

24 September 2020

Price as of 23/09/20: €17.64

Company / Sector

Verbio

Energy: Biofuels

Fair Value

€20.5

(€20.3)

Recommendation

Buy

(unchanged)

Record earnings shall be topped already in FY2020/21

Share price performance



Share data

Reuters	VBKG.DE
No. of shares (m)	63.0
Daily volume (3m)	104,368
Free float	28.1%
Market cap. (m)	1,111.3
EV (m)	1,069.4
Sales 16/17-20/21e	9.5%

Valuation	20/21e	21/22e
EV/Sales	1.2	1.1
EV/ EBITDA	8.0	7.5
EV/EBIT	10.2	9.5
PER	15.5	14.7
Div. yield	1.2%	1.4%
RoCE	25.0%	23.8%
RoE	16.0%	14.8%

Analysts

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Investment case

FY2019/20 ended with a surprisingly strong performance from Verbio's bioethanol activities. FY 2020/21 is now set to bring new record highs. We have raised our EBITDA estimate to EUR133m of which we expect Q1 to produce EUR50m, already. While the strong pricing situation is expected to normalise, international expansion ensures ongoing growth. Based on our revised estimates, we arrive at a fair value of EUR20.5, which still yields more than 15% upside even after the strong run of the share.

➤ STRONG Q4 IN BIOETHANOL

The strong performance of Verbio in the 4th quarter was mainly attributable to the bioethanol activities. While biodiesel matched our estimates, bioethanol produced an EBITDA more than twice as high as we had anticipated. Better pricing and gains from the sale of disinfectants appear to be the main reasons for the difference.

➤ NEW RECORD HIGHS IN 2020/21

Based on current price developments as well as operational improvements, FY 2020/21 should already bring the next record highs. We have raised our EBITDA estimate for this year to EUR133m and we expect the upcoming Q1 reporting to disclose a new quarterly record of EUR50m in EBITDA.

➤ INTERNATIONAL EXPANSION DRIVES GROWTH

Although biofuel prices should ultimately normalise, we expect this to be compensated for by the company's expansion. Projects currently under construction will commence production in summer 2021. At the same time, the entry into the European BioLNG market is planned. The expansion of its global biofuel capacities should be finished in 2022. The company is thus clearly on track to reach EUR200m in EBITDA in the coming years.

For additional disclosures please refer to the appendix

Forecasts	17/18	18/19	19/20	20/21e	21/22e
Sales (€m)	685.9	779.3	872.4	920.7	985.2
EBITDA (€m)	44.8	95.1	122.1	133.0	140.3
EBIT (€m)	22.4	73.7	91.9	105.0	110.3
Adj. EPS (€)	0.24	0.84	1.01	1.14	1.20
Dividend (€)	0.20	0.20	0.20	0.22	0.25
Oper. CF (€m)	11.1	44.3	71.7	96.4	100.2
Free CF (€m)	-14.1	-18.7	3.7	11.4	35.2

Q4 19/20 review

EURm	Q4 19/20	Q4 19/20e	Q4 18/19	Change	FY 19/20	FY 20/21e old	FY 20/21 new
Biodiesel	147.1	131.7	128.8	14.2%	588.2	588.4	588.9
Bioethanol	64.0	68.0	74.1	-13.6%	275.2	279.7	321.6
Other	2.0	3.2	2.7	-25.9%	9.0	10.2	10.2
Sales	213.1	202.9	205.6	3.6%	872.4	878.3	920.7
Gross profit	45.5	34.7	35.6	27.8%	198.9	204.6	215.0
<i>Margin</i>	<i>21.4%</i>	<i>17.1%</i>	<i>17.3%</i>		<i>22.8%</i>	<i>23.3%</i>	<i>23.4%</i>
Biodiesel	3.0	3.7	-1.0	n.m.	46.1	51.9	52.9
Bioethanol	21.8	10.5	11.2	94.6%	74.0	58.3	79.2
Other	0.2	-1.0	0.5	n.m.	2.0	0.4	0.9
EBITDA	25.0	13.2	10.7	133.6%	122.1	110.6	133.0
<i>Margin</i>	<i>11.7%</i>	<i>6.5%</i>	<i>5.2%</i>		<i>14.0%</i>	<i>12.6%</i>	<i>14.4%</i>
EBIT	16.0	6.3	5.2	207.7%	91.9	82.6	105.0
<i>Margin</i>	<i>7.5%</i>	<i>3.1%</i>	<i>2.5%</i>		<i>10.5%</i>	<i>9.4%</i>	<i>11.4%</i>
Net Profit a.m.	13.6	2.5	2.7	403.7%	63.4	56.2	71.9

