

14 May 2018

Price as of 11/05/18: €4.01

Company / Sector

Verbio

Energy: Biofuels

Fair Value

€6.9

(unchanged)

Recommendation

Buy

(unchanged)

Results set to improve

Share price performance



Share data

Reuters	VBKG.DE
No. of shares (m)	63.0
Daily volume (3m)	125,009
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	3.8	2.7
EV/EBIT	7.9	4.6
PER	16.4	10.8
Div. yield	5.0%	5.0%
RoCE	9.3%	14.4%
RoE	5.2%	7.6%

Analysts

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

Investment case

Q3 results came in slightly below our estimates but there is no need for a material revision of our full year estimates. Based on recent price developments on the biodiesel side, our estimates, which are already ahead of company guidance, could even be topped. For the time being, we stick to our valuation of EUR6.9, which yields an upside in excess of 70%, and believe that improving results in Q4 as well as Q1 should help to lower this gap. Thus, we reiterate our Buy rating.

➤ Q3 SLIGHTLY BELOW ESTIMATES

Q3 results come in slightly weaker than we had anticipated. Slightly lower production, lower trading volumes and a bit weaker pricing were the main reasons behind this development. With no major deviations, we only need to fine-tune our full year forecasts.

➤ Q4 SET TO IMPROVE

We have already seen a remarkable improvement in the biodiesel spread in the month of April. Our Q4 EBITDA estimate for the division, which is based on the average April spread, already yields a doubling in the group's EBITDA from Q3 to Q4. This leaves us with a FY EBITDA level 10% ahead of company guidance. If the current biodiesel spread would be sustained throughout the quarter we might even be looking at a tripling of group EBITDA quarter on quarter and a full-year level some 20% above guidance.

➤ FAIR VALUE SHOWS HIGH UPSIDE

Only fine-tuning our estimates, our fair value stays at EUR6.9, which continues to give the share an upside of more than 70%. Improved results should help the share price to reduce this gap.

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	682.5	673.1
EBITDA (€m)	50.7	73.1	92.4	43.7	55.6
EBIT (€m)	28.5	52.0	70.7	21.4	32.8
Adj. EPS (€)	0.43	0.77	0.82	0.24	0.37
Dividend (€)	0.10	0.15	0.20	0.20	0.20
Oper. CF (€m)	46.6	76.3	75.0	25.4	46.0
Free CF (€m)	33.1	63.3	56.6	-17.6	26.0

Q3 17/18 review and change in FY estimates

EURm	Q3 17/18	Q3 17/18e	Q3 16/17	Change	FY 17/18e old	FY 17/18e new	Guidance 17/18
Biodiesel	107.3	110.7	123.7	-13.3%	457.0	453.8	
Bioethanol	51.3	55.6	74.0	-30.7%	223.4	218.9	
Other	2.4	2.7	2.3	4.0%	9.7	9.8	
Sales	161.0	169.0	200.0	-19.5%	690.1	682.5	
Gross profit	15.0	19.1	40.0	-62.5%	97.2	93.4	
<i>Margin</i>	<i>9.3%</i>	<i>11.3%</i>	<i>20.0%</i>		<i>14.1%</i>	<i>13.7%</i>	
Biodiesel	-0.1	1.4	11.9	n.m.	22.1	20.6	
Bioethanol	4.3	4.1	14.9	-71.1%	22.2	22.4	
Other	0.1	0.3	0.0	n.m.	0.9	0.7	
EBITDA	4.3	5.8	26.8	-84.0%	45.2	43.7	40.0
<i>Margin</i>	<i>2.7%</i>	<i>3.4%</i>	<i>13.4%</i>		<i>6.5%</i>	<i>6.4%</i>	
EBIT	-1.2	0.2	21.4	n.m.	22.9	21.4	
<i>Margin</i>	<i>-0.7%</i>	<i>0.1%</i>	<i>10.7%</i>		<i>3.3%</i>	<i>3.1%</i>	
Net Profit	-1.0	0.0	14.5	n.m.	15.1	15.4	

Source: Verbio, Matelan Research estimates

FY guidance cut ahead of figures

Ahead of the release of Q3 results, Verbio had already reduced its full year EBITDA guidance from EUR50m to EUR40. The company explained 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.

