

05 February 2016

Price as of 04/02/16: €5.83

Company / Sector	Fair Value	Recommendation
Verbio	€6.5	Buy
Energy: Biofuels	(€6.1)	(unchanged)

Strong underlying Q2 trends drive fair value further

Share price performance



Share data

Reuters	VBKG.DE
No. of shares (m)	63.0
Daily volume (3m)	89,991
Free float	31.5%
Market cap. (m)	367.3
EV (m)	310.2
Sales 13-17e	-2.3%

Valuation	2015e	2016e
EV/Sales	0.5	0.4
EV/ EBITDA	4.1	4.0
EV/EBIT	5.9	6.2
PER	8.5	10.4
Div. yield	2.6%	2.6%
RoCE	25.5%	22.6%
RoE	17.6%	13.0%

Analysts

Hartmut Moers
 Tel.: +49 228 227 99 240
 hartmut.moers@matelan.de

Peter Wirtz
 Tel.: +49 176 561 63 585
 peter.wirtz@matelan.de

Investment case

Based on a closer look at full Q2 accounts, we feel that Verbio's materially raised guidance is still very conservative. Once again, we raise our estimates above company guidance and do not feel uncomfortable. Our new fair value comes to EUR6.5, which already leaves some upside but clearly has room for more. In addition, a free cash flow yield of 15% makes the stock look interesting. We clearly reiterate our Buy rating.

➤ NEW GUIDANCE SHOULD BE BEATEN

Looking into full Q2 accounts we find both divisions making further progress. In particular the ethanol activities make a major jump in profitability. Current trends trigger a further increase in our estimates, even when remaining cautious for the rest of the year. With EUR75m in EBITDA we already arrive at a level ahead of the company's new guidance in a prudent scenario.

➤ CASH KEEPS POURING IN

Verbio already generated EUR33m in free cash in the first half of the year. We now expect more than EUR50m for the full year, driving net cash to EUR58m by year end. This is a cautious estimate in line with company guidance. Next year should see more than EUR100m in net cash.

➤ FAIR VALUE OF EUR6.5 STILL CONSERVATIVE

Our new scenario yields a fair value of EUR6.5. This yields some upside from the current share price but is in no way stretched. Apart from a conservative calculation of the fair value, strategic moves such as acquisitions or expansion could add value.

For additional disclosures please refer to the appendix

Forecasts	12/13	13/14	14/15	15/16e	16/17e
Sales (€m)	705.2	733.8	618.5	651.9	642.9
EBITDA (€m)	3.6	36.2	50.7	75.1	65.4
EBIT (€m)	-122.3	10.9	28.5	52.6	42.4
Adj. EPS (€)	-0.80	0.08	0.43	0.69	0.56
Dividend (€)	0.00	0.00	0.10	0.15	0.15
Oper. CF (€m)	-19.5	76.4	46.6	62.7	57.6
Free CF (€m)	-55.9	68.9	33.1	53.2	52.6

Q2 15/16 results and change in estimates

EURm	Q2 15/16	Q2 14/15	Change	FY 15/16e old	FY 15/16e new	Guidance 15/16
Biodiesel	113.3	94.7	19.6%	403.1	410.0	
Bioethanol	59.1	48.9	20.9%	217.1	232.8	
Other	2.5	2.1	19.0%	3.0	9.1	
Sales	174.9	145.7	20.0%	623.2	651.9	
EBITDA	24.5	11.8	107.6%	60.2	75.1	70.0
<i>Margin</i>	<i>14.0%</i>	<i>8.1%</i>		<i>9.7%</i>	<i>11.5%</i>	
Biodiesel	7.4	5.6	32.1%	22.6	25.6	
<i>Margin</i>	<i>6.5%</i>	<i>5.9%</i>		<i>5.6%</i>	<i>6.2%</i>	
Bioethanol	11.5	0.4	n.m.	12.9	26.4	
<i>Margin</i>	<i>19.5%</i>	<i>0.8%</i>		<i>5.9%</i>	<i>11.3%</i>	
Other	0.4	0.2	n.m.	0.6	0.6	
EBIT	19.3	6.2	211.3%	36.2	52.6	
<i>Margin</i>	<i>11.0%</i>	<i>4.3%</i>		<i>5.8%</i>	<i>8.1%</i>	
Net Profit	13.7	4.7	191.5%	30.4	43.4	

Source: Verbio, Matelan Research, old 15/16 figures refer to our estimates before the release of preliminaries.