Source: Verbio, Matelan Research estimates

Strong performance of bioethanol/biomethane in Q4 2019/20

In an ad-hoc statement on September, 4th, Verbio had announced that according to preliminary figures an EBITDA of EUR122m was reached in the financial year 2019/20. On September, 18th, a guidance of EUR130m for the financial year 2020/21 was issued. We had adjusted our figures accordingly. In evaluating the performance of the 4th quarter, we are still looking at our estimates that we published with our company report on August, 21st, i.e. before the release of preliminaries. In fact, group EBITDA in Q4 came in almost twice as high as we had assumed. While production in both divisions was lower than we had anticipated due to a rather slow recovery from the low activities on German roads resulting from the lockdown, sales and profitability in particular in the bioethanol division came in clearly better than anticipated. Obviously, pricing was stronger than we had assumed, which we would attribute not only to bioethanol but also quota prices. Moreover, the sale of disinfectants should also have had a strongly positive impact.

2020/21 guidance of EUR130m in EBITDA well achievable

In our report, we had argued that in 2020/21, in particular the production increase in sterols, high quota prices throughout the year and an improving contribution from the new sites should compensate for a normalisation of prices in particular in bioethanol so that the expected record earnings level in 2019/20 of EUR110m in EBITDA could be maintained in 2020/21. Now, the company has delivered already EUR122m for 2019/20 and prices have not come down but even moved further up in the first quarter. Against this background, the new guidance of EUR130m in EBITDA for 2020/21 does not appear to be aggressive. Still accounting for some moderation on the price side in H2, we arrive at EUR133m.

Excellent start into the new financial year expected

Current market trends should give the company an excellent start into the new financial year. Ethanol prices currently trade in excess of EUR800 per cubic meter and biodiesel has recovered from the dip in Q4. Moving to the winter specification will now give an additional boost to biodiesel pricing. Based on the price development in the first quarter so far, we arrive at an EBITDA estimate of EUR50.1m, which would be the next record in the company's quarterly earnings history and account for almost 40% of our estimate for the full year.

Further growth triggered by market entry into BioLNG ...

For subsequent years, management has elaborated on its growth ambitions. With regard to the European BioLNG market, the company expects the number of gas driven trucks in Germany to rise from 4,604 in June 2020 to approximately 55,000 by the end of 2023. The predominant part will be LNG truck and a total of roughly 18,000GWh of methane should be consumed at that point in time. From Q3 2021 onwards, Verbio plans to sell roughly half of its biomethane production as BioLNG. While so far, Verbio serves only the German market, the entry into BioLNG will allow the company to cross borders and serve the entire European market. Investment costs are estimated at EUR10m and capacity is expected to move up from 750GWh to 900GWh in 2020/21. Management is currently looking for additional locations, in particular in Eastern Europe. It is intended to increase capacity to 2,000GWh in the calendar year 2022.

