

09 November 2018

Price as of 07/11/18: €5.46

Company / Sector

**Verbio**

Energy: Biofuels

Fair Value

**€7.2**

(unchanged)

Recommendation

**Strong Buy**

(Buy)

## Good results getting even better – expansion kicking off

### Share price performance



### Share data

Reuters	VBKG.DE
No. of shares (m)	63.0
Daily volume (3m)	38,822
Free float	28.4%
Market cap. (m)	344.0
EV (m)	274.3
Sales 15-19e	0.6%

Valuation	17/18e	18/19e
EV/Sales	0.4	0.4
EV/ EBITDA	6.0	5.2
EV/EBIT	11.8	9.5
PER	20.6	17.4
Div. yield	3.7%	3.7%
RoCE	9.3%	11.1%
RoE	5.6%	6.4%

### Analysts

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### Investment case

Verbio's Q1 results have more than delivered on the expected improvement and the company looks now at an extremely strong second quarter, which could lead to a material upgrade in our earnings estimate. Moreover, the company has started its expansion into the US by acquiring a site from DuPont. Here again, we find room for an upgrade as soon as investment costs start to flow back. With already 30% upside on our conservative modelling we raise our rating to **Strong Buy**.

#### ➤ GOOD Q1 RESULTS

With EUR16.6m in EBITDA, Q1 18/19 came in even better than expected. The result was clearly driven by further improvements on the biodiesel side but also ethanol held up quite good in a difficult market environment.

#### ➤ Q2 SHOULD BECOME EVEN BETTER

The second quarter has so far experienced a massive increase in the biodiesel spread. Even if we assume a weakening in December, we might be looking at a doubling of the already good Q1 biodiesel result.

#### ➤ US EXPANSION UNDER WAY

Verbio has announced to acquire a DuPont site in Nevada and intends to build a 20MW biomethane plant. The company can expand the site to 100MW and still works on a project in Kansas.

#### ➤ CONSERVATIVE MODELLING LEAVES UPSIDE

Our expectation of a strong Q2 leaves our full year estimates and company guidance extremely conservative. Moreover, we only account for expansion investments and not the flow backs. This leaves numerous options to raise our estimates/valuation further.

For additional disclosures please refer to the appendix

Forecasts	15/16	16/17	17/18	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

**Q1 18/19 review**

EURm	Q1 18/19	Q1 18/19e	Q1 17/18	Change	FY 17/18	FY 18/19e	Guidance 18/19
Biodiesel	112.9	112.1	114.7	-1.6%	456.8	440.5	
Bioethanol	55.4	55.6	60.9	-9.0%	219.1	221.3	
Other	2.4	1.6	2.6	-7.7%	10.0	10.0	
Sales	170.7	169.3	178.2	-4.2%	685.9	671.7	
Gross profit	31.0	19.1	29.1	6.5%	0.0	96.1	
<i>Margin</i>	<i>18.2%</i>	<i>11.3%</i>	<i>16.3%</i>		<i>0.0%</i>	<i>14.3%</i>	
Biodiesel	13.7	12.4	5.1	n.m.	24.5	31.9	
Bioethanol	2.6	-1.1	10.6	-75.5%	19.9	13.2	
Other	0.3	0.3	0.2	50.0%	0.4	1.0	
EBITDA	16.6	11.6	15.9	4.4%	44.8	46.1	45.0
<i>Margin</i>	<i>9.7%</i>	<i>6.9%</i>	<i>8.9%</i>		<i>6.5%</i>	<i>6.9%</i>	
EBIT	11.0	6.1	10.3	6.8%	22.4	23.3	
<i>Margin</i>	<i>6.4%</i>	<i>3.6%</i>	<i>5.8%</i>		<i>3.3%</i>	<i>3.5%</i>	
Net Profit	7.8	4.2	7.4	n.m.	14.9	16.7	

Source: Verbio, Matelan Research estimates

Q1 18/19 shows excellent result on the biodiesel side ...

