITDA should be sustainable

Combining sustainable margins with the company's growth ambitions builds the base for estimating Verbio's future earnings and cash flows. The following chart illustrates sales and EBITDA development for the coming years. It becomes clear that the year 2021/22 is an exceptional year and from today's perspective it does not seem likely that this performance can be repeated in 2022/23. However, not too long ago, in our Verbio Report from August 2020, we highlighted that an EBITDA level of EUR200m could be possible by the year 2024/25. This level will obviously be surpassed in 2021/22 but more importantly, we now believe that already in 2022/23, this level will be beaten on a sustainable level.

Sales by division and EBITDA projection



Source: Matelan Research, in EURm

Expansion drives EBITDA to the next peak

This is the major revision of our estimates. Although 2022/23 should see some decline in sales and EBITDA compared to 2021/22, we expect both to settle at a much higher level now compared to our previous forecasts. This is also true for subsequent years. In fact, we believe that in 2024/25 Verbio should reach a sustainable EBITDA level that is ahead of the current very exceptional year.

Additional upside is possible

And once again, we do not deem our estimates to be overly ambitious. Firstly, as markets continue to be tight, extreme price peaks might reoccur, which is not part of our planning. Moreover, Verbio has given evidence of the fact that it can produce superior margins compared to the "normal" market spread due to its flexibility on the raw material side but also resulting from its ability to serve its customers with a broad range of products that fulfil their quota requirements. Finally, this projection does not yet include the upcoming phase two of the company's investment plan. Given the multitude of opportunities in the market, a further step-up of our estimates remains likely.

Political tensions are rather upside than risk to Verbio's financials

With regard to valuation, the market has been preoccupied recently with the political tensions in Eastern Europe and a potential rise in interest rates. While such events tend to affect shares as an asset class in general, the economic impact varies depending on the individual exposure of companies to such events. A further escalation of the Ukraine crisis could lead to an economic slowdown as well as rising oil and gas prices. Verbio has only a very limited exposure to economic cycles as regulation is the main driver of demand. Higher oil and gas prices might lead to a lower use of these fuels and thus negatively affect overall volumes. However, biofuels would become more competitive and we would expect their market share to rise, in particular on the bioethanol and biomethane side. There would even be room for additional price increases. Higher wheat prices should go against this trend but this is affecting only part of Verbio's operations and we had already highlighted the company's flexibility on the feedstock side. In view of these factors we believe that it is fair to say that the situation in the Ukraine does not present a major risk to Verbio's financials.

Reflecting potential rise in interest rates

On the interest rate side, we see Europe more hesitant compared to the United States and the prospect of an economic slowdown resulting from the above described political tensions does not increase the likelihood of sizeable rate rises. If rates would still come up, Verbio's financials would even benefit marginally due to their net cash position. However, cash flows would also be discounted at a higher rate, yielding a negative impact on valuation. Reflecting some risk on this side, we raise the discount rate in our DCF model by 0.5 percentage points.

DCF Model

EURm	2019/20	2020/21	2021/22e	2022/23e	2023/24e	2024/25e	2025/26e	2026/27e	2027/28e	2028/29e	2029/30e	2030/31e	TV
Sales	872.4	1,026.4	1,442.2	1,365.6	1,625.0	1,750.2	2,012.7	2,314.6	2,661.8	3,061.1	3,520.2	4,048.3	4,129.2
Growth	*11.9%*	*17.6%*	*40.5%*	*-5.3%*	*19.0%*	*7.7%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*	*2.0%*
EBIT	91.9	136.6	275.8	176.9	219.4	262.5	301.9	347.2	399.3	459.2	528.0	607.2	619.4
Margin	*10.5%*	*13.3%*	*19.1%*	*13.0%*	*13.5%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*
Depreciation	30.2	29.7	31.0	34.0	41.4	45.6	53.5	62.9	73.8	86.6	101.6	119.2	123.9
Other non cash items	-3.2	19.5	20.0	20.0	11.4	5.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash taxes	-13.5	-44.5	-82.4	-52.6	-64.0	-75.3	-85.0	-95.9	-108.2	-122.0	-137.5	-155.0	-154.8
Change in NWC	-33.7	-24.2	-50.9	9.4	-26.6	-9.3	-24.0	-26.6	-29.5	-32.7	-36.1	-52.8	-8.1
Capex	-67.7	-66.9	-150.0	-150.0	-105.6	-105.0	-110.7	-115.7	-119.8	-122.4	-105.6	-121.4	-123.9
Free Cash Flow	**4.0**	**50.2**	**43.4**	**37.7**	**75.9**	**123.8**	**135.8**	**171.8**	**215.6**	**268.7**	**350.4**	**397.2**	**456.4**
PV of Free Cash Flows (EV)		**5,370.4**	41.2	33.9	64.8	100.2	104.2	125.1	148.9	176.0	217.7	234.0	4,124.5