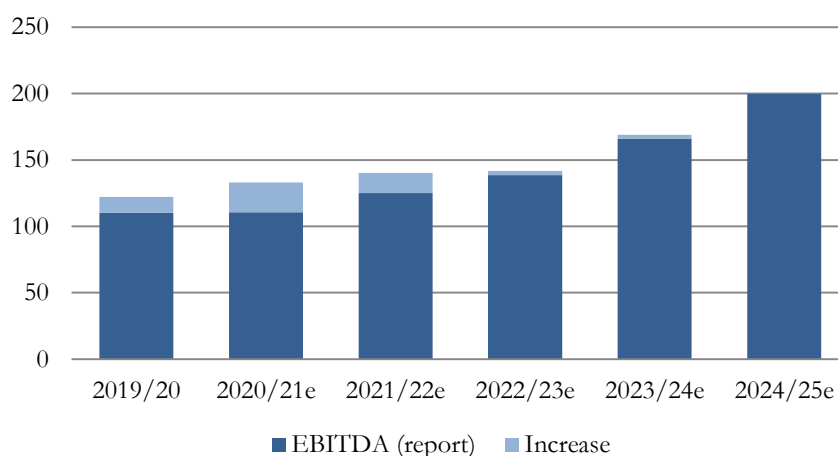
.. and expansion of global capacities

In Iowa, the biomethane plant currently under construction shall commence production in summer 2021. In addition, a biorefinery similar to the operation in Schwedt will be developed, there. Total bioethanol capacity is targeted to come to 400,000mt in the calendar year 2022. Investment costs for the expansion will amount to USD70m. In Canada, biodiesel capacity shall be doubled to give the group a total of 800,000mt in the calendar year 2022. Expansion and the planned optimisation measures for the existing facility should cost USD40m.

Increase in estimates

Statements made during the conference call were largely in line with the scenario we had presented in our latest report. Targeted capacities for 2022 are marginally below the figures we have in our model but we have been cautious with regard to timing and the ramp-up so that there is no impact on our estimates, here. On the other hand, indicated investments are a bit higher in the near term but in total somewhat lower. Here again, we make only small changes and remain on the prudent side. With regard to EBITDA, the company has surpassed our estimates for 2019/20 and higher prices lead to increases in our estimates for 2020/21, and to a lesser extend for 2021/22. Later years are affected only marginally as we expect prices to return to normal levels. We still expect that the company's growth projects will drive EBITDA to EUR200m in the coming years.

Change in EBITDA



Source: Verbio, Matelan Research estimates

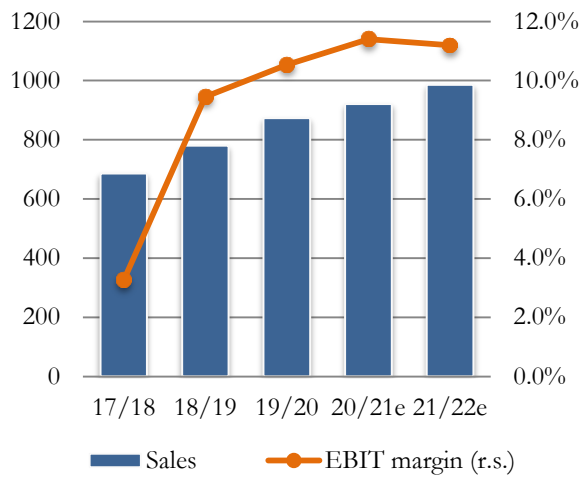
Expansion financed from cash flow – net cash position retained

At the end of the financial year 2019/20, Verbio had a net cash position of EUR56m on its balance sheet. Investments for the expansion should be paid from cash flow. The company's net cash position should thus be retained in the current year. Our calculations yield EUR53m while management guides for EUR50m. For 2021/22, we even expect an increase to EUR72m.

Fair value comes to EUR20.5

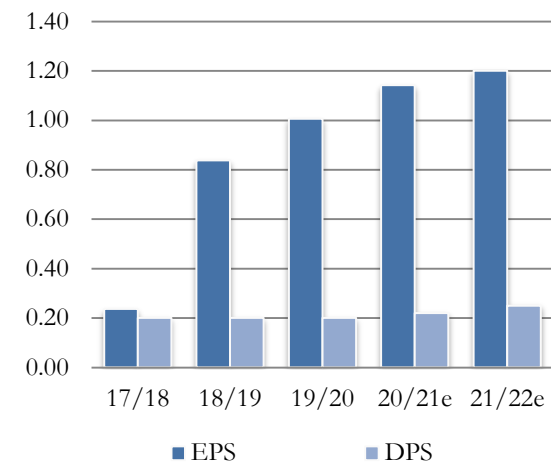
Based on the above described changes, we arrive at a fair value of EUR20.5. This differs only marginally from the preliminary calculations we presented in our latest note and which indicated a fair value of EUR20.3. Despite the strong share price run over the past weeks, we are still looking at an upside of more than 15% and we still see room for further upgrades.