Q3 slightly ...

The release of results now shows that segmental results were even a bit lower compared to our estimates, which already reflect that prices and spreads in both divisions have come under further pressure after the release of our note in February. In biodiesel, production was a bit lower than we had estimated. In addition, Verbio's selling prices as well as trading volumes appear to have been slightly below our assumptions. Cumulated, these effects leave the division just breaking-even on EBITDA level and not on EBIT level as we had anticipated.

... below forecast

On the bioethanol side, the lower than expected sales level appears to be a reflection of rather low trading volumes in the quarter, which has no mentionable effect on earnings. EBITDA even came in marginally ahead of our estimate.

Fine-tuning full-year estimates

We had already revised our full-year estimates following the company's guidance cut. Based on the release of Q3 results we are thus only fine-tuning our estimates, mainly reflecting the slightly lower production and trading volumes in Q3. This leaves a negligible impact on our full year earnings estimates.

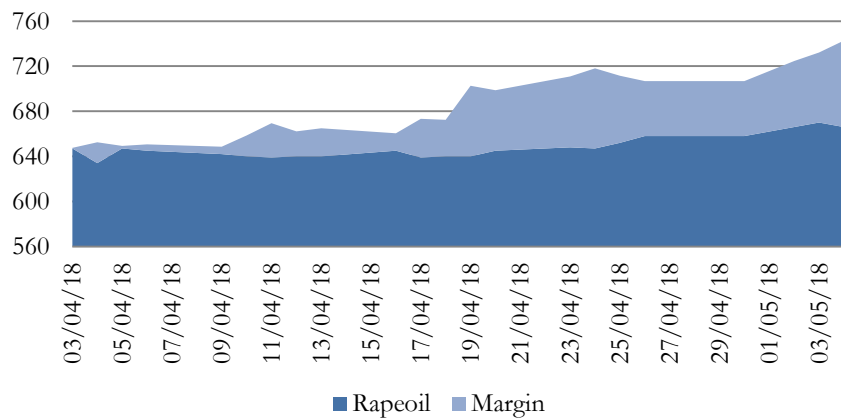
FY guidance still appears very conservative

We thus still believe that the company's guidance is extremely conservative. Though bioethanol pricing has come down further from the Q3 level which should lead to a reduction in the division's EBITDA to EUR2.4m in Q4, we have seen some recovery in biodiesel prices and spreads. This could, according to our estimates, lead to a doubling of group EBITDA from Q3 to Q4 and leave full year EBITDA some 10% above the current guidance.

Development of biodiesel spread plays into Verbio's hands

The following chart illustrates the development of rapeoil and FAME0, i.e. the spread between the two, since the start of the fourth quarter. Starting from zero at the beginning of April, the spread moved to EUR76/t at the beginning of May. Potential political action against Argentinean and Indonesian imports as well as shutdowns of several market players seem to be responsible for this development. The average spread in April comes to EUR32.5/t. This is also the assumption underlying our current estimate for the division's fourth quarter. The current spread of EUR76/t is thus more than twice this value and if this would be sustainable until the end of the quarter we would be looking at another EUR3-4m in EBITDA. Moreover, the graph also shows that the price of rape oil is rising. Given that part of the production of the fourth quarter is already sourced in Q3, the average spread that Verbio can realise is even higher than the observable market spread. This could add another EUR1-2m in EBITDA.

