

09 February 2017

Price as of 08/02/17: €11.03

Company / Sector	Fair Value	Recommendation
Verbio	€8.8	Neutral
Energy: Biofuels	(€8.1)	(unchanged)

Q2 even stronger than expected

Share price performance



Share data

Reuters	VBKG.DE
No. of shares (m)	63.0
Daily volume (3m)	117,093
Free float	27.9%
Market cap. (m)	694.9
EV (m)	569.3
Sales 14-18e	-0.7%

Valuation	16/17e	17/18e
EV/Sales	0.8	0.7
EV/ EBITDA	5.7	7.1
EV/EBIT	7.3	10.0
PER	13.0	19.0
Div. yield	1.8%	1.8%
RoCE	39.1%	28.3%
RoE	18.0%	11.4%

Analysts

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Investment case

We had already increased our estimates materially in January and based on the release of Q2 results, we now feel that this was too conservative. We believe that under normal market conditions, the company should be able to top its new guidance by some EUR10m. A further increased in estimates leaves us with a new fair value of EUR8.8. Though the share price has already moved ahead of this level, we stay invested as newsflow should continue to be positive, there is still room for further upgrades and the company's biomethane strategy is not yet priced in.

➤ Q2 BEATS EXPECTATIONS

The release of Q2 accounts shows an impressive y-o-y as well as q-o-q performance which comes in even ahead of the expectations that we raised on January, 12th. The outperformance compared to our forecasts is primarily due to the strong contribution from by-products in the bioethanol segment.

➤ GUIDANCE APPEARS EXTREMELY PRUDENT

In view of the strong performance in the second quarter and the further improving market situation in Q3, we feel that the EBITDA guidance, which management has just raised to EUR90m, is extremely prudent. Without becoming aggressive, we believe that Verbio should come closed to the EUR100m mark. Thus, also the net cash target of EUR120m should be topped.

➤ FV OF EUR8.8 STILL CONSERVATIVE

We now expect the company to produce more than EUR60m in free cash flow and an increase in dividend to EUR0.20. Based on our raised estimates, we now arrive at a new fair value of EUR8.8. This is still based on a conservative calculation and does not include any contribution from additional biomethane plants.

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	709.7	712.9
EBITDA (€m)	36.2	50.7	73.1	99.6	75.2
EBIT (€m)	10.9	28.5	52.0	77.6	53.2
Adj. EPS (€)	0.08	0.43	0.77	0.85	0.58
Dividend (€)	0.00	0.10	0.15	0.20	0.20
Oper. CF (€m)	76.4	46.6	76.3	74.1	59.4
Free CF (€m)	68.9	33.1	63.3	62.1	46.4

Q2 review and change in estimates

EURm	Q2 16/17	Q2 16/17e	Q2 15/16	Change	FY 15/16	FY 16/17e old	FY 16/17e new	Guidance 16/17
Biodiesel	124.9	130.3	113.3	10.2%	423.2	496.0	486.6	
Bioethanol	53.3	50.7	59.1	-9.8%	222.1	195.6	216.2	
Other	2.6	1.0	2.5	4.0%	9.0	7.0	7.0	
Sales	180.8	182.0	174.9	3.4%	654.3	698.6	709.7	
Gross profit	45.2	41.5	30.5	48.2%	116.3	132.8	141.6	
<i>Margin</i>	<i>25.0%</i>	<i>22.8%</i>	<i>17.4%</i>		<i>17.8%</i>	<i>19.0%</i>	<i>20.0%</i>	
EBITDA	32.8	31.5	24.5	33.9%	73.1	90.8	99.6	90.0
<i>Margin</i>	<i>18.1%</i>	<i>17.3%</i>	<i>14.0%</i>		<i>11.2%</i>	<i>13.0%</i>	<i>14.0%</i>	
EBIT	27.5	25.5	19.3	42.5%	52.0	68.8	77.6	
<i>Margin</i>	<i>15.2%</i>	<i>14.0%</i>	<i>11.0%</i>		<i>7.9%</i>	<i>9.8%</i>	<i>10.9%</i>	
Net Profit	18.8	17.7	13.7	37.2%	48.7	47.4	53.6	

Source: Verbio, Matelan Research estimates

New guidance appears increasingly conservative

Ahead of Q2 reporting, Verbio had already raised its guidance for the financial year 2016/17. EBITDA is now expected to reach EUR90m. However, the release of full accounts leaves us now with the impression that this guidance might still be too conservative. In fact, we believe that the company could well come close to the EUR100m mark and this is by no means an aggressive estimate.

