

07 May 2020

Price as of 06/05/20: €8.32

Company / Sector

Verbio

Energy: Biofuels

Fair Value

€11.5

(unchanged)

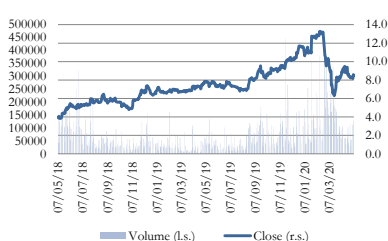
Recommendation

Buy

(unchanged)

Record earnings within reach - despite Corona

Share price performance



Share data

Reuters	VBKG.DE
No. of shares (m)	63.0
Daily volume (3m)	131,864
Free float	28.4%
Market cap. (m)	524.2
EV (m)	485.7
Sales 16/17-20/21e	3.8%

Valuation	19/20e	20/21e
EV/Sales	0.6	0.6
EV/ EBITDA	4.4	5.6
EV/EBIT	5.6	8.0
PER	8.9	13.0
Div. yield	2.4%	2.4%
RoCE	22.5%	14.9%
RoE	15.3%	9.7%

Analysts

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Investment case

Based on an outstanding performance in the ethanol division, Verbio beat our already high estimates for the third quarter. Management reiterates its guidance for the full year and we can confirm our estimates despite the expected impact of covid-19 on Q4 accounts. Internationalisation remains in progress and we can also stick to our 2020/21 estimates as well as our fair value of EUR11.5. This still leaves a very interesting upside from the current share price. We thus reiterate our Buy rating.

➤ Q3 BEATS EXPECTATIONS CLEARLY

Q3 results came in even higher than we had estimated. In particular the bioethanol division topped our forecasts based on a higher production, lower feedstock costs, and higher benefits from the sale of CO₂ reduction certificates.

➤ GUIDANCE CONFIRMED

Management has confirmed its guidance to reach record earnings of EUR110m in EBITDA and EUR40m in net cash for 2019/20. Based on the strong Q3 this is now well within reach, despite the impact of covid-19 on the spreads in biodiesel as well as bioethanol. We confirm our estimates for this year as well as for the coming year.

➤ INTERNATIONALISATION IN PROGRESS

With the prolongation of management contracts, Verbio banks on continuity, in particular with regard to its internationalisation strategy. Production in Germany works rather seamlessly, the build-up of new plants overseas, however, faces slight delays due to Corona. In any case, this is not felt in the company's accounts and work remains in progress.

For additional disclosures please refer to the appendix

Forecasts	16/17	17/18	18/19	19/20e	20/21e
Sales (€m)	726.4	685.9	779.3	862.2	844.0
EBITDA (€m)	92.4	44.8	95.1	110.2	84.7
EBIT (€m)	70.7	22.4	73.7	86.2	59.7
Adj. EPS (€)	0.82	0.24	0.84	0.94	0.64
Dividend (€)	0.20	0.20	0.20	0.20	0.20
Oper. CF (€m)	75.0	11.1	44.3	47.3	69.7
Free CF (€m)	56.6	-14.1	-18.7	-37.7	24.7

Q3 19/20 review

EURm	Q3 19/20	Q3 19/20e	Q3 18/19	Change	FY 18/19	FY 19/20e	Guidance 19/20
Biodiesel	152.8	154.4	126.0	21.3%	514.5	572.8	
Bioethanol	67.6	78.2	65.0	4.0%	254.7	279.2	
Other	2.3	4.5	2.5	-8.0%	10.1	10.2	
Sales	222.7	237.1	193.5	15.1%	779.3	862.2	
Gross profit	60.7	56.7	41.2	47.3%	160.9	188.2	
<i>Margin</i>	<i>27.3%</i>	<i>23.9%</i>	<i>21.3%</i>		<i>20.6%</i>	<i>21.8%</i>	
Biodiesel	18.0	16.0	21.3	-15.5%	70.7	46.8	
Bioethanol	24.6	18.2	5.7	331.6%	23.8	62.7	
Other	0.6	0.7	0.1	n.m.	0.6	0.7	
EBITDA	43.2	34.9	27.1	59.4%	95.1	110.2	110.0
<i>Margin</i>	<i>19.4%</i>	<i>14.7%</i>	<i>14.0%</i>		<i>12.2%</i>	<i>12.8%</i>	
EBIT	36.1	27.1	21.9	64.8%	73.7	86.2	
<i>Margin</i>	<i>16.2%</i>	<i>11.4%</i>	<i>11.3%</i>		<i>9.5%</i>	<i>10.0%</i>	
Net Profit	24.8	18.7	16.7	48.5%	52.8	59.2	

Source: Verbio, Matelan Research estimates

Third quarter outstrips high expectations ...

