

07 February 2019

Price as of 06/02/18: €6.93

Company / Sector

**Verbio**

Energy: Biofuels

Fair Value

**€8.5**

(unchanged)

Recommendation

**Buy**

(unchanged)

## Strong Q2 is in the pocket – more positives to come in Q3

### Share price performance



### Share data

Reuters	VBKG.DE
No. of shares (m)	63.0
Daily volume (3m)	39,217
Free float	28.4%
Market cap. (m)	436.6
EV (m)	346.9
Sales 15-19e	0.6%

Valuation	17/18e	18/19e
EV/Sales	0.5	0.5
EV/ EBITDA	4.3	6.7
EV/EBIT	5.9	12.2
PER	10.5	22.1
Div. yield	2.9%	2.9%
RoCE	23.1%	11.1%
RoE	12.7%	5.9%

### Analysts

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### Investment case

**Q2 18/19 has delivered on our high expectations and contributed more than half to the current full year guidance. Based on the current market situation, this guidance might already be reached in the third quarter. We do not yet change our estimates but if margins stay at current levels, a further earnings, valuation and guidance increase during the next three months is a logical consequence. Against this background, we reiterate our BUY recommendation on the stock.**

#### ➤ Q2 18/19 DELIVERS ON HIGH EXPECTATIONS

With EUR40.7m in EBITDA, Verbio has delivered an extraordinarily strong quarter and even slightly surpassed our high expectations. In addition, cash flow remains strong and allows for keeping net cash above the targeted EUR90m level despite high investments.

#### ➤ GUIDANCE EXTREMELY CONSERVATIVE

So far, management sticks to its recently increased guidance of EUR80m in EBITDA. On the back of the current market situation, we calculate that this level might already be achieved at the nine months stage.

#### ➤ FURTHER UPGRADE LIKELY

We do not yet raise our estimates but make it clear that thereby we take an equally conservative stance as management. Unless we see a material change in the market dynamics, an earnings and valuation upgrade from our side as well as an increase in company guidance during the coming quarter must be expected.

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

**Q2 18/19 review**

EURm	Q2 18/19	Q2 18/19e	Q2 17/18	Change	FY 17/18	FY 18/19e	Guidance 18/19
Biodiesel	146.8	149.9	117.3	25.1%	456.8	480.0	
Bioethanol	60.2	56.4	53.9	11.7%	219.1	221.3	
Other	2.5	2.6	2.8	-10.7%	10.0	10.0	
Sales	209.5	208.9	174.0	20.4%	685.9	711.3	
Gross profit	53.1	53.0	27.0	96.7%	-0.4	131.6	
<i>Margin</i>	<i>25.3%</i>	<i>25.4%</i>	<i>15.5%</i>		<i>-0.1%</i>	<i>14.3%</i>	
Biodiesel	36.6	37.6	9.3	293.5%	24.5	70.1	
Bioethanol	4.3	1.8	5.1	-15.7%	19.9	10.4	
Other	-0.2	0.3	0.1	n.m.	0.4	1.0	
EBITDA	40.7	39.7	14.5	180.7%	44.8	81.6	80.0
<i>Margin</i>	<i>19.4%</i>	<i>19.0%</i>	<i>8.3%</i>		<i>6.5%</i>	<i>6.9%</i>	
EBIT	35.5	34.4	8.9	298.9%	22.4	58.8	
<i>Margin</i>	<i>16.9%</i>	<i>16.5%</i>	<i>5.1%</i>		<i>3.3%</i>	<i>3.5%</i>	
Net Profit	25.3	23.8	5.8	336.2%	14.9	41.5	

Source: Verbio, Matelan Research estimates

Q2 results deliver on high expectations.

Ahead of the release of results we had highlighted that we expect an extraordinarily strong second quarter from Verbio, anticipating sales to grow by 20%, gross profit to almost double, EBITDA to triple and EBIT as well as net profit to quadruple on a year on year basis. The release of results now shows that the company has delivered on these expectations. While the main driver of results, biodiesel, was broadly in line with our forecast, the bioethanol division has come in slightly better than we had anticipated by remaining in the black even on EBIT level and not only the EBITDA level.

