

10 November 2017

Price as of 09/11/17: €7.97

Company / Sector

**Verbio**

Energy: Biofuels

Fair Value

**€9.1**

(unchanged)

Recommendation

**Neutral**

(unchanged)

## Solid start into the new financial year

### Share price performance



### Share data

Reuters	VBKG.DE
No. of shares (m)	63.0
Daily volume (3m)	215,697
Free float	28.4%
Market cap. (m)	502.1
EV (m)	384.2
Sales 15-19e	2.5%

Valuation	17/18e	18/19e
EV/Sales	0.6	0.5
EV/ EBITDA	5.5	4.9
EV/EBIT	8.1	7.1
PER	15.5	14.7
Div. yield	2.5%	2.5%
RoCE	20.5%	21.8%
RoE	10.3%	10.2%

### Analysts

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### Investment case

Following a rather weak fourth quarter, Q1 17/18 now shows a performance back in line with our expectations. We thus confirm our full year estimates, which are well ahead of company guidance, as well as our fair value of EUR9.1. At share prices around EUR8, the stock has clearly become attractive again and building up some positions could already be considered. An upgrade should come with an increased visibility on a further improvement in newsflow.

#### ➤ Q1 17/18 IN LINE WITH EXPECTATIONS

In view of reduced market spreads, the biodiesel activities have delivered a decent margin level, which was roughly back in line with expectations. Bioethanol made another strong contribution to group earnings, which also reflects current trading conditions.

#### ➤ FY ESTIMATES CONFIRMED

With Q1 results widely in line with our estimates we stick to our forecasts for the full year. We thus continue to forecast an EBITDA almost EUR20m ahead of the company's EUR50m guidance, which management reiterated.

#### ➤ SHARE PRICE BACK ON INTERESTING LEVELS

Following the recent correction in the share price, we see the stock back on the radar. Our valuation of EUR9.1, which we confirm, already indicates some upside so that building up positions could be considered again. We would upgrade the stock as soon as we expect newsflow to improve further. Upsides to our valuation come from an increased investment spending, risks include changes in the legislative environment.

For additional disclosures please refer to the appendix

Forecasts	14/15	15/16	16/17	17/18e	18/19e
Sales (€m)	618.5	654.3	726.4	674.9	683.1
EBITDA (€m)	50.7	73.1	92.4	69.3	72.3
EBIT (€m)	28.5	52.0	70.7	47.5	50.1
Adj. EPS (€)	0.43	0.77	0.82	0.51	0.54
Dividend (€)	0.10	0.15	0.20	0.20	0.20
Oper. CF (€m)	46.6	76.3	75.0	58.5	57.0
Free CF (€m)	33.1	63.3	56.6	14.5	37.0

**Q1 17/18 review**

EURm	Q1 17/18	Q1 17/18e	Q1 16/17	Change	FY 16/17	FY 17/18e old	Guidance 17/18
Biodiesel	114.7	110.3	111.4	3.0%	471.6	440.2	
Bioethanol	60.9	63.6	44.2	37.8%	245.2	224.9	
Other	2.6	1.0	2.4	8.3%	9.6	9.8	
Sales	178.2	174.9	158.0	12.8%	726.4	674.9	
Gross profit	29.1	29.7	28.2	3.2%	142.6	119.3	
<i>Margin</i>	<i>16.3%</i>	<i>17.0%</i>	<i>17.8%</i>		<i>19.6%</i>	<i>17.7%</i>	
Biodiesel	5.1	5.7	9.1	-44.0%	39.3	29.9	
Bioethanol	10.6	10.8	6.7	58.2%	52.4	39.1	
Other	0.2	0.1	0.4	-50.0%	0.7	0.3	
EBITDA	15.9	16.6	16.2	-1.9%	92.4	69.3	50.0
<i>Margin</i>	<i>8.9%</i>	<i>9.5%</i>	<i>10.3%</i>		<i>12.7%</i>	<i>10.3%</i>	
EBIT	10.3	11.0	10.8	-4.6%	70.7	47.5	
<i>Margin</i>	<i>5.8%</i>	<i>6.3%</i>	<i>6.8%</i>		<i>9.7%</i>	<i>7.0%</i>	
Net Profit	7.3	7.6	7.4	-1.4%	51.5	32.4	

