

23 September 2016

Price as of 22/09/16: €5.88

Company / Sector	Fair Value	Recommendation
Verbio	€6.5	Neutral
Energy: Biofuels	(€6.2)	(unchanged)

Investment case is clearly improving again

Share price performance



Share data

Reuters	VBKG.DE
No. of shares (m)	63.0
Daily volume (3m)	70,770
Free float	27.9%
Market cap. (m)	370.4
EV (m)	272.3
Sales 14-18e	-2.8%

Valuation	15/16e	16/17e
EV/Sales	0.4	0.4
EV/ EBITDA	4.6	3.9
EV/EBIT	7.3	6.0
PER	11.9	11.3
Div. yield	2.1%	2.1%
RoCE	19.1%	21.3%
RoE	11.3%	11.0%

Analysts

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Investment case

A record year 2015/16, which has beaten company guidance as well as our expectations, combined with a solid outlook for 2016/17, pointing at the stability of earnings streams even in times of volatile commodity prices, leads to a slight increase in our conservatively calculated fair value. The possibility of overcapacity making further pressure on ethanol prices is not yet gone but risks appear to diminish. We stay Neutral on the stock but building up first positions at this stage can be considered.

➤ Q4 BEATS EXPECTATIONS

Q4 results have clearly outstripped our expectations, which already assumed a material improvement compared to Q3. This development was particularly driven by the bioethanol / biomethane activities. All financial targets for the full year have been reached.

➤ PROSPECTS FOR 2016/17 SUSTAINED

Verbio's business model has clearly become more robust and management goes out with an EBITDA guidance of EUR55m for 2016/17 despite the high volatility in ethanol prices. We even arrive at EUR59m in EBITDA in a low ethanol price scenario. This is roughly in line with our previous estimates.

➤ CASH PILING UP

Better than expected operations have driven up free cash flow in 2015/16 to EUR63m, which left the company with EUR65m in net cash at year end. This brings up our fair value to EUR6.5. We expect the company to generate another EUR40m in free cash flow in 2016/17, which should bring net cash up to around EUR100m.

For additional disclosures please refer to the appendix

Forecasts	13/14	14/15	15/16e	16/17e	17/18e
Sales (€m)	733.8	618.5	654.3	644.3	653.7
EBITDA (€m)	36.2	50.7	73.1	59.3	61.5
EBIT (€m)	10.9	28.5	52.0	37.3	39.5
Adj. EPS (€)	0.08	0.43	0.77	0.49	0.52
Dividend (€)	0.00	0.10	0.15	0.15	0.15
Oper. CF (€m)	76.4	46.6	76.3	54.3	55.3
Free CF (€m)	68.9	33.1	63.3	42.3	42.3

Q4 15/16 review and change in estimates

EURm	Q4 15/16	Q4 15/16e	Q4 14/15	Change	FY 15/16	FY 16/17e old	FY 16/17e new	Guidance 16/17
Sales	174.9	165.9	171.1	2.2%	654.3	638.9	644.3	
Gross profit	32.2	27.6	27.3	17.9%	116.3	106.4	103.3	
<i>Margin</i>	18.4%	16.6%	16.0%		17.8%	16.7%	16.0%	
EBITDA	22.6	18.2	12.6	79.4%	73.1	61.4	59.3	55.0
<i>Margin</i>	12.9%	11.0%	7.4%		11.2%	9.6%	9.2%	
EBIT	17.1	12.1	7.0	144.3%	52.0	38.4	37.3	
<i>Margin</i>	9.8%	7.3%	4.1%		7.9%	6.0%	5.8%	
Net Profit	22.8	12.8	10.2	123.5%	48.7	31.9	31.0	