- Net financial debt	100.0
- Pension provisions	-0.1
- Minorities	-2.0
+ Participations	2.8
Equity Value	**5,471.1**
No of shares	63.0
Fair Value per share	**86.8**

Risk free rate	1.0%	TV:	5.0%
Share of debt	0.0%	TV:	20.0%
Credit spread	1.5%	Risk premium	4.0%
Cash tax rate	25.0%	Beta	1.1
WACC	**5.4%**	TV:	**8.5%**

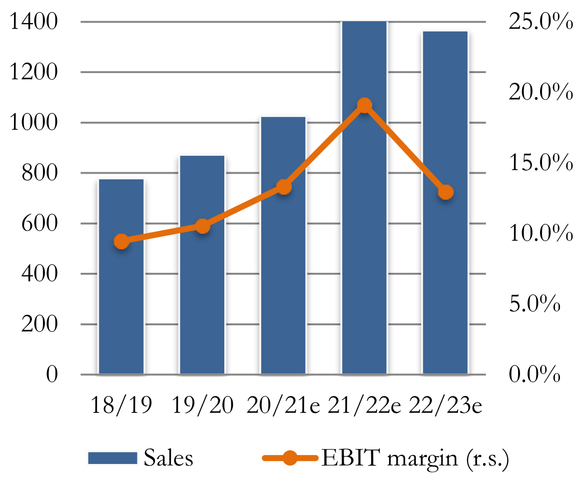
TV growth rate	2.0%
TV EBIT margin	15.0%
TV depr. ratio	3.0%
TV NWC ratio	10.0%
TV capex ratio	3.0%

Source: Matelan Research, in EURm

Higher sustainable earnings still drive valuation to EUR86.8

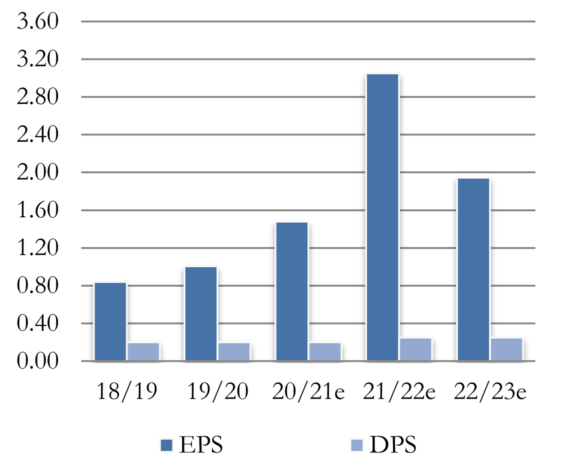
In fact, reflecting the more positive outlook on sustainable earnings drives our valuation more than what we take out due to the higher discount rate. Excluding the interest rate move, our valuation would have increased beyond EUR90. Stripping out this effect still leaves us with a new fair value of EUR86.8. This is important as in the case of Verbio the market appears to have over-reacted on political as well as interest rate fears and driven down the share price from EUR74 to now EUR55. With 60% upside, this represents an interesting buying opportunity again.