Development of biodiesel spread



Source: Reuters, Argus, Rapeoil / FAME 0 FOB Rotterdam, EUR/t

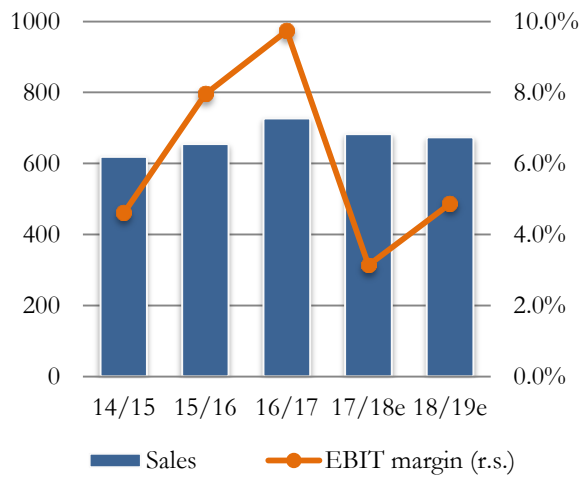
Bioethanol should give additional support in Q1

Additional support should come from the bioethanol side in Q1 18/19. Current futures suggest a price increase of EUR20/cm³ from July onwards. Here we are looking again at EUR1-2m in additional EBITDA. Overall, we see quarterly results set to improve sequentially, though it should be remembered that pricing remains volatile.

Fair value continues to show upside of more than 70%

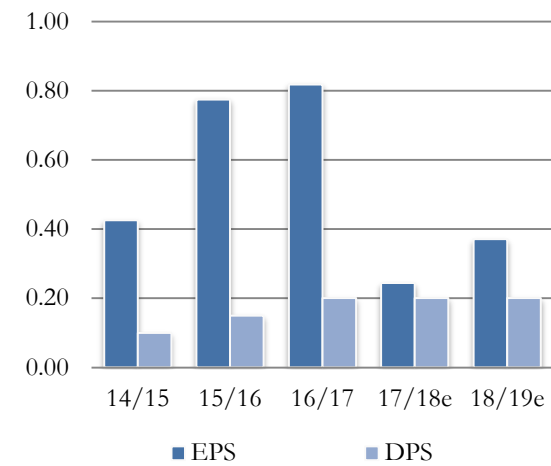
With only marginal changes to our full year estimates our fair value stays at EUR6.9. Based on the current share price of EUR4.01, this continues to yield an upside of more than 70%. We expect an improvement of results in line in the coming quarters to bring the share price closer to our fair value and reiterate our Buy rating.

