

29 March 2016

Price as of 28/03/16: €7.40

Company / Sector	Fair Value	Recommendation
Verbio	€6.4	Neutral
Energy: Biofuels	(€6.5)	(Buy)

Share price appears to neglect operations

Share price performance



Share data

Reuters	VBKG.DE
No. of shares (m)	63.0
Daily volume (3m)	158,385
Free float	31.5%
Market cap. (m)	466.2
EV (m)	409.1
Sales 13-17e	-2.3%

Valuation	15/16e	16/17e
EV/Sales	0.6	0.6
EV/ EBITDA	5.7	5.5
EV/EBIT	8.4	8.5
PER	11.6	13.2
Div. yield	2.0%	2.0%
RoCE	23.7%	22.6%
RoE	16.5%	13.1%

Analysts

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Investment case

While the share price keeps soaring north, product prices and thus margins have come back somewhat. Under current market conditions, the company should be able to only just beat its full year guidance. We have thus slightly reduced our estimates for the current financial year. With the share price already 15% ahead of our fair value, we would wait for margins swinging back into the right direction before buying further into the share. We thus downgrade the stock to Neutral for the time being.

➤ MARGINS NO LONGER AT PEAK LEVELS

With prospects at the half-year stage still intact, market participants in bioethanol but also in biodiesel had to face some price decline in February and March. Margins have thus come down from their peak levels. Verbio repeating its strong performance of the second quarter is thus rather unlikely.

➤ SLIGHT REDUCTION IN ESTIMATES

We had already priced in a conservative scenario and thus need to change our estimates for the financial year only slightly. We still see the company coming in just ahead of its guidance. Moreover, we confirm our estimates for subsequent years. The impact on our fair value is thus only marginal.

➤ SHARE PRICE MIGHT TAKE A BREATH

While the margin situation is coming back somewhat, the share price has gained another 30% since our latest update in February and is currently 17% ahead of our fair value. We would thus wait for margins to swing back before buying further into the share. Consequently, we downgrade the stock to Neutral.

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	642.7	642.9
EBITDA (€m)	3.6	36.2	50.7	71.4	65.4
EBIT (€m)	-122.3	10.9	28.5	48.9	42.4
Adj. EPS (€)	-0.80	0.08	0.43	0.64	0.56
Dividend (€)	0.00	0.00	0.10	0.15	0.15
Oper. CF (€m)	-19.5	76.4	46.6	60.0	57.2
Free CF (€m)	-55.9	68.9	33.1	50.5	52.2

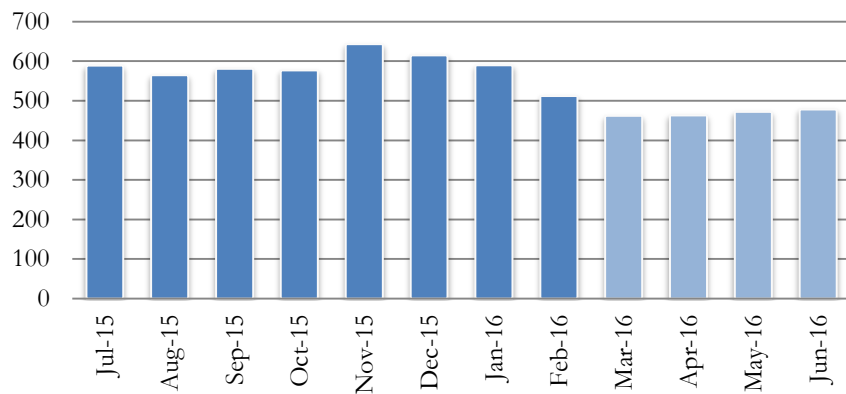
Strong price situation at the half-year stage ...

At the beginning of February, Verbio had released extremely strong Q2 figures and raised its full year EBITDA guidance to EUR70m. Looking at volume and pricing trend at the time, we had raised our EBITDA estimates to EUR75m, which was a rather conservative estimate and left some room for prices to come back somewhat.

... has changed

Looking into the recent price development, we find that the situation has now changed. In fact, prices for bioethanol have come back from almost EUR600 at the end of January to EUR500 at the end of February. The March future is currently trading at only EUR460. The reason for the price decline might be found in the rather sluggish demand from oil companies at the beginning of the calendar year. Volume sales in the petrol market were weak and the oil majors have tried to minimize the use of bioproducts over the period. The slightly rising forward curve indicates that this should be a temporary effect and that we could see some recovery in demand.

