

11 October 2016

Price as of 10/11/16: €6.69

Company / Sector	Fair Value	Recommendation
Verbio	€6.3	Neutral
Energy: Biofuels	(€6.5)	(unchanged)

Newsflow remaining on the positive side

Share price performance



Share data

Reuters	VBKG.DE
No. of shares (m)	63.0
Daily volume (3m)	66,827
Free float	27.9%
Market cap. (m)	421.5
EV (m)	323.3
Sales 14-18e	-2.8%

Valuation	15/16e	16/17e
EV/Sales	0.5	0.4
EV/ EBITDA	5.4	4.7
EV/EBIT	8.6	7.3
PER	16.6	15.5
Div. yield	2.2%	2.2%
RoCE	19.2%	21.4%
RoE	9.5%	9.4%

Analysts

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Investment case

Q1 beats expectations and gives evidence of Verbio's ability to preserve earnings levels despite the recent fall in ethanol prices. We expect positive newsflow to continue and our FY estimates become increasingly conservative. The possibility of overcapacity putting further pressure on ethanol prices is not yet gone but risks still appear to diminish. Moreover, the development of biomethane plants gives an additional upside. The investment case thus remains appealing despite the recent share price hike.

➤ Q1 BETTER THAN ANTICIPATED

Q1 results come in ahead of expectations, mainly as a result of an excellent performance of the biodiesel activities. This as well as the contribution of biomethane and other by-products has a strongly stabilising effect, which leaves profitability at a rather high level despite the recent fall in ethanol prices.

➤ GOOD PERFORMANCE SHOULD CONTINUE

Looking forward, the biodiesel activities should benefit from very strong prices in October, which should allow for an improvement of group results in Q2. With Q1 already better than expected, we might see almost 60% of our full year EBITDA estimate in H1.

➤ FV OF EUR6.3 HAS SOME UPSIDE

We change our model only marginally which leaves it increasingly conservative. Thus, our fair value does not yet increase but there is an upside if the current performance can be sustained. The development of biomethane plants, which the company has just announced, gives an additional upside as this is not yet part of our model. Though we stick to our Neutral rating, building up some positions can be considered at this point in time.

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	640.8	656.0
EBITDA (€m)	36.2	50.7	73.1	59.5	61.7
EBIT (€m)	10.9	28.5	52.0	37.5	39.7
Adj. EPS (€)	0.08	0.43	0.77	0.40	0.43
Dividend (€)	0.00	0.10	0.15	0.15	0.15
Oper. CF (€m)	76.4	46.6	76.3	49.2	49.3
Free CF (€m)	68.9	33.1	63.3	37.2	36.3

Q1 16/17 review and change in estimates

EURm	Q1 16/17	Q1 16/17e	Q4 15/16	Change	FY 15/16	FY 16/17e old	FY 16/17e new	Guidance 16/17
Biodiesel	111.4	103.2	103.9	7.2%	423.2	433.4	435.7	
Bioethanol	44.2	59.8	50.0	-11.6%	222.1	201.6	195.8	
Other	2.4	1.0	2.0	22.2%	9.0	9.3	9.3	
Sales	158.0	164.0	155.9	1.4%	654.3	644.3	640.8	
Gross profit	28.2	24.9	30.4	-7.2%	116.3	103.3	103.5	
Margin	17.8%	15.2%	19.5%		17.8%	16.0%	16.2%	
EBITDA	16.2	14.9	14.6	11.0%	73.1	59.3	59.5	55.0
Margin	10.3%	9.1%	9.4%		11.2%	9.2%	9.3%	
EBIT	10.8	8.9	9.4	14.9%	52.0	37.3	37.5	
Margin	6.8%	5.4%	6.0%		7.9%	5.8%	5.9%	
Net Profit	7.4	7.4	7.8	-5.1%	48.7	31.0	25.5	

Source: Verbio, Matelan Research estimates

Q1 results beat expectations

The first quarter gives Verbio a very good start into the new financial year. Though sales come in a bit shy of our estimate, operating margins are clearly better than anticipated. Gross profit, EBITDA and EBIT are thus ahead of our expectations and amount to more than a quarter of our full year forecast. Financial result and taxes are slightly higher than we had anticipated so that net profit comes in bang in line with our estimate despite a better operating profit.