Following a period of depressed margins in biodiesel as well as bioethanol, Q4 17/18 already showed materially improved results in the biodiesel activities despite a still tight market situation. At the time, we had pointed out that we expect Q1 18/19 to show further improvements as the company should benefit from the time lag between the purchase of feedstock and the sale of the end product in a quarter with rising prices. In fact, biodiesel EBITDA in Q1 18/19 topped that of Q4 17/18 by 34%, which was even better than we had anticipated. The difference came predominantly from even lower feedstock costs than we had expected.

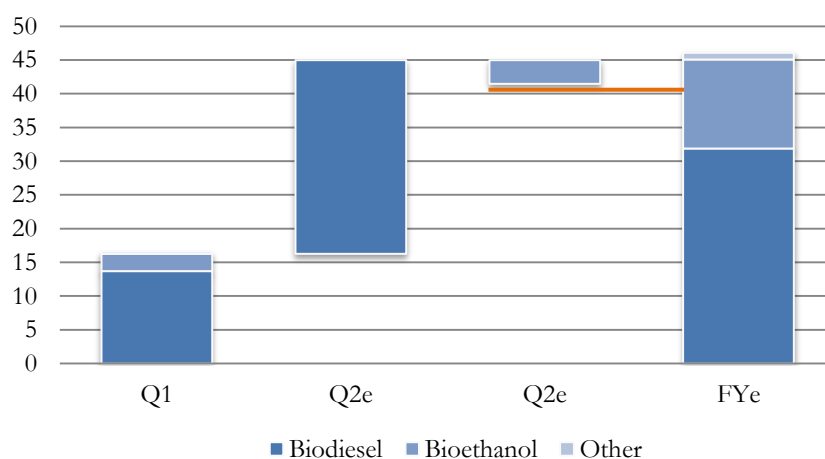
... and a solid performance in bioethanol

In addition, the company held up better than expected on the bioethanol side. Though bioethanol prices have gone up, feedstock prices have increased even further, thereby leaving almost no margin despite the above described time lag effect. While we had expected EBITDA to come in slightly negative, Verbio managed to keep EBITDA in positive territory. Thus, group EBITDA came in at EUR16.6m, which is 43% above our estimate, and yields an EBITDA margin of 9.7%

Q2 should now come in extraordinarily strong

Q1 18/19 EBITDA already accounts for 36% of our full year estimate, which is a very strong start into the year. However, looking into Q2 suggests that things get even better. While the situation in bioethanol remains difficult, we have seen a strong rise in biodiesel prices. Rapeseed oil has also increased but not as much as biodiesel so that we have seen the spread significantly increasing. We believe that difficulties in distributing oil as a result of the low water in the river Rhine is one of the major drivers behind this development. With the month of October already in the pocket and spreads standing at a record high at this point in time, our calculations suggest that we could even be looking at a doubling of EBITDA in the biodiesel segment in Q2 compared to the already strong Q1, even if the situation would normalise in the month of December. The following chart shows that this could bring the company close to its guidance, which was just reiterated, as well as our full year estimate, already at the half year stage.

EBITDA 2018/19 by quarter



Source: Matelan Research estimates

Moreover, we had already highlighted that Verbio North America has been in the final stage of entering into a biomethane project in Kansas. Now, the company took the opportunity to acquire a fully developed ethanol site from DuPont in Nevada. The site was developed to convert straw into ethanol but the process could not be set up in an economical way. Verbio does not intend to run the existing plant but develop a new plant which converts the straw into biomethane, similar to the process that it is already successfully operating in Germany. In a first step, Verbio North America will invest USD25-35m to build a new 20MW biomethane plant. Following the closing of the deal, which is expected to take place in 2018, the company expects that it will take roughly one and a half year to build the plant, so that production could start with the beginning of the financial year 2020/21. The plant could produce yearly revenues in the amount of a low double digit million USD figure. If this works out as planned an increase in capacity to 100MW might be considered. In addition, the company is testing if the existing ethanol plant can be run economically on a wheat basis. Finally, the company continues to pursue the project in Kansas. Bigger investment decisions here will now depend on the outcome of project in Nevada but further preparations for an expansion will already be undertaken.