Preliminaries already out

Verbio had already released key figures for the first half year and changed its guidance on the basis of strong preliminaries and a positive outlook for the second half of the year. The release of full accounts now allows for a deeper look into the figures and a taking a view on the new guidance, which increased materially from EUR50 to EUR70m in EBITDA, thereby clearly beating our previous estimate of EUR60m.

Further improvements in biodiesel

In fact, the performance of both divisions in the second quarter more than lived up to expectations. In biodiesel, production and pricing rose further from the already strong Q1 levels. Sales thus increased 10% quarter on quarter and EBIT margin came up to 6.5% from 5.8% in Q1.

Ethanol activities show major jump in profitability

The positive trend was even stronger in the bioethanol segment. Though production was still held back somewhat due to some planned maintenance works, sales still came in almost 20% above the Q1 level and the EBIT margin moved from 6.4% in Q1 to 19.5% in Q2. While the company was still hedged in the first quarter, Verbio could take full advantage of the high price levels in the second quarter. Gross margin also further improved due to lower feedstock costs. In fact, Verbio's EBIT margin in the bioethanol division now even tops CropEnergies, which achieved 14.2% in the comparable quarter when taking out the restructuring costs for Wilton.

Raised guidance still looks conservative

On group level, Verbio reached an EBIT margin of 11% and an EBITDA margin of 14%. In absolute terms, this is EUR24.5m in EBITDA after EUR14.6m in the first quarter. For the half year period this adds up to 39.1m, i.e. 56% of the new guidance. Taking into account that the company's order situation points at a high utilisation for the second half of the year, that the margin situation still looks good and that nothing points at a material change of this situation in the coming month, one would conclude that the raised guidance of EUR70m in EBITDA still looks extremely conservative. Another EUR25m in EBITDA in the third quarter would already bring the company close to the guided level.

We already come to EUR75m in EBITDA in a prudent scenario

...

Based on the strong performance of both divisions in the second quarter we have updated our model. While remaining prudent for the second half of the year, we still raise our earnings forecast materially. In biodiesel, we arrive at a slightly higher sales and margin level. In bioethanol, the move is much more pronounced. Even taking the current forward curve into account, we now reach almost twice the previously predicted earnings level. Group EBIT margin should thus reach 8% for the full year. EBITDA should reach EUR75m, even in this still conservative scenario. It should be highlighted that EBITDA would reach almost EUR90m if market conditions would not deteriorate in the coming two quarters.

... and remain cautious for the coming year

Moreover, we have still not changed our price assumptions for the coming year. This means that we still account for a normalisation of the high margin level, in particular on the bioethanol side. A slightly higher profit compared to our previous estimates for 16/17 just comes from improved efficiency levels in both divisions.

More than EUR50m in free cash flow

Apart from earnings, we are also looking at a strong cash flow development. Cash flow from operations reached EUR38.9m with only EUR3.5m coming from changes in working capital. Capex only accounted for EUR6.2m, leaving EUR32.7m in free cash. For the full year we expect the company to generate a free cash flow of EUR53m. Net cash at year end should come to EUR58m, which is in line with the company's expectations.

Fair value comes to EUR6.5

Our revised scenario yields another increase in our fair value to EUR6.5. We have already highlighted that our estimates for 15/16 as well as 16/17 could well be topped. In addition, it needs to be pointed out that our long term assumptions are very conservative. In fact, we have not priced in any growth apart from inflation and our terminal value EBIT margin remains at a decent 5%, i.e. 3pp below the value we assume for the current financial year. We thus see this fair value rather bearing an upside than a risk.

Acquisitions and/or expansion could bring additional upsides

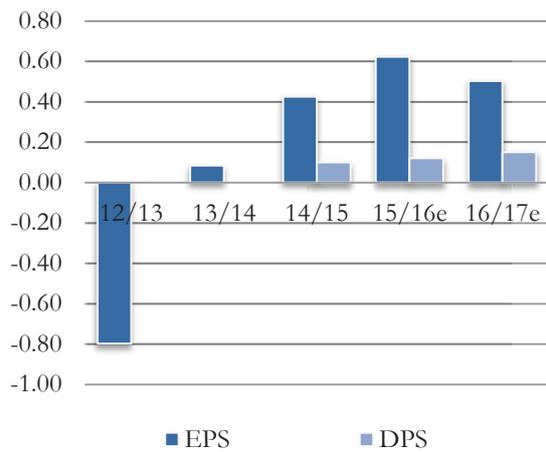
Additional upsides could arise from strategic moves. Firstly, there are currently ample opportunities to invest in companies that are currently in difficulties. So far, Verbio has been very prudent on this side but getting a decent plant in the right location for a reasonable price might be value enhancing. Moreover, the company is still working on an expansion of its biomethane production. Here again, the company will develop this topic in a step-by-step approach, but this is a further means to grow the company and make it increasingly independent from the regulatory framework for biofuels.