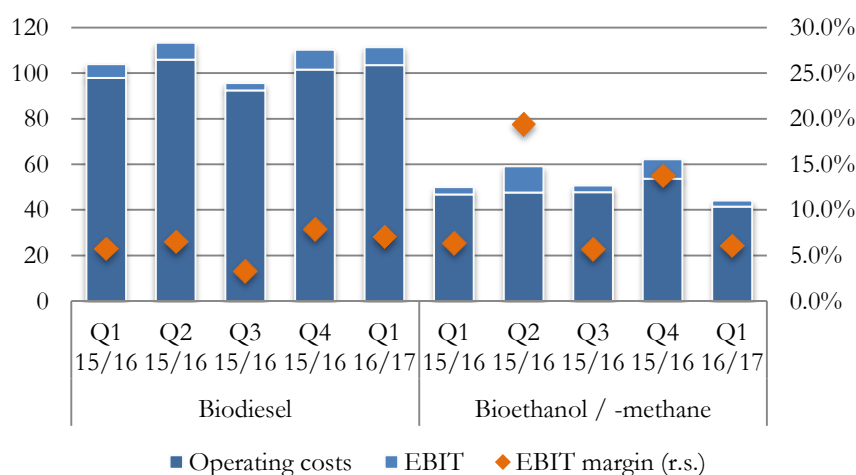
Biodiesel shows strong top line performance while bioethanol falls short

Looking into the biodiesel division, we find production as well a pricing ahead of our expectations, driving sales up by 7% compared to last year's period. In bioethanol, production and pricing fall short of our estimates, leaving the company with a sales decline of -11% instead of an increase. On group level, sales come in just ahead of last year's level but do not reach our forecast.

Good profitability in biodiesel ...

The differing top line performance of the divisions also shows on the profitability side. While biodiesel continues to deliver a very sound EBIT contribution, profitability in the bioethanol activities reflects the recent decline in ethanol prices though biomethane and other by-products had some compensating effect.

Sales and EBIT development by division

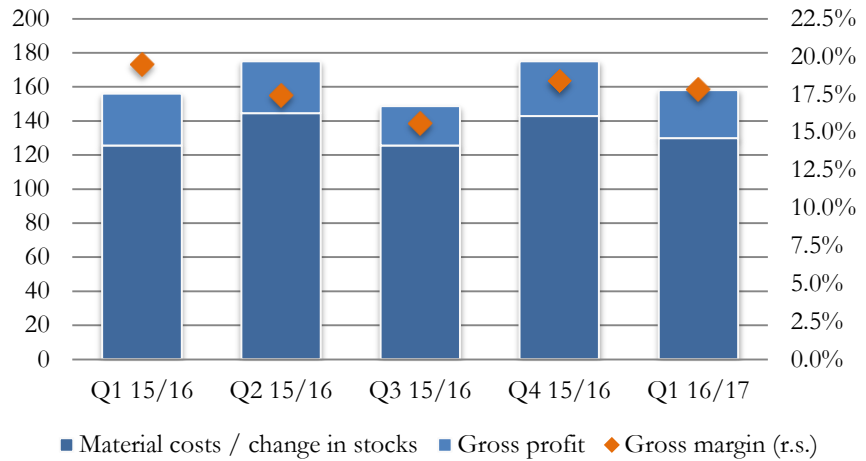


Source: Matelan Research based on Verbio data, l.s. in EURm

... has stabilising effect

The following graph illustrates that the company is able to deliver a rather stable gross profit contribution on group level, which is partly a result of the stabilizing effect of the biodiesel activities to the rather high volatility in bioethanol prices.

