

04 February 2019

Price as of 01/02/18: €7.03

Company / Sector	Fair Value	Recommendation
Verbio	€8.5	Buy
Energy: Biofuels	(unchanged)	(unchanged)

One upgrade this year might not be enough

Share price performance



Share data

Reuters	VBKG.DE
No. of shares (m)	63.0
Daily volume (3m)	38,406
Free float	28.4%
Market cap. (m)	442.9
EV (m)	353.2
Sales 15-19e	0.6%

Valuation	17/18e	18/19e
EV/Sales	0.5	0.5
EV/ EBITDA	4.3	6.8
EV/EBIT	6.0	12.4
PER	10.7	22.5
Div. yield	2.8%	2.8%
RoCE	23.1%	11.1%
RoE	12.7%	5.9%

Analysts

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Investment case

Ahead of the expected strong reporting on Q2 18/19 we want to highlight that margin development has so far continued to be favourable so that, according to our calculations, the company might be able to reach the only recently increased FY guidance already at the nine months stage. In addition, recent regulatory decisions could help preventing still good biodiesel margins from getting under pressure. With the prospect of further upgrades in estimates and valuation we reiterate our **BUY** rating.

➤ UPCOMING FIGURES SHOULD BE STRONG

With almost EUR40m in EBITDA we expect Verbio to report an extraordinarily strong quarter on Thursday, 7th of February. This is almost the amount in one quarter that the company had originally expected for the full year.

➤ MARGINS HAVE REMAINED FAVOURABLE

While we had already discussed the extraordinary strength of Q2, margins have continued to be favourable. Biodiesel spreads have so far remained in excess of EUR100/ton, which allows the division to earn very decent money again. In bioethanol, we are still looking at a level that should leave the company in the black on EBITDA level. In total, we expect that the third quarter could be able to add another EUR20-25m in EBITDA.

➤ FY GUIDANCE MIGHT BE REACHED AFTER 9M

Our expectations for the second and third quarter show the company close to the only recently upped FY guidance already at the nine months stage. A further increase thus appears rather likely from today's point of view. Though we do not change our FY estimates yet, we make it clear that they are extremely conservative.

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	711.3	671.4
EBITDA (€m)	73.1	92.4	44.8	81.6	50.4
EBIT (€m)	52.0	70.7	22.4	58.8	27.6
Adj. EPS (€)	0.77	0.82	0.24	0.66	0.31
Dividend (€)	0.15	0.20	0.20	0.20	0.20
Oper. CF (€m)	76.3	75.0	11.1	61.4	45.3
Free CF (€m)	63.3	56.6	-14.1	16.4	26.3

Q1 18/19 review

EURm	Q2 18/19e	Q2 17/18	Change	FY 17/18	FY 18/19e	Guidance 18/19
Biodiesel	149.9	117.3	27.8%	456.8	480.0	
Bioethanol	56.4	53.9	4.6%	219.1	221.3	
Other	2.6	2.8	-7.1%	10.0	10.0	
Sales	208.9	174.0	20.1%	685.9	711.3	
Gross profit	53.0	27.0	96.3%	-0.4	131.6	
Margin	25.4%	15.5%		-0.1%	14.3%	
Biodiesel	37.6	9.3	304.3%	24.5	70.1	
Bioethanol	1.8	5.1	-64.7%	19.9	10.4	
Other	0.3	0.1	n.m.	0.4	1.0	
EBITDA	39.7	14.5	173.8%	44.8	81.6	80.0
Margin	19.0%	8.3%		6.5%	6.9%	
EBIT	34.4	8.9	286.5%	22.4	58.8	
Margin	16.5%	5.1%		3.3%	3.5%	
Net Profit	23.8	5.8	310.3%	14.9	41.5	