Sales and EBIT margin



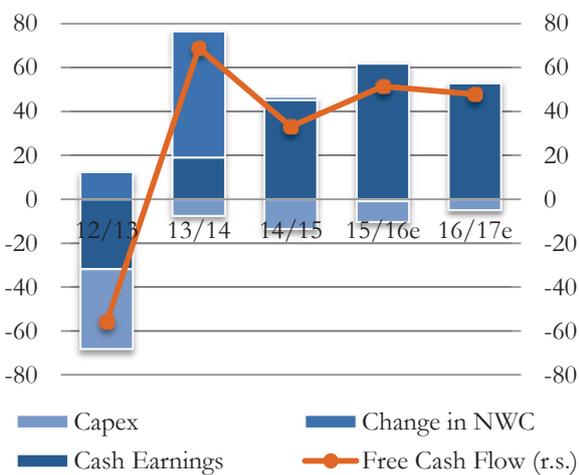
In EURm

Adj. EPS and DPS



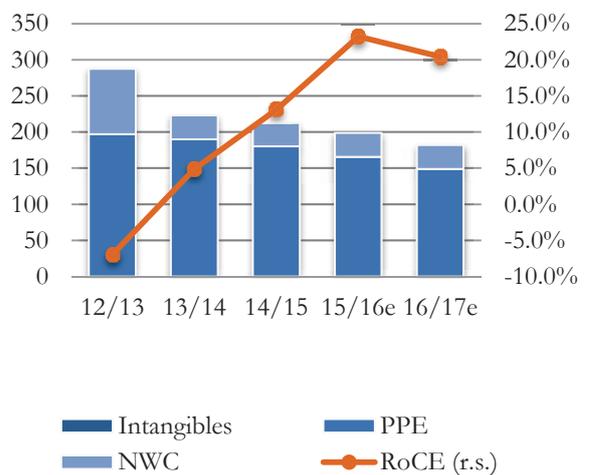
In EUR

Cash Flow



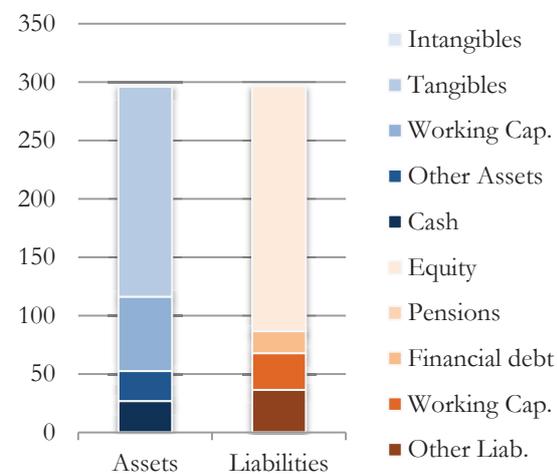
In EURm

RoCE



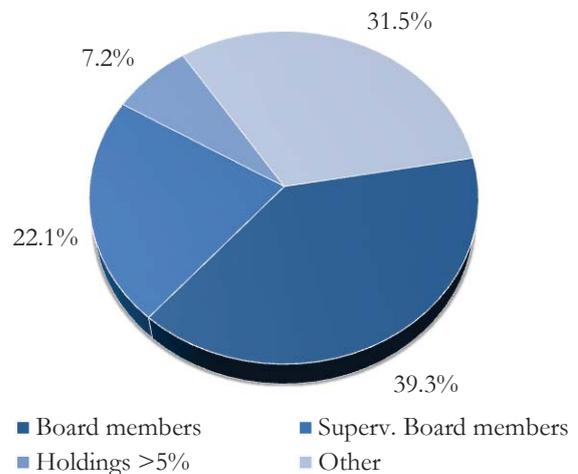
In EURm

Balance Sheet



In EURm

Shareholder structure



P & L

EURm	2012/13	2013/14	2014/15	2015/16e	2016/17e
Sales	705.2	733.8	618.5	651.9	642.9
<i>Growth</i>	<i>n.m.</i>	<i>4.0%</i>	<i>-15.7%</i>	<i>5.4%</i>	<i>-1.4%</i>
Material costs	-653.7	-661.2	-528.7	-533.8	-532.5
Gross profit	51.6	72.6	89.8	118.1	110.4
<i>Gross margin</i>	<i>7.3%</i>	<i>9.9%</i>	<i>14.5%</i>	<i>18.1%</i>	<i>17.2%</i>
Other operating costs	-24.6	-13.4	-14.0	-16.0	-17.0
EBITDA	3.6	36.2	50.7	75.1	65.4
<i>Margin</i>	<i>0.5%</i>	<i>4.9%</i>	<i>8.2%</i>	<i>11.5%</i>	<i>10.2%</i>
Depreciation	-125.8	-25.3	-22.2	-22.5	-23.0
EBIT	-122.3	10.9	28.5	52.6	42.4
<i>Margin</i>	<i>n.m.</i>	<i>1.5%</i>	<i>4.6%</i>	<i>8.1%</i>	<i>6.6%</i>
Financial result	-4.2	-4.0	-3.8	-1.4	-0.8
EBT	-126.5	6.9	24.7	51.2	41.7
Taxes	0.6	-1.4	2.1	-7.7	-6.2
Net profit	-125.9	5.4	26.9	43.5	35.4
Minorities / Discon. Op.	-26.6	-0.2	-0.1	-0.1	-0.1
Net profit a.m.	-152.5	5.3	26.8	43.4	35.3
<i>Growth</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>
No of shares	63.0	63.0	63.0	63.0	63.0
EPS	-2.42	0.08	0.43	0.69	0.56