Sales and gross margin development

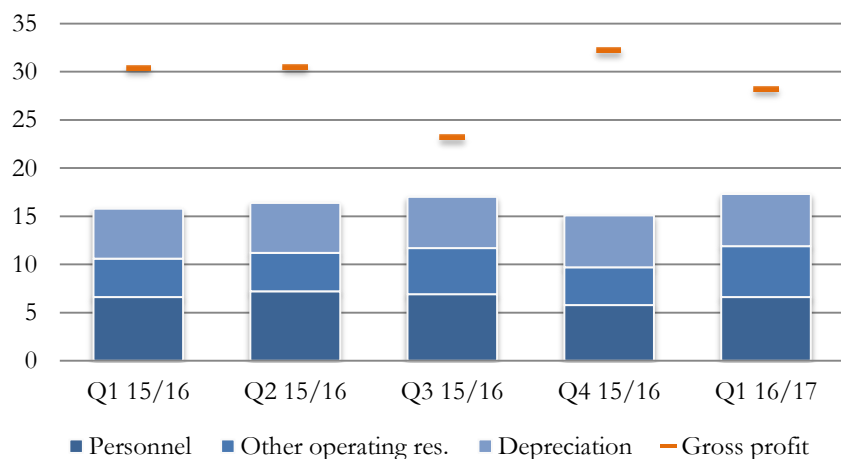


Source: Matelan Research based on Verbio data, l.s. in EURm

Low fix costs leave high margin of safety

Moreover, the following chart illustrates the sizable margin of safety with which Verbio operates. With fix costs accounting for roughly half of gross profit, there is quite some room before EBIT falls into negative territory. The recent drop in ethanol prices has thus only a slight impact on Verbio's profitability in Q1 16/17.

Gross profit and fix cost development



Source: Matelan Research based on Verbio data, in EURm

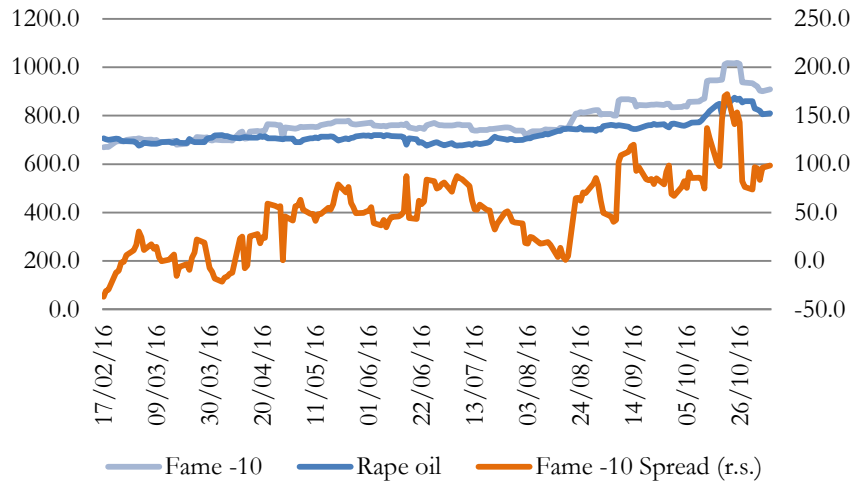
Strong Q1 leaves company ahead of our planning

Looking forward, we see management reiterating its full year guidance of EUR55m in EBITDA. We have been calculating with an EBITDA of EUR59m already and so far all indicators point in the right direction. With EUR16.2m in EBITDA reached in Q1, the company could even beat the EUR60m mark for the full year, provided that the market situation does not deteriorate.

Q2 should see windfall profit in biodiesel

So far, we see biodiesel prices and margins even increasing significantly in October. This should be a windfall profit for the company in Q2. November has seen prices and margins coming back somewhat but with a spread of EUR100/t, it remains at a very good level.

