

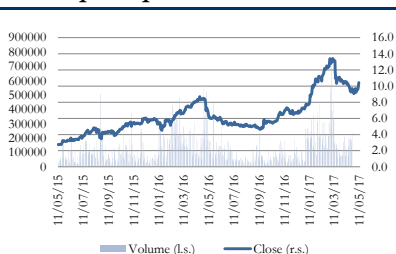
11 May 2017

Price as of 10/05/17: €10.44

Company / Sector	Fair Value	Recommendation
<b>Verbio</b>	<b>€9.5</b>	<b>Neutral</b>
Energy: Biofuels	(€8.8)	(unchanged)

## Q3 shows Verbio on track for record year

### Share price performance



### Share data

Reuters	VBKG.DE
No. of shares (m)	63.0
Daily volume (3m)	196,614
Free float	27.9%
Market cap. (m)	657.7
EV (m)	532.1
Sales 14-18e	-0.3%

Valuation	16/17e	17/18e
EV/Sales	0.7	0.7
EV/ EBITDA	5.4	6.7
EV/EBIT	6.9	9.4
PER	12.2	17.9
Div. yield	1.9%	1.9%
RoCE	37.8%	26.7%
RoE	18.1%	11.4%

### Analysts

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### Investment case

The release of Q3 results shows Verbio well on track to reach our full year estimates. Q3 results were not far off our estimates and we were already conservative for Q4. Fine-tuning our model, we still come to a full year EBITDA estimate of close to EUR100m which is some 10% above the current guidance. With the share price having come back to a decent level and newsflow remaining on the positive side, the investment case is clearly improving again.

#### ➤ Q3 WELL IN LINE WITH EXPECTATIONS

Q3 results continue to show strong progress compared to last year's period. Sales were a bit higher than expected, mainly due to trading activities in bioethanol. Earnings were marginally lower due to a slightly weaker biodiesel margin and a lower ethanol production compared to our estimates.

#### ➤ EUR100M IN EBITDA STILL WITHIN REACH

Following the strong Q2 result we had raised our EBITDA estimate for the full year to almost EUR100m. Being conservative in particular for Q4 in the first place, fine tuning our estimates now leaves us even a confirmation of this estimate.

#### ➤ STOCK SHOWS DECENT VALUATION AGAIN

Verbio also showed a strong cash flow. After EUR36m in Q3, we expect the fourth quarter to add another EUR20m in operating cash flow and net cash should beat the targeted EUR120m mark by year end. Changes in our forecasts and a slightly lower beta leave us with a new fair value of EUR9.5. With the share price back in line with valuation and newsflow remaining on the positive side, the stock has clearly become more interesting again.

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	720.7	724.1
EBITDA (€m)	36.2	50.7	73.1	99.9	75.6
EBIT (€m)	10.9	28.5	52.0	77.9	53.6
Adj. EPS (€)	0.08	0.43	0.77	0.86	0.58
Dividend (€)	0.00	0.10	0.15	0.20	0.20
Oper. CF (€m)	76.4	46.6	76.3	71.9	59.6
Free CF (€m)	68.9	33.1	63.3	55.9	42.6

### Q3 review and change in estimates

EURm	Q3 16/17	Q3 16/17e	Q3 15/16	Change	FY 15/16	FY 16/17e old	FY 16/17e new	Guidance 16/17
Biodiesel	123.7	122.0	95.7	29.3%	423.2	486.6	489.7	
Bioethanol	74.0	59.0	50.7	46.0%	222.1	216.2	223.9	
Other	2.3	1.0	2.2	6.3%	9.0	7.0	7.0	
Sales	200.0	182.0	148.6	34.6%	654.3	709.7	720.7	
Gross profit	40.0	39.5	23.2	72.4%	116.3	141.6	150.4	
<i>Margin</i>	<i>20.0%</i>	<i>21.7%</i>	<i>15.6%</i>		<i>17.8%</i>	<i>20.0%</i>	<i>20.9%</i>	
EBITDA	26.8	29.5	11.5	133.0%	73.1	99.6	99.9	90.0
<i>Margin</i>	<i>13.4%</i>	<i>16.2%</i>	<i>7.7%</i>		<i>11.2%</i>	<i>14.1%</i>	<i>13.9%</i>	
EBIT	21.4	23.5	6.2	245.2%	52.0	77.6	77.9	
<i>Margin</i>	<i>10.7%</i>	<i>12.9%</i>	<i>4.2%</i>		<i>7.9%</i>	<i>10.9%</i>	<i>10.8%</i>	
Net Profit	14.5	17.0	13.7	5.8%	48.7	53.9	54.0	

Source: Verbio, Matelan Research estimates

Q3 figures support our full year estimates

Q3 results came in well in line with our expectations. Sales came in a bit higher than expected but earnings were slightly lower. Overall, the figures largely confirm scenario for the full year, which still assumes that the company can beat its EBITDA guidance by almost 10%.

