

13 January 2017

Price as of 12/01/17: €8.90

Company / Sector

Verbio

Energy: Biofuels

Fair Value

€8.1

(€6.3)

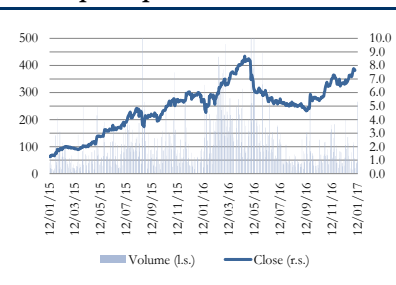
Recommendation

Neutral

(unchanged)

Profitability increasingly positive

Share price performance



Share data

Reuters	VBKG.DE
No. of shares (m)	63.0
Daily volume (3m)	75,389
Free float	27.9%
Market cap. (m)	560.7
EV (m)	483.6
Sales 14-18e	-0.8%

Valuation	16/17e	17/18e
EV/Sales	0.6	0.6
EV/ EBITDA	4.8	5.8
EV/EBIT	6.4	8.4
PER	11.8	16.9
Div. yield	1.7%	1.7%
RoCE	34.7%	25.6%
RoE	16.1%	10.5%

Analysts

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Investment case

In our latest note we had argued that despite an already good share price development, building up further positions can be considered as newsflow was supposed to remain on the positive side and there was still room for upward revisions. We now have to raise our estimates quite strongly and despite the ongoing run in the share price, we stay invested. At current levels, the air is getting thinner but the development of biomethane plants still comes on top of our valuation and sustainable margin levels might well be even higher than so far anticipated.

➤ MATERIAL INCREASE IN GUIDANCE

Verbio has raised its EBITDA guidance for the full year from EUR55m to EUR90m. Though we were already 10% ahead of guidance we are now looking at another extraordinarily good year. Q2 reporting, which is due on February 9th, should give some evidence of what is possible in the current market environment.

➤ RAISING ESTIMATES

Reflecting recent trends in the market, we have raised our expectations for the second quarter and believe that the new guidance is well achievable. Assuming a normalisation of spreads, 2017/18 results should be lower compared to the current year but we still have raised our estimates compared to our previous forecast.

➤ FV COMES TO EUR8.1

Apart from the increase in our earnings estimates for 2016/17 as well as 2017/18, we have raised our expectations for a sustainable margin level. Though we are still not at aggressive levels in this respect, we already arrive at a fair value of EUR8.1. In view of the additional upsides we stay Neutral on the stock although our fair value does not yet fully reflect the current share price.

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	698.6	710.6
EBITDA (€m)	36.2	50.7	73.1	90.8	70.2
EBIT (€m)	10.9	28.5	52.0	68.8	48.2
Adj. EPS (€)	0.08	0.43	0.77	0.75	0.53
Dividend (€)	0.00	0.10	0.15	0.15	0.15
Oper. CF (€m)	76.4	46.6	76.3	68.4	55.4
Free CF (€m)	68.9	33.1	63.3	56.4	42.4

Change in estimates

EURm	FY 15/16	FY 16/17e old	FY 16/17e new	Guidance 16/17	FY 17/18e old	FY 17/18e new
Biodiesel	423.2	435.7	496.0		440.1	486.8
Bioethanol	222.1	195.8	195.6		206.1	216.3
Other	9.0	9.3	7.0		9.8	7.4
Sales	654.3	640.8	698.6		656.0	710.5
Gross profit	116.3	103.5	132.8		106.2	113.2
<i>Margin</i>	<i>17.8%</i>	<i>16.2%</i>	<i>19.0%</i>		<i>16.2%</i>	<i>15.9%</i>
EBITDA	73.1	59.5	90.8	90.0	61.7	70.2
<i>Margin</i>	<i>11.2%</i>	<i>9.3%</i>	<i>13.0%</i>		<i>9.4%</i>	<i>9.9%</i>
EBIT	52.0	37.5	68.8		39.7	48.2
<i>Margin</i>	<i>7.9%</i>	<i>5.9%</i>	<i>9.8%</i>		<i>6.1%</i>	<i>6.8%</i>
Net Profit	48.7	25.5	47.4		27.1	33.1

Source: Verbio, Matelan Research estimates

Strong increase in full year guidance ...

In view of current market trends, Verbio has raised its guidance for the financial year 2016/17 dramatically. EBITDA is now supposed to reach EUR90m. Previously, management expect a level of EUR55m. Net cash is now forecast to come to EUR120m after EUR88m, indicating that the higher EBITDA fully translates into additional cash.