Price and margin development in biodiesel

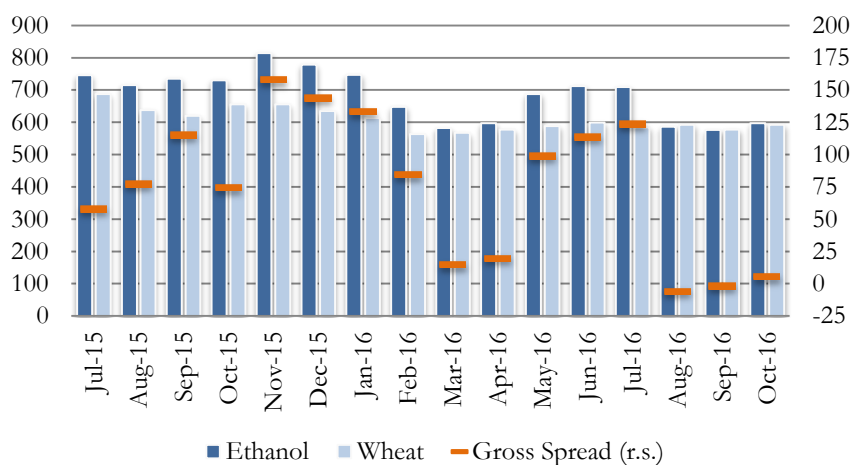


Source: Matelan Research based on ThomsonReuters data, in EUR/tonne

Bioethanol prices might already be close to the low point

The picture is a bit different in ethanol. Here, we see that the first quarter has still benefitted from the strong margin in July. Since August, ethanol prices have come down significantly, leaving a gross margin at around the break-even level. Moreover, forward rates point at some further price decline rather than an increase. The Q1 performance in bioethanol might thus not be repeatable. However, biomethane and other by-products should still have a stabilizing effect. We would thus not expect a massive deterioration in Q2. Moreover, with ethanol prices around the EUR450/cbm mark, the risk of additional capacity coming to the market is clearly reduced.

Price and margin development in bioethanol



Source: Matelan Research based on Platts data, in EUR/t, wheat needed per unit ethanol

With good Q2 ahead, full year operating estimates become increasingly prudent

On group level, we would thus expect some improvement in profitability for the second quarter, which could leave the company with almost 60% of our full year EBITDA forecast at the half year stage. There are obviously still some uncertainties for the second half of the financial year, in particular with regard to pricing. However, the increase in the German quota at the turn of the calendar year should at least have some positive effect. Sticking to our EBITDA estimate, which is already ahead of guidance, thus appears to be a rather prudent forecast to us.

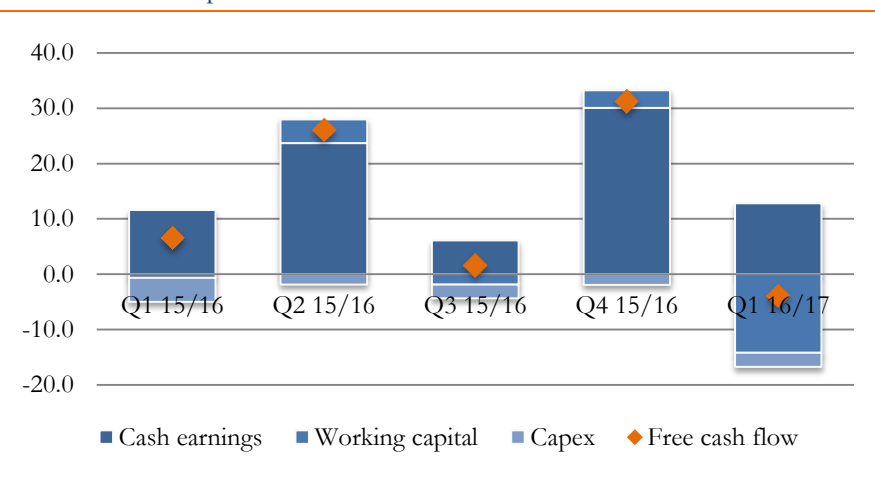
Some reduction in net profit estimate due to higher tax rate

While financial expenses should come down in line with the reduction of debt in the second quarter, the tax rate should remain at the higher than expected Q1 level. We have adapted our full year estimates accordingly which leaves us with some reduction in our net profit forecast.

Slight cash out due to negative swing in working capital

Apart from the p&l development, the first quarter shows a sizable increase in stocks which is typical for the quarter as the company usually purchases raw materials in harvest time. In contrast to previous year's period, the company could not reduce receivables and increase payables at the same time. Some shortage in the local harvest leading to a deterioration of delivery terms might be an explanation for this. This leaves Verbio with a marginally negative operating cash flow of EUR-1.4m and EUR-3.9m in free cash flow for Q1. As this is a timing effect, we make no material changes to our full year estimates. The following chart illustrates the volatility in cash flow throughout the year, which is mainly a result of swings in working capital.