Source: Verbio, Matelan Research estimates

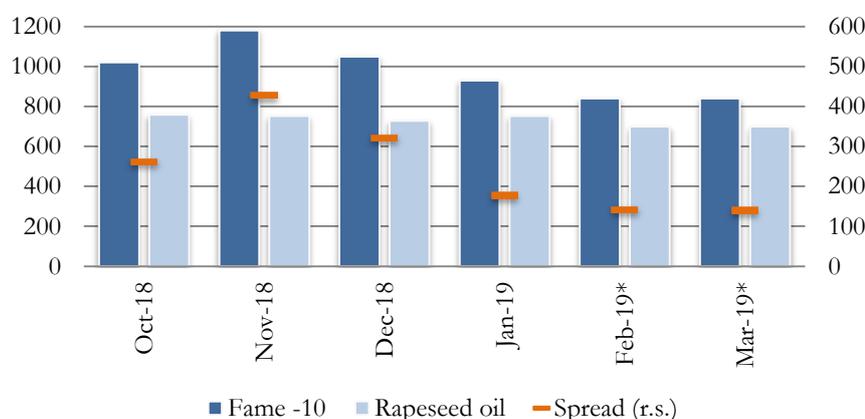
Strong Q2 18/19 about to be released

Ahead of Q2 18/19 results - which will be released on Thursday, 7th of February - it is worth taking a closer look at Verbio again. Following the release of Q1 18/19 in November we had already highlighted that we expect particularly strong Q2 18/19 results and in December Verbio has almost doubled its FY 18/19 guidance to EUR80m in EBITDA based on extraordinarily strong biodiesel margins in October and November. According to our calculations, the company should have reached in Q2 18/19 a 20% increase in sales with almost a doubling of gross profit, tripling of EBITDA and quadrupling of EBIT and net profit on a year on year comparison. This should not be too much of a surprise but is still good news.

Spread in biodiesel remains high

More importantly, margin development over the past month has remained on a rather high level. The price hike that we have seen in biodiesel at the end of last year as a result of the low water levels of the River Rhine has obviously normalised to some extent. However, with almost EUR180/ton, the average biodiesel spread in the month of January was still extraordinarily high and futures currently suggest that margins ahead of the EUR100m mark might be possible until the end of the quarter.

Development of biodiesel spreads

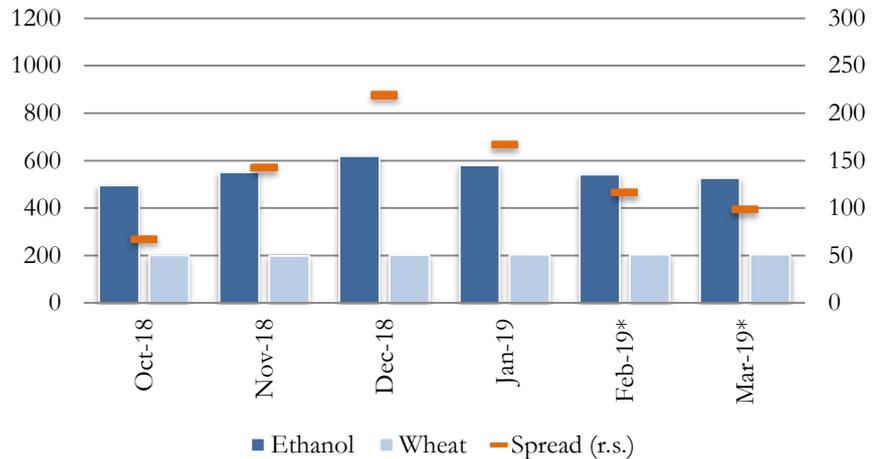


Source: Matelan Research based on Reuters, Argus and Euronext data, average values per month, * future prices, EUR/ton

Bioethanol should stay in the black

In bioethanol, we had seen some improvement of the tight market situation in December. However, since the start of the year ethanol prices have come down again so that on average we would expect Q3 18/19 to come in not too far off Q2 18/19. This means that the division should remain in the black on EBITDA level.