Strong progress compared to last year's period

Following the extraordinarily strong performance in the second quarter, which allowed us to raise our EBITDA estimate for the full year to almost EUR100m, we had expected some normalisation in the earnings development already for the third and even more so for the fourth quarter of the year. Still, with EUR200m in sales and more than EUR20m in EBIT in Q3, we are still looking at 35% growth and more than a tripling of earnings compared to last year's period.

Biodiesel well in line with expectations

The biodiesel activities showed sales perfectly in line with our estimates (EUR123.7m vs. EUR122.0m e). EBITDA reached EUR11.5m (EUR12.7m e). A repetition of the trading gains realised in the second quarter was not expected but then margins were marginally weaker than we thought. However, we are still looking at 30% growth and an increase in EBIT margin to 8.7% which led to more than a tripling in divisional EBIT compared to last year.

Bioethanol shows slight impact from lower production

In bioethanol, we saw sales (EUR200m) exceeding our estimates (EUR182m). The difference results from a rather high trading activity in the quarter which drove sales but had little impact on earnings. In fact, production fell a bit short of expectations due to some maintenance work. As a result, we find EBITDA (EUR14.9m) coming in a bit lower than expected (EUR15.7m). Still, EBITDA was up compared to last year and compared to the previous quarter.

We still expect Verbio to beat its guidance

For the full year, we continue to expect some further normalisation of the good margin situation in both segments. A further reduction in spreads has thus been already part of our planning. Fine tuning our model, we have slightly raised our gross margin expectations but also our fix costs estimate. On balance, we now arrive at an EBITDA forecast of EUR24m for the fourth quarter (after 26.8m in Q3). This brings the company close to the EUR100m level for the full year, which is some 10% above the guidance of EUR90m that the company has reiterated with the release of results.

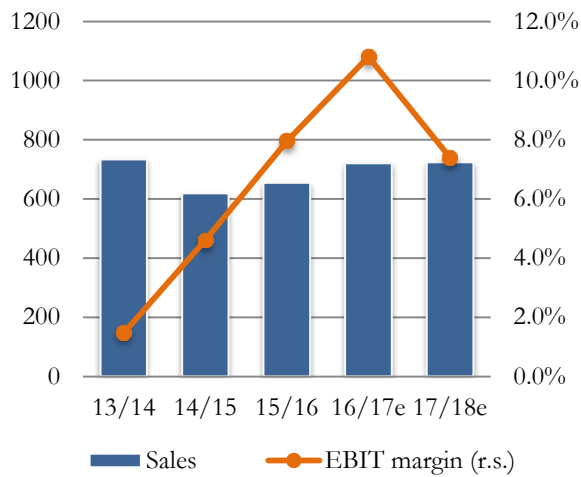
Strong cash flow supports EUR120m net cash target

In terms of cash, we find a very strong EUR36m in operating cash flow in Q3 (after EUR16.8m in Q2), which accumulates to EUR51.5m for the nine month period. For Q4, we expect the company to add another EUR20m in operating cash flow which should drive net cash above the EUR120m mark the company is guiding for.

Fair Value comes to EUR9.5

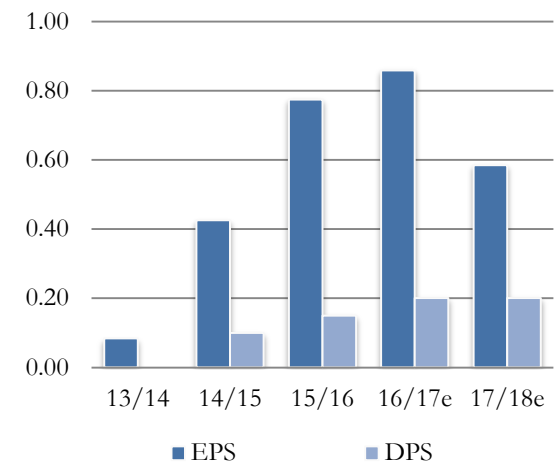
We also reiterate our believe that 2016/17 is an extraordinary year and that the performance is unlikely to be repeated in 2017/18. A further normalisation of margins should leave the company with an EBITDA of EUR75m according to our estimates. On the other hand, we increasingly believe in the predictability of earnings and thus slightly reduce the beta factor. Together with the marginal revision of our forecasts we now arrive at a slight increase in our fair value to EUR9.5. With the share price having come back to a more decent level again, we can clearly reiterate our Neutral rating on the stock. However, newsflow is expected to remain on the positive side with the company being on track to reach a record year and beating its guidance. Any progress on the biomethane side continues to be an add-on to our valuation. We thus see the investment case increasingly positive.