Adj. EPS	-0.80	0.08	0.43	0.69	0.56
<i>Growth</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>
Dividend	0.00	0.00	0.10	0.15	0.15

Cash Flow

EURm	2012/13	2013/14	2014/15	2015/16e	2016/17e
EBIT	-122.3	10.9	28.5	52.6	42.4
Depreciation	125.8	25.3	22.2	22.5	23.0
Other non-cash items	-34.7	-19.3	-3.3	-3.0	-2.0
Cash taxes	-0.7	2.1	-2.1	-7.7	-6.2
Cash earnings	-31.9	19.1	45.3	64.4	57.2
Change in NWC	12.4	57.3	1.3	-1.7	0.5
CF from operations	-19.5	76.4	46.6	62.7	57.6
Capex	-36.4	-7.5	-13.5	-9.5	-5.0
Other investm./divestm.	7.4	28.7	2.8	0.0	0.0
CF from investing	-29.0	21.2	-10.7	-9.5	-5.0
CF from fin. and other	25.4	-91.0	-33.6	-6.3	-6.1
Change in cash	-23.0	6.6	2.4	46.8	46.5

Valuation multiples

	2012/13	2013/14	2014/15	2015/16e	2016/17e
Share price	1.48	1.53	1.90	5.83	5.83
x No of shares	63.0	63.0	63.0	63.0	63.0
Market Capitalisation	93.2	96.4	119.7	367.3	367.3
+ Net financial debt	126.6	28.1	-7.8	-57.9	-104.4
+ Pension provision	0.2	0.2	0.2	0.2	0.2
+ Minorities	0.7	0.5	0.5	0.7	0.7
- Participations	-0.1	-0.1	-0.1	-0.1	-0.1
Enterprise Value	220.6	125.0	112.5	310.2	263.7
Sales	705.2	733.8	618.5	651.9	642.9
Adj. EBITDA	3.6	36.2	50.7	75.1	65.4
Adj. EBIT	-20.0	10.9	28.5	52.6	42.4
Adj. Net profit a.m.	-50.2	5.3	26.8	43.4	35.3
EV / Sales	0.3	0.2	0.2	0.5	0.4
EV / EBITDA	62.0	3.5	2.2	4.1	4.0
EV / EBIT	n.m.	11.5	3.9	5.9	6.2
PE	n.m.	18.3	4.5	8.5	10.4