Development of bioethanol spreads

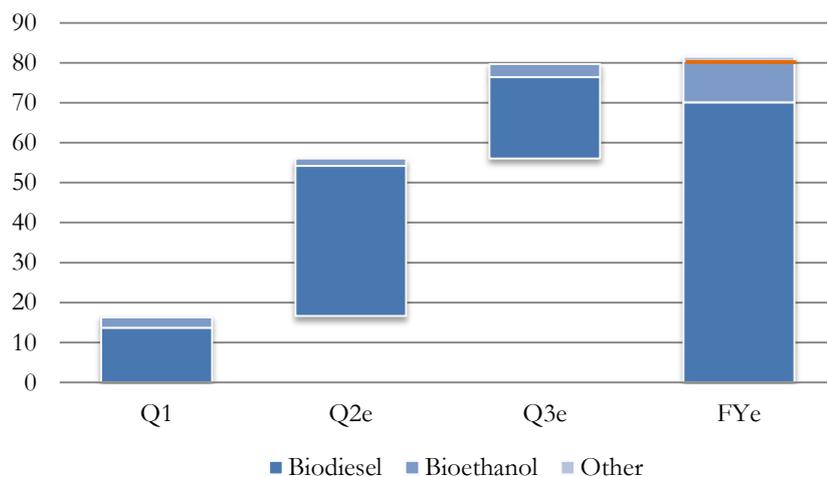


Source: Matelan Research based on Reuters, CME and Euronext data, settlement prices, * future prices, Ethanol in EUR/m3, Wheat in EUR/ton, Spread in EUR/ton

Full year guidance might already be reached in Q3

Based on these margin trends we anticipate around EUR20m in EBITDA coming from the biodiesel activities and a couple of million from ethanol. Adding this to the EUR16.6m reported in Q1 18/19 and our estimated EUR39.7m for Q2 18/19 leaves us with a figure around EUR80m. Thus, at this point in time it appears rather likely that Verbio could reach its recently upped full year guidance already at the 9M stage.

EBITDA 2018/19: quarterly development vs. full year



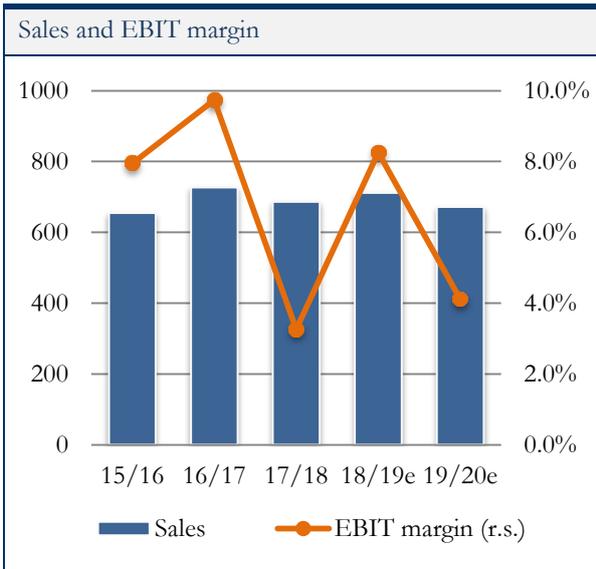
Source: Matelan Research estimates, in EURm, orange bar = company guidance