We had already highlighted that in the financial year 2019/20, Verbio had a strong first quarter, an even stronger second quarter and that we expect the third quarter to be the strongest. The release of Q3 figures now shows that the company has not only delivered on our expectations but clearly topped them. Though sales came in somewhat lower than we had anticipated, there is a clear outperformance on all profit levels.

... based on an excellent performance of the bioethanol activities

While the biodiesel division came in well in line with our expectations, bioethanol did better than we thought. Here, production was higher than anticipated but sales were lower. The reason is that the company had lower trading volumes that we had anticipated. This also explains a small part of the better profitability as the difference in production is obviously more profitable compared to volumes that are just bought and resold. In addition, the division had been able to buy feedstock at slightly lower prices compared to our estimates. Finally, the division has benefited more than we thought from the sale of CO₂ reduction certificates.

Guidance reiterated – estimates confirmed

Against the background of the excellent third quarter, management has reiterated its guidance of record earnings in the region of EUR110m in EBITDA despite reduced market rates and the uncertainty created by the corona pandemic. In our most recent note, we had highlighted that we do not see this target at risk based on a good third quarter and some leeway in our Q4 estimates. Now, Q3 has come in even better than anticipated and we get a bit more prudent for Q4. We believe that current market rates still allow for a positive EBITDA in biodiesel and a double digit EBITDA in Bioethanol. This would ensure that the company will reach its guidance. Further sales of CO₂ reduction certificates could come on top. We make only marginal changes to our full year estimates, which remain in line with company guidance.

EUR85m in EBITDA for the coming year remains a feasible outcome

Moreover, we make no changes to our FY 2020/21 forecast of EUR85m in EBITDA. Obviously, this requires some improvement of the current situation in both markets. In view of the current easing of the restrictions caused by the corona crisis this seems plausible. In addition, it should be realised that if the fourth quarter would be unaffected by corona, we would be looking at a full year EBITDA level of around EUR130, which shows

what is possible under normal circumstances. Reaching EUR85m is thus well achievable even if we could see traces of corona in the company's accounts until autumn. Depending on the speed of the recovery, we might even see a higher amount.

Production widely unaffected

We had already elaborated on production, which continues to run reasonably smooth. For the fourth quarter, the company expects to run at full capacity at its legacy sites. Improvement at the plant in Canada are ongoing. Production here is around 50%, in line with plans. Construction in the US and India is slightly behind plan due to the corona impact. The negative impact on results from these start-up operations is minor, which is evidenced by the strong results throughout the year.

Net cash target might be beaten

Apart from earnings, management has also reiterated its guidance of EUR40m in net cash at the end of the year. Q3 has produced an operating cash flow of EUR59m, which allowed for an increase of the company's net cash position by EUR12m to EUR64m. Though Q4 will obviously be not as strong as Q3, we believe that there are good chances that the company could beat the announced EUR40m, considering among others that investments for the new plants might also be slightly delayed.

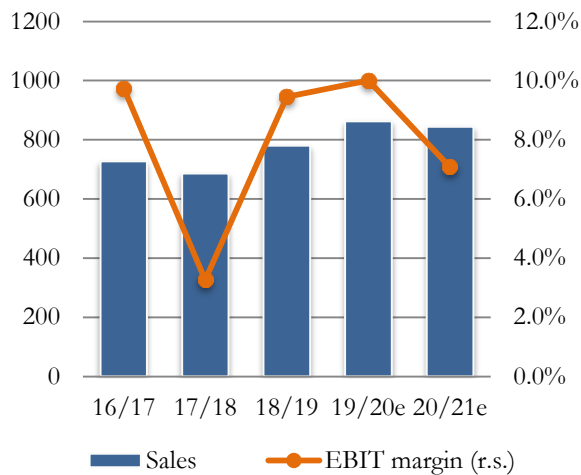
Fair value of EUR11.5 gives interesting upside

With only negligible adjustments to our estimates we also stick to our fair value of EUR11.5. Here, we want to highlight again that we had already adjusted our valuation for the higher uncertainty in our projections due to the corona pandemic. We are thus very comfortable with our valuation, which gives a very interesting upside from the current share price.

