

26 September 2018

Price as of 25/09/18: €6.32

Company / Sector	Fair Value	Recommendation
Verbio	€7.2	Buy
Energy: Biofuels	(€6.9)	(unchanged)

Results improving – investments coming

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)	398.2
EV (m)	328.5
Sales 15-19e	0.6%

Valuation	17/18e	18/19e
EV/Sales	0.5	0.5
EV/ EBITDA	7.1	6.3
EV/EBIT	14.1	11.5
PER	23.9	20.2
Div. yield	3.2%	3.2%
RoCE	9.3%	11.2%
RoE	5.6%	6.4%

Analysts

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Investment case

Following weak Q3 results, Q4 has delivered on the expected improvement and we expect Q1 18/19 to come in even better. A stable earnings projection for FY 18/19 appears to be a conservative stance in the light of recovered biodiesel margins and improvements that could come from the bioethanol side in the course of the year. With a fair value of EUR7.2 the stock already has good upside but additional value could be generated from new investments, which have just come into a decisive phase.

➤ FULL YEAR RESULTS MEET EXPECTATIONS

As expected, FY 17/18 results came in better than the guidance that management had reduced ahead of Q3 figures. With almost EUR45m in EBITDA, we are looking at a very decent result in a difficult market situation.

➤ NEW GUIDANCE APPEARS CONSERVATIVE

We had expected biodiesel results to improve in Q4 17/18 and results even topped our forecast. Moreover, given the recent rise in spreads we expect Q1 18/19 biodiesel and group results to go further north, which should give the company a good start into the new financial year. In bioethanol, the tight market situation could ease as a result of further shutdowns and additional demand ahead of the 50% increase in CO₂ Quota in 2020. The new guidance of EUR45m in EBITDA for FY 18/19 appears thus conservative.

➤ NEW INVESTMENTS COULD DRIVE VALUATION

Changes to our model lead to a marginal increase in our fair value to EUR7.2. In addition, we might see a first move in the internationalisation of the company's biomethane activities as early as October. Here, we find an additional upside to our valuation.

For additional disclosures please refer to the appendix

Forecasts	15/16	16/17	17/18e	18/19e	19/20e
Sales (€m)	654.3	726.4	685.9	671.7	671.4
EBITDA (€m)	73.1	92.4	44.8	46.1	50.4
EBIT (€m)	52.0	70.7	22.4	23.3	27.6
Adj. EPS (€)	0.77	0.82	0.24	0.26	0.31
Dividend (€)	0.15	0.20	0.20	0.20	0.20
Oper. CF (€m)	76.3	75.0	11.1	40.0	41.9
Free CF (€m)	63.3	56.6	-14.1	-5.0	22.9

Q4 17/18 review

EURm	Q4 17/18	Q4 17/18e	Q4 16/17	Change	FY 17/18	FY 17/18e	FY 18/19e	Guidance 18/19
Biodiesel	117.5	114.5	111.6	5.3%	456.8	453.8	440.5	
Bioethanol	53.0	52.8	73.7	-28.1%	219.1	218.9	221.3	
Other	2.2	2.0	2.3	-4.3%	10.0	9.8	10.0	
Sales	172.7	169.3	187.6	-7.9%	685.9	682.5	671.7	
Gross profit	23.8	19.1	40.0	-40.4%	94.9	93.4	96.1	
<i>Margin</i>	<i>13.8%</i>	<i>11.3%</i>	<i>21.3%</i>		<i>13.8%</i>	<i>13.7%</i>	<i>14.3%</i>	
Biodiesel	10.2	6.3	-0.4	n.m.	24.5	20.6	31.9	
Bioethanol	-0.1	2.4	16.7	-100.6%	19.9	22.4	13.2	
Other	0.0	0.3	0.2	-100.0%	0.4	0.7	1.0	
EBITDA	10.1	9.0	16.5	-38.8%	44.8	43.7	46.1	45.0
<i>Margin</i>	<i>5.8%</i>	<i>5.3%</i>	<i>8.8%</i>		<i>6.5%</i>	<i>6.4%</i>	<i>6.9%</i>	
EBIT	4.4	3.4	11.0	-60.0%	22.4	21.4	23.3	
<i>Margin</i>	<i>2.5%</i>	<i>2.0%</i>	<i>5.9%</i>		<i>3.3%</i>	<i>3.1%</i>	<i>3.5%</i>	
Net Profit	2.8	3.3	10.8	n.m.	14.9	15.4	16.7	