Cash flow development



Source: Verbio, Matelan Research, in EURm

Net cash still in excess of EUR60m

Against this background, Verbio's strong net cash position decreases slightly from EUR65.5m at the end of June to EUR61.8 in September. With an estimate of just under EUR40m in free cash flow for the full financial year, we continue to anticipate a net cash position of close to EUR100m at the end of 2016/17.

Case remains interesting despite prudent valuation

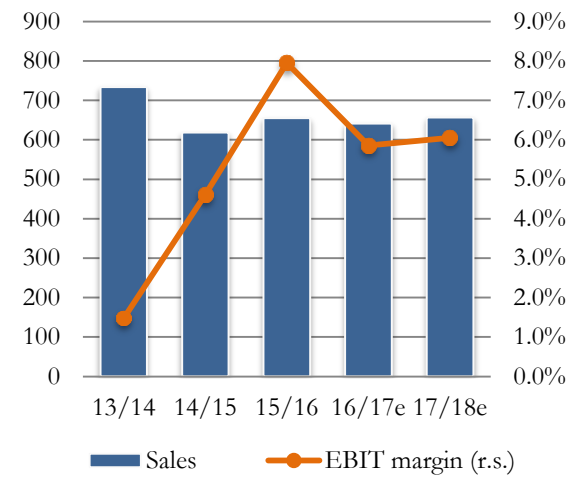
With only marginal changes to our model, our fair value also changes only slightly to EUR6.3. Though this remains below the current share price we continue to believe that Verbio's investment case becomes more and more interesting. Firstly, the conservative nature of our model clearly sustains our

Neutral recommendation. Even more, we had already highlighted that in view of decreasing risks, in particular from the capacity side, it makes sense to build up first additional positions. With newsflow expected to remain on the positive side, this view shall be reiterated. Here, we are not only referring to the upcoming quarterly reporting but also the company's strategic steps.

Development of
biomethane plants
comes and an add-on.

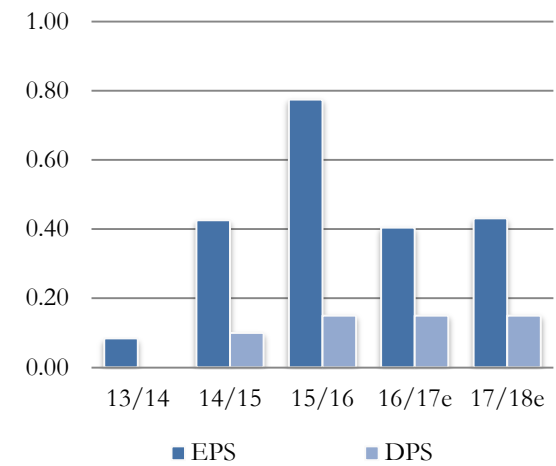
With regard to the latter, the company has announced that it intends to build two biomethane plants with a capacity of 10MW each. Two units supposed to run these plants, one in Germany and one in India, have been set-up, already. We would expect operations to start by the end of 2017 in the first unit and during 2018 in the second. If the plants prove to be successful we would expect the model to be scaled up in subsequent years. These plans should be seen in the context of management's ambition to further diversify the company's product portfolio and to generate growth. However, this is all not yet part of our model.