... which largely exceeds our estimates

We were already calculating with an EBITDA of EUR59.5m, around 10% ahead of company guidance. Moreover, we had highlighted that the good pricing in biodiesel in October should allow the company to top Q1 16/17 results in Q2 and that the company could thus reach already 60% of our EBITDA estimate at the half year stage. Newsflow was thus expected to remain on the positive side and there was room for further earnings upgrades, provided that we would not see additional pressure on bioethanol prices.

Positive price trends should have supported Q2 results

However, pricing in bioethanol as well as biodiesel has developed very favourably since then. In particular, the risk of additional ethanol volumes coming to the market has not materialised. Moreover, the high biodiesel prices reached in October could be sustained. Verbio could thus capitalise on the high price level for the entire quarter while raw materials were already purchased at rather low prices. A further factor to consider is that the increase in bioethanol prices has exceeded the price increase in biodiesel prices. This increase in spread should have been supportive for Verbios activities in the field of trading GHG certificates.

Half of the new guidance should be reached

Reflecting these trends, we arrive at an estimated EBITDA of EUR31.5m (previously EUR18m) for the second quarter, which yields around EUR48m for the first half of the year. This is roughly half of the company's new guidance for the full year.

Prospects remain positive

For the second half of the year, we should consider that raw material prices in biodiesel have increased in line with biodiesel prices. While Q2 has benefitted from the time lag between the purchase of raw materials and the sale of the end products, new raw material needs to be purchased at higher prices and the margin is set to normalise. However, we should still see some positive impact in Q3. In bioethanol, we have seen quite some price increase since the start of the new calendar year. With raw materials coming up only under-

proportionately, margins have started to widen. Ethanol futures show a decline for the coming months but we believe that there is a good chance that futures will come up as long as production remains at the current level. All in all, we cannot expect Verbio to repeat Q2 results in Q3 and Q4 but doubling its H1 result appears well within reach. In fact, we now arrive at an EBITDA of EUR91m, which is well in line with the given guidance. This assumes, however, that, apart from the mentioned factors, we do not see a material deterioration of the current market environment.

Slight increase in
2017/18 estimates

Looking into the coming financial year, we calculate with a normalised margin in the biodiesel activities for the entire year. Divisional earnings should thus come down from the very high level that we expect to see in the current year. On the other hand, the situation should improve in bioethanol. Though we do not extrapolate current margin level, margins should improve year on year as long as we do not see a material increase in market volumes coming to the market. On balance, we believe that earnings must be expected to come down from the 2016/17 level but the already strong 2015/16 level might be sustained.

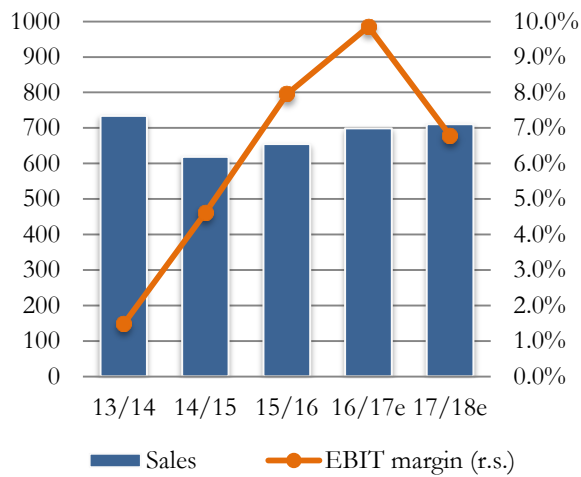
Fair Value comes to
EUR8.1

We have also always argued that our valuation is rather conservative, in particular in terms of sustainable EBIT margin, which we assumed to be 5%. We now believe that the company will show almost 10% in the current year and an expected normalisation of spreads brings us to an EBIT margin of 6.8% for 2017/18. It is thus only fair to take 6.5% as a sustainable level for our terminal value calculation. Our valuation thus benefits from a material increase in earnings and cash flow in 2016/17, a slight increase in estimates for 2017/18 and the increase in long term margin. This drives our fair value from EUR6.3 to EUR8.1.

Stay invested in the
stock

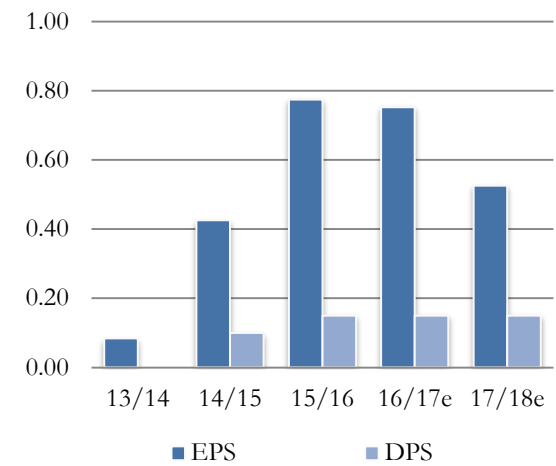
While our new fair value does not yet reach the current share price, which has moved quite strongly in recent weeks, we stick to our Neutral rating. Newsflow is expected to remain on the positive side and there is still some room in our valuation. In addition, we have not yet valued any benefits from the company's plans to develop biomethane plants. It makes thus sense to stay invested in the stock. New additions might be considered if the share price comes down a bit.