Sales and EBIT margin



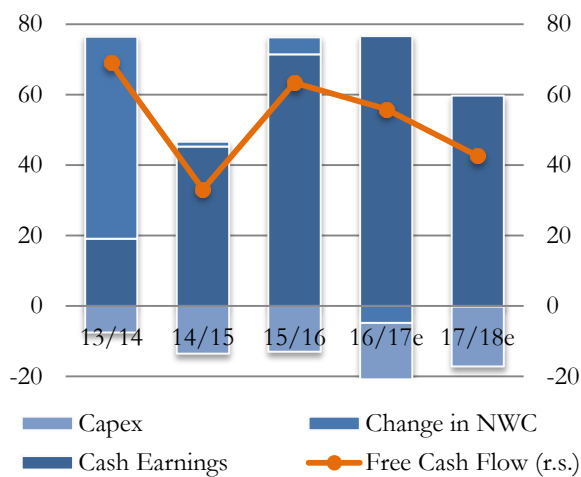
In EURm

Adj. EPS and DPS



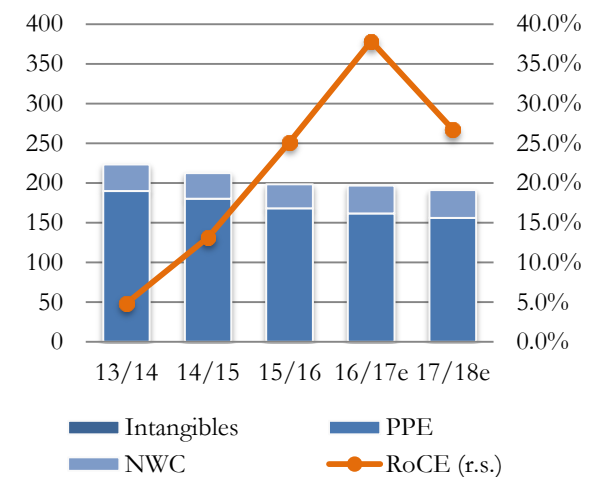
In EUR

Cash Flow



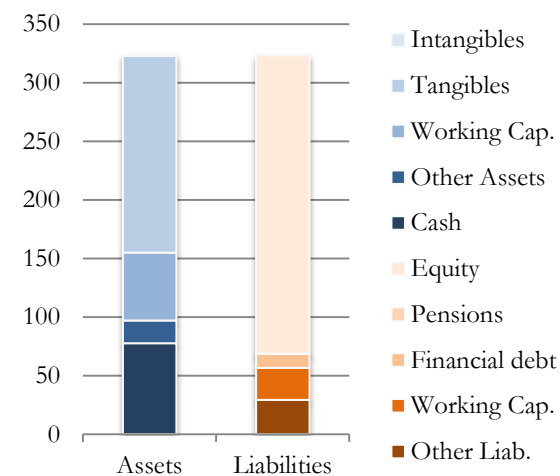
In EURm

RoCE



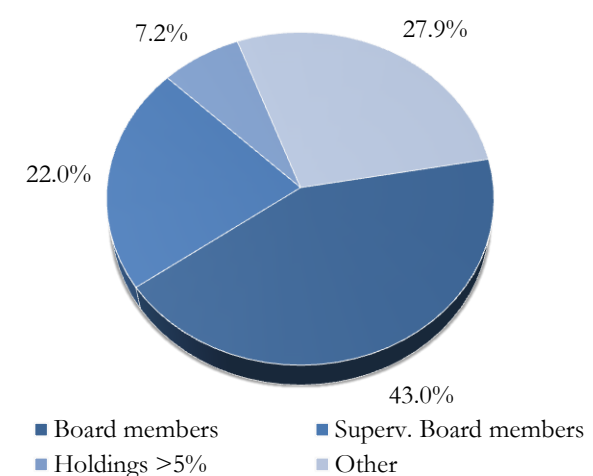
In EURm

Balance Sheet



In EURm

Shareholder structure



**P & L**

EURm	2013/14	2014/15	2015/16	2016/17e	2017/18e
<b>Sales</b>	<b>733.8</b>	<b>618.5</b>	<b>654.3</b>	<b>720.7</b>	<b>724.1</b>
<i>Growth</i>		-15.7%	5.8%	10.1%	0.5%
Material costs	-661.2	-528.7	-538.0	-570.3	-594.5
<b>Gross profit</b>	<b>72.6</b>	<b>89.8</b>	<b>116.3</b>	<b>150.4</b>	<b>129.6</b>
<i>Gross margin</i>	9.9%	14.5%	17.8%	20.9%	17.9%
Other operating costs	-13.4	-14.0	-16.8	-20.5	-22.5
<b>EBITDA</b>	<b>36.2</b>	<b>50.7</b>	<b>73.1</b>	<b>99.9</b>	<b>75.6</b>
<i>Margin</i>	4.9%	8.2%	11.2%	13.9%	10.4%
Depreciation	-25.3	-22.2	-21.1	-22.0	-22.0
<b>EBIT</b>	<b>10.9</b>	<b>28.5</b>	<b>52.0</b>	<b>77.9</b>	<b>53.6</b>
<i>Margin</i>	1.5%	4.6%	8.0%	10.8%	7.4%
Financial result	-4.0	-3.8	-1.4	-0.5	-0.8
<b>EBT</b>	<b>6.9</b>	<b>24.7</b>	<b>50.6</b>	<b>77.4</b>	<b>52.8</b>
Taxes	-1.4	2.1	-1.7	-23.2	-15.8
Net profit	5.4	26.9	48.9	54.1	36.9
Minorities / Discon. Op.	-0.2	-0.1	-0.2	-0.1	-0.1
<b>Net profit a.m.</b>	<b>5.3</b>	<b>26.8</b>	<b>48.7</b>	<b>54.0</b>	<b>36.8</b>
<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	0.86	0.58
<b>Adj. EPS</b>	<b>0.08</b>	<b>0.43</b>	<b>0.77</b>	<b>0.86</b>	<b>0.58</b>