Ethanol T2 FOB Rdam Futures

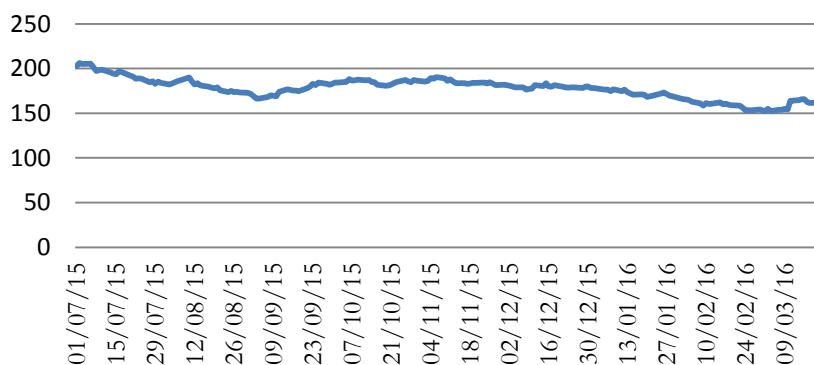


Source: Platts, at date of expiration, Mar-Jun prices as of 22.03.2016, in EUR/cbm

Some relief in feedstock costs ...

Fortunately, the decline in ethanol prices was accompanied by some relief from the raw material side. Wheat, as the major feedstock for the production of bioethanol has come down from around EUR200 per tonne to now EUR162. This compensates for part of the price decline, in particular as Verbio's major by-product, biomethane, is not linked to the pricing of wheat, as is e.g. animal feed.

MATIF Milling Wheat TRc2

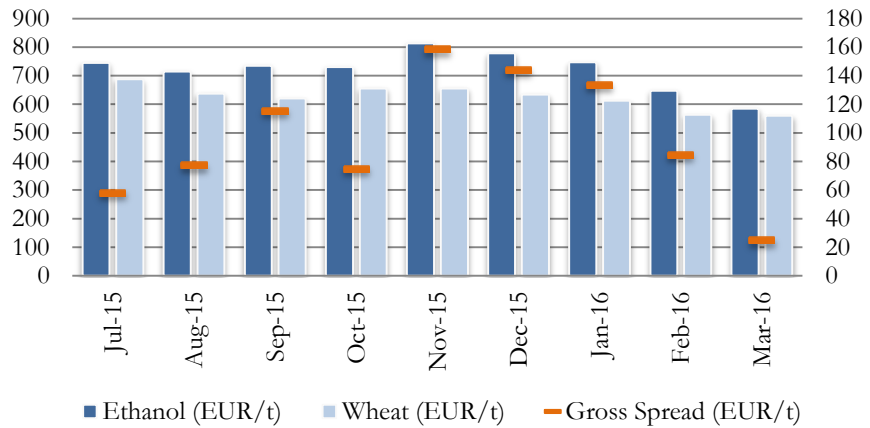


Source: ThomsonReuters, EUR/t

... but spreads still coming down

Looking at the development of the spread, we find that the third quarter (Jan-Mar) is unlikely to repeat the strong performance of the previous period. While January was still strong and February was ok, March is now heading for a small contribution, only. This said, it should be kept in mind that the gross spread does not yet take into account the contribution from the by-products.

Spread development by month

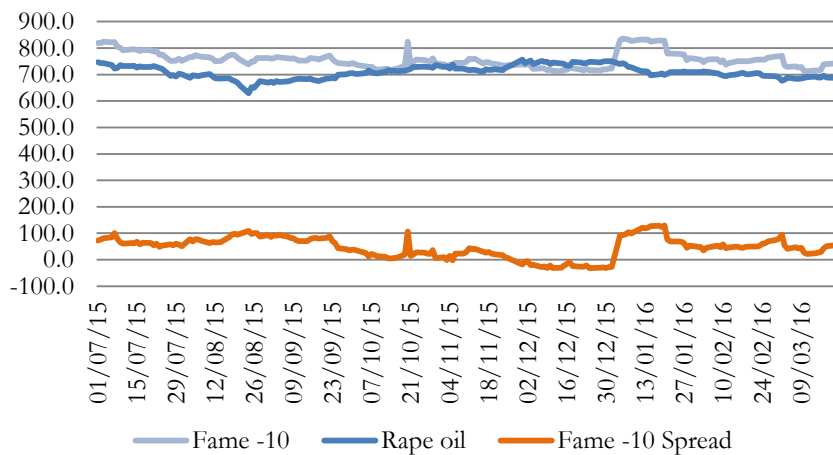


Source: Platts, ThomsonReuters, Matelan Research, Gross spread on right scale, March price as at 22/03/2016

Biodiesel margins also affected

Though the biodiesel market had been much more stable compared to bioethanol in the past, we also find some negative development, here. The sluggish demand at the beginning of the year is a factor here as well, while raw material prices have been rather stable. As a result, margins have come down to around to EUR50 mark.

