

02 May 2018

Price as of 30/04/18: €4.01

Company / Sector	Fair Value	Recommendation
Verbio	€6.9	Buy
Energy: Biofuels	(€7.6)	(unchanged)

Trough should be reached

Share price performance



Share data

Reuters	VBKG.DE
No. of shares (m)	63.0
Daily volume (3m)	141,240
Free float	28.4%
Market cap. (m)	252.6
EV (m)	168.2
Sales 15-19e	2.1%

Valuation	17/18e	18/19e
EV/Sales	0.2	0.2
EV/ EBITDA	3.7	2.8
EV/EBIT	7.4	4.8
PER	16.7	11.8
Div. yield	5.0%	5.0%
RoCE	9.9%	14.0%
RoE	5.2%	7.0%

Analysts

Hartmut Moers
 Tel.: +49 228 227 99 240
 hartmut.moers@matelan.de

Investment case

Q3 results, which are due on 9th of May, should come in tougher than expected. Verbio has thus reduced its full year guidance ahead of the release. However, we believe the situation should already improve from Q4 onwards. While the share price has come down to EUR4.0 our revised estimates still leave us with a fair value of EUR6.9. An improving newsflow starting in Q4 should help to lower this gap of more than 70%. Against this background we reiterate our Buy recommendation on the stock.

➤ GUIDANCE REDUCED TO EUR40M

A further drop in sales prices in the month of March in particular on the biodiesel side does not allow the company to meet its previous guidance of EUR50m in EBITDA and EUR100m in net cash. The company now expects EUR40m in EBITDA and EUR85m in net cash.

➤ Q3 TOUGH – RECOVERY IN Q4

Looking at the latest price development, we feel that a EUR10m guidance cut is rather strong. Based on current pricing, we arrive at an EBITDA of EUR45m for the full year. Most importantly, biodiesel results should improve materially already in Q4 and an additional easing should come from the bioethanol activities from Q1 18/19 onwards. Moreover, the company should remain profitable even in the tough third quarter.

➤ FAIR VALUE SHOWS UPSIDE OF MORE THAN 70%

Feeding our revised estimates into our DCF model leaves us with a fair value of EUR6.9. This gives an upside of more than 70% from the current share price. Although markets remain volatile we feel that this is an attractive margin of safety.

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	690.1	673.1
EBITDA (€m)	50.7	73.1	92.4	45.2	54.6
EBIT (€m)	28.5	52.0	70.7	22.9	31.8
Adj. EPS (€)	0.43	0.77	0.82	0.24	0.34
Dividend (€)	0.10	0.15	0.20	0.20	0.20
Oper. CF (€m)	46.6	76.3	75.0	26.4	46.3
Free CF (€m)	33.1	63.3	56.6	-16.6	26.3

Full year EBITDA guidance cut to EUR40m

Ahead of the release of Q3 results on 9th of May, Verbio has reduced its full year guidance. While management had been expecting to reach around EUR50m in EBITDA, it now envisages a level of around EUR40m. Net cash should come to EUR85m by year end instead of EUR100m. The company explains the move with biodiesel prices having come under stronger pressure from Argentinean and Indonesian imports than previously expected as well as ongoing low pricing for bioethanol.

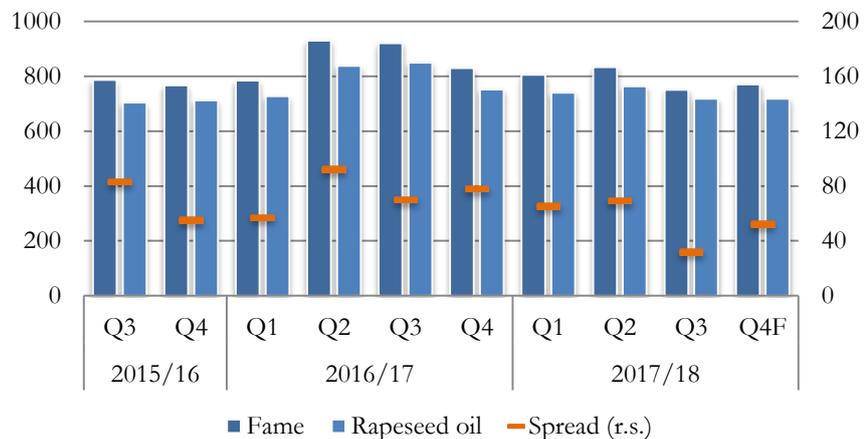
Pricing weighs on biodiesel activities in Q3

In our previous note, we had already highlighted that we expect biodiesel imports from Argentina and Indonesia to put further pressure on prices in particular over the summer months. However, the month of March already brought a further deterioration, leaving average prices for the quarter around EUR80/t below the previous quarter and some EUR20/t below the level we had assumed. We had also pointed out that the third quarter should be influenced by a long position on the raw material side, which was bought at higher prices. A lower than expected sales price of EUR20/t should thus have almost wiped out the division's remaining profit for the quarter.