Source: Verbio, Matelan Research estimates

Stable performance in line with expectations

Q1 17/18 results were roughly in line with our expectations and on par with last year's period on group level. While the Biodiesel activities experienced some margin contraction, Bioethanol improved significantly. Both effects balanced each other out, which gives some feel for the stability of Verbio's business model.

Biodiesel still showing decent profitability

While biodiesel capacities continue to run at full speed, the spread between biodiesel and rapeseed oil has come down considerably compared to last year as biodiesel prices have declined while rapeseed oil even increased slightly. The division's EBITDA margin thus declined from 8.2% to 4.4% yoy. However, compared to the weak performance of the past quarter, where the division was just around the break-even point on EBITDA level, we see a clear improvement. We had already highlighted that the company's Q4 16/17 performance was no indicator of what the division could deliver in the current market environment as it was affected by several one-off effects. Q1 17/18 numbers are now back in line with expectations and show that the division still operates with a decent profitability despite the reduced margin levels.

Still strong contribution from Bioethanol

In Bioethanol, production was still at a high level and pricing has come up compared to last year's period, both on the end-product and the raw material side. Still, the net effect was quite positive so that earnings have clearly increased. The record earnings level of the past quarter could not be repeated as ethanol pricing has come down a bit compared to Q4 16/17 but we are still looking at a 17.4% EBITDA margin and a 10.3% EBIT margin. This is well in line with our expectations for the quarter and perfectly on track with regard to our full year estimates.

Net cash continues to go north

Based on a group EBITDA of EUR15.9m and some increase in net working capital, the company has produced an operating cash flow of EUR7.4m and a free cash flow of 4.4m. Net cash has thus further increased to EUR117m. Management still targets more than EUR100m for the full year.

Estimates confirmed

With Q1 results showing only slight variations from our estimates, we see no need to change our full year expectations. We thus continue to forecast a full year EBITDA of EUR69, which is almost EUR20m ahead of the company's guidance of EUR50m. We had already made it clear that we regard the guidance as some kind of minimum level that the company can achieve even in a rather adverse market environment. Reasons for such additional caution could be potential market distortions coming from the abolition of anti-dumping duties within the EU.

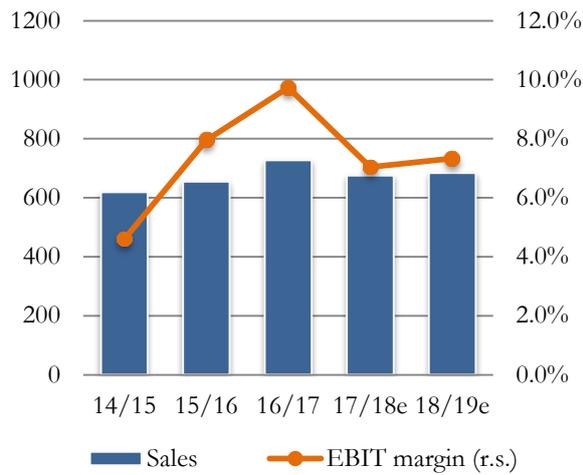
Investments drive diversification into non-regulated areas

Investments in the first quarter remained on a rather low level. However, this is set to increase in the coming quarters with a new biomethane plant in Pinnow and even two new sterol plants in Bitterfeld-Wolfen in the planning. Sterol capacity is thus set to almost triple, according to latest information. Though still coming from a low base, these measures show that Verbio is further diversifying its business into related areas and thereby reducing its dependency on regulation in the field of biofuels.