Development of biodiesel spread



Source: ThomsonReuters, Matelan Research, in EUR/t

Slight reduction in estimates

As a consequence of the recent price changes, we adjust our estimates for Verbio for the current financial year. In essence, we said at the half-year stage that the company should easily beat the EUR70m full-year EBITDA guidance if the pricing situation persisted. In fact, repeating the good Q2 performance in Q3 would have brought the company already rather close to this level. However, this is no longer realistic against the background of the

above described market trends. On the other hand, we had already pointed out that we did not price in peak prices for the remainder of the year and already accounted for some price decline. Consequently, our changes at this point in time are not dramatic. In fact, we still believe that the company can beat its guidance, though only slightly. For the year 2016/17, we had already factored in that the extraordinarily high earnings level of the current financial year cannot be repeated. There is thus no need to change our estimates for subsequent years at this point in time.

Changes in estimates

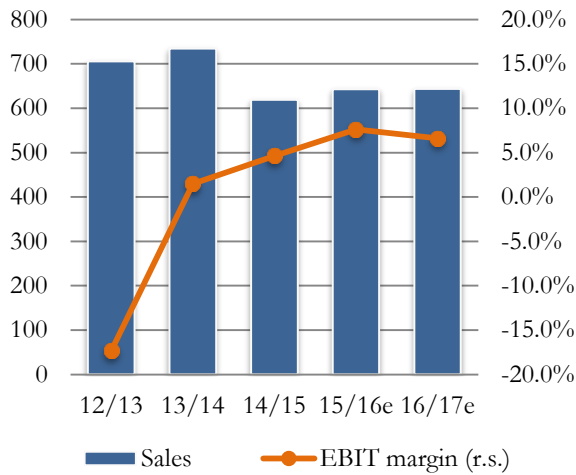
EURm	FY 15/16e old	FY 15/16e new	Guidance 15/16
Biodiesel	410.0	403.5	
Bioethanol	232.8	230.2	
Other	9.1	9.0	
Sales	651.9	642.7	
EBITDA	75.1	71.4	70.0
<i>Margin</i>	<i>11.5%</i>	<i>11.1%</i>	
Biodiesel	25.6	24.3	
<i>Margin</i>	<i>6.2%</i>	<i>6.0%</i>	
Bioethanol	26.4	23.9	
<i>Margin</i>	<i>11.3%</i>	<i>10.4%</i>	
Other	0.6	0.6	
EBIT	52.6	48.9	
<i>Margin</i>	<i>8.1%</i>	<i>7.6%</i>	
Net Profit	43.4	40.2	

Source: Matelan Research

Share price might take a breather

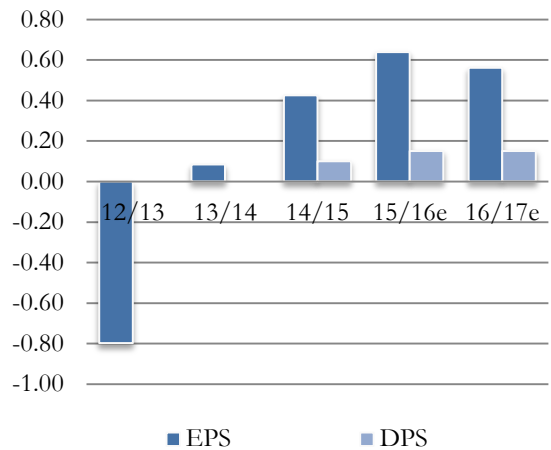
With only slight changes to our estimates for the coming year and no changes going forward, the impact on our valuation is marginal. In fact, we arrive at a negligible change from EUR6.5 to EUR6.4. On the other hand, it must be realised that only since our note in February, the share price has gained another 30% and is now trading ahead of our fair value. Though some overshooting in a bullish market is not uncommon, we feel that expectations reflected in the share-price might not fully account for the recent weakening of margins, irrespective of the fact that this might be a temporary phenomenon. Against this background, the share price might take a breather and we recommend waiting for margins to swing back into the right direction before buying further into the share.