Source: Verbio, Matelan Research estimates

Solid results in a difficult market environment

Full year 2017/18 results came in marginally ahead of our expectations, thereby well surpassing the guidance management had cut ahead of the release of Q3 figures (to EUR40m in EBITDA). With EUR44.8m in EBITDA the company is now right in the middle of the revised and the original guidance (EUR50m). In our view, this represents a very solid achievement in an environment that has been characterized by pressure on the biodiesel as well as the bioethanol side throughout the year.

Biodiesel shines again

Following weak Q3 results biodiesel showed the expected improvement in Q4. Even more, the division achieved a slightly better pricing than we had anticipated and costs were somewhat below our forecast. The segment thus reached an EBITDA margin of almost 9% in the quarter, yielding an EBITDA of EUR10.2m which compares to our estimate of EUR6.3m.

Bioethanol results at the break even line

On the other hand, bioethanol results just touched the break-even point and thus fell short of our forecast. This can partly be explained by a lower than expected production volume. However, this result might not necessarily be a good indicator for the coming quarters as we believe that the company has taken a rather cautious stance with regard to the future market development so that results might also have been affected by some provisioning. This could give some relief to the coming quarters.

Net cash of EUR90m well in line with our forecast

Apart from operating results, we find net profit slightly lower than anticipated due to a slightly higher tax bill. With EUR90m, net cash came in well in line with our forecast and ahead of the latest guidance (EUR85m). Operating cash flow also matched our expectations. We did however, see working capital rising faster than anticipated but this was fully compensated by lower than expected investments. A dividend of EUR0.20 was also part of our planning.

New guidance of EUR45m in EBITDA leaves some upside

For the year 2018/19, management plans to keep its EBITDA stable at EUR45m despite current market pressures. We believe that this is a cautious working base and leaves good upside potential. In biodiesel, we think that the company could present an excellent start into the year. Despite some volatility the biodiesel spread has widened in the first two month of the quarter and the switch from FAME 0 to FAME-10 should have given an additional boost in September. Moreover, as sourcing for Q1 has already

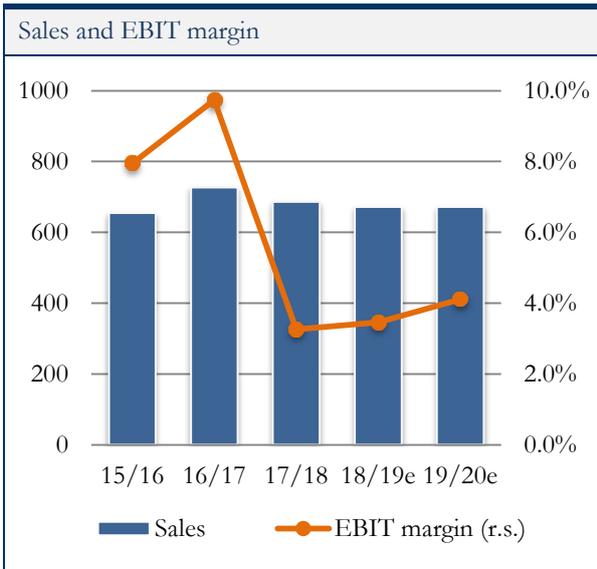
started in Q4 at lower prices, we are looking at an additional margin. Against this background we feel that our full year estimate of EUR31.9m for the division is a rather prudent estimate which does not need to be changed dramatically even if we got a negative outcome with regard to the reintroduction of Differential Export Taxes on biodiesel from Argentina and Indonesia by the EU. In bioethanol we have also seen some price increases following the shutdown at one of the major competitors. However, this was not sufficient to cover the increase in wheat price. Here again, early sourcing helps to ease the effect in the coming quarter but not many market participants are in a position to make money in such an environment so that more shutdowns are likely. In addition, the oil companies are expected to prepare in 2019 for the increase in the CO₂ emission quota from 4% to 6%. An improvement of the situation throughout the year appears thus very likely. Still, with a contribution of just EUR13m in EBITDA for the entire year we feel that our estimate is quite cautious and thus leaves some upside.