Sales and EBIT margin



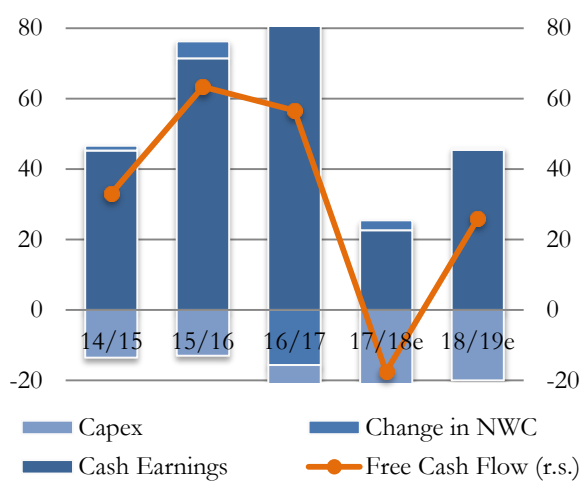
In EURm

Adj. EPS and DPS



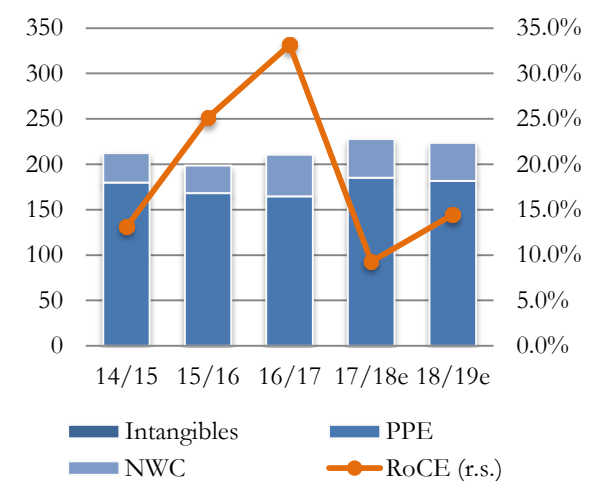
In EUR

Cash Flow



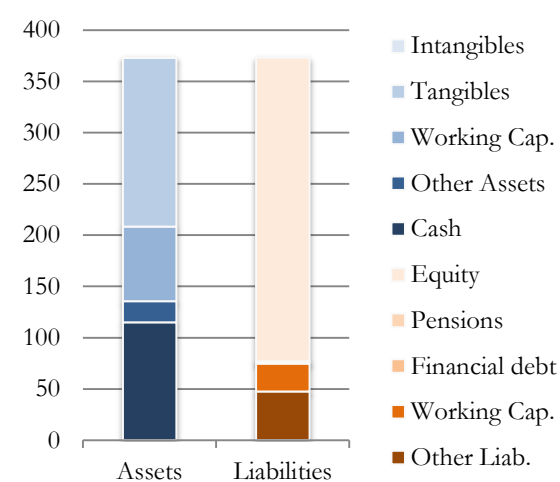
In EURm

RoCE



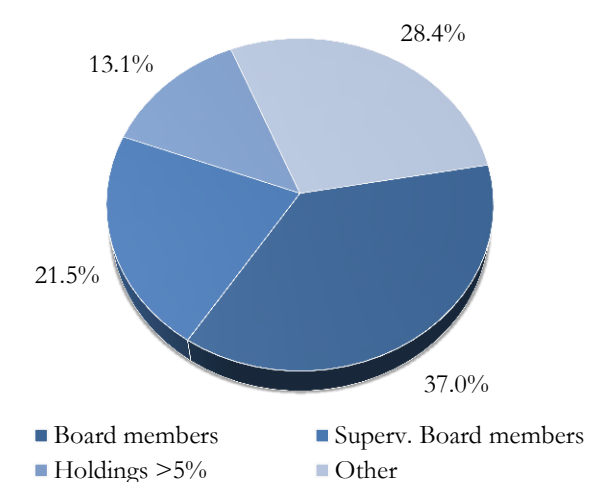
In EURm

Balance Sheet



In EURm

Shareholder structure



P & L

EURm	2014/15	2015/16	2016/17	2017/18e	2018/19e
Sales	618.5	654.3	726.4	682.5	673.1
<i>Growth</i>		5.8%	11.0%	-6.1%	-1.4%
Material costs	-528.7	-538.0	-583.9	-589.1	-567.6
Gross profit	89.8	116.3	142.6	93.4	105.6
<i>Gross margin</i>	14.5%	17.8%	19.6%	13.7%	15.7%
Other operating costs	-14.0	-16.8	-21.1	-24.2	-24.0
EBITDA	50.7	73.1	92.4	43.7	55.6
<i>Margin</i>	8.2%	11.2%	12.7%	6.4%	8.3%
Depreciation	-22.2	-21.1	-21.7	-22.3	-22.8
EBIT	28.5	52.0	70.7	21.4	32.8
<i>Margin</i>	4.6%	8.0%	9.7%	3.1%	4.9%
Financial result	-3.8	-1.4	-0.1	1.0	1.0
EBT	24.7	50.6	70.5	22.4	33.8
Taxes	2.1	-1.7	-18.8	-6.7	-10.1
Net profit	26.9	48.9	51.8	15.7	23.6
Minorities / Discon. Op.	-0.1	-0.2	-0.3	-0.3	-0.3
Net profit a.m.	26.8	48.7	51.5	15.4	23.3
<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	0.37
Adj. EPS	0.43	0.77	0.82	0.24	0.37
<i>Growth</i>	n.m.	n.m.	n.m.	n.m.	n.m.
Dividend	0.10	0.15	0.20	0.20	0.20