Sales and EBIT margin



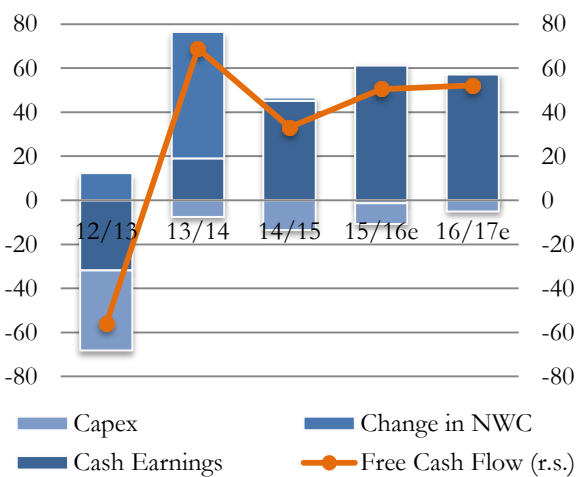
In EURm

Adj. EPS and DPS



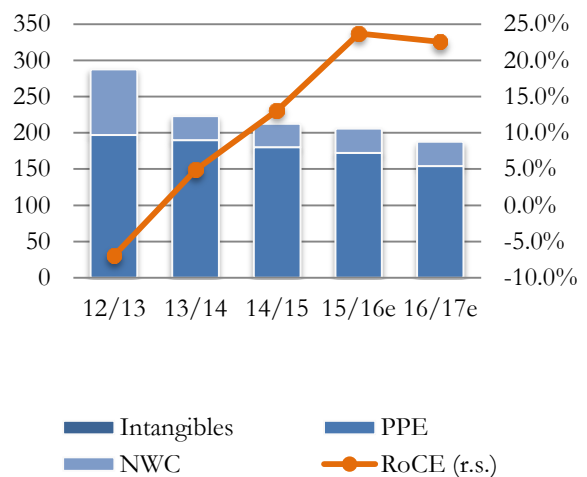
In EUR

Cash Flow



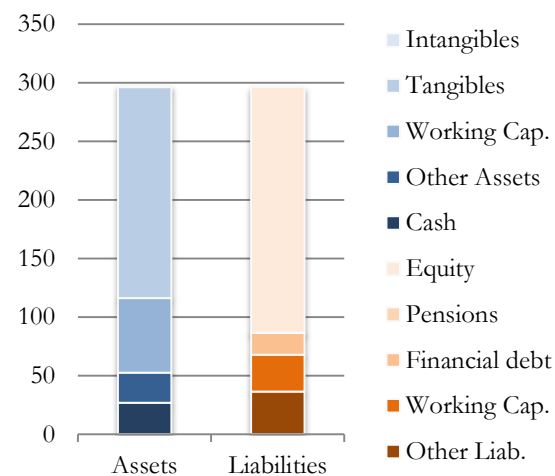
In EURm

RoCE



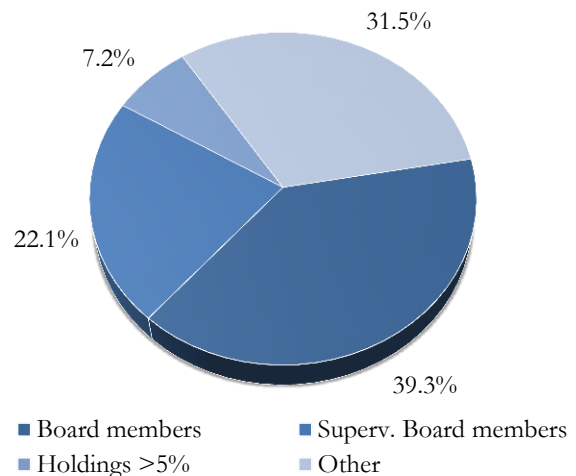
In EURm

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	642.7	642.9
<i>Growth</i>	<i>n.m.</i>	<i>4.0%</i>	<i>-15.7%</i>	<i>3.9%</i>	<i>0.0%</i>
Material costs	-653.7	-661.2	-528.7	-528.3	-532.5
Gross profit	51.6	72.6	89.8	114.4	110.4
<i>Gross margin</i>	<i>7.3%</i>	<i>9.9%</i>	<i>14.5%</i>	<i>17.8%</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	71.4	65.4
<i>Margin</i>	<i>0.5%</i>	<i>4.9%</i>	<i>8.2%</i>	<i>11.1%</i>	<i>10.2%</i>
Depreciation	-125.8	-25.3	-22.2	-22.5	-23.0
EBIT	-122.3	10.9	28.5	48.9	42.4
<i>Margin</i>	<i>n.m.</i>	<i>1.5%</i>	<i>4.6%</i>	<i>7.6%</i>	<i>6.6%</i>
Financial result	-4.2	-4.0	-3.8	-1.4	-0.8
EBT	-126.5	6.9	24.7	47.5	41.7
Taxes	0.6	-1.4	2.1	-7.1	-6.2
Net profit	-125.9	5.4	26.9	40.3	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	40.2	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	0.64	0.56
Adj. EPS	-0.80	0.08	0.43	0.64	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

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	23.1	23.1
Receivables	66.2	33.9	41.4	43.0	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	164.5	211.0
Total assets	410.4	302.7	296.3	336.9	365.4
Equity	177.6	183.1	209.1	243.2	269.1
Minorities	0.7	0.5	0.5	0.7	0.7
Total equity	178.3	183.5	209.7	243.9	269.8
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	32.5	32.5
Other ST liabilities	35.4	23.0	23.5	32.8	34.8
Current liabilities	188.2	83.7	62.0	69.8	71.9
Total liabilities	410.4	302.7	296.3	336.9	365.4

Cash Flow

EURm	2012/13	2013/14	2014/15	2015/16e	2016/17e
EBIT	-122.3	10.9	28.5	48.9	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	-7.1	-6.2
Cash earnings	-31.9	19.1	45.3	61.2	57.2
Change in NWC	12.4	57.3	1.3	-1.3	0.0