Fair value stands at
EUR7.2

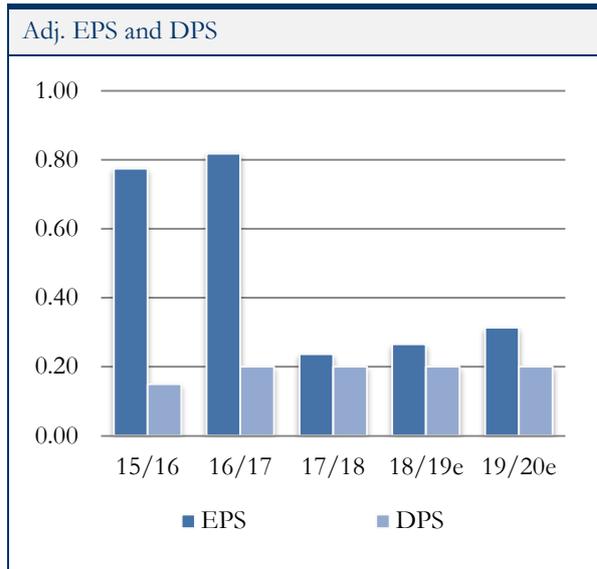
Our prudent stance leaves our estimates for the current year well in line with company guidance. For the financial year 2019/20 we anticipate a slight easing of the situation and a return to an EBITDA in excess of EUR50m. In terms of valuation, the changes to our model have only a minor effect. In fact, we now arrive at EUR7.2. Despite the recent increase in share price we are thus still looking at an upside of 14%.

Biomethane expansion
about to take off

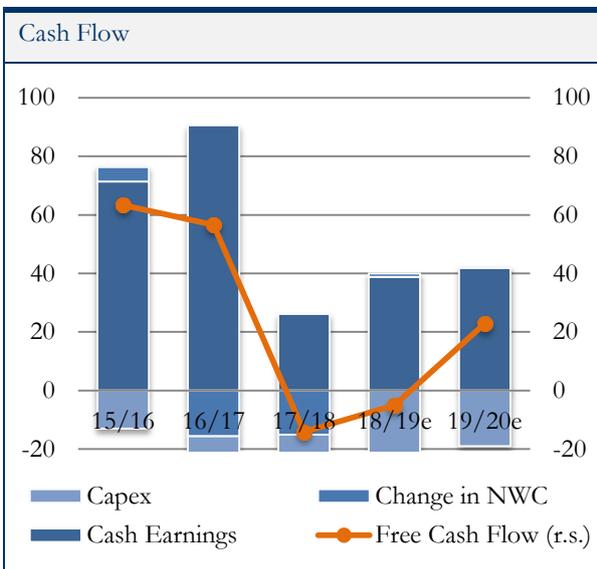
In the past, management has made it clear that it intends to reduce dependency on the regulated European market. Sterol production is intended to triple from 900t to 3000t by 2020 and with the finalisation of its plant in Pinnow the company is further expanding its biomethane activities in Germany. In addition, we believe that the international expansion of the company's biomethane activities is about to take off. According to information available from Verbio's American subsidiary, the company could be about to finalise permits and authorisations for a biomethane plant already in October. The plant is planned in Sumner County, Kansas and shall be able to proceed 75,000 metric tons of straw in its initial stage. The target is to ramp up the size to 150,000 t. If everything goes according to plan, phase 1 could start operations at the beginning of 2020. Our model already includes investments of EUR45m in the current year, in particular for the expansion in sterol production, the finalisation of the straw biomethane plant in Pinnow and first steps in the area of international biomethane. In contrast, we have not yet priced in any revenues from these undertakings, which come as an additional upside if the projects are successful.