Cash Flow

EURm	2014/15	2015/16	2016/17	2017/18e	2018/19e
EBIT	28.5	52.0	70.7	21.4	32.8
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	-10.1
Cash earnings	45.3	71.4	90.6	22.7	45.4
Change in NWC	1.3	4.9	-15.6	2.8	0.6
CF from operations	46.6	76.3	75.0	25.4	46.0
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	-10.7	-9.5
Change in cash	2.4	50.8	37.2	-27.7	17.0

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	682.5	673.1
Adj. EBITDA	50.7	73.1	92.4	43.7	55.6
Adj. EBIT	28.5	52.0	70.7	21.4	32.8
Adj. Net profit a.m.	26.8	48.7	51.5	15.4	23.3
EV / Sales	0.2	0.4	0.5	0.2	0.2
EV / EBITDA	2.2	4.0	4.2	3.8	2.7
EV / EBIT	3.9	5.6	5.5	7.9	4.6
PE	4.5	7.3	9.7	16.4	10.8

Source: Verbio, Matelan Research

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	32.3	31.8
Receivables	41.4	31.6	38.5	36.2	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	168.4	186.5
Total assets	296.3	323.0	373.1	356.2	371.1
Equity	209.1	253.6	295.4	298.4	309.5
Minorities	0.5	0.7	1.0	1.0	1.0
Total equity	209.7	254.3	296.4	299.4	310.5
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	25.6	25.3
Other ST liabilities	23.5	17.9	37.0	21.7	24.8
Current liabilities	62.0	55.8	65.6	48.7	51.4
Total liabilities	296.3	323.0	373.1	356.2	371.1

Segments and adjusted earnings

EURm	2014/15	2015/16	2016/17	2017/18e	2018/19e
Biodiesel	397.0	423.2	471.6	453.8	441.6
Bioethanol/-methan	212.9	222.1	245.2	218.9	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	682.5	673.1
<i>Growth</i>		5.8%	11.0%	-6.1%	-1.4%
Biodiesel	21.7	25.3	34.6	15.9	21.3
Bioethanol/-methan	6.3	26.2	36.0	5.7	9.8
Other	0.5	0.6	0.1	-0.3	1.7
Consolidation	0.0	0.0	0.0	0.0	0.0
EBIT	28.5	52.0	70.7	21.4	32.8
<i>Margin</i>	4.6%	8.0%	9.7%	3.1%	4.9%

Key operational indicators

	2014/15	2015/16	2016/17	2017/18e	2018/19e
Equity ratio	70.8%	78.7%	79.4%	84.1%	83.7%
Gearing	0.1	0.0	0.0	0.0	0.0
Asset turnover	3.3	3.7	4.3	3.6	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	42.8	42.2
Capital employed	217.0	207.0	213.3	230.5	226.8
RoE	12.8%	19.2%	17.5%	5.2%	7.6%
RoA	9.6%	16.1%	18.9%	6.0%	8.8%
RoCE	13.1%	25.1%	33.1%	9.3%	14.4%
Gross margin	14.5%	17.8%	19.6%	13.7%	15.7%
EBITDA margin	8.2%	11.2%	12.7%	6.4%	8.3%
EBIT margin	4.6%	8.0%	9.7%	3.1%	4.9%
Net profit margin	4.3%	7.4%	7.1%	2.3%	3.5%

ADDITIONAL DISCLOSURES

This report has been prepared by Matelan Research GmbH, Koblenzer Str. 79, 53177 Bonn. All rights are reserved. Copyrights and database rights protection exists in this publication. It may not be reproduced or redistributed without prior express permission of Matelan.

(1) Analyst certification

The analysts responsible for the content of this research report hereby certify that (1) all views expressed in this report accurately reflect their views about any and all of the subject securities or issuers and (2) no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or view(s) of this report.

