

06 May 2016

Price as of 05/05/16: €7.26

Company / Sector	Fair Value	Recommendation
<b>Verbio</b>	<b>€6.2</b>	<b>Neutral</b>
Energy: Biofuels	(€6.4)	(unchanged)

## Q3 weaker than expected but recovery in Q4

### Share price performance



### Share data

Reuters	VBKG.DE
No. of shares (m)	63.0
Daily volume (3m)	192,155
Free float	31.5%
Market cap. (m)	457.4
EV (m)	400.3
Sales 13-17e	-2.4%

Valuation	15/16e	16/17e
EV/Sales	0.6	0.6
EV/ EBITDA	5.8	5.8
EV/EBIT	8.5	9.2
PER	11.8	14.3
Div. yield	2.1%	2.1%
RoCE	22.7%	20.4%
RoE	16.0%	11.1%

### Analysts

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### Investment case

Following the release of lower than expected Q3 results we have come to the conclusion that full year results should still come in around the guided level of EUR70m in EBITDA as prospects for Q4 are improving. We have thus made only slight changes to our estimates and our fair value. Based on the recent correction of the share price the case looks now more attractive but we would still wait for a further increase in spreads before buying into the share. We thus stick to our Neutral rating for the time being.

#### ➤ SPECIAL FACTORS WEIGHT ON Q3 RESULTS

Q3 results were weaker than we had anticipated due to a lower production and securing feedstock at a too early stage (and thus a higher price). Moreover, the company faced some increase in net working capital, which combined with the dividend payment has left the company with a slightly lower net cash position.

#### ➤ IMPROVED PROSPECTS FOR Q4

In contrast, the outlook for Q4 is improving. The special factors mentioned above should not reoccur and biodiesel and even more so bioethanol prices are increasing since the start of the quarter. We thus still expect the company to finish the year very close to its guidance of EUR70m in EBITDA and EUR58m in net cash.

#### ➤ MARGINAL CHANGES TO ESTIMATES AND FV

Against this background we have made only minor changes with regard to our full year estimates and only come to a very slight decline in our fair value to EUR6.2. The share price is still somewhat ahead of this level but further rising spreads could trigger an increase in our valuation.

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	645.3	638.9
EBITDA (€m)	3.6	36.2	50.7	68.7	61.4
EBIT (€m)	-122.3	10.9	28.5	47.1	38.4
Adj. EPS (€)	-0.80	0.08	0.43	0.61	0.51
Dividend (€)	0.00	0.00	0.10	0.15	0.15
Oper. CF (€m)	-19.5	76.4	46.6	57.5	54.1
Free CF (€m)	-55.9	68.9	33.1	48.0	49.1

### Q3 review and change in estimates

EURm	Q3 15/16	Q3 15/16e	Q3 14/15	Change	FY 15/16e old	FY 15/16e new	Guidance 15/16
Sales	148.6	156.9	139.6	6.4%	642.7	645.3	
Gross profit	23.2	25.3	21.2	9.6%	114.4	111.7	
<i>Margin</i>	<i>15.6%</i>	<i>16.1%</i>	<i>15.2%</i>		<i>17.8%</i>	<i>17.3%</i>	
EBITDA	11.4	15.3	12.2	-6.6%	71.4	68.7	70.0
<i>Margin</i>	<i>7.7%</i>	<i>9.8%</i>	<i>8.7%</i>		<i>11.1%</i>	<i>10.6%</i>	
EBIT	6.2	9.3	6.8	-8.8%	48.9	47.1	
<i>Margin</i>	<i>4.2%</i>	<i>5.9%</i>	<i>4.9%</i>		<i>7.6%</i>	<i>7.3%</i>	
Net Profit	4.6	7.9	4.7	-1.8%	40.2	38.7	

Source: Verbio, Matelan Research estimates

Q3 lower than expected due to special factors

In our preview on Q3 results we had already made it clear that market conditions would not allow Verbio to repeat the extraordinarily high Q2 results. We had estimated that the company could reach EUR15.3m in EBITDA in Q3 after EUR24.5m in Q2. The release of results now shows that the company only reached EUR11.4m. The difference to our estimate results basically from two factors. Firstly, one of Verbio's major customers, PCK Refinery in Schwedt, undertook some maintenance work which led to a lower production at Verbio than we had assumed. Moreover, Verbio did not fully benefit from the latest decline in feedstock prices as it secured its feedstock for the quarter a bit too early. We believe that both factors account for roughly half of the difference to our estimate.