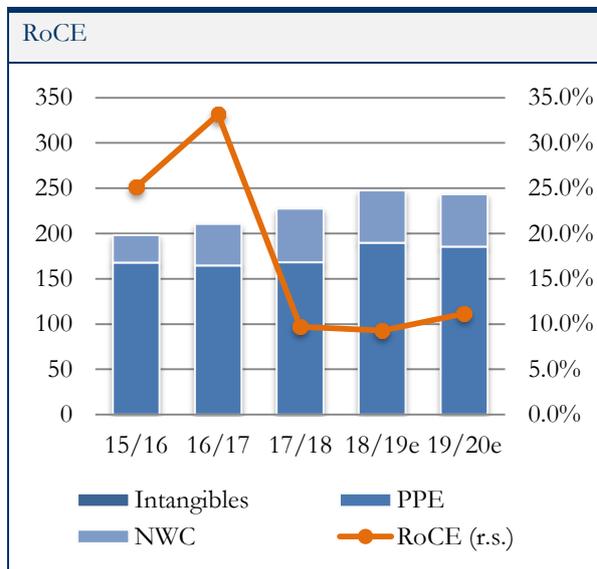
In EURm



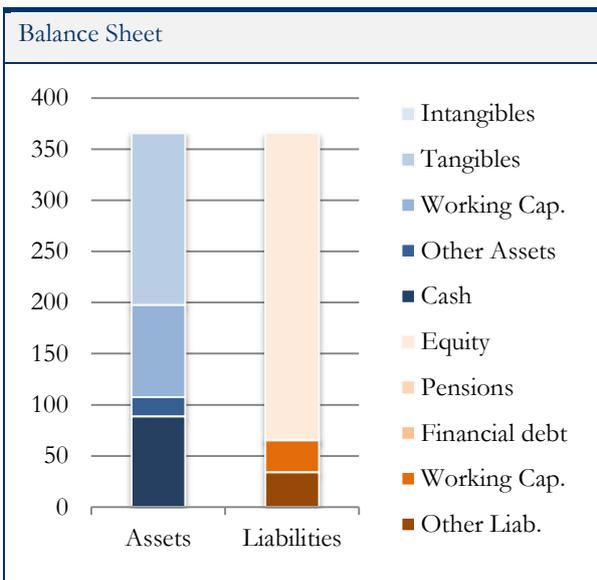
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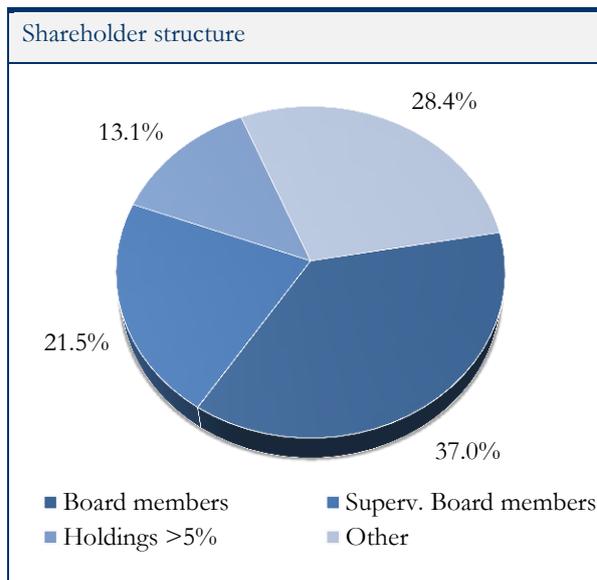
In EURm