Sales and EBIT margin



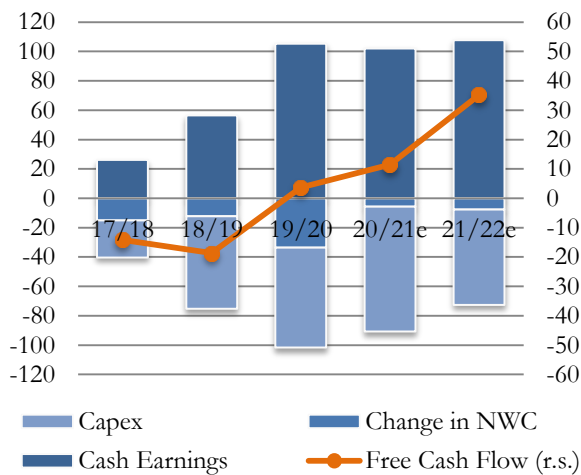
In EURm

Adj. EPS and DPS



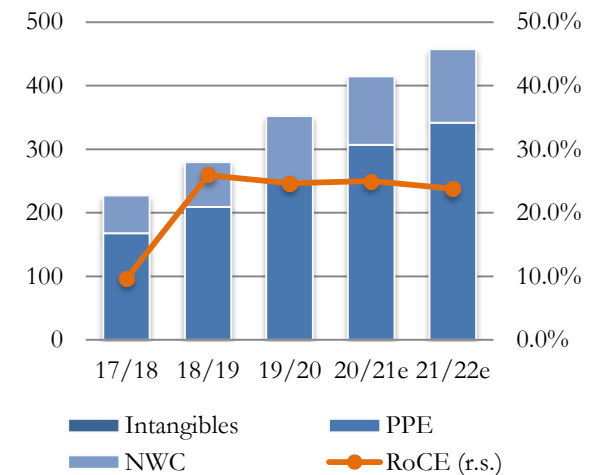
In EUR

Cash Flow



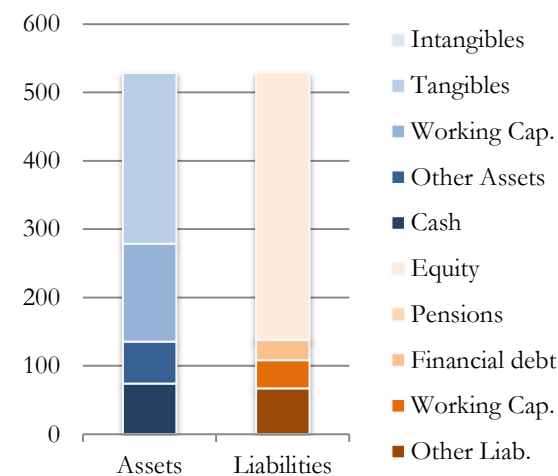
In EURm

RoCE



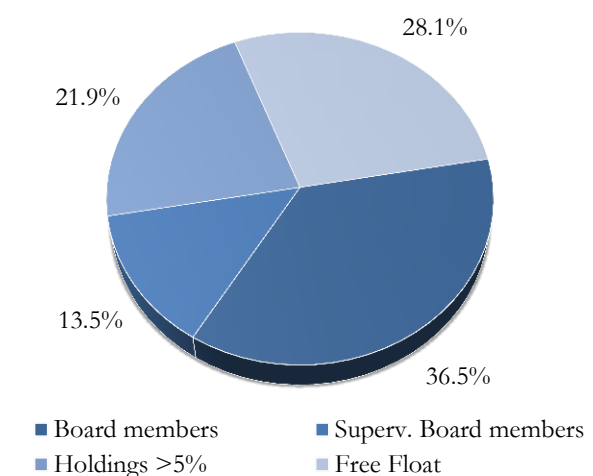
In EURm

Balance Sheet



In EURm

Shareholder structure



P & L

EURm	2017/18	2018/19	2019/20	2020/21e	2021/22e
Sales	685.9	779.3	872.4	920.7	985.2
<i>Growth</i>		13.6%	11.9%	5.5%	7.0%
Material costs	-591.0	-618.4	-673.5	-705.7	-765.1
Gross profit	94.9	160.9	198.9	215.0	220.1
<i>Gross margin</i>	13.8%	20.7%	22.8%	23.4%	22.3%
Other operating costs	-23.4	-28.6	-31.9	-37.0	-35.8
EBITDA	44.8	95.1	122.1	133.0	140.3
<i>Margin</i>	6.5%	12.2%	14.0%	14.4%	14.2%
Depreciation	-22.4	-21.4	-30.2	-28.0	-30.0
EBIT	22.4	73.7	91.9	105.0	110.3
<i>Margin</i>	3.3%	9.5%	10.5%	11.4%	11.2%
Financial result	-0.2	-0.6	-0.9	-2.0	-2.0
EBT	22.2	73.1	91.0	103.0	108.3
Taxes	-7.1	-21.4	-27.2	-30.9	-32.5
Net profit	15.1	51.7	63.8	72.1	75.8
Minorities / Discon. Op.	-0.2	1.1	-0.4	-0.2	-0.2
Net profit a.m.	14.9	52.8	63.4	71.9	75.6
<i>Growth</i>	n.m.	n.m.	n.m.	n.m.	n.m.
No of shares	63.0	63.0	63.0	63.0	63.0
EPS	0.24	0.84	1.01	1.14	1.20
Adj. EPS	0.24	0.84	1.01	1.14	1.20
<i>Growth</i>	n.m.	n.m.	n.m.	n.m.	n.m.
Dividend	0.20	0.20	0.20	0.22	0.25