Sales and EBIT margin



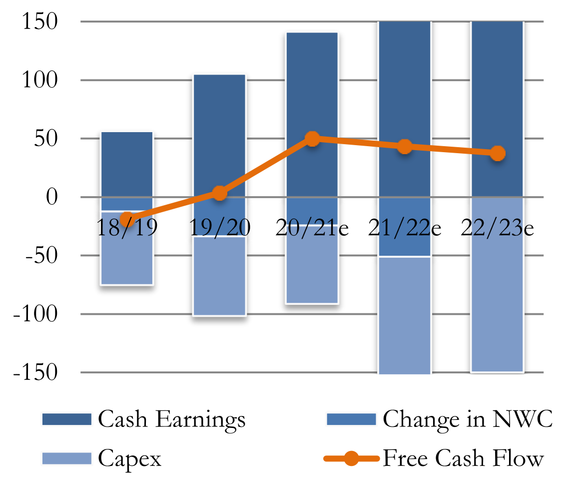
In EURm

Adj. EPS and DPS



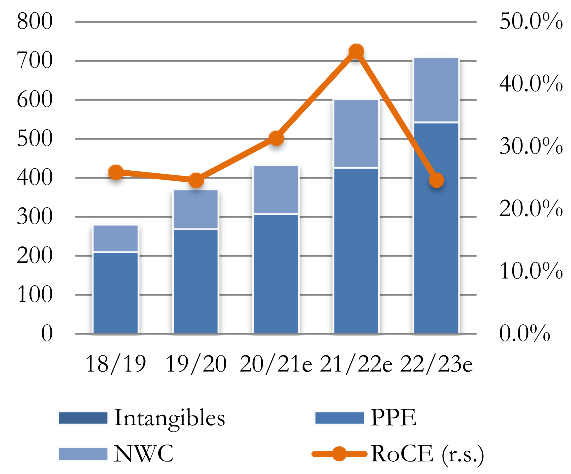
In EUR

Cash Flow



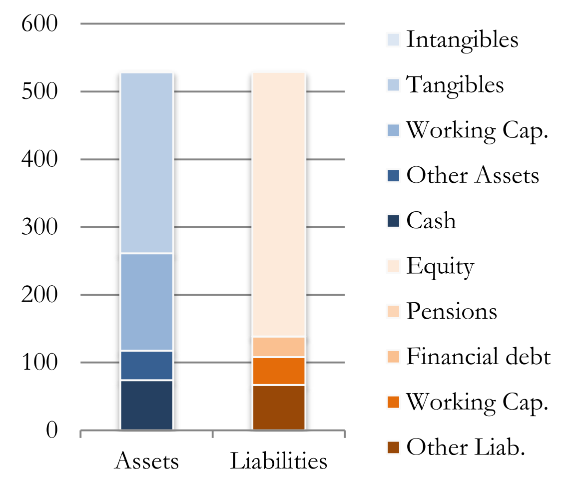
In EURm

RoCE



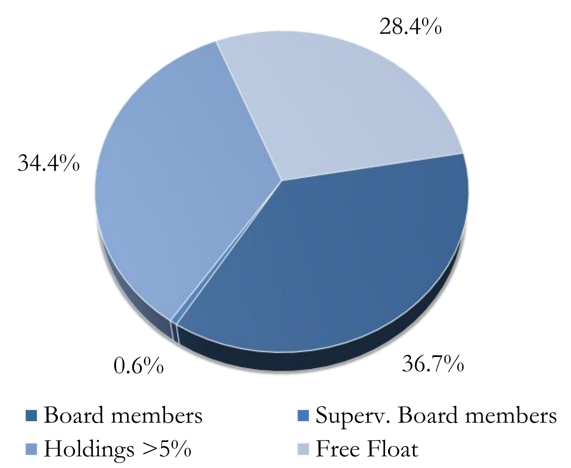
In EURm

Balance Sheet



In EURm, 2020/21

Shareholder structure



P & L

EURm	2018/19	2019/20	2020/21	2021/22e	2022/23e
Sales	**779.3**	**872.4**	**1,026.4**	**1,442.2**	**1,365.6**
Growth		*11.9%*	*17.6%*	*40.5%*	*-5.3%*
Material costs	-618.4	-673.5	-754.4	-1,005.4	-1,071.7
Gross profit	**160.9**	**198.9**	**272.0**	**436.8**	**293.9**
Gross margin	*20.7%*	*22.8%*	*26.5%*	*30.3%*	*21.5%*
Other operating costs	-28.6	-31.9	-51.2	-73.0	-24.0
EBITDA	**95.1**	**122.1**	**166.3**	**306.8**	**210.9**
Margin	*12.2%*	*14.0%*	*16.2%*	*21.3%*	*15.4%*
Depreciation	-21.4	-30.2	-29.7	-31.0	-34.0
EBIT	**73.7**	**91.9**	**136.6**	**275.8**	**176.9**
Margin	*9.5%*	*10.5%*	*13.3%*	*19.1%*	*13.0%*
Financial result	-0.6	-0.9	-1.3	-1.0	-1.7
EBT	**73.1**	**91.0**	**135.4**	**274.8**	**175.2**
Taxes	-21.4	-27.2	-41.8	-82.4	-52.6
Net profit	51.7	63.8	93.5	192.4	122.7
Minorities / Discon. Op.	1.1	-0.4	-0.3	-0.2	-0.2
Net profit a.m.	**52.8**	**63.4**	**93.2**	**192.2**	**122.5**
Growth	*n.m.*	*n.m.*	*n.m.*	*n.m.*	*n.m.*
No of shares	63.0	63.0	63.0	63.0	63.0
EPS	0.84	1.01	1.48	3.05	1.94
Adj. EPS	**0.84**	**1.01**	**1.48**	**3.05**	**1.94**
Growth	*n.m.*	*n.m.*	*n.m.*	*n.m.*	*n.m.*
Dividend	0.20	0.20	0.20	0.25	0.25

Balance Sheet

EURm	2018/19	2019/20	2020/21	2021/22e	2022/23e
Intangible assets	0.9	0.7	0.6	0.6	0.6
Tangible assets	209.3	267.6	306.8	425.8	541.8
Participations	0.1	2.8	2.8	2.8	2.8