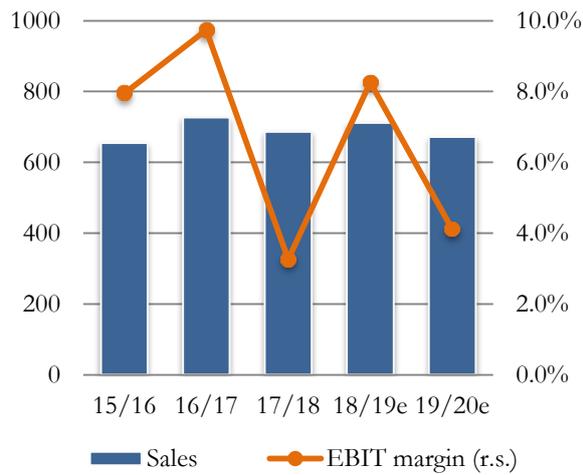
Net cash still at EUR97m despite investments in inventories and capex

Based on the strong earnings development, the company also shows strong cash flow. Operating cash flow increased by EUR13m during the quarter despite a EUR14m increase in inventories over the same period. This allowed the company to spend another EUR23m for the acquisition of property, plant and equipment, in particular the Dupont site in the US, while taking only EUR7.5m in new debt on the balance sheet. Net cash still stands at EUR97m, i.e. above the guided level of EUR90m by year end.

FY guidance extremely conservative

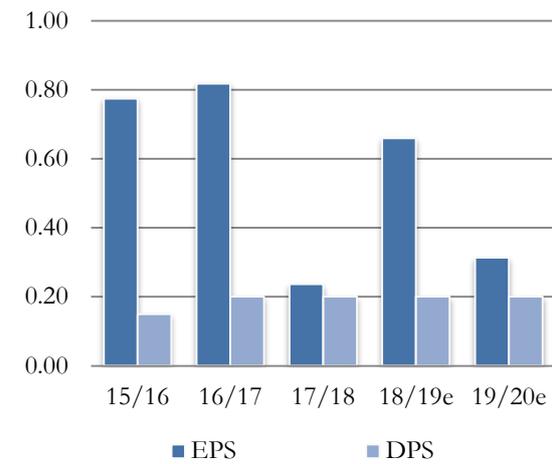
In terms of outlook, the company has repeated the FY guidance it had raised in December to EUR80m in EBITDA. According to our calculations, this appears to be a very cautious stance in view of the recent market development. With EUR57.3m already in the pocket at the half year stage, only EUR22.7m need to be achieved in the coming two quarters. Though the extraordinary strength of the second quarter will not be repeated, the month of January has already seen a biodiesel spread that was way above average levels and it would take a material market deterioration in the remainder of the year to prevent the company from beating the guidance. If spreads stayed at current levels, we believe that the company could come close to its full year guidance already at the nine months stage.