<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
<b>EBIT</b>	<b>10.9</b>	<b>28.5</b>	<b>52.0</b>	<b>77.9</b>	<b>53.6</b>
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	-23.2	-15.8
Cash earnings	19.1	45.3	71.4	76.6	59.7
Change in NWC	57.3	1.3	4.9	-4.8	-0.2
<b>CF from operations</b>	<b>76.4</b>	<b>46.6</b>	<b>76.3</b>	<b>71.9</b>	<b>59.6</b>
Capex	-7.5	-13.5	-13.0	-16.0	-17.0
Other investm./divestm.	28.7	2.8	0.8	0.5	0.5
<b>CF from investing</b>	<b>21.2</b>	<b>-10.7</b>	<b>-12.2</b>	<b>-15.5</b>	<b>-16.5</b>
<b>CF from fin. and other</b>	<b>-91.0</b>	<b>-33.6</b>	<b>-13.3</b>	<b>-8.8</b>	<b>-12.1</b>
<b>Change in cash</b>	<b>6.6</b>	<b>2.4</b>	<b>50.8</b>	<b>47.5</b>	<b>31.0</b>

**Valuation multiples**

	2013/14	2014/15	2015/16	2016/17e	2017/18e
Share price	1.53	1.90	5.63	10.44	10.44
x No of shares	63.0	63.0	63.0	63.0	63.0
<b>Market Capitalisation</b>	<b>96.4</b>	<b>119.7</b>	<b>354.7</b>	<b>657.7</b>	<b>657.7</b>
+ Net financial debt	28.1	-7.8	-65.6	-122.5	-153.5
+ 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
<b>Enterprise Value</b>	<b>125.0</b>	<b>112.5</b>	<b>289.9</b>	<b>536.1</b>	<b>505.1</b>
Sales	733.8	618.5	654.3	720.7	724.1
Adj. EBITDA	36.2	50.7	73.1	99.9	75.6
Adj. EBIT	10.9	28.5	52.0	77.9	53.6
Adj. Net profit a.m.	5.3	26.8	48.7	54.0	36.8
EV / Sales	0.2	0.2	0.4	0.7	0.7
EV / EBITDA	3.5	2.2	4.0	5.4	6.7
EV / EBIT	11.5	3.9	5.6	6.9	9.4
PE	18.3	4.5	7.3	12.2	17.9