CF from operations	-19.5	76.4	46.6	60.0	57.2
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	-3.6	-5.7
Change in cash	-23.0	6.6	2.4	46.8	46.5

Segments and adjusted earnings

EURm	2012/13	2013/14	2014/15	2015/16e	2016/17e
Biodiesel	421.7	458.2	397.0	403.5	408.1
Bioethanol/-methan	258.3	257.8	212.9	230.2	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	642.7	642.9
<i>Growth</i>	<i>n.m.</i>	<i>4.0%</i>	<i>-15.7%</i>	<i>3.9%</i>	<i>0.0%</i>
Biodiesel	-87.0	17.3	21.7	24.3	24.5
Bioethanol/-methan	-33.9	-1.2	6.3	23.9	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	48.9	42.4
<i>Margin</i>	<i>n.m.</i>	<i>1.5%</i>	<i>4.6%</i>	<i>7.6%</i>	<i>6.6%</i>

Valuation multiples

	2012/13	2013/14	2014/15	2015/16e	2016/17e
Share price	1.48	1.53	1.90	7.40	7.40
x No of shares	63.0	63.0	63.0	63.0	63.0
Market Capitalisation	93.2	96.4	119.7	466.2	466.2
+ 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	409.1	362.6
Sales	705.2	733.8	618.5	642.7	642.9
Adj. EBITDA	3.6	36.2	50.7	71.4	65.4
Adj. EBIT	-20.0	10.9	28.5	48.9	42.4
Adj. Net profit a.m.	-50.2	5.3	26.8	40.2	35.3
EV / Sales	0.3	0.2	0.2	0.6	0.6
EV / EBITDA	62.0	3.5	2.2	5.7	5.5
EV / EBIT	n.m.	11.5	3.9	8.4	8.5
PE	n.m.	18.3	4.5	11.6	13.2

Key operational indicators

	2012/13	2013/14	2014/15	2015/16e	2016/17e
Equity ratio	43.4%	60.6%	70.8%	72.4%	73.8%
Gearing	0.8	0.3	0.1	0.1	0.1
Asset turnover	3.6	3.9	3.3	3.7	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	33.6	33.6
Capital employed	287.7	223.3	217.0	206.0	188.0
RoE	-70.6%	3.0%	12.8%	16.5%	13.1%
RoA	-4.9%	3.6%	9.6%	14.5%	11.6%
RoCE	-7.0%	4.9%	13.1%	23.7%	22.6%
Gross margin	7.3%	9.9%	14.5%	17.8%	17.2%
EBITDA margin	0.5%	4.9%	8.2%	11.1%	10.2%
EBIT margin	-17.3%	1.5%	4.6%	7.6%	6.6%
Net profit margin	-21.6%	0.7%	4.3%	6.3%	5.5%

Source: Verbio, Matelan Research

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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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