Sales and EBIT margin



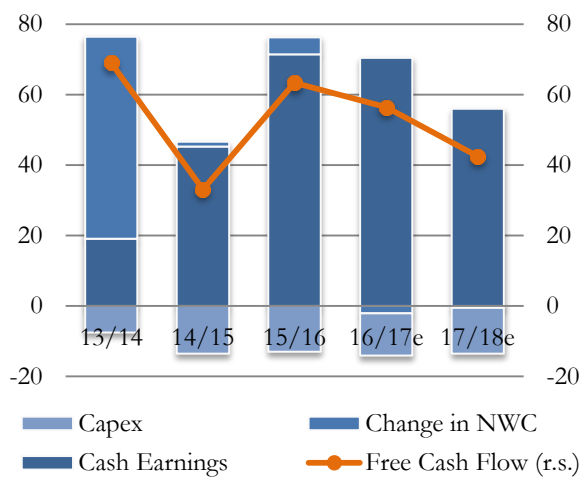
In EURm

Adj. EPS and DPS



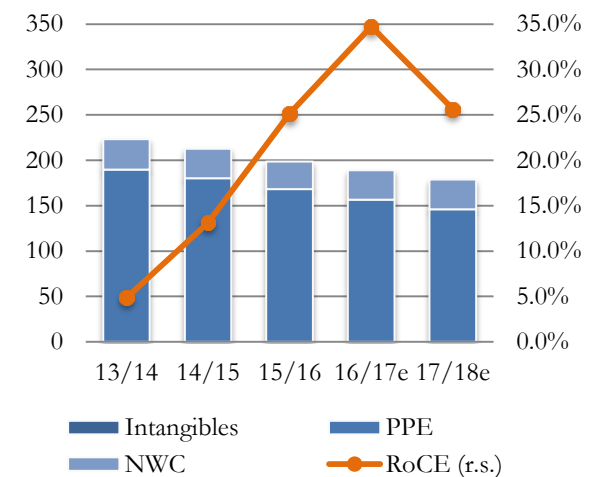
In EUR

Cash Flow



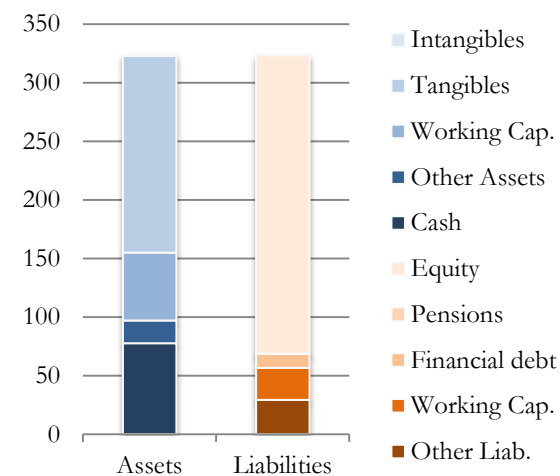
In EURm

RoCE



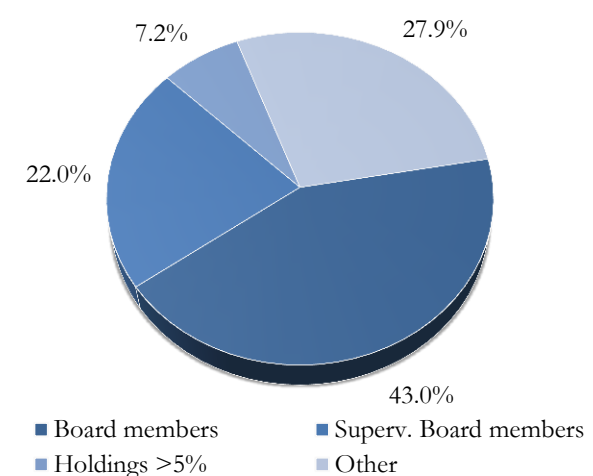
In EURm

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	698.6	710.6
<i>Growth</i>		-15.7%	5.8%	6.8%	1.7%
Material costs	-661.2	-528.7	-538.0	-565.8	-597.4
Gross profit	72.6	89.8	116.3	132.8	113.2
<i>Gross margin</i>	9.9%	14.5%	17.8%	19.0%	15.9%
Other operating costs	-13.4	-14.0	-16.8	-15.0	-15.5
EBITDA	36.2	50.7	73.1	90.8	70.2
<i>Margin</i>	4.9%	8.2%	11.2%	13.0%	9.9%
Depreciation	-25.3	-22.2	-21.1	-22.0	-22.0
EBIT	10.9	28.5	52.0	68.8	48.2
<i>Margin</i>	1.5%	4.6%	8.0%	9.8%	6.8%
Financial result	-4.0	-3.8	-1.4	-1.0	-0.8
EBT	6.9	24.7	50.6	67.8	47.4
Taxes	-1.4	2.1	-1.7	-20.3	-14.2
Net profit	5.4	26.9	48.9	47.5	33.2
Minorities / Discon. Op.	-0.2	-0.1	-0.2	-0.1	-0.1
Net profit a.m.	5.3	26.8	48.7	47.4	33.1
<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	0.75	0.53
Adj. EPS	0.08	0.43	0.77	0.75	0.53
<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	68.8	48.2
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	-20.3	-14.2
Cash earnings	19.1	45.3	71.4	70.5	56.0
Change in NWC	57.3	1.3	4.9	-2.0	-0.6
CF from operations	76.4	46.6	76.3	68.4	55.4
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	-10.4	-10.9
Change in cash	6.6	2.4	50.8	47.5	33.0

Valuation multiples

	2013/14	2014/15	2015/16	2016/17e	2017/18e
Share price	1.53	1.90	5.63	8.90	8.90
x No of shares	63.0	63.0	63.0	63.0	63.0
Market Capitalisation	96.4	119.7	354.7	560.7	560.7
+ Net financial debt	28.1	-7.8	-65.6	-123.0	-156.0
+ 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	438.6	405.6
Sales	733.8	618.5	654.3	698.6	710.6
Adj. EBITDA	36.2	50.7	73.1	90.8	70.2
Adj. EBIT	10.9	28.5	52.0	68.8	48.2
Adj. Net profit a.m.	5.3	26.8	48.7	47.4	33.1
EV / Sales	0.2	0.2	0.4	0.6	0.6