Fair Value indicates decent upside

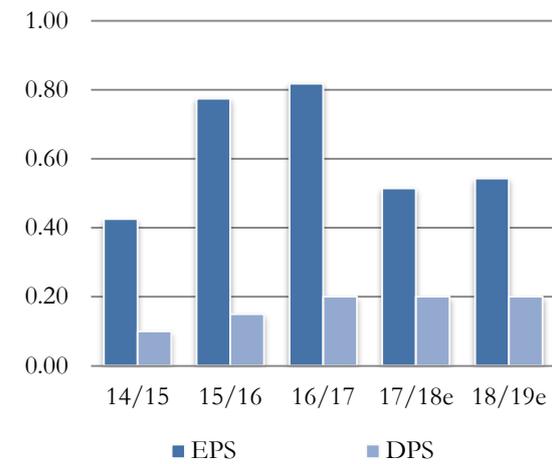
With unchanged earnings forecasts we confirm our valuation of EUR9.1. Following some overshooting, we have recently seen the share price moving back to a more moderate level. Current prices around the EUR8 mark could even be considered as an interesting entry level. It should be mentioned that our valuation does not yet include any sizeable returns from the above mentioned investments as they should only become visible from 2018/19 onwards and are hard to quantify. This is clearly an upside as is a further scaling of the straw-biomethane and/or the sterol activities. Risks to our valuation include a deterioration of market prices for biodiesel and/or bioethanol coming e.g. from the abolition of anti-dumping duties or a change of the legal environment, e.g. following a change in EU legislation post 2020.