Source: Verbio, Matelan Research estimates

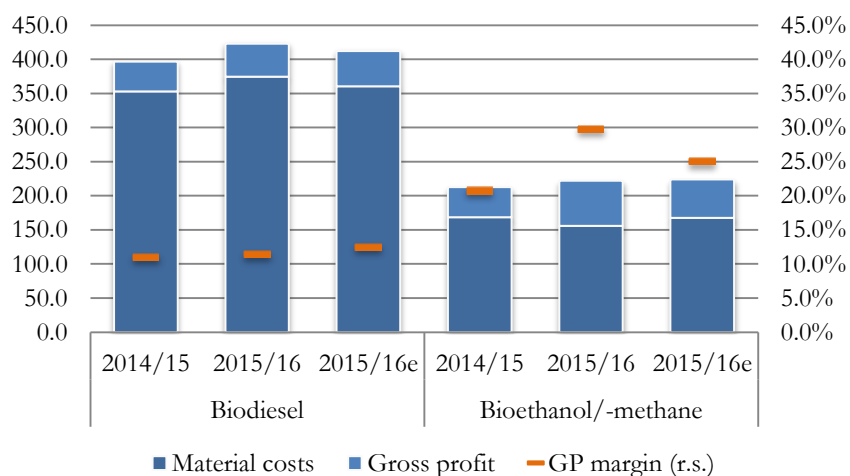
Q4 clearly beating expectations ...

In our Q3 review we had highlighted that results were a bit weak due to some special factors (maintenance work at the refinery in Schwedt and early price fixtures on the feedstock side) but that we expect a much improved fourth quarter. The release of full year figures shows now that our expectations have even been outstripped. Sales came in roughly EUR10m higher than anticipated and gross profit was almost EUR5m above our estimate. With fix costs in line with expectations, this feeds through to the operating profit line. On top, we find a tax credit of roughly EUR5m booked in the fourth quarter so that net profit was exactly EUR10m higher than we had assumed. It must also be highlighted that the company has also outperformed its full year EBITDA guidance of EUR70m and its year end net cash guidance of EUR58m with an achieved EUR73m and EUR65m, respectively.

... mainly resulting from strong performance in bioethanol / biomethane

The following graph illustrates that the difference to our estimates is a result of the strong performance of the bioethanol/biomethane division. With sales in line with our estimate, production was a bit lower but pricing a bit better. Consequently, material costs were lower than anticipated, which left a higher gross margin. Additionally, we believe that the company's biomethane activities had quite a positive impact on profitability in particular in the fourth quarter.