Cash Flow

EURm	2017/18	2018/19	2019/20	2020/21e	2021/22e
EBIT	22.4	73.7	91.9	105.0	110.3
Depreciation	22.4	21.4	30.2	28.0	30.0
Other non-cash items	-5.1	-13.4	-3.2	0.0	0.0
Cash taxes	-13.6	-25.2	-13.5	-30.9	-32.5
Cash earnings	26.1	56.5	105.3	102.1	107.8
Change in NWC	-15.0	-12.2	-33.7	-5.7	-7.6
CF from operations	11.1	44.3	71.7	96.4	100.2
Capex	-25.2	-63.0	-68.0	-85.0	-65.0
Other investm./divestm.	2.1	2.0	0.3	0.0	0.0
CF from investing	-23.1	-61.0	-67.7	-85.0	-65.0
CF from fin. and other	-14.2	-8.8	6.8	-13.9	-15.9
Change in cash	-26.2	-25.5	10.8	-2.5	19.3

Valuation multiples

	2017/18	2018/19	2019/20	2020/21e	2021/22e
Share price	7.28	6.56	9.35	17.64	17.64
x No of shares	63.0	63.0	63.0	63.0	63.0
Market Capitalisation	458.6	413.3	589.1	1,111.3	1,111.3
+ Net financial debt	-88.2	-53.0	-43.6	-41.1	-60.4
+ Pension provision	0.2	0.2	0.1	0.2	0.2
+ Minorities	1.2	-0.3	1.7	1.8	1.9
- Participations	-0.1	-0.1	-2.8	-2.8	-2.8
Enterprise Value	371.8	360.0	544.4	1,069.4	1,050.2
Sales	685.9	779.3	872.4	920.7	985.2
Adj. EBITDA	44.8	95.1	122.1	133.0	140.3
Adj. EBIT	22.4	73.7	91.9	105.0	110.3
Adj. Net profit a.m.	14.9	52.8	63.4	71.9	75.6
EV / Sales	0.5	0.5	0.6	1.2	1.1
EV / EBITDA	8.3	3.8	4.5	8.0	7.5
EV / EBIT	16.6	4.9	5.9	10.2	9.5
PE	30.7	7.8	9.3	15.5	14.7