Other non-current assets	3.9	2.7	2.1	5.8	6.8
Non-current assets	**214.2**	**273.8**	**312.3**	**435.0**	**552.0**
Inventories	63.1	78.8	101.5	142.6	135.0
Receivables	48.5	64.7	69.6	97.8	92.6
Cash	63.1	73.9	105.0	130.0	145.0
Other current assets	36.1	38.1	90.3	42.0	42.0
Current Assets	**210.8**	**255.4**	**366.3**	**412.3**	**414.6**
Total assets	**424.9**	**529.2**	**678.6**	**847.3**	**966.6**
Equity	339.2	389.1	507.8	687.6	794.5
Minorities	-0.3	1.7	2.0	2.0	2.0
Total equity	**338.9**	**390.8**	**509.9**	**689.6**	**796.5**
LT financial liabilities	0.1	30.1	30.0	30.0	30.0
Pension provisions	0.2	0.1	0.1	0.1	0.1
OtherLT liabilities	6.9	19.1	15.3	19.0	19.0
Non-current liabilities	**7.1**	**49.3**	**45.5**	**49.1**	**49.1**
ST financial liabilities	10.0	0.1	0.0	0.0	0.0
Payables	41.3	41.1	45.4	63.8	60.4
Other ST liabilities	27.6	47.8	77.9	44.9	60.6
Current liabilities	**78.9**	**89.1**	**123.3**	**108.6**	**121.0**
Total liabilities	**424.9**	**529.2**	**678.6**	**847.3**	**966.6**

Cash Flow

EURm	2018/19	2019/20	2020/21	2021/22e	2022/23e
EBIT	**73.7**	**91.9**	**136.6**	**275.8**	**176.9**
Depreciation	21.4	30.2	29.7	31.0	34.0
Other non-cash items	-13.4	-3.2	19.5	20.0	20.0
Cash taxes	-25.2	-13.5	-44.5	-82.4	-52.6
Cash earnings	56.5	105.3	141.4	244.4	178.4
Change in NWC	-12.2	-33.7	-24.2	-50.9	9.4
CF from operations	**44.3**	**71.7**	**117.2**	**193.4**	**187.7**
Capex	-63.0	-68.0	-67.1	-150.0	-150.0
Other investm./divestm.	2.0	0.3	0.1	0.0	0.0
CF from investing	**-61.0**	**-67.7**	**-66.9**	**-150.0**	**-150.0**
CF from fin. and other	**-8.8**	**6.8**	**-19.1**	**-18.5**	**-22.7**
Change in cash	**-25.5**	**10.8**	**31.1**	**25.0**	**15.0**