FY guidance might have to be raised further

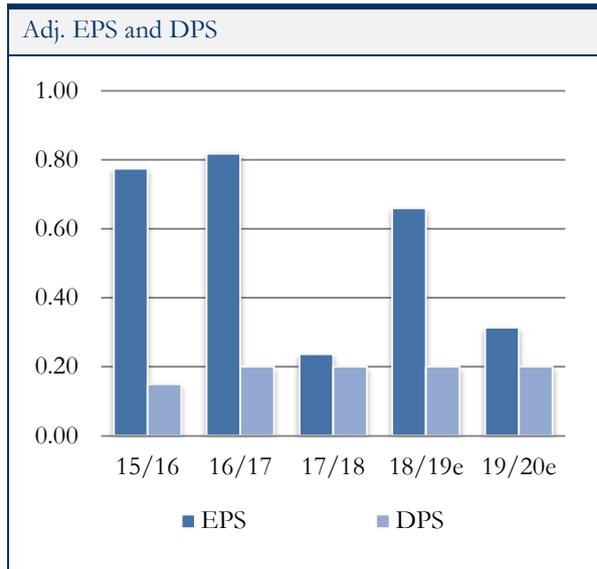
We do not yet change our estimates and our fair value yet. However, the recent market development has left this as an extremely prudent stance. We would also expect the company to raise its guidance once more in the course of the year, unless we would see a material deterioration in either the biodiesel or the bioethanol market.

Imports hurting biodiesel margins becomes less likely

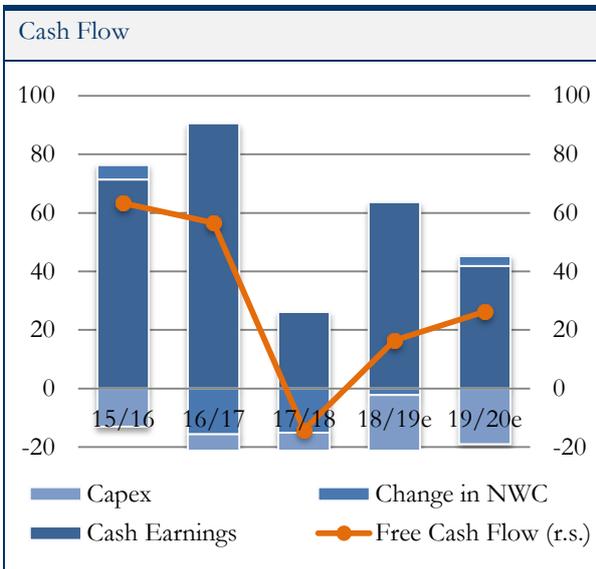
Good news has also arrived from the regulatory side. The EU Member States have approved anti-subsidy measures against Argentinean biodiesel. Imports should be capped at 1.2m tons and a maximum 37% of this amount per single quarter. In addition, a price undertaking agreement between the EU and the Argentinean producers is aimed at securing a biodiesel price for the imports in excess of the soy price. Though the maximum amount of potential imports is still significant, we feel that this is a framework that can be well handled by the German producers. Looking at forward prices we find that there is no material deterioration in the price curve over the summer month, i.e. the period when Argentinean imports might become most relevant.