Sales and EBIT margin



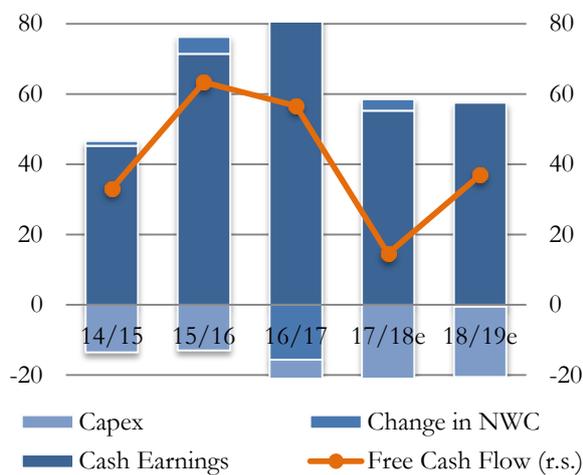
In EURm

Adj. EPS and DPS



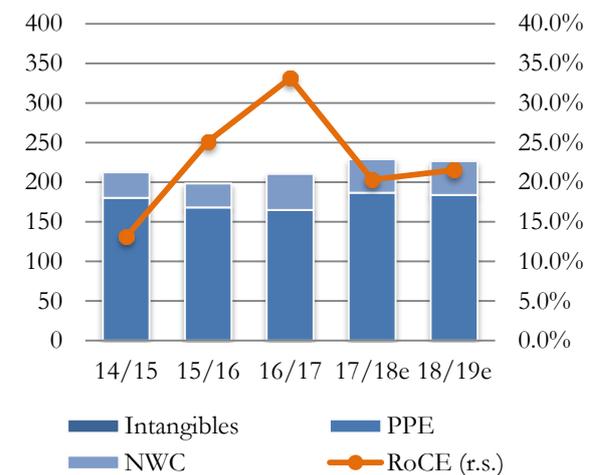
In EUR

Cash Flow



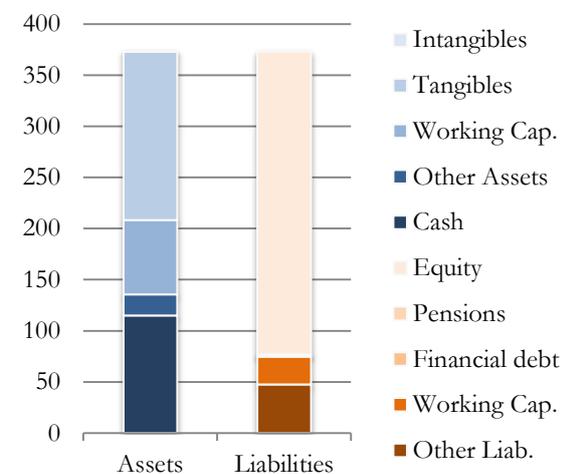
In EURm

RoCE



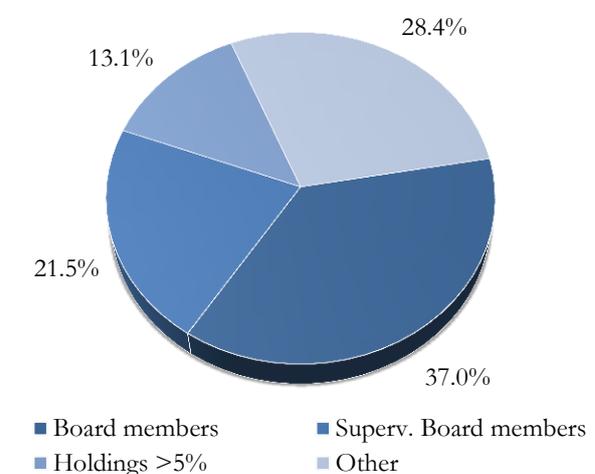
In EURm

Balance Sheet



In EURm

Shareholder structure



**P & L**

EURm	2014/15	2015/16	2016/17	2017/18e	2018/19e
<b>Sales</b>	<b>618.5</b>	<b>654.3</b>	<b>726.4</b>	<b>674.9</b>	<b>683.1</b>
<i>Growth</i>		5.8%	11.0%	-7.1%	1.2%
Material costs	-528.7	-538.0	-583.9	-555.6	-561.8
<b>Gross profit</b>	<b>89.8</b>	<b>116.3</b>	<b>142.6</b>	<b>119.3</b>	<b>121.3</b>
<i>Gross margin</i>	14.5%	17.8%	19.6%	17.7%	17.8%
Other operating costs	-14.0	-16.8	-21.1	-18.5	-17.5
<b>EBITDA</b>	<b>50.7</b>	<b>73.1</b>	<b>92.4</b>	<b>69.3</b>	<b>72.3</b>
<i>Margin</i>	8.2%	11.2%	12.7%	10.3%	10.6%
Depreciation	-22.2	-21.1	-21.7	-21.8	-22.2
<b>EBIT</b>	<b>28.5</b>	<b>52.0</b>	<b>70.7</b>	<b>47.5</b>	<b>50.1</b>
<i>Margin</i>	4.6%	8.0%	9.7%	7.0%	7.3%
Financial result	-3.8	-1.4	-0.1	-0.8	-0.8
<b>EBT</b>	<b>24.7</b>	<b>50.6</b>	<b>70.5</b>	<b>46.7</b>	<b>49.3</b>
Taxes	2.1	-1.7	-18.8	-14.0	-14.8
Net profit	26.9	48.9	51.8	32.7	34.5
Minorities / Discon. Op.	-0.1	-0.2	-0.3	-0.3	-0.3
<b>Net profit a.m.</b>	<b>26.8</b>	<b>48.7</b>	<b>51.5</b>	<b>32.4</b>	<b>34.2</b>
<i>Growth</i>	n.m.	n.m.	n.m.	n.m.	n.m.
No of shares	63.0	63.0	63.0	63.0	63.0
EPS	0.43	0.77	0.82	0.51	0.54
<b>Adj. EPS</b>	<b>0.43</b>	<b>0.77</b>	<b>0.82</b>	<b>0.51</b>	<b>0.54</b>
<i>Growth</i>	n.m.	n.m.	n.m.	n.m.	n.m.
Dividend	0.10	0.15	0.20	0.20	0.20