Recovery to be expected in Q4

On the other hand, the fourth quarter should benefit fully from lower raw material costs while biodiesel prices have already started to rise in April. Here, speculation about the reintroduction of import taxes as well as shutdowns from some competitors seem to show an effect. We currently observe a spread of around EUR50/t and futures suggest that this level could stay throughout the quarter. We would thus expect the biodiesel activities to post a reasonable profit again in the fourth quarter.

Development of biodiesel spreads



Source: Matelan Research calculation based on Argus and IMF, average quarterly values, in EUR/t

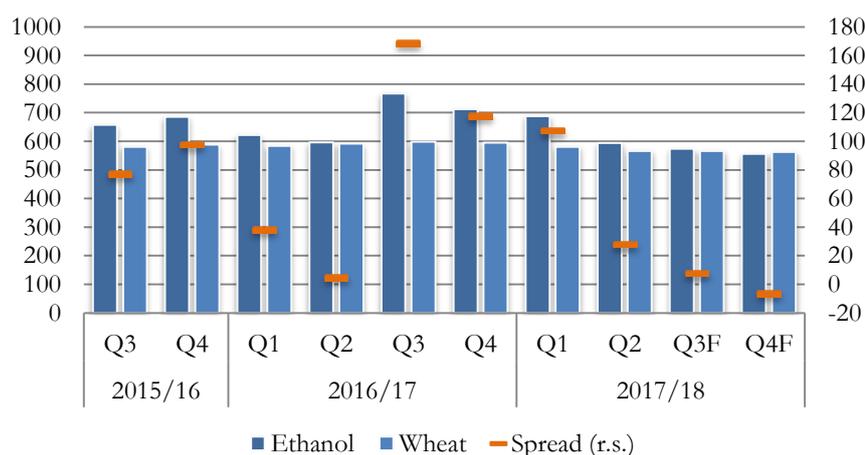
Bioethanol holding up well

In bioethanol, we also saw a further price decline in March. The decline compared to the previous quarter and the shortfall compared to our estimates are, however, much lower compared to the biodiesel division. In addition, the division is not impacted by a similar raw material effect. We thus expect the bioethanol activities to post a Q3 EBITDA only slightly below that of the previous quarter.

Trough might be reached in Q4

However, prices have not yet recovered since March and only from June onwards do futures suggest an upward trend again. With lower sales prices and rather stable raw material prices, the fourth quarter should come in a bit weaker compared to the third and the second. Still, we are looking at prices and spreads that do not allow many company companies to operate profitably and future prices suggests that this is most likely to change over the coming months.

Development of bioethanol spreads



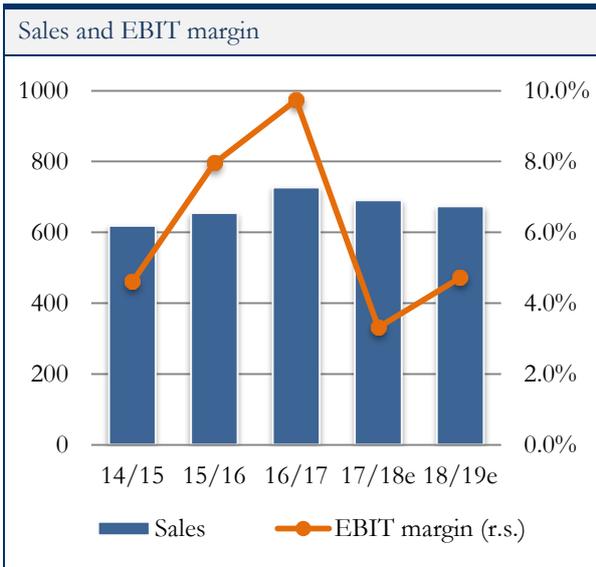
Source: Matelan Research calculation based on Platts, average quarterly values, in EUR/t ethanol