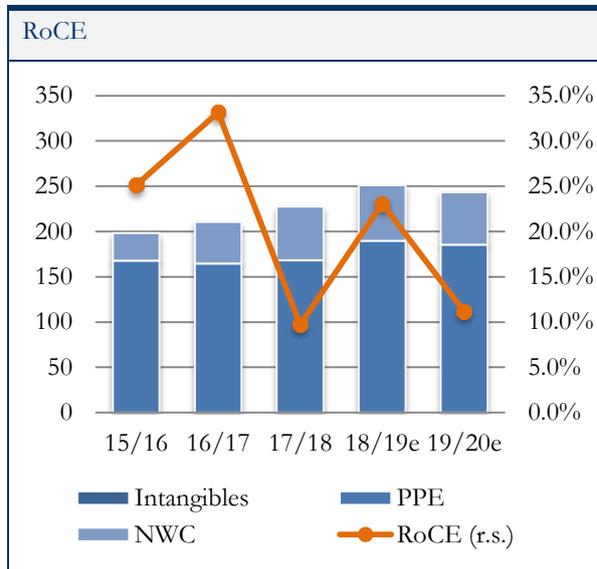
In EURm



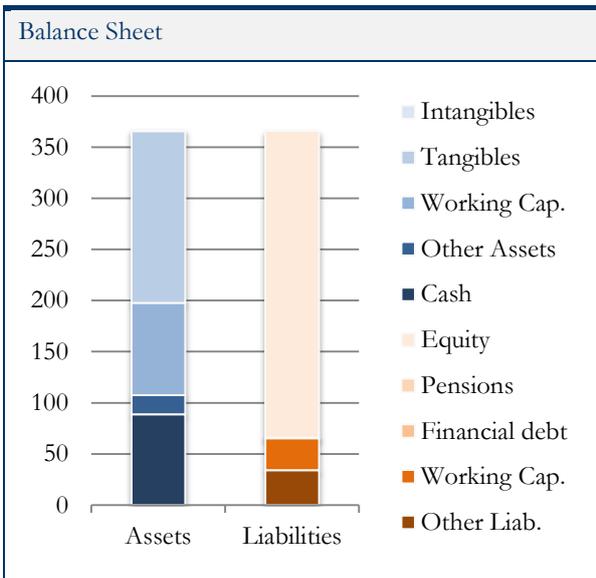
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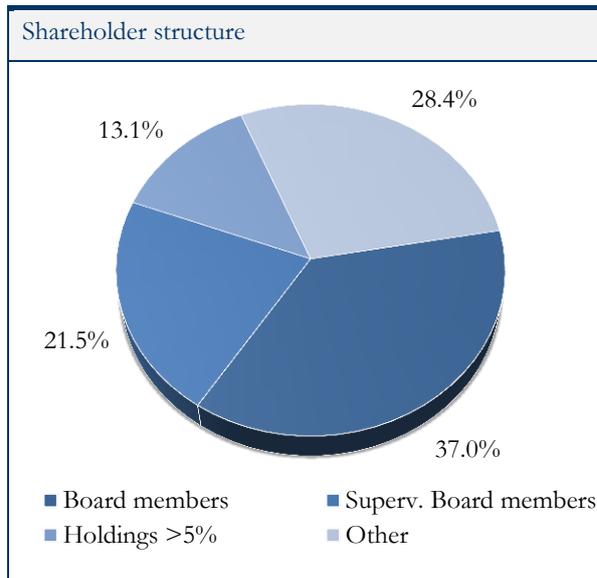
In EURm



In EURm



In EURm



P & L

EURm	2015/16	2016/17	2017/18	2018/19e	2019/20e
Sales	654.3	726.4	685.9	711.3	671.4
<i>Growth</i>		11.0%	-5.6%	3.7%	-5.6%
Material costs	-538.0	-583.9	-591.0	-579.8	-571.0
Gross profit	116.3	142.6	94.9	131.6	100.4
<i>Gross margin</i>	17.8%	19.6%	13.8%	18.5%	15.0%
Other operating costs	-16.8	-21.1	-23.4	-24.0	-25.0
EBITDA	73.1	92.4	44.8	81.6	50.4
<i>Margin</i>	11.2%	12.7%	6.5%	11.5%	7.5%
Depreciation	-21.1	-21.7	-22.4	-22.8	-22.8
EBIT	52.0	70.7	22.4	58.8	27.6
<i>Margin</i>	8.0%	9.7%	3.3%	8.3%	4.1%
Financial result	-1.4	-0.1	-0.2	1.0	1.0
EBT	50.6	70.5	22.2	59.8	28.6
Taxes	-1.7	-18.8	-7.1	-17.9	-8.6
Net profit	48.9	51.8	15.1	41.8	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	41.5	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	0.66	0.31
Adj. EPS	0.77	0.82	0.24	0.66	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	0.5	0.5
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	3.2	3.8
Non-current assets	176.7	167.8	171.7	193.4	189.7
Inventories	26.3	34.3	45.2	46.8	44.2
Receivables	31.6	38.5	45.2	46.9	44.3
Cash	77.5	114.7	88.6	91.5	103.0
Other current assets	10.9	17.7	15.3	15.0	15.0
Current Assets	146.3	205.3	194.2	200.3	206.5
Total assets	323.0	373.1	366.0	393.7	396.2
Equity	253.6	295.4	299.0	328.3	335.7
Minorities	0.7	1.0	1.2	1.3	1.4
Total equity	254.3	296.4	300.2	329.6	337.1
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	7.5	7.5
Non-current liabilities	12.9	11.1	7.7	7.7	7.7
ST financial liabilities	10.4	1.3	0.4	0.4	0.4
Payables	27.5	27.3	31.2	32.3	30.5
Other ST liabilities	17.9	37.0	26.5	23.7	20.5
Current liabilities	55.8	65.6	58.1	56.4	51.4
Total liabilities	323.0	373.1	366.0	393.7	396.2