Source: Verbio, Matelan Research

Balance Sheet

EURm	2012/13	2013/14	2014/15	2015/16e	2016/17e
Intangible assets	0.3	0.2	0.1	0.2	0.2
Tangible assets	196.7	189.6	180.0	172.0	154.0
Participations	0.1	0.1	0.1	0.1	0.1
Other non-current assets	0.1	0.1	4.5	0.1	0.1
Non-current assets	197.1	190.0	184.7	172.4	154.4
Inventories	64.1	30.2	22.2	23.4	23.1
Receivables	66.2	33.9	41.4	43.7	43.1
Cash	17.7	24.3	26.7	73.5	120.0
Other current assets	65.4	24.3	21.3	24.9	24.9
Current Assets	213.3	112.7	111.6	165.5	211.0
Total assets	410.4	302.7	296.3	337.9	365.4
Equity	177.6	183.1	209.1	246.3	272.3
Minorities	0.7	0.5	0.5	0.7	0.7
Total equity	178.3	183.5	209.7	247.0	273.0
LT financial liabilities	31.1	22.3	11.6	11.0	11.0
Pension provisions	0.2	0.2	0.2	0.2	0.2
Other LT liabilities	12.7	12.9	12.9	12.0	12.5
Non-current liabilities	43.9	35.4	24.6	23.2	23.7
ST financial liabilities	113.2	30.0	7.3	4.6	4.6
Payables	39.6	30.7	31.3	32.9	32.5
Other ST liabilities	35.4	23.0	23.5	30.1	31.6
Current liabilities	188.2	83.7	62.0	67.6	68.7
Total liabilities	410.4	302.7	296.3	337.9	365.4

Segments and adjusted earnings

EURm	2012/13	2013/14	2014/15	2015/16e	2016/17e
Biodiesel	421.7	458.2	397.0	410.0	408.1
Bioethanol/-methan	258.3	257.8	212.9	232.8	225.9
Other	33.5	48.4	15.8	16.0	16.5
Consolidation	-8.3	-30.6	-7.1	-7.0	-7.5
Sales	705.2	733.8	618.5	651.9	642.9
<i>Growth</i>	<i>n.m.</i>	<i>4.0%</i>	<i>-15.7%</i>	<i>5.4%</i>	<i>-1.4%</i>
Biodiesel	-87.0	17.3	21.7	25.6	24.5
Bioethanol/-methan	-33.9	-1.2	6.3	26.4	17.3
Other	-1.4	-0.6	0.5	0.6	0.7
Consolidation	0.0	-4.7	0.0	0.0	0.0
EBIT	-122.3	10.9	28.5	52.6	42.4
<i>Margin</i>	<i>n.m.</i>	<i>1.5%</i>	<i>4.6%</i>	<i>8.1%</i>	<i>6.6%</i>

Key operational indicators

	2012/13	2013/14	2014/15	2015/16e	2016/17e
Equity ratio	43.4%	60.6%	70.8%	73.1%	74.7%
Gearing	0.8	0.3	0.1	0.1	0.1
Asset turnover	3.6	3.9	3.3	3.8	4.2
NWC / sales	12.9%	4.6%	5.2%	5.2%	5.2%
Payable days outst.	20.5	15.3	18.4	18.4	18.4
Receivable days outst.	34.3	16.9	24.4	24.4	24.4
Fix operating assets	197.0	189.9	184.7	172.3	154.3
NWC	90.7	33.4	32.4	34.1	33.6
Capital employed	287.7	223.3	217.0	206.5	188.0
RoE	-70.6%	3.0%	12.8%	17.6%	13.0%
RoA	-4.9%	3.6%	9.6%	15.6%	11.6%
RoCE	-7.0%	4.9%	13.1%	25.5%	22.6%
Gross margin	7.3%	9.9%	14.5%	18.1%	17.2%
EBITDA margin	0.5%	4.9%	8.2%	11.5%	10.2%
EBIT margin	-17.3%	1.5%	4.6%	8.1%	6.6%
Net profit margin	-21.6%	0.7%	4.3%	6.7%	5.5%

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Buy:	45.5%
Neutral:	45.5%
Reduce:	0.0%
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Stock ratings for the company covered in this report have developed as follows:

Verbio	
Date	Rating
05/02/15	Buy
10/02/12	Neutral

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CONTACT DATA

For further information please contact:

Matelan Research GmbH Koblenzer Straße 79 53177 Bonn www.matelan.de	Head Analyst: Hartmut Moers Tel: +49 228 227 99 240 e-mail: hartmut.moers@matelan.de
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