Sales and gross profit development by division

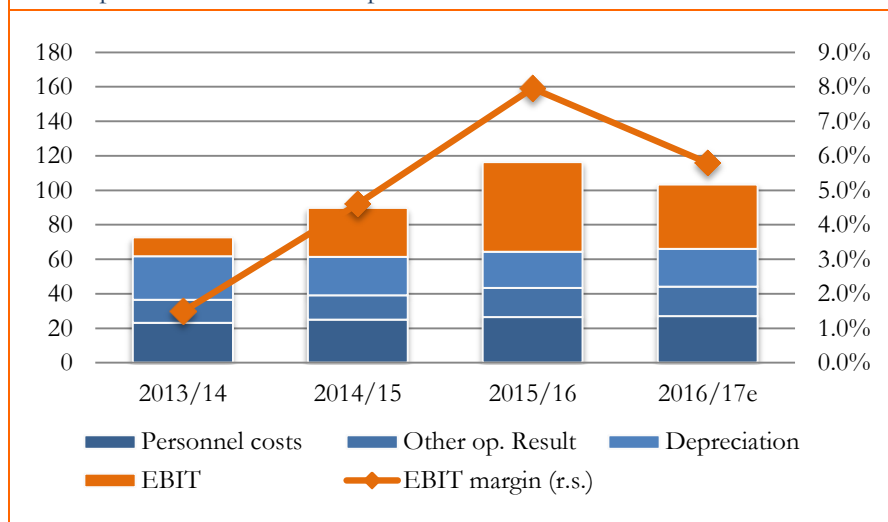


Source: Verbio, Matelan Research, in EURm

Robust business model

Looking at the development of group gross profit over time, we find a straight rise since the restructuring of the company in 2012/13 to a peak value in the past financial year. The reorganisation has left Verbio with a much more robust business model so that optimisation measures and improvements in the price environment are directly reflected in the company's p&l. Moreover, fix costs have been held almost stable over the years so that the improvement in gross profit feeds right through to the EBIT line. While the year 2015/16 has been the most successful in the company's history, it should be made clear that from today's perspective it is unlikely that Verbio can repeat this performance in the current year. In particular extraordinarily high ethanol prices have already come down materially and we calculate with a significantly reduced average ethanol price in the current year. However, with a rather stable development in biodiesel, Verbio should still be able to produce more than EUR100m in gross profit and a solid EBIT margin of almost 6%, even in the current low ethanol price environment.

Gross profit and EBIT development



Source: Verbio, Matelan Research, in EURm

EBITDA guidance of EUR55m

This rationale is supported by the guidance that Verbio has issued for the year 2016/17. Despite a rather low ethanol prices, management believes that it can achieve an EBITDA of EUR55m. We believe that this should be seen as a minimum value, which can be reached even if ethanol prices had not yet reached their trough. It also reflects management's confidence in its business model in times of high price volatility and the optimisation measures it has achieved throughout the past financial year (the initial guidance for the past financial year was EUR50m).

Estimates for 2016/17 upheld

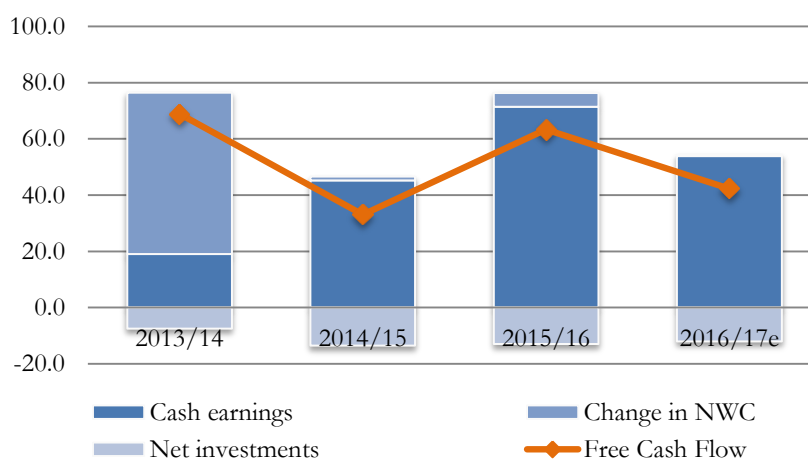
On the back of the results for the past financial year and reflecting the current price environment for biodiesel, bioethanol and their respective feedstocks, we have reworked our estimates for the current financial year. On the biodiesel side, we have slightly upped our production estimate as a result of a slight increase in capacity. With a rather stable price development, this leaves us with a slightly higher profit contribution from biodiesel compared to the past financial year. In bioethanol we anticipate a slight increase in capacity utilisation. On the other hand, the decline in ethanol price to some

EUR450/cbm can only partly be compensated by a decline in feedstock prices. Divisional earnings should thus come down by 40% compared to last year but still contribute more than EUR25m to group EBITDA. In total, we arrive at EUR59m in group EBITDA which exceeds the company's guidance by EUR4m. Moreover, our revised estimates are roughly in line with our previous forecasts (see table on page 2) so that there are only minor changes in our scenario going forward.

Verbio remains a cash monster

The strong operating performance in the past financial year has left the company with another EUR63m in free cash. This again exceeded our estimates. Moreover, free cash generation was predominantly driven by the high level of cash earnings and benefitted only to a minor extend from the release of working capital, which gives it a sustainable character. Net cash at the end of the year exceeded EUR65m. For 2016/17 we expect some normalisation in cash generation for the above described reasons. However, this should still add another EUR40m in free cash flow, driving net cash to around EUR100m by year end. For 2015/16, dividends were raised by 50% to EUR0.15 per share and even though results are likely to come down in the current year, management has announced a continuous development of dividends.