Profitability exceeds estimates – mainly driven by bioethanol

We had already raised our expectations for the second quarter on the back of a positive price development, in particular on the biodiesel side. Now we find that production in both segments exceeds our estimates while prices in the biodiesel activities have not fully reached the increased forecast. However, average bioethanol pricing was a bit better than anticipated. On balance, group sales remained roughly in line with our forecast. All profitability levels slightly exceeded our estimates with the bioethanol segment being a bit stronger than anticipated and biodiesel being a bit weaker.

Strong performance y-o-y as well as q-o-q

Profitability increased materially from last year's levels, which is impressive as last year's second quarter was the strongest quarter in a record year. However, also the quarter on quarter performance is noteworthy. In fact, the company has roughly doubled its EBITDA contribution in biodiesel as well as in bioethanol in the second quarter compared to the first. While the increase in spread supported the performance of the biodiesel segment, in bioethanol the spread remained on a rather low level. Here, the good performance was largely driven by the sale of by-products.

Full year EBITDA could come close to EUR100m

In a conference call, management indicated that in biodiesel, the company benefitted from some trading gains, while in bioethanol the contribution from by-products should be taken as a recurring event. We try to be conservative on both sides. In biodiesel, we have seen a further increase in spread since the start of the third quarter. However, taking out some trading gains, we arrive at an EBITDA estimate of EUR12.7m for the third quarter (after EUR18.7m in Q2). In bioethanol, prices and spreads have increased materially since the start of the third quarter. On the other hand, the contribution from by-products might not be as high as in Q2. We thus come to EUR15.7m (after EUR14.1m in Q2). Including "Others" we thus arrive at a group EBITDA estimate of EUR29.5m. This would bring the company close to EUR80m after the third quarter. Assuming that spreads might not

stay at current levels but normalise in the fourth quarter, we would still be left with another EUR20m and this would bring the company to a level of around EUR100m in EBITDA for the full year. This is EUR10m ahead of company guidance and still appears to be a prudent estimate from today's perspective.

Strong cash flow leaves ample room for investments and increase in dividends

In any case, Verbio is heading for another record year. Against this background we would expect the company to raise its dividend to EUR0.20. Management has already indicated that it expects net cash to rise to EUR120m at the end of the year. Given that we expect results to be somewhat better than guided, we also expect net cash to be a bit higher. A payout of EUR12.6m should thus not be a problem in a year which should produce more than EUR60m in free cash flow. This still leaves more than ample room for any future investments in the development of biomethane plants.

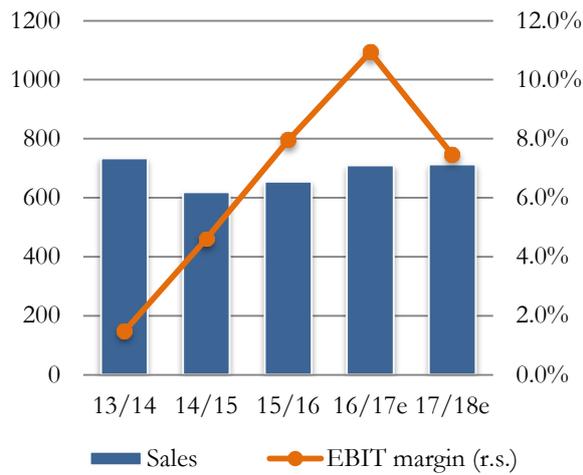
Fair Value comes to EUR8.8

At the same time, it should be highlighted that we continue to think that 2016/17 is an extraordinary year and that the performance is unlikely to be repeated in 2017/18. However, the current market situation as well as ongoing cost cutting and an improved contribution from by-products leaves us a bit more optimistic for next year as well. In fact, we now believe that the next year could even beat the previous record year 2015/16. This increase in estimates brings us to a new fair value of EUR8.8.

Stay invested in the stock

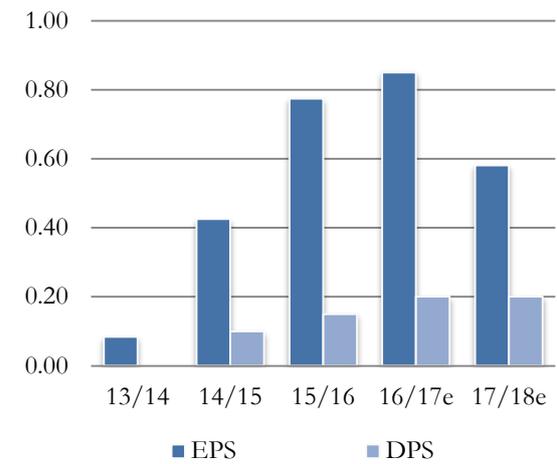
While our new fair value does still not reach the current share price, which has moved another 24% since our recent note in January, we stick to our Neutral rating. Newsflow is expected to remain on the positive side and there continues to be room in our estimates and our valuation. In addition, we have not yet valued any benefits from the company's plans to develop biomethane plants. It makes thus sense to stay invested in the stock.