Staying profitable in tough market environment

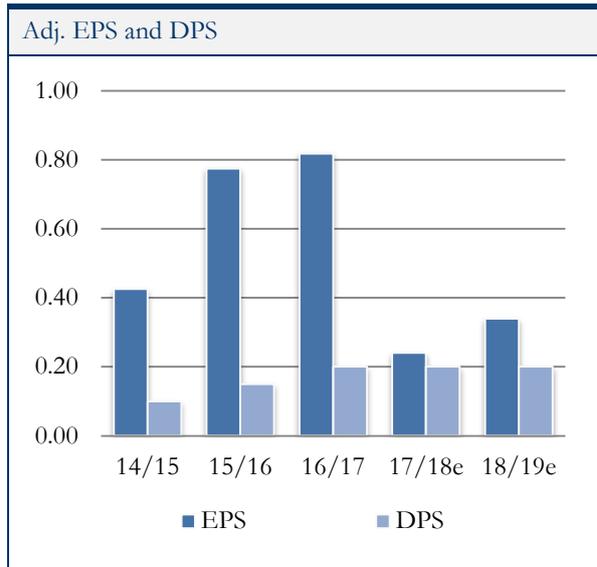
Based on current pricing, we expect Verbio to post a group EBITDA of EUR5.8m in Q3 and EUR9.0m in Q4. It should be highlighted that this should leave the company profitable also on an EBIT and net profit level, which is supported by a good performance from the sale of by-products such as glycerine or biomethane as well as the fact that the slightly different development in the divisions lowers the earnings volatility.

Fair value leaves upside of more than 70%

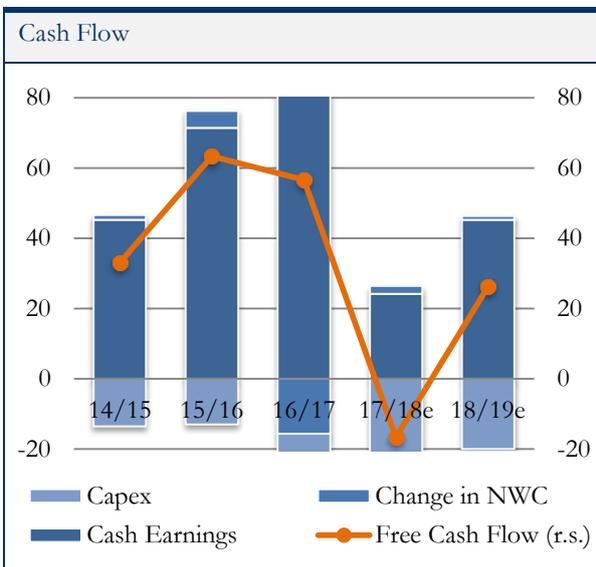
Though we continue to see very good chances for an improvement of the market situations in both biodiesel and bioethanol in the coming financial year, we have still become a bit more prudent with our 2018/19 estimates. This just reflects the recent development of future prices and does not mean that we no longer expect positive impacts from the regulatory as well the market side. The changes to our model reduce our fair value from EUR7.6 to EUR6.9. Based on the current share price of EUR4.01, this still yields an upside of more than 70%, which clearly supports our view that Verbio's share price currently reflects the difficult market situation rather than the operating strength with which the company operates in this environment and the prospect of a normalisation of the situation.