Expansion into non regulated markets paves the way for growth

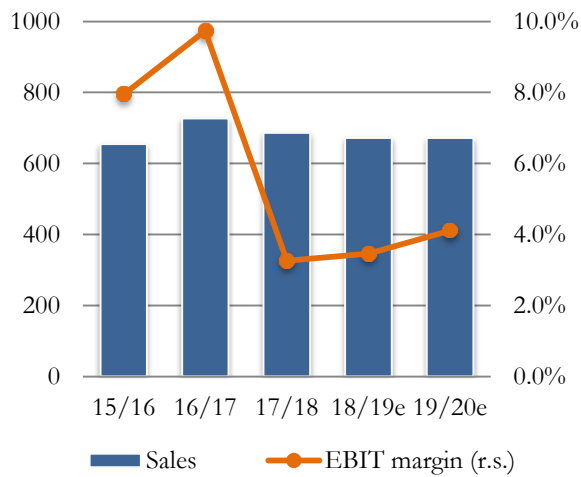
We are now seeing the first step of Verbio’s international expansion, which fits well with the company’s strategy to become less dependent on the regulated German market. With investing in sterols and biomethane in Germany and acquiring a technology that might allow the company to redeploy its biodiesel facilities to the production of other chemical products, Verbio has already made significant steps in this direction. Now, the company opens up a new chapter for growth with going overseas.

Conservative modelling leaves good room for upgrades

We do not change our full year estimates at this point in time. However, we have pointed out that it is very likely that we have to raise our full year estimates when we see how long the extraordinarily strong margin situation in biodiesel lasts. In fact, we wouldn’t even need the expected improvement of the situation in bioethanol that we anticipate for the second half of the year. Moreover, we had already pointed out that our investment estimate already

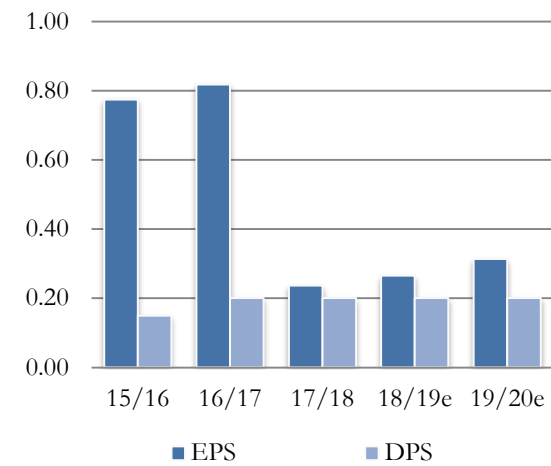
covers a good part of the planned expansion. We might have to increase our full year budget (EUR45m) a bit based on the DuPont deal but this is unlikely to have material impact on our valuation. Once again, we account for the investments but do not yet include any flow backs on the spent money. This comes as an additional upside as soon as we see cash actually coming back.