Cash flow development



Source: Verbio, Matelan Research, in EURm

Conservatively calculated fair value comes to EUR6.5

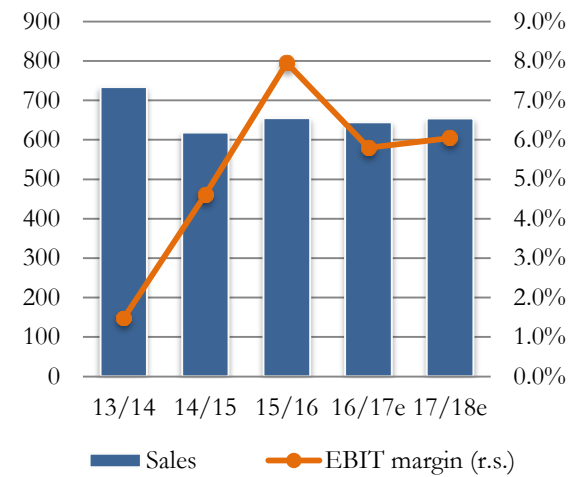
With only minor changes to our estimates for the coming years, it is predominantly the better cash generation in the past financial year that drives our fair value to EUR6.5 (from EUR6.2). However, it should be highlighted again that this is an extremely conservative valuation. We have modelled the company in its current state, i.e. extracting cash from its existing capacities without pricing in any growth prospects, although management has made it clear that it intends to grow the part of its business that is independent from regulation. The expansion of the sterol activities in Bitterfeld and the development of biomethane from straw are two examples for the company's ambitions in this respect. This could come as an add-on to our valuation. Moreover, we still calculate with a terminal value EBIT margin of 5%, while the company has achieved 8% in 2015/16 and we calculate with around 6% for the coming two financial years. Finally, in calculating the fair value we

discount the free cash flows essentially at the cost of equity. This reflects management's intention to pay down the remaining debt in the current year but leaves the company with a rather high WACC.

Investment case is clearly improving

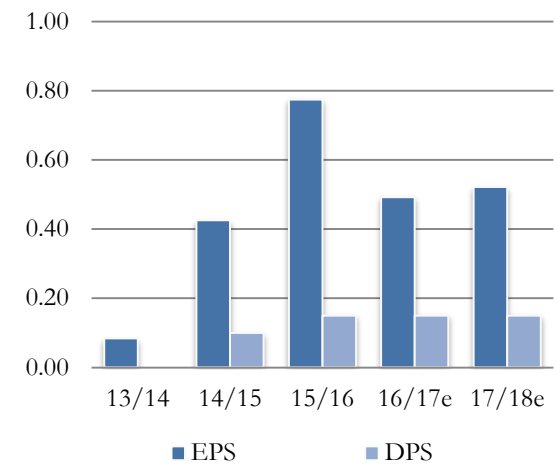
With just 10% upsides to our fair value stick to our Neutral recommendation for the time being. However, we want to point out that the case for Verbio is clearly improving. It was in particular the danger that the ethanol plants in Rotterdam (Abengoa) and Wilton (CropEnergies) both come back on stream and put further pressure on ethanol prices that has prevented us from being more optimistic for Verbio, already. However, we feel that part of the additional volume that might become available is already reflected in the current ethanol forwards. Moreover, the sale of the Rotterdam plant has already been announced but is not yet closed while the trial phase in Wilton was labelled successful but the decision to put the plant back into full production has still not been taken yet. We might thus be looking at least at a prolonged phase of the rather balanced market situation and thus a further recovery of prices. Finally, we should be looking at a rather good first quarter, supported by still strong ethanol spreads in July. This should give a very sound base for achieving full year targets. Building up first positions in Verbio might thus be considered, already.