EV / EBITDA	3.5	2.2	4.0	4.8	5.8
EV / EBIT	11.5	3.9	5.6	6.4	8.4
PE	18.3	4.5	7.3	11.8	16.9

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	28.1	28.5
Receivables	33.9	41.4	31.6	33.7	34.3
Cash	24.3	26.7	77.5	125.0	158.0
Other current assets	24.3	21.3	10.9	16.0	16.0
Current Assets	112.7	111.6	146.3	202.8	236.8
Total assets	302.7	296.3	323.0	368.5	392.1
Equity	183.1	209.1	253.6	291.6	315.3
Minorities	0.5	0.5	0.7	0.7	0.7
Total equity	183.5	209.7	254.3	292.3	316.0
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	29.4	29.9
Other ST liabilities	23.0	23.5	17.9	32.1	31.4
Current liabilities	83.7	62.0	55.8	62.0	61.8
Total liabilities	302.7	296.3	323.0	368.5	392.1

Segments and adjusted earnings

EURm	2013/14	2014/15	2015/16	2016/17e	2017/18e
Biodiesel	458.2	397.0	423.2	496.0	486.8
Bioethanol/-methan	257.8	212.9	222.1	195.6	216.3
Other	48.4	15.8	15.8	14.0	14.4
Consolidation	-30.6	-7.1	-6.8	-7.0	-7.0
Sales	733.8	618.5	654.3	698.6	710.6
<i>Growth</i>		-15.7%	5.8%	6.8%	1.7%
Biodiesel	17.3	21.7	25.3	60.1	33.5
Bioethanol/-methan	-1.2	6.3	26.2	4.1	14.2
Other	-5.3	0.5	0.6	4.6	0.5
Consolidation	0.0	0.0	0.0	0.0	0.0
EBIT	10.9	28.5	52.0	68.8	48.2
<i>Margin</i>	1.5%	4.6%	8.0%	9.8%	6.8%

Key operational indicators

	2013/14	2014/15	2015/16	2016/17e	2017/18e
Equity ratio	60.6%	70.8%	78.7%	79.3%	80.6%
Gearing	0.3	0.1	0.0	0.0	0.0
Asset turnover	3.9	3.3	3.7	4.2	4.6
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	32.4	32.9
Capital employed	223.3	217.0	207.0	198.0	188.1
RoE	3.0%	12.8%	19.2%	16.2%	10.5%
RoA	3.6%	9.6%	16.1%	18.7%	12.3%
RoCE	4.9%	13.1%	25.1%	34.7%	25.6%
Gross margin	9.9%	14.5%	17.8%	19.0%	15.9%
EBITDA margin	4.9%	8.2%	11.2%	13.0%	9.9%
EBIT margin	1.5%	4.6%	8.0%	9.8%	6.8%
Net profit margin	0.7%	4.3%	7.4%	6.8%	4.7%

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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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