Sales and EBIT margin



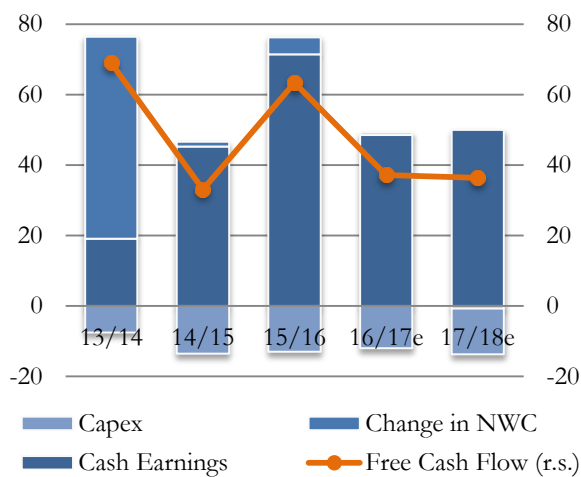
In EURm

Adj. EPS and DPS



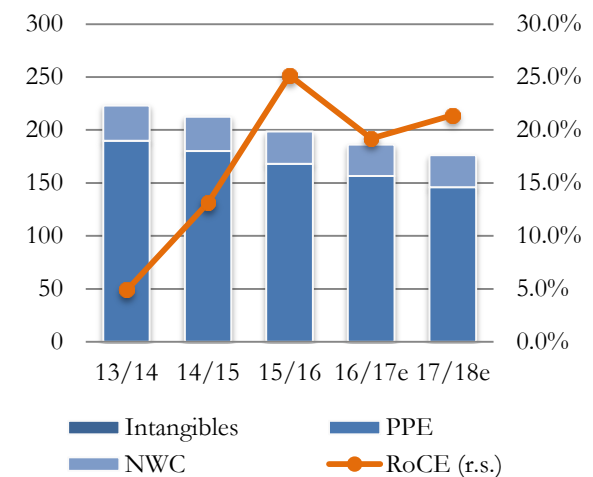
In EUR

Cash Flow



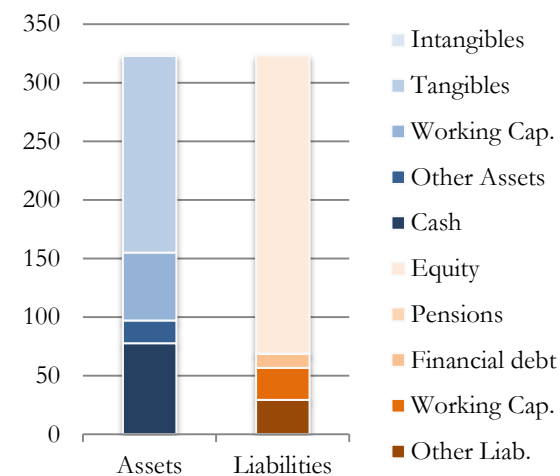
In EURm

RoCE



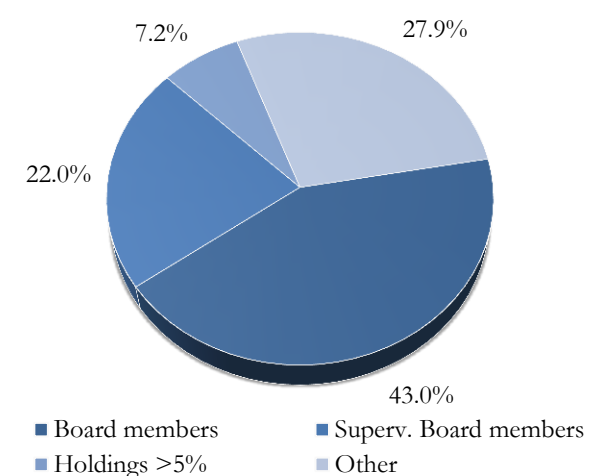
In EURm

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	640.8	656.0
<i>Growth</i>		-15.7%	5.8%	-2.1%	2.4%
Material costs	-661.2	-528.7	-538.0	-537.3	-549.8
Gross profit	72.6	89.8	116.3	103.5	106.2
<i>Gross margin</i>	9.9%	14.5%	17.8%	16.2%	16.2%
Other operating costs	-13.4	-14.0	-16.8	-17.0	-17.0
EBITDA	36.2	50.7	73.1	59.5	61.7
<i>Margin</i>	4.9%	8.2%	11.2%	9.3%	9.4%
Depreciation	-25.3	-22.2	-21.1	-22.0	-22.0
EBIT	10.9	28.5	52.0	37.5	39.7
<i>Margin</i>	1.5%	4.6%	8.0%	5.9%	6.1%
Financial result	-4.0	-3.8	-1.4	-1.0	-0.8
EBT	6.9	24.7	50.6	36.5	38.9
Taxes	-1.4	2.1	-1.7	-11.0	-11.7
Net profit	5.4	26.9	48.9	25.6	27.2
Minorities / Discon. Op.	-0.2	-0.1	-0.2	-0.1	-0.1
Net profit a.m.	5.3	26.8	48.7	25.5	27.1
<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	0.40	0.43
Adj. EPS	0.08	0.43	0.77	0.40	0.43
<i>Growth</i>		n.m.	n.m.	n.m.	n.m.
Dividend	0.00	0.10	0.15	0.15	0.15