**Balance Sheet**

EURm	2014/15	2015/16	2016/17	2017/18e	2018/19e
Intangible assets	0.1	0.2	0.2	0.2	0.2
Tangible assets	180.0	167.9	164.6	186.3	183.6
Participations	0.1	0.1	0.1	0.1	0.1
Other non-current assets	4.5	8.5	2.9	2.6	2.8
<b>Non-current assets</b>	<b>184.7</b>	<b>176.7</b>	<b>167.8</b>	<b>189.2</b>	<b>186.7</b>
Inventories	22.2	26.3	34.3	31.9	32.3
Receivables	41.4	31.6	38.5	35.8	36.2
Cash	26.7	77.5	114.7	121.0	150.0
Other current assets	21.3	10.9	17.7	13.0	15.0
<b>Current Assets</b>	<b>111.6</b>	<b>146.3</b>	<b>205.3</b>	<b>201.7</b>	<b>233.5</b>
<b>Total assets</b>	<b>296.3</b>	<b>323.0</b>	<b>373.1</b>	<b>390.9</b>	<b>420.2</b>
Equity	209.1	253.6	295.4	315.5	337.4
Minorities	0.5	0.7	1.0	1.0	1.0
<b>Total equity</b>	<b>209.7</b>	<b>254.3</b>	<b>296.4</b>	<b>316.5</b>	<b>338.4</b>
LT financial liabilities	11.6	1.5	0.6	0.6	0.6
Pension provisions	0.2	0.2	0.2	0.2	0.2
Other LT liabilities	12.9	11.2	10.3	7.8	9.0
<b>Non-current liabilities</b>	<b>24.6</b>	<b>12.9</b>	<b>11.1</b>	<b>8.6</b>	<b>9.8</b>
ST financial liabilities	7.3	10.4	1.3	1.3	1.3
Payables	31.3	27.5	27.3	25.4	25.7
Other ST liabilities	23.5	17.9	37.0	39.2	45.1
<b>Current liabilities</b>	<b>62.0</b>	<b>55.8</b>	<b>65.6</b>	<b>65.9</b>	<b>72.1</b>
<b>Total liabilities</b>	<b>296.3</b>	<b>323.0</b>	<b>373.1</b>	<b>390.9</b>	<b>420.2</b>

**Cash Flow**

EURm	2014/15	2015/16	2016/17	2017/18e	2018/19e
<b>EBIT</b>	<b>28.5</b>	<b>52.0</b>	<b>70.7</b>	<b>47.5</b>	<b>50.1</b>
Depreciation	22.2	21.1	21.7	21.8	22.2
Other non-cash items	-3.3	1.6	2.5	0.0	0.0
Cash taxes	-2.1	-3.2	-4.3	-14.0	-14.8
Cash earnings	45.3	71.4	90.6	55.3	57.5
Change in NWC	1.3	4.9	-15.6	3.2	-0.5
<b>CF from operations</b>	<b>46.6</b>	<b>76.3</b>	<b>75.0</b>	<b>58.5</b>	<b>57.0</b>
Capex	-13.5	-13.0	-18.4	-44.0	-20.0
Other investm./divestm.	2.8	0.8	0.0	0.5	0.5
<b>CF from investing</b>	<b>-10.7</b>	<b>-12.2</b>	<b>-18.4</b>	<b>-43.5</b>	<b>-19.5</b>
<b>CF from fin. and other</b>	<b>-33.6</b>	<b>-13.3</b>	<b>-19.4</b>	<b>-8.7</b>	<b>-8.5</b>
<b>Change in cash</b>	<b>2.4</b>	<b>50.8</b>	<b>37.2</b>	<b>6.3</b>	<b>29.0</b>