Sales and EBIT margin



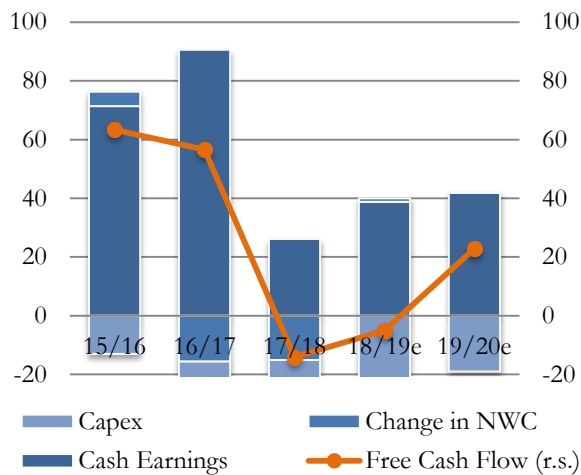
In EURm

Adj. EPS and DPS



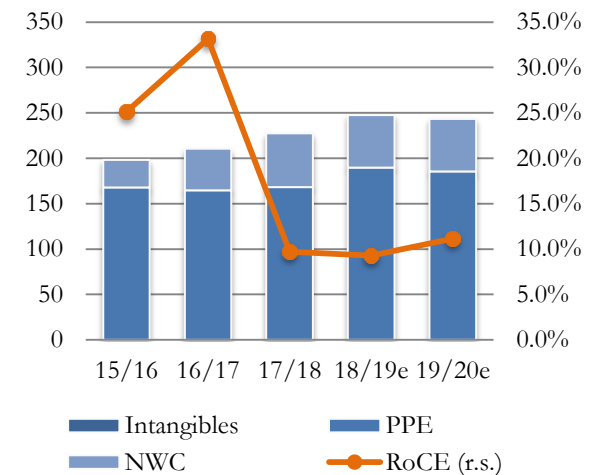
In EUR

Cash Flow



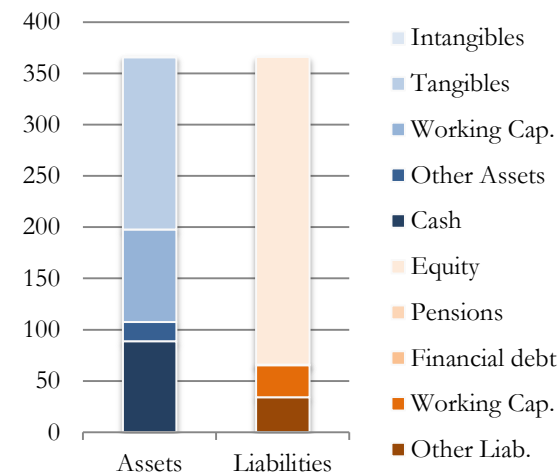
In EURm

RoCE



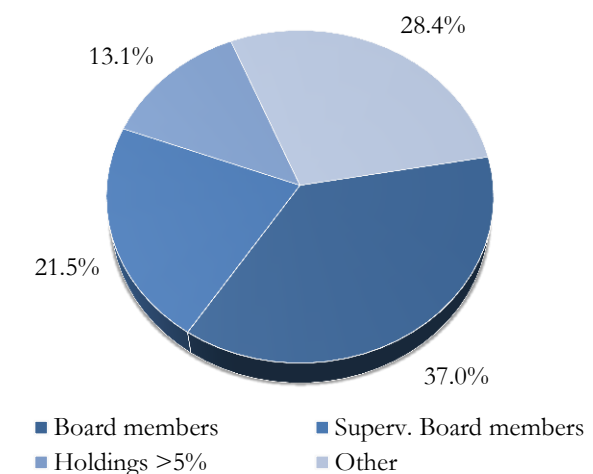
In EURm

Balance Sheet



In EURm

Shareholder structure



**P & L**

EURm	2015/16	2016/17	2017/18	2018/19e	2019/20e
<b>Sales</b>	<b>654.3</b>	<b>726.4</b>	<b>685.9</b>	<b>671.7</b>	<b>671.4</b>
<i>Growth</i>		11.0%	-5.6%	-2.1%	0.0%
Material costs	-538.0	-583.9	-591.0	-575.7	-571.0
<b>Gross profit</b>	<b>116.3</b>	<b>142.6</b>	<b>94.9</b>	<b>96.1</b>	<b>100.4</b>
<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
<b>EBITDA</b>	<b>73.1</b>	<b>92.4</b>	<b>44.8</b>	<b>46.1</b>	<b>50.4</b>
<i>Margin</i>	11.2%	12.7%	6.5%	6.9%	7.5%
Depreciation	-21.1	-21.7	-22.4	-22.8	-22.8
<b>EBIT</b>	<b>52.0</b>	<b>70.7</b>	<b>22.4</b>	<b>23.3</b>	<b>27.6</b>
<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
<b>EBT</b>	<b>50.6</b>	<b>70.5</b>	<b>22.2</b>	<b>24.3</b>	<b>28.6</b>
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
<b>Net profit a.m.</b>	<b>48.7</b>	<b>51.5</b>	<b>14.9</b>	<b>16.7</b>	<b>19.7</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	0.77	0.82	0.24	0.26	0.31
<b>Adj. EPS</b>	<b>0.77</b>	<b>0.82</b>	<b>0.24</b>	<b>0.26</b>	<b>0.31</b>
<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
<b>Non-current assets</b>	<b>176.7</b>	<b>167.8</b>	<b>171.7</b>	<b>192.9</b>	<b>189.6</b>
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
<b>Current Assets</b>	<b>146.3</b>	<b>205.3</b>	<b>194.2</b>	<b>175.0</b>	<b>186.5</b>
<b>Total assets</b>	<b>323.0</b>	<b>373.1</b>	<b>366.0</b>	<b>367.9</b>	<b>376.0</b>
Equity	253.6	295.4	299.0	303.4	310.8
Minorities	0.7	1.0	1.2	1.3	1.4
<b>Total equity</b>	<b>254.3</b>	<b>296.4</b>	<b>300.2</b>	<b>304.7</b>	<b>312.2</b>
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
<b>Non-current liabilities</b>	<b>12.9</b>	<b>11.1</b>	<b>7.7</b>	<b>9.2</b>	<b>9.2</b>
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
<b>Current liabilities</b>	<b>55.8</b>	<b>65.6</b>	<b>58.1</b>	<b>54.0</b>	<b>54.6</b>