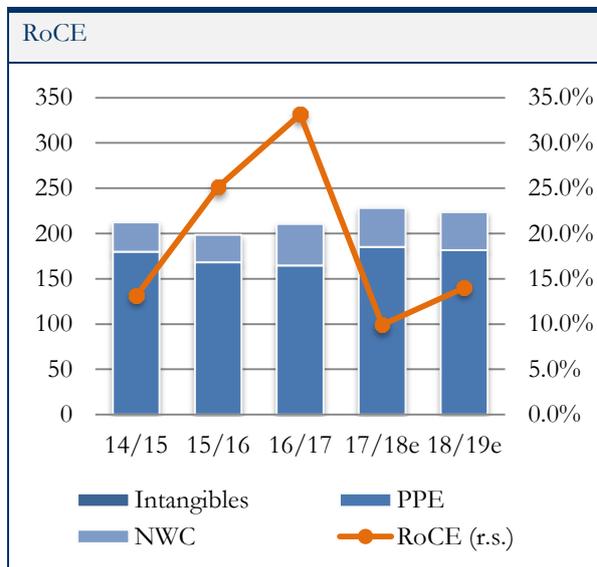
In EURm



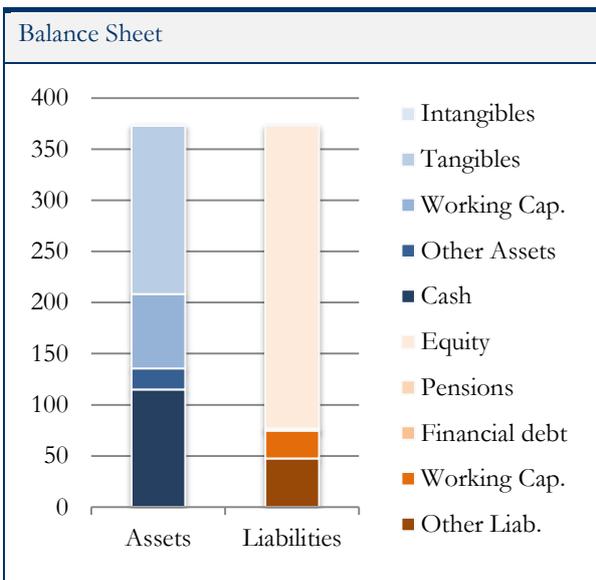
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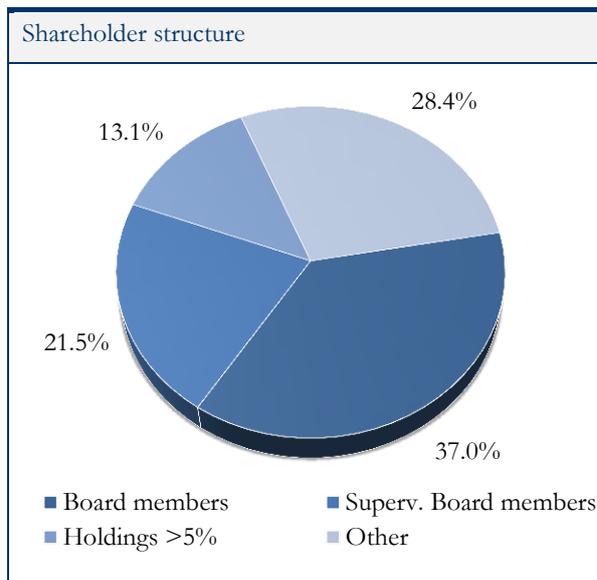
In EURm



In EURm



In EURm



P & L

EURm	2014/15	2015/16	2016/17	2017/18e	2018/19e
Sales	618.5	654.3	726.4	690.1	673.1
<i>Growth</i>		5.8%	11.0%	-5.0%	-2.5%
Material costs	-528.7	-538.0	-583.9	-593.0	-565.6
Gross profit	89.8	116.3	142.6	97.2	107.6
<i>Gross margin</i>	14.5%	17.8%	19.6%	14.1%	16.0%
Other operating costs	-14.0	-16.8	-21.1	-20.5	-21.5
EBITDA	50.7	73.1	92.4	45.2	54.6
<i>Margin</i>	8.2%	11.2%	12.7%	6.5%	8.1%
Depreciation	-22.2	-21.1	-21.7	-22.3	-22.8
EBIT	28.5	52.0	70.7	22.9	31.8
<i>Margin</i>	4.6%	8.0%	9.7%	3.3%	4.7%
Financial result	-3.8	-1.4	-0.1	-0.8	-0.8
EBT	24.7	50.6	70.5	22.1	31.0
Taxes	2.1	-1.7	-18.8	-6.6	-9.3
Net profit	26.9	48.9	51.8	15.4	21.7
Minorities / Discon. Op.	-0.1	-0.2	-0.3	-0.3	-0.3
Net profit a.m.	26.8	48.7	51.5	15.1	21.4
<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	0.24	0.34
Adj. EPS	0.43	0.77	0.82	0.24	0.34
<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	184.8	181.5
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
Non-current assets	184.7	176.7	167.8	187.7	184.6
Inventories	22.2	26.3	34.3	32.6	31.8
Receivables	41.4	31.6	38.5	36.6	35.7
Cash	26.7	77.5	114.7	87.0	104.0
Other current assets	21.3	10.9	17.7	13.0	15.0
Current Assets	111.6	146.3	205.3	169.2	186.5
Total assets	296.3	323.0	373.1	356.9	371.1
Equity	209.1	253.6	295.4	298.2	307.3
Minorities	0.5	0.7	1.0	1.0	1.0
Total equity	209.7	254.3	296.4	299.2	308.3
LT financial liabilities	11.6	1.5	0.6	0.1	0.1
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
Non-current liabilities	24.6	12.9	11.1	8.1	9.3
ST financial liabilities	7.3	10.4	1.3	1.3	1.3
Payables	31.3	27.5	27.3	25.9	25.3
Other ST liabilities	23.5	17.9	37.0	22.4	26.9
Current liabilities	62.0	55.8	65.6	49.7	53.6
Total liabilities	296.3	323.0	373.1	356.9	371.1