Sales and EBIT margin



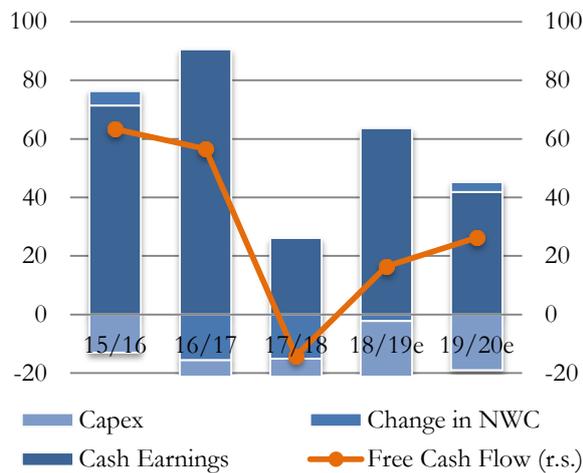
In EURm

Adj. EPS and DPS



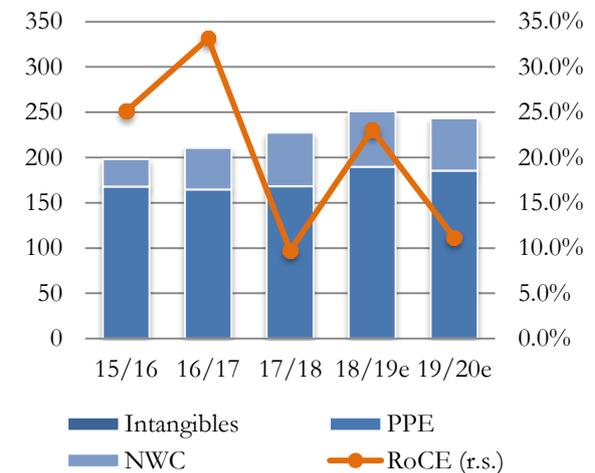
In EUR

Cash Flow



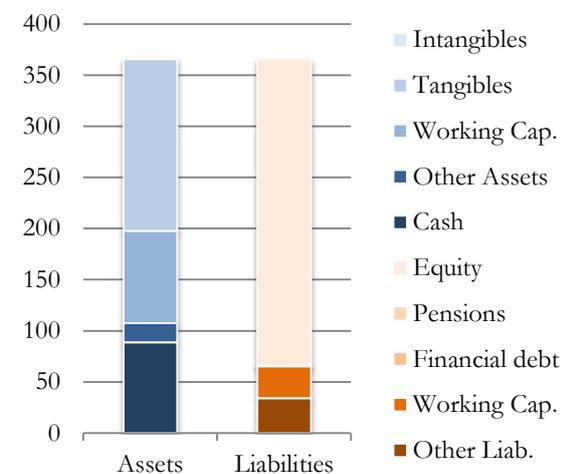
In EURm

RoCE



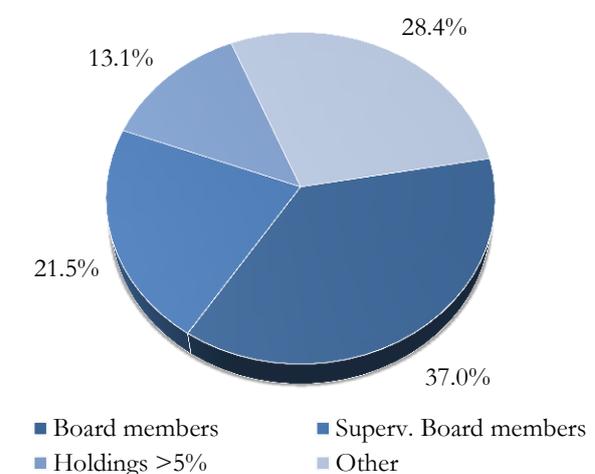
In EURm

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>711.3</b>	<b>671.4</b>
<i>Growth</i>		11.0%	-5.6%	3.7%	-5.6%
Material costs	-538.0	-583.9	-591.0	-579.8	-571.0
<b>Gross profit</b>	<b>116.3</b>	<b>142.6</b>	<b>94.9</b>	<b>131.6</b>	<b>100.4</b>
<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
<b>EBITDA</b>	<b>73.1</b>	<b>92.4</b>	<b>44.8</b>	<b>81.6</b>	<b>50.4</b>
<i>Margin</i>	11.2%	12.7%	6.5%	11.5%	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>58.8</b>	<b>27.6</b>
<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
<b>EBT</b>	<b>50.6</b>	<b>70.5</b>	<b>22.2</b>	<b>59.8</b>	<b>28.6</b>
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
<b>Net profit a.m.</b>	<b>48.7</b>	<b>51.5</b>	<b>14.9</b>	<b>41.5</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	0.66	0.31
<b>Adj. EPS</b>	<b>0.77</b>	<b>0.82</b>	<b>0.24</b>	<b>0.66</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	0.5	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
<b>Non-current assets</b>	<b>176.7</b>	<b>167.8</b>	<b>171.7</b>	<b>193.4</b>	<b>189.7</b>
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
<b>Current Assets</b>	<b>146.3</b>	<b>205.3</b>	<b>194.2</b>	<b>200.3</b>	<b>206.5</b>
<b>Total assets</b>	<b>323.0</b>	<b>373.1</b>	<b>366.0</b>	<b>393.7</b>	<b>396.2</b>
Equity	253.6	295.4	299.0	328.3	335.7
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>329.6</b>	<b>337.1</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	7.5	7.5
<b>Non-current liabilities</b>	<b>12.9</b>	<b>11.1</b>	<b>7.7</b>	<b>7.7</b>	<b>7.7</b>
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
<b>Current liabilities</b>	<b>55.8</b>	<b>65.6</b>	<b>58.1</b>	<b>56.4</b>	<b>51.4</b>
<b>Total liabilities</b>	<b>323.0</b>	<b>373.1</b>	<b>366.0</b>	<b>393.7</b>	<b>396.2</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>58.8</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	-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
<b>CF from operations</b>	<b>76.3</b>	<b>75.0</b>	<b>11.1</b>	<b>61.4</b>	<b>45.3</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>-14.0</b>	<b>-15.3</b>
<b>Change in cash</b>	<b>50.8</b>	<b>37.2</b>	<b>-26.2</b>	<b>2.9</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	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
<b>Sales</b>	<b>654.3</b>	<b>726.4</b>	<b>685.9</b>	<b>711.3</b>	<b>671.4</b>
<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
<b>EBITDA</b>	<b>73.1</b>	<b>92.4</b>	<b>44.8</b>	<b>81.6</b>	<b>50.4</b>
<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	6.93	6.93
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>436.6</b>	<b>436.6</b>
+ 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
<b>Enterprise Value</b>	<b>289.9</b>	<b>390.4</b>	<b>371.8</b>	<b>346.9</b>	<b>335.5</b>
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	6.7
EV / EBIT	5.6	5.5	16.6	5.9	12.2
PE	7.3	9.7	30.7	10.5	22.1

**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%

### (5) Recommendation history

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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