In EURm



In EURm



P & L

EURm	2015/16	2016/17	2017/18	2018/19e	2019/20e
Sales	654.3	726.4	685.9	671.7	671.4
<i>Growth</i>		11.0%	-5.6%	-2.1%	0.0%
Material costs	-538.0	-583.9	-591.0	-575.7	-571.0
Gross profit	116.3	142.6	94.9	96.1	100.4
<i>Gross margin</i>	17.8%	19.6%	13.8%	14.3%	15.0%
Other operating costs	-16.8	-21.1	-23.4	-24.0	-25.0
EBITDA	73.1	92.4	44.8	46.1	50.4
<i>Margin</i>	11.2%	12.7%	6.5%	6.9%	7.5%
Depreciation	-21.1	-21.7	-22.4	-22.8	-22.8
EBIT	52.0	70.7	22.4	23.3	27.6
<i>Margin</i>	8.0%	9.7%	3.3%	3.5%	4.1%
Financial result	-1.4	-0.1	-0.2	1.0	1.0
EBT	50.6	70.5	22.2	24.3	28.6
Taxes	-1.7	-18.8	-7.1	-7.3	-8.6
Net profit	48.9	51.8	15.1	17.0	20.0
Minorities / Discon. Op.	-0.2	-0.3	-0.2	-0.3	-0.3
Net profit a.m.	48.7	51.5	14.9	16.7	19.7
<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	0.77	0.82	0.24	0.26	0.31
Adj. EPS	0.77	0.82	0.24	0.26	0.31
<i>Growth</i>	n.m.	n.m.	n.m.	n.m.	n.m.
Dividend	0.15	0.20	0.20	0.20	0.20

Balance Sheet

EURm	2015/16	2016/17	2017/18	2018/19e	2019/20e
Intangible assets	0.2	0.2	0.3	0.3	0.3
Tangible assets	167.9	164.6	168.0	189.7	185.4
Participations	0.1	0.1	0.1	0.1	0.1
Other non-current assets	8.5	2.9	3.4	2.8	3.8
Non-current assets	176.7	167.8	171.7	192.9	189.6
Inventories	26.3	34.3	45.2	44.2	44.2
Receivables	31.6	38.5	45.2	44.3	44.3
Cash	77.5	114.7	88.6	71.5	83.0
Other current assets	10.9	17.7	15.3	15.0	15.0
Current Assets	146.3	205.3	194.2	175.0	186.5
Total assets	323.0	373.1	366.0	367.9	376.0
Equity	253.6	295.4	299.0	303.4	310.8
Minorities	0.7	1.0	1.2	1.3	1.4
Total equity	254.3	296.4	300.2	304.7	312.2
LT financial liabilities	1.5	0.6	0.0	0.0	0.0
Pension provisions	0.2	0.2	0.2	0.2	0.2
Other LT liabilities	11.2	10.3	7.5	9.0	9.0
Non-current liabilities	12.9	11.1	7.7	9.2	9.2
ST financial liabilities	10.4	1.3	0.4	0.4	0.4
Payables	27.5	27.3	31.2	30.5	30.5
Other ST liabilities	17.9	37.0	26.5	23.1	23.7
Current liabilities	55.8	65.6	58.1	54.0	54.6
Total liabilities	323.0	373.1	366.0	367.9	376.0

Cash Flow

EURm	2015/16	2016/17	2017/18	2018/19e	2019/20e
EBIT	52.0	70.7	22.4	23.3	27.6
Depreciation	21.1	21.7	22.4	22.8	22.8
Other non-cash items	1.6	2.5	-5.1	0.0	0.0
Cash taxes	-3.2	-4.3	-13.6	-7.3	-8.6
Cash earnings	71.4	90.6	26.1	38.8	41.8
Change in NWC	4.9	-15.6	-15.0	1.2	0.0
CF from operations	76.3	75.0	11.1	40.0	41.9
Capex	-13.0	-18.4	-25.2	-45.0	-19.0
Other investm./divestm.	0.8	0.0	2.1	0.5	0.5
CF from investing	-12.2	-18.4	-23.1	-44.5	-18.5
CF from fin. and other	-13.3	-19.4	-14.2	-12.6	-11.9
Change in cash	50.8	37.2	-26.2	-17.1	11.5