Cash Flow

EURm	2014/15	2015/16	2016/17	2017/18e	2018/19e
EBIT	28.5	52.0	70.7	22.9	31.8
Depreciation	22.2	21.1	21.7	22.3	22.8
Other non-cash items	-3.3	1.6	2.5	0.0	0.0
Cash taxes	-2.1	-3.2	-4.3	-21.0	-9.3
Cash earnings	45.3	71.4	90.6	24.2	45.3
Change in NWC	1.3	4.9	-15.6	2.3	1.1
CF from operations	46.6	76.3	75.0	26.4	46.3
Capex	-13.5	-13.0	-18.4	-43.0	-20.0
Other investm./divestm.	2.8	0.8	0.0	0.5	0.5
CF from investing	-10.7	-12.2	-18.4	-42.5	-19.5
CF from fin. and other	-33.6	-13.3	-19.4	-11.7	-9.8
Change in cash	2.4	50.8	37.2	-27.7	17.0

Segments and adjusted earnings

EURm	2014/15	2015/16	2016/17	2017/18e	2018/19e
Biodiesel	397.0	423.2	471.6	457.0	441.6
Bioethanol/-methan	212.9	222.1	245.2	223.4	221.3
Other	15.8	15.8	16.3	16.7	17.2
Consolidation	-7.1	-6.8	-6.6	-7.0	-7.0
Sales	618.5	654.3	726.4	690.1	673.1
<i>Growth</i>		5.8%	11.0%	-5.0%	-2.5%
Biodiesel	21.7	25.3	34.6	17.1	20.9
Bioethanol/-methan	6.3	26.2	36.0	5.5	9.8
Other	0.5	0.6	0.1	0.2	1.1
Consolidation	0.0	0.0	0.0	0.0	0.0
EBIT	28.5	52.0	70.7	22.9	31.8
<i>Margin</i>	4.6%	8.0%	9.7%	3.3%	4.7%

Valuation multiples

	2014/15	2015/16	2016/17	2017/18e	2018/19e
Share price	1.90	5.63	7.97	4.01	4.01
x No of shares	63.0	63.0	63.0	63.0	63.0
Market Capitalisation	119.7	354.7	502.1	252.6	252.6
+ Net financial debt	-7.8	-65.6	-112.8	-85.6	-102.6
+ 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
Enterprise Value	112.5	289.9	390.4	168.2	151.2
Sales	618.5	654.3	726.4	690.1	673.1
Adj. EBITDA	50.7	73.1	92.4	45.2	54.6
Adj. EBIT	28.5	52.0	70.7	22.9	31.8
Adj. Net profit a.m.	26.8	48.7	51.5	15.1	21.4
EV / Sales	0.2	0.4	0.5	0.2	0.2
EV / EBITDA	2.2	4.0	4.2	3.7	2.8
EV / EBIT	3.9	5.6	5.5	7.4	4.8
PE	4.5	7.3	9.7	16.7	11.8

Key operational indicators

	2014/15	2015/16	2016/17	2017/18e	2018/19e
Equity ratio	70.8%	78.7%	79.4%	83.8%	83.1%
Gearing	0.1	0.0	0.0	0.0	0.0
Asset turnover	3.3	3.7	4.3	3.7	3.6
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	187.7	184.6
NWC	32.4	30.3	45.5	43.3	42.2
Capital employed	217.0	207.0	213.3	230.9	226.8
RoE	12.8%	19.2%	17.5%	5.2%	7.0%
RoA	9.6%	16.1%	18.9%	6.4%	8.6%
RoCE	13.1%	25.1%	33.1%	9.9%	14.0%
Gross margin	14.5%	17.8%	19.6%	14.1%	16.0%
EBITDA margin	8.2%	11.2%	12.7%	6.5%	8.1%
EBIT margin	4.6%	8.0%	9.7%	3.3%	4.7%
Net profit margin	4.3%	7.4%	7.1%	2.2%	3.2%

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
12/02/18	Buy
29/03/16	Neutral
05/02/15	Buy
10/02/12	Neutral

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CONTACT DATA

For further information please contact:

Matelan Research GmbH Koblenzer Straße 79 53177 Bonn www.matelan.de	Head Analyst: Hartmut Moers Tel: +49 228 227 99 240 e-mail: hartmut.moers@matelan.de
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