Sales and EBIT margin



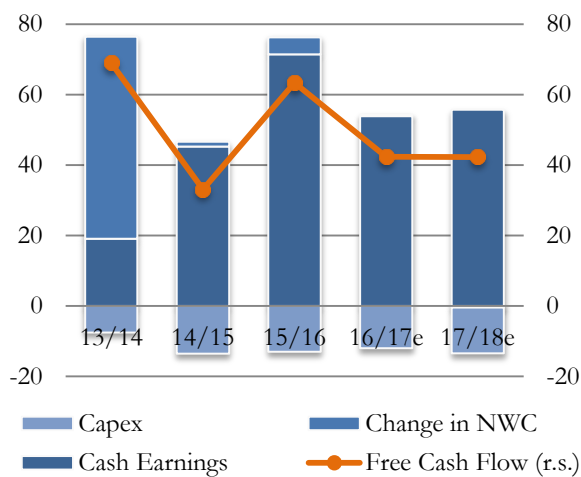
In EURm

Adj. EPS and DPS



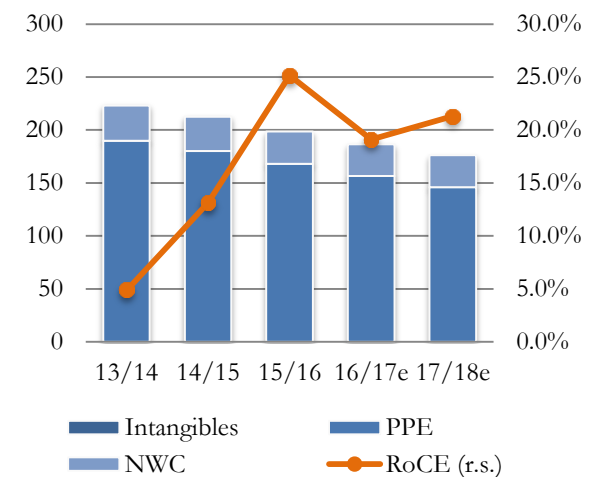
In EUR

Cash Flow



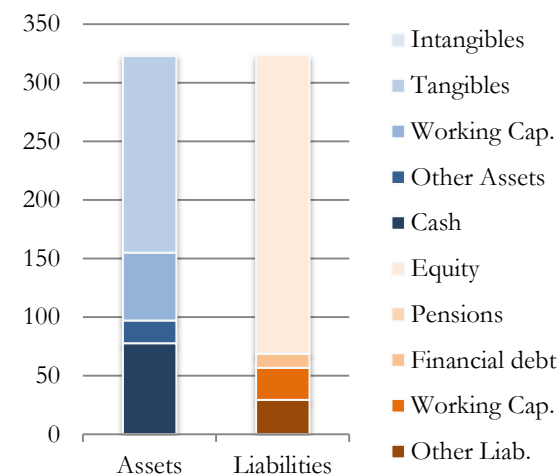
In EURm

RoCE



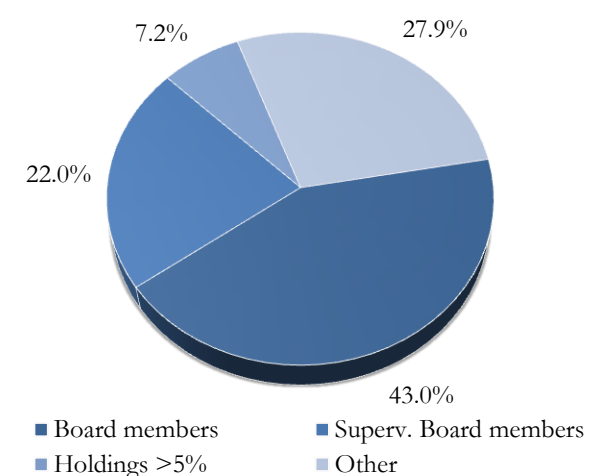
In EURm

Balance Sheet



In EURm

Shareholder structure



P & L

EURm	2013/14	2014/15	2015/16	2016/17e	2017/18e
Sales	733.8	618.5	654.3	644.3	653.7
<i>Growth</i>		-15.7%	5.8%	-1.5%	1.4%
Material costs	-661.2	-528.7	-538.0	-541.0	-547.6
Gross profit	72.6	89.8	116.3	103.3	106.0
<i>Gross margin</i>	9.9%	14.5%	17.8%	16.0%	16.2%
Other operating costs	-13.4	-14.0	-16.8	-17.0	-17.0
EBITDA	36.2	50.7	73.1	59.3	61.5
<i>Margin</i>	4.9%	8.2%	11.2%	9.2%	9.4%
Depreciation	-25.3	-22.2	-21.1	-22.0	-22.0
EBIT	10.9	28.5	52.0	37.3	39.5
<i>Margin</i>	1.5%	4.6%	8.0%	5.8%	6.0%
Financial result	-4.0	-3.8	-1.4	-0.8	-0.8
EBT	6.9	24.7	50.6	36.6	38.8
Taxes	-1.4	2.1	-1.7	-5.5	-5.8
Net profit	5.4	26.9	48.9	31.1	33.0
Minorities / Discon. Op.	-0.2	-0.1	-0.2	-0.1	-0.1
Net profit a.m.	5.3	26.8	48.7	31.0	32.9
<i>Growth</i>		n.m.	n.m.	n.m.	n.m.
No of shares	63.0	63.0	63.0	63.0	63.0
EPS	0.08	0.43	0.77	0.49	0.52
Adj. EPS	0.08	0.43	0.77	0.49	0.52
<i>Growth</i>		n.m.	n.m.	n.m.	n.m.
Dividend	0.00	0.10	0.15	0.15	0.15