Volatility materially reduced

However, it should be stressed that even in a quarter with rather weak spreads in both the biodiesel and the bioethanol markets Verbio is still able to absorb such temporary issues and still produces a result well in the black. This shows that the reorganisation of the business has left the company with a much less volatile business model than before.

Improved Q4 should leave company in line with EBITDA ...

Moreover, looking into the fourth quarter, we find strong indications for a materially improved result. We expect the company to return to full production and the company should now fully benefit from the lower feedstock prices. In addition, biodiesel and even more so bioethanol price have increased noticeably since the end of March. Based on the current forward prices we arrive at an EBITDA contribution of EUR18.2m for the fourth quarter. This adds up to a full year EBITDA estimate of EUR68.7m. We do thus no longer anticipate the company to just top its guidance of EUR70m but just fall short of this benchmark. However, we are well ahead of the lower end of the indicated tolerance range of +/- 5%. In addition, if prices continue to increase, this estimate might be topped.

... and net cash guidance

Moreover, operating cash flow came to EUR4m in the quarter despite a EUR10m increase in net working capital. With only EUR2m in Capex, free cash flow for the quarter should still be positive. Net cash declined from EUR40m to EUR36m only as a result of the EUR6m dividend payment. With rather high inventories being sold now into the improving price environment, we expect net working capital to come down in the last quarter. The company should thus not only produce materially higher cash earnings but also have a positive NWC contribution to cash flow while capex in the last quarter should be down to EUR1m only. The target of EUR58m in net cash at year is thus also still well within reach.

... slight decrease in estimates leaves only marginal impact on fair value

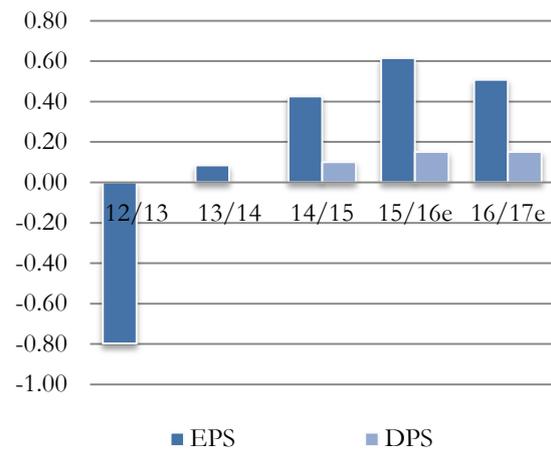
Against this background, the changes to our full year figures are rather moderate, despite the shortfall on our Q3 estimates. We thus also come up with only a slight change in our fair value (EUR6.2 vs EUR6.4). Following the release of results, the share price has corrected quite significantly, which makes the stock more interesting again. However, we would still wait for a continuation of the increase in spreads before entering into the share.