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	25.7	26.3
Receivables	33.9	41.4	31.6	30.9	31.7
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	173.7	209.0
Total assets	302.7	296.3	323.0	339.4	364.2
Equity	183.1	209.1	253.6	269.7	287.5
Minorities	0.5	0.5	0.7	0.7	0.7
Total equity	183.5	209.7	254.3	270.4	288.2
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	27.0	27.6
Other ST liabilities	23.0	23.5	17.9	27.3	33.7
Current liabilities	83.7	62.0	55.8	54.8	61.8
Total liabilities	302.7	296.3	323.0	339.4	364.2

Cash Flow

EURm	2013/14	2014/15	2015/16	2016/17e	2017/18e
EBIT	10.9	28.5	52.0	37.5	39.7
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	-11.0	-11.7
Cash earnings	19.1	45.3	71.4	48.6	50.0
Change in NWC	57.3	1.3	4.9	0.6	-0.7
CF from operations	76.4	46.6	76.3	49.2	49.3
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	-15.2	-3.8
Change in cash	6.6	2.4	50.8	23.5	34.0

Segments and adjusted earnings

EURm	2013/14	2014/15	2015/16	2016/17e	2017/18e
Biodiesel	458.2	397.0	423.2	435.7	440.1
Bioethanol/-methan	257.8	212.9	222.1	195.8	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	640.8	656.0
<i>Growth</i>		-15.7%	5.8%	-2.1%	2.4%
Biodiesel	17.3	21.7	25.3	28.6	27.9
Bioethanol/-methan	-1.2	6.3	26.2	8.1	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	37.5	39.7
<i>Margin</i>	1.5%	4.6%	8.0%	5.9%	6.1%

Valuation multiples

	2013/14	2014/15	2015/16	2016/17e	2017/18e
Share price	1.53	1.90	5.63	6.69	6.69
x No of shares	63.0	63.0	63.0	63.0	63.0
Market Capitalisation	96.4	119.7	354.7	421.5	421.5
+ 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	323.3	289.3
Sales	733.8	618.5	654.3	640.8	656.0
Adj. EBITDA	36.2	50.7	73.1	59.5	61.7
Adj. EBIT	10.9	28.5	52.0	37.5	39.7
Adj. Net profit a.m.	5.3	26.8	48.7	25.5	27.1
EV / Sales	0.2	0.2	0.4	0.5	0.4
EV / EBITDA	3.5	2.2	4.0	5.4	4.7
EV / EBIT	11.5	3.9	5.6	8.6	7.3
PE	18.3	4.5	7.3	16.6	15.5

Key operational indicators

	2013/14	2014/15	2015/16	2016/17e	2017/18e
Equity ratio	60.6%	70.8%	78.7%	79.7%	79.1%
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	29.7	30.4
Capital employed	223.3	217.0	207.0	195.4	185.6
RoE	3.0%	12.8%	19.2%	9.5%	9.4%
RoA	3.6%	9.6%	16.1%	11.1%	10.9%
RoCE	4.9%	13.1%	25.1%	19.2%	21.4%
Gross margin	9.9%	14.5%	17.8%	16.2%	16.2%
EBITDA margin	4.9%	8.2%	11.2%	9.3%	9.4%
EBIT margin	1.5%	4.6%	8.0%	5.9%	6.1%
Net profit margin	0.7%	4.3%	7.4%	4.0%	4.1%

Source: Verbio, Matelan Research

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Buy:	45.5%
Neutral:	45.5%
Reduce:	0.0%
Sell:	0.0%

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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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