**Segments and adjusted earnings**

EURm	2014/15	2015/16	2016/17	2017/18e	2018/19e
Biodiesel	397.0	423.2	471.6	440.2	441.1
Bioethanol/-methan	212.9	222.1	245.2	224.9	231.7
Other	15.8	15.8	16.3	16.7	17.2
Consolidation	-7.1	-6.8	-6.6	-7.0	-7.0
<b>Sales</b>	<b>618.5</b>	<b>654.3</b>	<b>726.4</b>	<b>674.9</b>	<b>683.1</b>
<i>Growth</i>		5.8%	11.0%	-7.1%	1.2%
Biodiesel	21.7	25.3	34.6	24.9	25.8
Bioethanol/-methan	6.3	26.2	36.0	22.4	23.5
Other	0.5	0.6	0.1	0.1	0.7
Consolidation	0.0	0.0	0.0	0.0	1.0
<b>EBIT</b>	<b>28.5</b>	<b>52.0</b>	<b>70.7</b>	<b>47.5</b>	<b>50.1</b>
<i>Margin</i>	4.6%	8.0%	9.7%	7.0%	7.3%

**Valuation multiples**

	2014/15	2015/16	2016/17	2017/18e	2018/19e
Share price	1.90	5.63	7.97	7.97	7.97
x No of shares	63.0	63.0	63.0	63.0	63.0
<b>Market Capitalisation</b>	<b>119.7</b>	<b>354.7</b>	<b>502.1</b>	<b>502.1</b>	<b>502.1</b>
+ Net financial debt	-7.8	-65.6	-112.8	-119.1	-148.1
+ Pension provision	0.2	0.2	0.2	0.2	0.2
+ Minorities	0.5	0.7	1.0	1.0	1.0
- Participations	-0.1	-0.1	-0.1	-0.1	-0.1
<b>Enterprise Value</b>	<b>112.5</b>	<b>289.9</b>	<b>390.4</b>	<b>384.2</b>	<b>355.2</b>
Sales	618.5	654.3	726.4	674.9	683.1
Adj. EBITDA	50.7	73.1	92.4	69.3	72.3
Adj. EBIT	28.5	52.0	70.7	47.5	50.1
Adj. Net profit a.m.	26.8	48.7	51.5	32.4	34.2
EV / Sales	0.2	0.4	0.5	0.6	0.5
EV / EBITDA	2.2	4.0	4.2	5.5	4.9
EV / EBIT	3.9	5.6	5.5	8.1	7.1
PE	4.5	7.3	9.7	15.5	14.7

**Key operational indicators**

	2014/15	2015/16	2016/17	2017/18e	2018/19e
Equity ratio	70.8%	78.7%	79.4%	81.0%	80.5%
Gearing	0.1	0.0	0.0	0.0	0.0
Asset turnover	3.3	3.7	4.3	3.6	3.7
NWC / sales	5.2%	4.6%	6.3%	6.3%	6.3%
Payable days outst.	18.4	15.4	13.7	13.7	13.7
Receivable days outst.	24.4	17.6	19.3	19.3	19.3
Fix operating assets	184.7	176.7	167.8	189.2	186.7
NWC	32.4	30.3	45.5	42.3	42.8
Capital employed	217.0	207.0	213.3	231.5	229.5
RoE	12.8%	19.2%	17.5%	10.3%	10.2%
RoA	9.6%	16.1%	18.9%	12.2%	11.9%
RoCE	13.1%	25.1%	33.1%	20.5%	21.8%
Gross margin	14.5%	17.8%	19.6%	17.7%	17.8%
EBITDA margin	8.2%	11.2%	12.7%	10.3%	10.6%
EBIT margin	4.6%	8.0%	9.7%	7.0%	7.3%
Net profit margin	4.3%	7.4%	7.1%	4.8%	5.0%

Source: Verbio, Matelan Research

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

### (5) Recommendation history

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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