Sales and EBIT margin



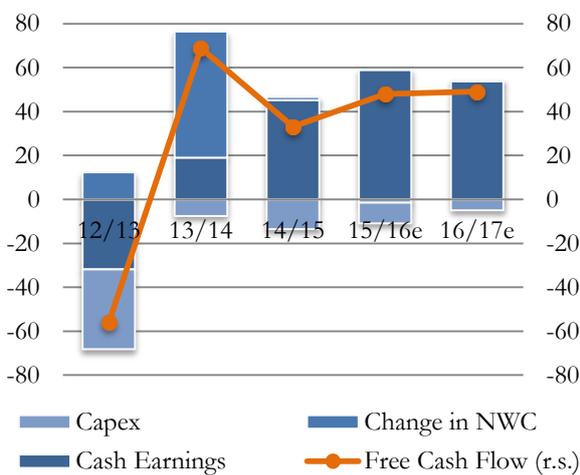
In EURm

Adj. EPS and DPS



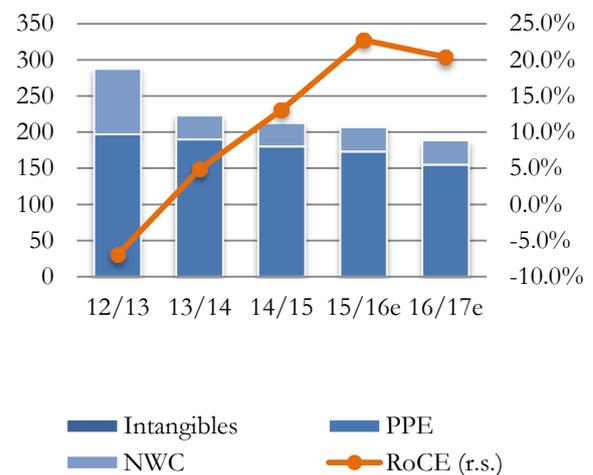
In EUR

Cash Flow



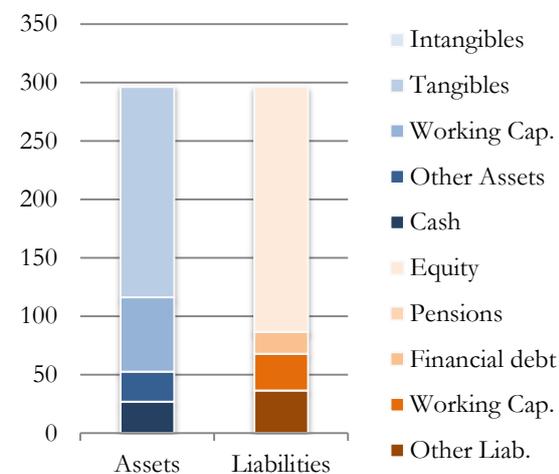
In EURm

RoCE



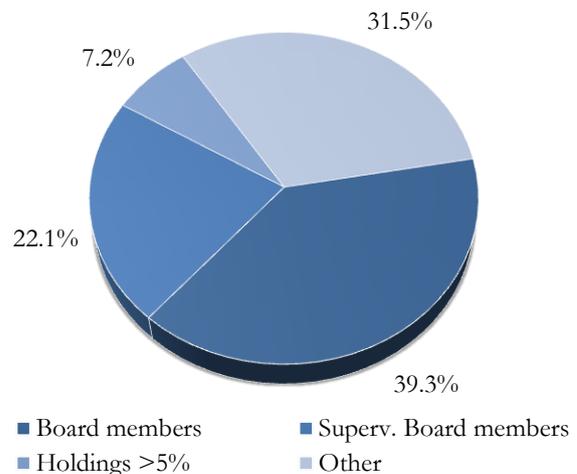
In EURm

Balance Sheet



In EURm

Shareholder structure



**P & L**

EURm	2012/13	2013/14	2014/15	2015/16e	2016/17e
<b>Sales</b>	<b>705.2</b>	<b>733.8</b>	<b>618.5</b>	<b>645.3</b>	<b>638.9</b>
<i>Growth</i>	<i>n.m.</i>	<i>4.0%</i>	<i>-15.7%</i>	<i>4.3%</i>	<i>-1.0%</i>
Material costs	-653.7	-661.2	-528.7	-533.5	-532.5
<b>Gross profit</b>	<b>51.6</b>	<b>72.6</b>	<b>89.8</b>	<b>111.7</b>	<b>106.4</b>
<i>Gross margin</i>	<i>7.3%</i>	<i>9.9%</i>	<i>14.5%</i>	<i>17.3%</i>	<i>16.7%</i>
Other operating costs	-24.6	-13.4	-14.0	-16.0	-17.0
<b>EBITDA</b>	<b>3.6</b>	<b>36.2</b>	<b>50.7</b>	<b>68.7</b>	<b>61.4</b>
<i>Margin</i>	<i>0.5%</i>	<i>4.9%</i>	<i>8.2%</i>	<i>10.7%</i>	<i>9.6%</i>
Depreciation	-125.8	-25.3	-22.2	-21.7	-23.0
<b>EBIT</b>	<b>-122.3</b>	<b>10.9</b>	<b>28.5</b>	<b>47.1</b>	<b>38.4</b>
<i>Margin</i>	<i>n.m.</i>	<i>1.5%</i>	<i>4.6%</i>	<i>7.3%</i>	<i>6.0%</i>
Financial result	-4.2	-4.0	-3.8	-1.4	-0.8
<b>EBT</b>	<b>-126.5</b>	<b>6.9</b>	<b>24.7</b>	<b>45.7</b>	<b>37.7</b>
Taxes	0.6	-1.4	2.1	-6.8	-5.7
Net profit	-125.9	5.4	26.9	38.8	32.0
Minorities / Discon. Op.	-26.6	-0.2	-0.1	-0.1	-0.1
<b>Net profit a.m.</b>	<b>-152.5</b>	<b>5.3</b>	<b>26.8</b>	<b>38.7</b>	<b>31.9</b>
<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	0.61	0.51
<b>Adj. EPS</b>	<b>-0.80</b>	<b>0.08</b>	<b>0.43</b>	<b>0.61</b>	<b>0.51</b>
<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	172.9	154.9
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