Segments and adjusted earnings

EURm	2018/19	2019/20	2020/21	2021/22e	2022/23e
Biodiesel	514.5	588.2	729.9	1,041.9	958.9
Bioethanol/-methan	254.7	275.2	286.6	389.1	402.8
Other	16.7	15.8	16.7	17.2	9.8
Consolidation	-6.6	-6.9	-6.8	-6.0	-6.0
Sales	**779.3**	**872.4**	**1,026.4**	**1,442.2**	**1,365.6**
Growth		*11.9%*	*17.6%*	*40.5%*	*-5.3%*
Biodiesel	70.7	46.1	93.2	192.3	121.7
Bioethanol/-methan	23.8	74.0	70.6	112.6	87.4
Other	0.6	2.0	2.5	1.9	1.8
Consolidation	0.0	0.0	0.0	0.0	0.0
EBITDA	**95.1**	**122.1**	**166.3**	**306.8**	**210.9**
Margin	*12.2%*	*14.0%*	*16.2%*	*21.3%*	*15.4%*

Valuation multiples

	2018/19	2019/20	2020/21	2021/22e	2022/23e
Share price	6.56	9.35	27.57	55.00	55.00
x No of shares	63.0	63.0	63.0	63.0	63.0
Market Capitalisation	**413.3**	**589.1**	**1,736.9**	**3,465.0**	**3,465.0**
+ Net financial debt	-53.0	-43.6	-75.0	-100.0	-115.0
+ Pension provision	0.2	0.1	0.1	0.1	0.1
+ Minorities	-0.3	1.7	2.0	2.0	2.0
- Participations	-0.1	-2.8	-2.8	-2.8	-2.8
Enterprise Value	**360.0**	**544.4**	**1,661.2**	**3,364.3**	**3,349.3**
Sales	779.3	872.4	1,026.4	1,442.2	1,365.6
Adj. EBITDA	95.1	122.1	166.3	306.8	210.9
Adj. EBIT	73.7	91.9	136.6	275.8	176.9
Adj. Net profit a.m.	52.8	63.4	93.2	192.2	122.5
EV / Sales	0.5	0.6	1.6	2.3	2.5
EV / EBITDA	3.8	4.5	10.0	11.0	15.9
EV / EBIT	4.9	5.9	12.2	12.2	18.9
PE	7.8	9.3	18.6	18.0	28.3

Key operational indicators

	2018/19	2019/20	2020/21	2021/22e	2022/23e
Equity ratio	79.8%	73.9%	75.1%	81.4%	82.4%
Gearing	0.0	0.1	0.1	0.0	0.0
Asset turnover	3.6	3.2	3.3	3.3	2.5
NWC / sales	9.0%	11.7%	12.2%	12.2%	12.2%
Payable days outst.	19.4	17.2	16.1	16.1	16.1
Receivable days outst.	22.7	27.1	24.7	24.7	24.7
Fix operating assets	214.1	270.9	309.5	432.2	549.2
NWC	70.3	102.4	125.6	176.6	167.2
Capital employed	284.4	373.3	435.1	608.7	716.4
RoE	15.3%	16.3%	18.3%	27.9%	15.4%
RoA	17.3%	17.4%	20.1%	32.5%	18.3%
RoCE	25.9%	24.6%	31.4%	45.3%	24.7%
Gross margin	20.7%	22.8%	26.5%	30.3%	21.5%
EBITDA margin	12.2%	14.0%	16.2%	21.3%	15.4%
EBIT margin	9.5%	10.5%	13.3%	19.1%	13.0%
Net profit margin	6.8%	7.3%	9.1%	13.3%	9.0%

Source: Matelan Research

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Stock ratings for the company covered in this report have developed as follows:

Verbio	
Date	Rating
12/12/18	Buy
09/11/18	Strong Buy
12/02/18	Buy
29/03/16	Neutral
05/02/15	Buy
10/02/12	Neutral

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