<b>Total liabilities</b>	<b>323.0</b>	<b>373.1</b>	<b>366.0</b>	<b>367.9</b>	<b>376.0</b>

**Cash Flow**

EURm	2015/16	2016/17	2017/18	2018/19e	2019/20e
<b>EBIT</b>	<b>52.0</b>	<b>70.7</b>	<b>22.4</b>	<b>23.3</b>	<b>27.6</b>
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
<b>CF from operations</b>	<b>76.3</b>	<b>75.0</b>	<b>11.1</b>	<b>40.0</b>	<b>41.9</b>
Capex	-13.0	-18.4	-25.2	-45.0	-19.0
Other investm./divestm.	0.8	0.0	2.1	0.5	0.5
<b>CF from investing</b>	<b>-12.2</b>	<b>-18.4</b>	<b>-23.1</b>	<b>-44.5</b>	<b>-18.5</b>
<b>CF from fin. and other</b>	<b>-13.3</b>	<b>-19.4</b>	<b>-14.2</b>	<b>-12.6</b>	<b>-11.9</b>
<b>Change in cash</b>	<b>50.8</b>	<b>37.2</b>	<b>-26.2</b>	<b>-17.1</b>	<b>11.5</b>

**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
<b>Sales</b>	<b>654.3</b>	<b>726.4</b>	<b>685.9</b>	<b>671.7</b>	<b>671.4</b>
<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
<b>EBITDA</b>	<b>73.1</b>	<b>92.4</b>	<b>44.8</b>	<b>46.1</b>	<b>50.4</b>
<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	5.46	5.46
x No of shares	63.0	63.0	63.0	63.0	63.0
<b>Market Capitalisation</b>	<b>354.7</b>	<b>502.1</b>	<b>458.6</b>	<b>344.0</b>	<b>344.0</b>
+ 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
<b>Enterprise Value</b>	<b>289.9</b>	<b>390.4</b>	<b>371.8</b>	<b>274.3</b>	<b>262.9</b>
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	0.4	0.4
EV / EBITDA	4.0	4.2	8.3	6.0	5.2
EV / EBIT	5.6	5.5	16.6	11.8	9.5
PE	7.3	9.7	30.7	20.6	17.4

**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

## ADDITIONAL DISCLOSURES

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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%.
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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.

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Strong Buy:	12.5%
Buy:	50.0%
Neutral:	37.5%
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
09/11/18	Strong Buy
12/02/18	Buy
29/03/16	Neutral
05/02/15	Buy
10/02/12	Neutral

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