<b>Non-current assets</b>	<b>197.1</b>	<b>190.0</b>	<b>184.7</b>	<b>173.2</b>	<b>155.2</b>
Inventories	64.1	30.2	22.2	23.2	22.9
Receivables	66.2	33.9	41.4	43.2	42.8
Cash	17.7	24.3	26.7	73.5	120.0
Other current assets	65.4	24.3	21.3	24.9	24.9
<b>Current Assets</b>	<b>213.3</b>	<b>112.7</b>	<b>111.6</b>	<b>164.8</b>	<b>210.6</b>
<b>Total assets</b>	<b>410.4</b>	<b>302.7</b>	<b>296.3</b>	<b>338.0</b>	<b>365.8</b>
Equity	177.6	183.1	209.1	241.6	264.2
Minorities	0.7	0.5	0.5	0.7	0.7
<b>Total equity</b>	<b>178.3</b>	<b>183.5</b>	<b>209.7</b>	<b>242.3</b>	<b>264.9</b>
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
<b>Non-current liabilities</b>	<b>43.9</b>	<b>35.4</b>	<b>24.6</b>	<b>23.2</b>	<b>23.7</b>
ST financial liabilities	113.2	30.0	7.3	4.6	4.6
Payables	39.6	30.7	31.3	32.6	32.3
Other ST liabilities	35.4	23.0	23.5	35.3	40.3
<b>Current liabilities</b>	<b>188.2</b>	<b>83.7</b>	<b>62.0</b>	<b>72.5</b>	<b>77.2</b>
<b>Total liabilities</b>	<b>410.4</b>	<b>302.7</b>	<b>296.3</b>	<b>338.0</b>	<b>365.8</b>

**Cash Flow**

EURm	2012/13	2013/14	2014/15	2015/16e	2016/17e
<b>EBIT</b>	<b>-122.3</b>	<b>10.9</b>	<b>28.5</b>	<b>47.1</b>	<b>38.4</b>
Depreciation	125.8	25.3	22.2	21.7	23.0
Other non-cash items	-34.7	-19.3	-3.3	-3.0	-2.0
Cash taxes	-0.7	2.1	-2.1	-6.8	-5.7
Cash earnings	-31.9	19.1	45.3	58.9	53.8
Change in NWC	12.4	57.3	1.3	-1.4	0.3
<b>CF from operations</b>	<b>-19.5</b>	<b>76.4</b>	<b>46.6</b>	<b>57.5</b>	<b>54.1</b>
Capex	-36.4	-7.5	-13.5	-9.5	-5.0
Other investm./divestm.	7.4	28.7	2.8	0.0	0.0
<b>CF from investing</b>	<b>-29.0</b>	<b>21.2</b>	<b>-10.7</b>	<b>-9.5</b>	<b>-5.0</b>
<b>CF from fin. and other</b>	<b>25.4</b>	<b>-91.0</b>	<b>-33.6</b>	<b>-1.1</b>	<b>-2.6</b>
<b>Change in cash</b>	<b>-23.0</b>	<b>6.6</b>	<b>2.4</b>	<b>46.8</b>	<b>46.5</b>