Cash Flow

EURm	2013/14	2014/15	2015/16	2016/17e	2017/18e
EBIT	10.9	28.5	52.0	37.3	39.5
Depreciation	25.3	22.2	21.1	22.0	22.0
Other non-cash items	-19.3	-3.3	1.6	0.0	0.0
Cash taxes	2.1	-2.1	-3.2	-5.5	-5.8
Cash earnings	19.1	45.3	71.4	53.9	55.7
Change in NWC	57.3	1.3	4.9	0.5	-0.4
CF from operations	76.4	46.6	76.3	54.3	55.3
Capex	-7.5	-13.5	-13.0	-12.0	-13.0
Other investm./divestm.	28.7	2.8	0.8	1.5	1.5
CF from investing	21.2	-10.7	-12.2	-10.5	-11.5
CF from fin. and other	-91.0	-33.6	-13.3	-20.3	-9.8
Change in cash	6.6	2.4	50.8	23.5	34.0

Valuation multiples

	2013/14	2014/15	2015/16	2016/17e	2017/18e
Share price	1.53	1.90	5.63	5.88	5.88
x No of shares	63.0	63.0	63.0	63.0	63.0
Market Capitalisation	96.4	119.7	354.7	370.4	370.4
+ Net financial debt	28.1	-7.8	-65.6	-99.0	-133.0
+ Pension provision	0.2	0.2	0.2	0.2	0.2
+ Minorities	0.5	0.5	0.7	0.7	0.7
- Participations	-0.1	-0.1	-0.1	-0.1	-0.1
Enterprise Value	125.0	112.5	289.9	272.3	238.3
Sales	733.8	618.5	654.3	644.3	653.7
Adj. EBITDA	36.2	50.7	73.1	59.3	61.5
Adj. EBIT	10.9	28.5	52.0	37.3	39.5
Adj. Net profit a.m.	5.3	26.8	48.7	31.0	32.9
EV / Sales	0.2	0.2	0.4	0.4	0.4
EV / EBITDA	3.5	2.2	4.0	4.6	3.9
EV / EBIT	11.5	3.9	5.6	7.3	6.0
PE	18.3	4.5	7.3	11.9	11.3