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	161.4	155.9
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
<b>Non-current assets</b>	<b>190.0</b>	<b>184.7</b>	<b>176.7</b>	<b>170.7</b>	<b>165.2</b>
Inventories	30.2	22.2	26.3	32.3	32.5
Receivables	33.9	41.4	31.6	35.1	35.3
Cash	24.3	26.7	77.5	125.0	156.0
Other current assets	24.3	21.3	10.9	10.0	16.0
<b>Current Assets</b>	<b>112.7</b>	<b>111.6</b>	<b>146.3</b>	<b>202.4</b>	<b>239.7</b>
<b>Total assets</b>	<b>302.7</b>	<b>296.3</b>	<b>323.0</b>	<b>373.1</b>	<b>405.0</b>
Equity	183.1	209.1	253.6	298.3	322.6
Minorities	0.5	0.5	0.7	0.7	0.7
<b>Total equity</b>	<b>183.5</b>	<b>209.7</b>	<b>254.3</b>	<b>299.0</b>	<b>323.3</b>
LT financial liabilities	22.3	11.6	1.5	0.6	0.6
Pension provisions	0.2	0.2	0.2	0.2	0.2
Other LT liabilities	12.9	12.9	11.2	11.0	12.5
<b>Non-current liabilities</b>	<b>35.4</b>	<b>24.6</b>	<b>12.9</b>	<b>11.8</b>	<b>13.3</b>
ST financial liabilities	30.0	7.3	10.4	1.9	1.9
Payables	30.7	31.3	27.5	32.3	32.5
Other ST liabilities	23.0	23.5	17.9	28.2	34.0
<b>Current liabilities</b>	<b>83.7</b>	<b>62.0</b>	<b>55.8</b>	<b>62.4</b>	<b>68.3</b>
<b>Total liabilities</b>	<b>302.7</b>	<b>296.3</b>	<b>323.0</b>	<b>373.1</b>	<b>405.0</b>

**Segments and adjusted earnings**

EURm	2013/14	2014/15	2015/16	2016/17e	2017/18e
Biodiesel	458.2	397.0	423.2	489.7	493.5
Bioethanol/-methan	257.8	212.9	222.1	223.9	223.2
Other	48.4	15.8	15.8	14.0	14.4
Consolidation	-30.6	-7.1	-6.8	-7.0	-7.0
<b>Sales</b>	<b>733.8</b>	<b>618.5</b>	<b>654.3</b>	<b>720.7</b>	<b>724.1</b>
<i>Growth</i>		-15.7%	5.8%	10.1%	0.5%
Biodiesel	17.3	21.7	25.3	44.7	33.0
Bioethanol/-methan	-1.2	6.3	26.2	32.1	18.9
Other	-5.3	0.5	0.6	1.0	1.6
Consolidation	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>10.9</b>	<b>28.5</b>	<b>52.0</b>	<b>77.9</b>	<b>53.6</b>
<i>Margin</i>	1.5%	4.6%	8.0%	10.8%	7.4%

**Key operational indicators**

	2013/14	2014/15	2015/16	2016/17e	2017/18e
Equity ratio	60.6%	70.8%	78.7%	80.1%	79.8%
Gearing	0.3	0.1	0.0	0.0	0.0
Asset turnover	3.9	3.3	3.7	4.2	4.4
NWC / sales	4.6%	5.2%	4.6%	4.9%	4.9%
Payable days outst.	15.3	18.4	15.4	16.4	16.4
Receivable days outst.	16.9	24.4	17.6	17.8	17.8
Fix operating assets	189.9	184.7	176.7	170.7	165.2
NWC	33.4	32.4	30.3	35.1	35.3
Capital employed	223.3	217.0	207.0	205.8	200.5
RoE	3.0%	12.8%	19.2%	18.1%	11.4%
RoA	3.6%	9.6%	16.1%	20.9%	13.2%
RoCE	4.9%	13.1%	25.1%	37.8%	26.7%
Gross margin	9.9%	14.5%	17.8%	20.9%	17.9%
EBITDA margin	4.9%	8.2%	11.2%	13.9%	10.4%
EBIT margin	1.5%	4.6%	8.0%	10.8%	7.4%
Net profit margin	0.7%	4.3%	7.4%	7.5%	5.1%

## ADDITIONAL DISCLOSURES

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Neutral:	45.5%
Reduce:	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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