Sales and EBIT margin



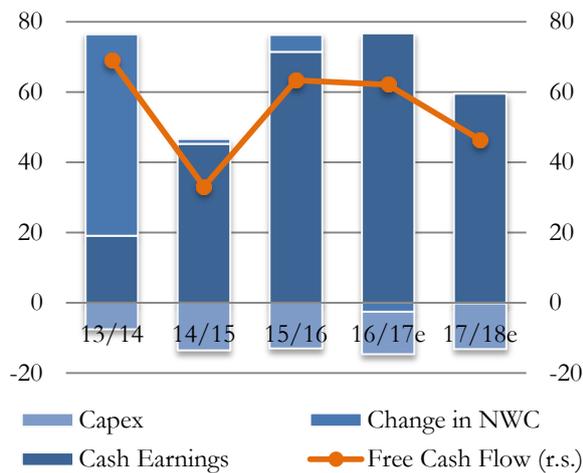
In EURm

Adj. EPS and DPS



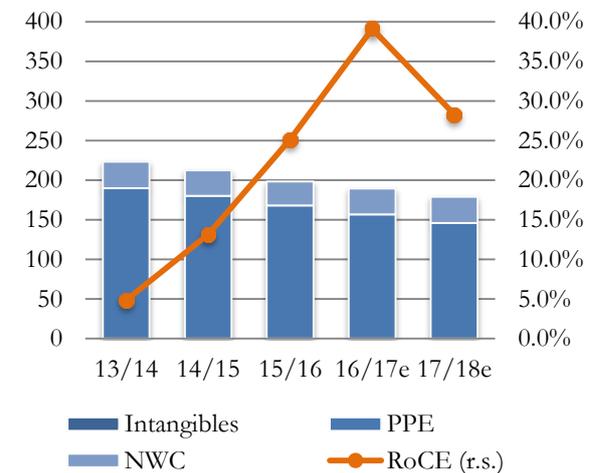
In EUR

Cash Flow



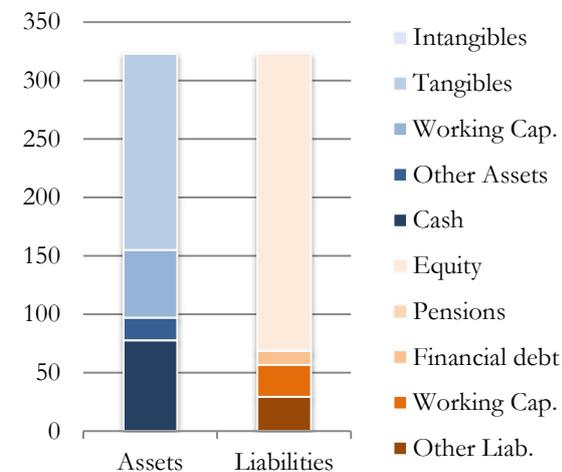
In EURm

RoCE



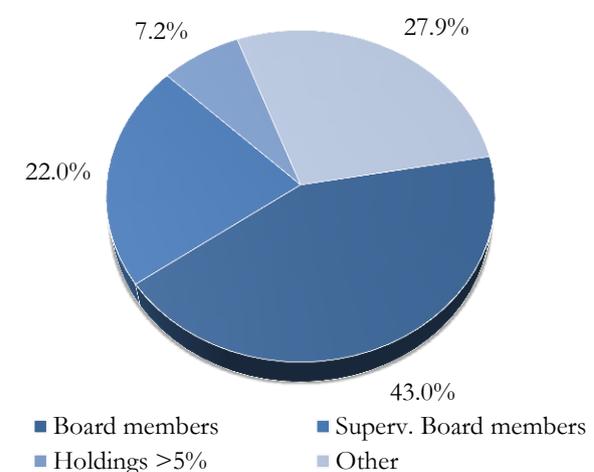
In EURm

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	709.7	712.9
<i>Growth</i>		-15.7%	5.8%	8.5%	0.4%
Material costs	-661.2	-528.7	-538.0	-568.1	-594.6
Gross profit	72.6	89.8	116.3	141.6	118.2
<i>Gross margin</i>	9.9%	14.5%	17.8%	20.0%	16.6%
Other operating costs	-13.4	-14.0	-16.8	-15.0	-15.5
EBITDA	36.2	50.7	73.1	99.6	75.2
<i>Margin</i>	4.9%	8.2%	11.2%	14.0%	10.6%
Depreciation	-25.3	-22.2	-21.1	-22.0	-22.0
EBIT	10.9	28.5	52.0	77.6	53.2
<i>Margin</i>	1.5%	4.6%	8.0%	10.9%	7.5%
Financial result	-4.0	-3.8	-1.4	-1.0	-0.8
EBT	6.9	24.7	50.6	76.6	52.4
Taxes	-1.4	2.1	-1.7	-23.0	-15.7
Net profit	5.4	26.9	48.9	53.7	36.7
Minorities / Discon. Op.	-0.2	-0.1	-0.2	-0.1	-0.1
Net profit a.m.	5.3	26.8	48.7	53.6	36.6
<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	0.85	0.58
Adj. EPS	0.08	0.43	0.77	0.85	0.58
<i>Growth</i>		n.m.	n.m.	n.m.	n.m.
Dividend	0.00	0.10	0.15	0.20	0.20

Cash Flow

EURm	2013/14	2014/15	2015/16	2016/17e	2017/18e
EBIT	10.9	28.5	52.0	77.6	53.2
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	-23.0	-15.7
Cash earnings	19.1	45.3	71.4	76.7	59.5
Change in NWC	57.3	1.3	4.9	-2.6	-0.1
CF from operations	76.4	46.6	76.3	74.1	59.4
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	-12.6	-12.4
Change in cash	6.6	2.4	50.8	51.0	35.5

Valuation multiples

	2013/14	2014/15	2015/16	2016/17e	2017/18e
Share price	1.53	1.90	5.63	11.03	11.03
x No of shares	63.0	63.0	63.0	63.0	63.0
Market Capitalisation	96.4	119.7	354.7	694.9	694.9
+ Net financial debt	28.1	-7.8	-65.6	-126.5	-162.0
+ 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	569.3	533.8
Sales	733.8	618.5	654.3	709.7	712.9
Adj. EBITDA	36.2	50.7	73.1	99.6	75.2
Adj. EBIT	10.9	28.5	52.0	77.6	53.2