Source: Verbio, Matelan Research

Balance Sheet

EURm	2013/14	2014/15	2015/16	2016/17e	2017/18e
Intangible assets	0.2	0.1	0.2	0.2	0.2
Tangible assets	189.6	180.0	167.9	156.4	145.9
Participations	0.1	0.1	0.1	0.1	0.1
Other non-current assets	0.1	4.5	8.5	9.0	9.0
Non-current assets	190.0	184.7	176.7	165.7	155.2
Inventories	30.2	22.2	26.3	25.9	26.3
Receivables	33.9	41.4	31.6	31.1	31.5
Cash	24.3	26.7	77.5	101.0	135.0
Other current assets	24.3	21.3	10.9	16.0	16.0
Current Assets	112.7	111.6	146.3	174.0	208.8
Total assets	302.7	296.3	323.0	339.7	364.0
Equity	183.1	209.1	253.6	275.2	298.8
Minorities	0.5	0.5	0.7	0.7	0.7
Total equity	183.5	209.7	254.3	275.9	299.5
LT financial liabilities	22.3	11.6	1.5	1.5	1.5
Pension provisions	0.2	0.2	0.2	0.2	0.2
Other LT liabilities	12.9	12.9	11.2	12.5	12.5
Non-current liabilities	35.4	24.6	12.9	14.2	14.2
ST financial liabilities	30.0	7.3	10.4	0.5	0.5
Payables	30.7	31.3	27.5	27.1	27.5
Other ST liabilities	23.0	23.5	17.9	21.9	22.3
Current liabilities	83.7	62.0	55.8	49.5	50.3
Total liabilities	302.7	296.3	323.0	339.7	364.0

Segments and adjusted earnings

EURm	2013/14	2014/15	2015/16	2016/17e	2017/18e
Biodiesel	458.2	397.0	423.2	433.4	437.7
Bioethanol/-methan	257.8	212.9	222.1	201.6	206.1
Other	48.4	15.8	15.8	16.3	16.8
Consolidation	-30.6	-7.1	-6.8	-7.0	-7.0
Sales	733.8	618.5	654.3	644.3	653.7
<i>Growth</i>		-15.7%	5.8%	-1.5%	1.4%
Biodiesel	17.3	21.7	25.3	27.4	27.7
Bioethanol/-methan	-1.2	6.3	26.2	9.1	10.4
Other	-5.3	0.5	0.6	0.9	1.3
Consolidation	0.0	0.0	0.0	0.0	0.0
EBIT	10.9	28.5	52.0	37.3	39.5
<i>Margin</i>	1.5%	4.6%	8.0%	5.8%	6.0%

Key operational indicators

	2013/14	2014/15	2015/16	2016/17e	2017/18e
Equity ratio	60.6%	70.8%	78.7%	81.2%	82.3%
Gearing	0.3	0.1	0.0	0.0	0.0
Asset turnover	3.9	3.3	3.7	3.9	4.2
NWC / sales	4.6%	5.2%	4.6%	4.6%	4.6%
Payable days outst.	15.3	18.4	15.4	15.4	15.4
Receivable days outst.	16.9	24.4	17.6	17.6	17.6
Fix operating assets	189.9	184.7	176.7	165.7	155.2
NWC	33.4	32.4	30.3	29.8	30.3
Capital employed	223.3	217.0	207.0	195.5	185.5
RoE	3.0%	12.8%	19.2%	11.3%	11.0%
RoA	3.6%	9.6%	16.1%	11.0%	10.9%
RoCE	4.9%	13.1%	25.1%	19.1%	21.3%
Gross margin	9.9%	14.5%	17.8%	16.0%	16.2%
EBITDA margin	4.9%	8.2%	11.2%	9.2%	9.4%
EBIT margin	1.5%	4.6%	8.0%	5.8%	6.0%
Net profit margin	0.7%	4.3%	7.4%	4.8%	5.0%

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

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

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