**Segments and adjusted earnings**

EURm	2012/13	2013/14	2014/15	2015/16e	2016/17e
Biodiesel	421.7	458.2	397.0	412.3	404.1
Bioethanol/-methan	258.3	257.8	212.9	223.9	225.9
Other	33.5	48.4	15.8	16.0	16.5
Consolidation	-8.3	-30.6	-7.1	-7.0	-7.5
<b>Sales</b>	<b>705.2</b>	<b>733.8</b>	<b>618.5</b>	<b>645.3</b>	<b>638.9</b>
<i>Growth</i>	<i>n.m.</i>	<i>4.0%</i>	<i>-15.7%</i>	<i>4.3%</i>	<i>-1.0%</i>
Biodiesel	-87.0	17.3	21.7	29.2	20.5
Bioethanol/-methan	-33.9	-1.2	6.3	17.3	17.3
Other	-1.4	-0.6	0.5	0.6	0.7
Consolidation	0.0	-4.7	0.0	0.0	0.0
<b>EBIT</b>	<b>-122.3</b>	<b>10.9</b>	<b>28.5</b>	<b>47.1</b>	<b>38.4</b>
<i>Margin</i>	<i>n.m.</i>	<i>1.5%</i>	<i>4.6%</i>	<i>7.3%</i>	<i>6.0%</i>

**Valuation multiples**

	2012/13	2013/14	2014/15	2015/16e	2016/17e
Share price	1.48	1.53	1.90	7.26	7.26
x No of shares	63.0	63.0	63.0	63.0	63.0
<b>Market Capitalisation</b>	<b>93.2</b>	<b>96.4</b>	<b>119.7</b>	<b>457.4</b>	<b>457.4</b>
+ 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
<b>Enterprise Value</b>	<b>220.6</b>	<b>125.0</b>	<b>112.5</b>	<b>400.3</b>	<b>353.8</b>
Sales	705.2	733.8	618.5	645.3	638.9
Adj. EBITDA	3.6	36.2	50.7	68.7	61.4
Adj. EBIT	-20.0	10.9	28.5	47.1	38.4
Adj. Net profit a.m.	-50.2	5.3	26.8	38.7	31.9
EV / Sales	0.3	0.2	0.2	0.6	0.6
EV / EBITDA	62.0	3.5	2.2	5.8	5.8
EV / EBIT	n.m.	11.5	3.9	8.5	9.2
PE	n.m.	18.3	4.5	11.8	14.3

**Key operational indicators**

	2012/13	2013/14	2014/15	2015/16e	2016/17e
Equity ratio	43.4%	60.6%	70.8%	71.7%	72.4%
Gearing	0.8	0.3	0.1	0.1	0.1
Asset turnover	3.6	3.9	3.3	3.7	4.1
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	173.2	155.2
NWC	90.7	33.4	32.4	33.8	33.4
Capital employed	287.7	223.3	217.0	206.9	188.6
RoE	-70.6%	3.0%	12.8%	16.0%	12.1%
RoA	-4.9%	3.6%	9.6%	13.9%	10.5%
RoCE	-7.0%	4.9%	13.1%	22.7%	20.4%
Gross margin	7.3%	9.9%	14.5%	17.3%	16.7%
EBITDA margin	0.5%	4.9%	8.2%	10.7%	9.6%
EBIT margin	-17.3%	1.5%	4.6%	7.3%	6.0%
Net profit margin	-21.6%	0.7%	4.3%	6.0%	5.0%

Source: Verbio, Matelan Research

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Verbio	
Date	Rating
29/03/16	Neutral
05/02/15	Buy
10/02/12	Neutral

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