Adj. Net profit a.m.	5.3	26.8	48.7	53.6	36.6
EV / Sales	0.2	0.2	0.4	0.8	0.7
EV / EBITDA	3.5	2.2	4.0	5.7	7.1
EV / EBIT	11.5	3.9	5.6	7.3	10.0
PE	18.3	4.5	7.3	13.0	19.0

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	28.5	28.6
Receivables	33.9	41.4	31.6	34.2	34.4
Cash	24.3	26.7	77.5	128.5	164.0
Other current assets	24.3	21.3	10.9	16.0	16.0
Current Assets	112.7	111.6	146.3	207.3	243.0
Total assets	302.7	296.3	323.0	373.0	398.3
Equity	183.1	209.1	253.6	297.8	321.9
Minorities	0.5	0.5	0.7	0.7	0.7
Total equity	183.5	209.7	254.3	298.5	322.6
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	29.9	30.0
Other ST liabilities	23.0	23.5	17.9	29.9	30.9
Current liabilities	83.7	62.0	55.8	60.3	61.4
Total liabilities	302.7	296.3	323.0	373.0	398.3

Segments and adjusted earnings

EURm	2013/14	2014/15	2015/16	2016/17e	2017/18e
Biodiesel	458.2	397.0	423.2	486.6	482.3
Bioethanol/-methan	257.8	212.9	222.1	216.2	223.2
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	709.7	712.9
<i>Growth</i>		-15.7%	5.8%	8.5%	0.4%
Biodiesel	17.3	21.7	25.3	45.1	33.7
Bioethanol/-methan	-1.2	6.3	26.2	32.0	18.7
Other	-5.3	0.5	0.6	0.5	0.8
Consolidation	0.0	0.0	0.0	0.0	0.0
EBIT	10.9	28.5	52.0	77.6	53.2
<i>Margin</i>	1.5%	4.6%	8.0%	10.9%	7.5%

Key operational indicators

	2013/14	2014/15	2015/16	2016/17e	2017/18e
Equity ratio	60.6%	70.8%	78.7%	80.0%	81.0%
Gearing	0.3	0.1	0.0	0.0	0.0
Asset turnover	3.9	3.3	3.7	4.3	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	32.9	33.0
Capital employed	223.3	217.0	207.0	198.6	188.2
RoE	3.0%	12.8%	19.2%	18.0%	11.4%
RoA	3.6%	9.6%	16.1%	20.8%	13.4%
RoCE	4.9%	13.1%	25.1%	39.1%	28.3%
Gross margin	9.9%	14.5%	17.8%	20.0%	16.6%
EBITDA margin	4.9%	8.2%	11.2%	14.0%	10.6%
EBIT margin	1.5%	4.6%	8.0%	10.9%	7.5%
Net profit margin	0.7%	4.3%	7.4%	7.5%	5.1%

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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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