Segments and adjusted earnings

EURm	2015/16	2016/17	2017/18	2018/19e	2019/20e
Biodiesel	423.2	471.6	456.8	440.5	438.2
Bioethanol/-methan	222.1	245.2	219.1	221.3	223.0
Other	15.8	16.3	15.7	16.0	16.2
Consolidation	-6.8	-6.6	-5.7	-6.0	-6.0
Sales	654.3	726.4	685.9	671.7	671.4
<i>Growth</i>		11.0%	-5.6%	-2.1%	0.0%
Biodiesel	29.7	39.3	24.5	31.9	27.9
Bioethanol/-methan	42.2	52.4	19.9	13.2	21.3
Other	1.1	0.7	0.4	1.0	1.2
Consolidation	0.0	0.0	0.0	0.0	0.0
EBITDA	73.1	92.4	44.8	46.1	50.4
<i>Margin</i>	11.2%	12.7%	6.5%	6.9%	7.5%

Valuation multiples

	2015/16	2016/17	2017/18	2018/19e	2019/20e
Share price	5.63	7.97	7.28	6.32	6.32
x No of shares	63.0	63.0	63.0	63.0	63.0
Market Capitalisation	354.7	502.1	458.6	398.2	398.2
+ Net financial debt	-65.6	-112.8	-88.2	-71.1	-82.6
+ Pension provision	0.2	0.2	0.2	0.2	0.2
+ Minorities	0.7	1.0	1.2	1.3	1.4
- Participations	-0.1	-0.1	-0.1	-0.1	-0.1
Enterprise Value	289.9	390.4	371.8	328.5	317.1
Sales	654.3	726.4	685.9	671.7	671.4
Adj. EBITDA	73.1	92.4	44.8	46.1	50.4
Adj. EBIT	52.0	70.7	22.4	23.3	27.6
Adj. Net profit a.m.	48.7	51.5	14.9	16.7	19.7
EV / Sales	0.4	0.5	0.5	0.5	0.5
EV / EBITDA	4.0	4.2	8.3	7.1	6.3
EV / EBIT	5.6	5.5	16.6	14.1	11.5
PE	7.3	9.7	30.7	23.9	20.2

Key operational indicators

	2015/16	2016/17	2017/18	2018/19e	2019/20e
Equity ratio	78.7%	79.4%	82.0%	82.8%	83.0%
Gearing	0.0	0.0	0.0	0.0	0.0
Asset turnover	3.7	4.3	4.0	3.5	3.5
NWC / sales	4.6%	6.3%	8.6%	8.6%	8.6%
Payable days outst.	15.4	13.7	16.6	16.6	16.6
Receivable days outst.	17.6	19.3	24.1	24.1	24.1
Fix operating assets	176.7	167.8	171.7	192.8	189.5
NWC	30.3	45.5	59.2	58.0	58.0
Capital employed	207.0	213.3	230.9	250.8	247.5
RoE	19.2%	17.5%	5.0%	5.6%	6.4%
RoA	16.1%	18.9%	6.1%	6.3%	7.3%
RoCE	25.1%	33.1%	9.7%	9.3%	11.2%
Gross margin	17.8%	19.6%	13.8%	14.3%	15.0%
EBITDA margin	11.2%	12.7%	6.5%	6.9%	7.5%
EBIT margin	8.0%	9.7%	3.3%	3.5%	4.1%
Net profit margin	7.4%	7.1%	2.2%	2.5%	2.9%

Source: Verbio, Matelan Research

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

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