Cash Flow

EURm	2015/16	2016/17	2017/18	2018/19e	2019/20e
EBIT	52.0	70.7	22.4	58.8	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	-17.9	-8.6
Cash earnings	71.4	90.6	26.1	63.6	41.8
Change in NWC	4.9	-15.6	-15.0	-2.2	3.4
CF from operations	76.3	75.0	11.1	61.4	45.3
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	-14.0	-15.3
Change in cash	50.8	37.2	-26.2	2.9	11.5

Segments and adjusted earnings

EURm	2015/16	2016/17	2017/18	2018/19e	2019/20e
Biodiesel	423.2	471.6	456.8	480.0	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	711.3	671.4
<i>Growth</i>		11.0%	-5.6%	3.7%	-5.6%
Biodiesel	29.7	39.3	24.5	70.1	27.9
Bioethanol/-methan	42.2	52.4	19.9	10.4	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	81.6	50.4
<i>Margin</i>	11.2%	12.7%	6.5%	11.5%	7.5%

Valuation multiples

	2015/16	2016/17	2017/18	2018/19e	2019/20e
Share price	5.63	7.97	7.28	7.03	7.03
x No of shares	63.0	63.0	63.0	63.0	63.0
Market Capitalisation	354.7	502.1	458.6	442.9	442.9
+ Net financial debt	-65.6	-112.8	-88.2	-91.1	-102.6
+ 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	353.2	341.8
Sales	654.3	726.4	685.9	711.3	671.4
Adj. EBITDA	73.1	92.4	44.8	81.6	50.4
Adj. EBIT	52.0	70.7	22.4	58.8	27.6
Adj. Net profit a.m.	48.7	51.5	14.9	41.5	19.7
EV / Sales	0.4	0.5	0.5	0.5	0.5
EV / EBITDA	4.0	4.2	8.3	4.3	6.8
EV / EBIT	5.6	5.5	16.6	6.0	12.4
PE	7.3	9.7	30.7	10.7	22.5

Key operational indicators

	2015/16	2016/17	2017/18	2018/19e	2019/20e
Equity ratio	78.7%	79.4%	82.0%	83.7%	85.1%
Gearing	0.0	0.0	0.0	0.0	0.0
Asset turnover	3.7	4.3	4.0	3.7	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	193.4	189.7
NWC	30.3	45.5	59.2	61.4	58.0
Capital employed	207.0	213.3	230.9	254.8	247.6
RoE	19.2%	17.5%	5.0%	12.7%	5.9%
RoA	16.1%	18.9%	6.1%	14.9%	7.0%
RoCE	25.1%	33.1%	9.7%	23.1%	11.1%
Gross margin	17.8%	19.6%	13.8%	18.5%	15.0%
EBITDA margin	11.2%	12.7%	6.5%	11.5%	7.5%
EBIT margin	8.0%	9.7%	3.3%	8.3%	4.1%
Net profit margin	7.4%	7.1%	2.2%	5.8%	2.9%

Source: Verbio, Matelan Research

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Buy:	62.5%
Neutral:	37.5%
Reduce:	0.0%
Sell:	0.0%

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Stock ratings for the company covered in this report have developed as follows:

Verbio	
Date	Rating
12/12/18	Buy
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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