Source: Verbio, Matelan Research

Balance Sheet

EURm	2017/18	2018/19	2019/20	2020/21e	2021/22e
Intangible assets	0.3	0.9	0.7	0.7	0.7
Tangible assets	168.0	209.3	249.8	306.8	341.8
Participations	0.1	0.1	2.8	2.8	2.8
Other non-current assets	3.4	3.9	20.5	4.8	5.8
Non-current assets	171.7	214.2	273.8	315.0	351.0
Inventories	45.2	63.1	78.8	83.2	89.0
Receivables	45.2	48.5	64.7	68.3	73.1
Cash	88.6	63.1	73.9	71.4	90.7
Other current assets	15.3	36.1	38.1	38.0	38.0
Current Assets	194.2	210.8	255.4	260.8	290.7
Total assets	366.0	424.9	529.2	575.9	641.8
Equity	299.0	339.2	389.1	448.6	510.6
Minorities	1.2	-0.3	1.7	1.8	1.9
Total equity	300.2	338.9	390.8	450.4	512.5
LT financial liabilities	0.0	0.1	30.1	30.1	30.1
Pension provisions	0.2	0.2	0.1	0.2	0.2
Other LT liabilities	7.5	6.9	19.1	7.5	7.5
Non-current liabilities	7.7	7.1	49.3	37.8	37.8
ST financial liabilities	0.4	10.0	0.1	0.1	0.1
Payables	31.2	41.3	41.1	43.4	46.4
Other ST liabilities	26.5	27.6	47.8	44.1	44.9
Current liabilities	58.1	78.9	89.1	87.6	91.5
Total liabilities	366.0	424.9	529.2	575.9	641.8

Segments and adjusted earnings

EURm	2017/18	2018/19	2019/20	2020/21e	2021/22e
Biodiesel	456.8	514.5	588.2	588.9	665.9
Bioethanol/-methan	219.1	254.7	275.2	321.6	308.1
Other	15.7	16.7	16.2	16.2	17.2
Consolidation	-5.7	-6.6	-7.2	-6.0	-6.0
Sales	685.9	779.3	872.4	920.7	985.2
<i>Growth</i>		13.6%	11.9%	5.5%	7.0%
Biodiesel	24.5	70.7	46.1	52.9	63.0
Bioethanol/-methan	19.9	23.8	74.0	79.2	77.2
Other	0.4	0.6	2.0	0.9	0.1
Consolidation	0.0	0.0	0.0	0.0	0.0
EBITDA	44.8	95.1	122.1	133.0	140.3
<i>Margin</i>	6.5%	12.2%	14.0%	14.4%	14.2%

Key operational indicators

	2017/18	2018/19	2019/20	2020/21e	2021/22e
Equity ratio	82.0%	79.8%	73.9%	78.2%	79.9%
Gearing	0.0	0.0	0.1	0.1	0.1
Asset turnover	4.0	3.6	3.2	2.9	2.8
NWC / sales	8.6%	9.0%	11.7%	11.7%	11.7%
Payable days outst.	16.6	19.4	17.2	17.2	17.2
Receivable days outst.	24.1	22.7	27.1	27.1	27.1
Fix operating assets	171.7	214.1	270.9	312.2	348.2
NWC	59.2	70.3	102.4	108.0	115.6
Capital employed	230.9	284.4	373.3	420.3	463.8
RoE	5.0%	15.3%	16.3%	16.0%	14.8%
RoA	6.1%	17.3%	17.4%	18.2%	17.2%
RoCE	9.7%	25.9%	24.6%	25.0%	23.8%
Gross margin	13.8%	20.7%	22.8%	23.4%	22.3%
EBITDA margin	6.5%	12.2%	14.0%	14.4%	14.2%
EBIT margin	3.3%	9.5%	10.5%	11.4%	11.2%
Net profit margin	2.2%	6.8%	7.3%	7.8%	7.7%

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Neutral:	37.5%
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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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