Matelan may have sent extracts of this research report to the subject company for the purpose of verifying factual accuracy. The information provided by the latter was taken into consideration in the report. However, this entailed no change of the assessment.

(2) Disclosures about potential conflicts of interest

Matelan Research GmbH has/will receive(d) compensation for advisory services provided in the current calendar year from the company under review.

(3) Rating definitions

Security firms use a variety of rating terms and systems. Investors should carefully read the definitions of the rating system used in each research report. In addition, since the research report contains more complete information concerning analyst's views, investors should carefully read the entire research report and not infer its contents from the ratings alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

MATELAN Research GmbH uses an absolute rating system, which varies considerably from relative rating systems (such as "Overweight", "Equal Weight" or "Underweight"). Stock ratings are defined as follows:

Strong Buy:	In the next 6 to 12 months, we expect a potential absolute change in value of over 20% with high forecast certainty.
Buy:	In the next 6 to 12 months, we expect a potential absolute change in value of more than 10%.
Neutral:	In the next 6 to 12 months, we expect a potential absolute change in value of over 0% up to a maximum of 10%.
Reduce:	In the next 6 to 12 months, we expect a potential absolute negative change in value of up to -10%.
Sell:	In the next 6 to 12 months, we expect a potential absolute negative change in value of over -10 % with high forecast certainty.

The change in stock price results from the difference between the current share price and the analyst's performance expectations, which are generally based on a fair value calculation performed on the basis of a discounted cash flow model and a key comparison analysis but can also consider other effects such as market sentiment.

(4) Rating distribution

Stock ratings within the coverage universe of MATELAN Research GmbH as of the publication date of this report are distributed as follows:

Strong Buy:	9.1%
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

(6) Additional information for clients in Germany and other countries

This research report has been produced in Germany. It was approved and distributed by MATELAN Research GmbH, which is supervised by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). Laws and regulations in other countries may also restrict the distribution of this report. Persons in possession of this document should inform themselves about possible legal restrictions and observe them accordingly. In particular, this document may not be distributed in the United States, Canada, Australia or Japan or to any U.S. person.

DISCLAIMER

This research publication has been prepared by MATELAN analysts based on publicly available data that is believed to be accurate and complete. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, MATELAN provides no representation or warranty in relation to its accuracy, completeness or reliability. Possible errors or incompleteness of the information do not constitute grounds for liability, either with regard to indirect or to direct or consequential damages. In particular, MATELAN is not liable for the statements, plans or other details contained in the information concerning the examined companies, strategies, economic situations, market and competitive situations, regulatory environment, etc.

Neither MATELAN nor its employees are liable for the accuracy and completeness of the statements, estimates and conclusions derived from the information contained in this report. To the extent this research report is being transmitted in connection with an existing contractual relationship, e.g. financial advisory or similar services, the liability of MATELAN shall be restricted to gross negligence and wilful misconduct. In any case, the liability of MATELAN is limited to typical, foreseeable damages and liability for any indirect damages is excluded.

This report does not constitute an offer to sell, or a solicitation of an offer to purchase, any security. MATELAN may perform services to other companies mentioned in this report. Directors or employees of MATELAN may serve on the board of directors of companies mentioned in this report. Any opinions contained herein are subject to change without notice.

The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. MATELAN does not accept any liability for any loss or damage out of the use of all or any part of this report. Additional information will be made available upon request.

Past performance is not necessarily indicative of future results. Investors should make their own investment decisions without relying on this publication. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuers or market discussed herein and other persons should not take any action on the basis of this publication.

Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and not be suitable for all investors. The price of securities may decrease or increase and as a result investors may lose the amount originally invested. Changes in exchange rates may also cause the value of investments to decrease or increase. Any documents or information we provide is solely for informational purposes and directed only to persons we reasonably believe to be investment professionals.

All such communications and any activity to which they relate are available only to such investment professionals; any activity arising from such communications will only be carried out with investment professionals. Persons who do not have professional experience in matters relating to investments should not rely upon such communications.

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
--	---