Prolongation of management contracts

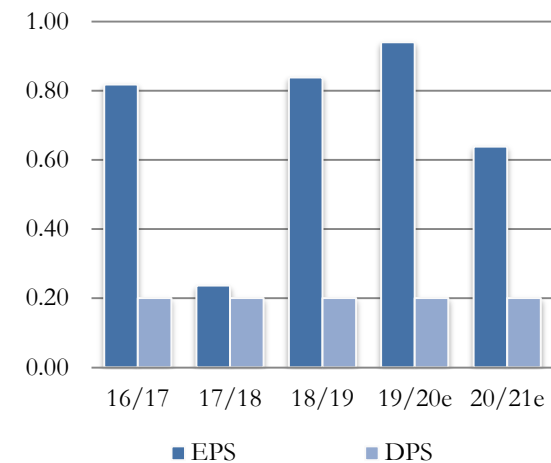
Finally, the company has reported that it has prolonged the contracts of the existing management team. In addition, Stefan Schreiber has now joined the board to head the North American operations. In this respect, the company has paved the way for following up on its dedicated strategy to internationalise and become less dependent upon the European regulated markets.

Sales and EBIT margin



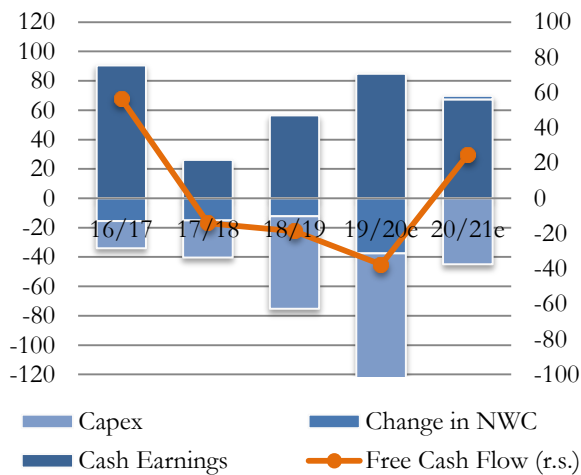
In EURm

Adj. EPS and DPS



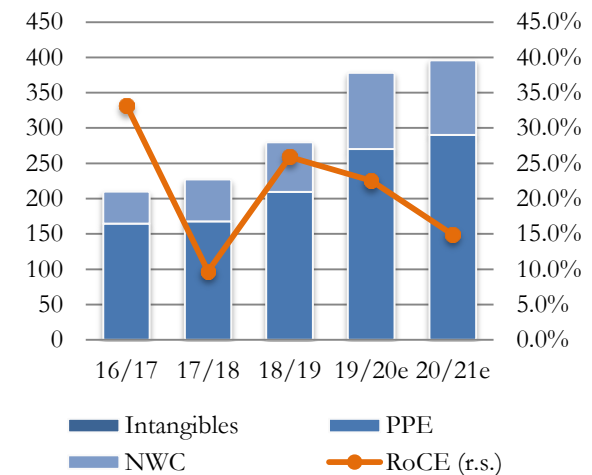
In EUR

Cash Flow



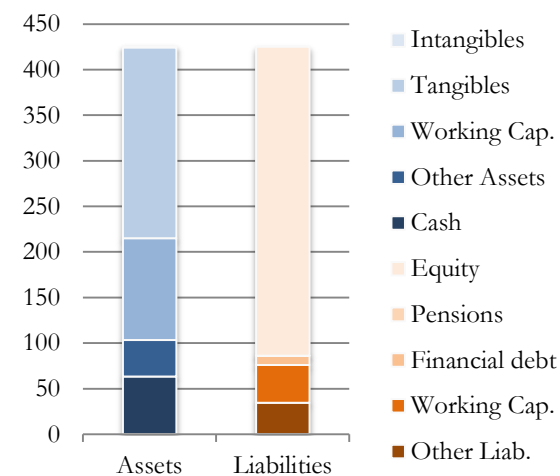
In EURm

RoCE



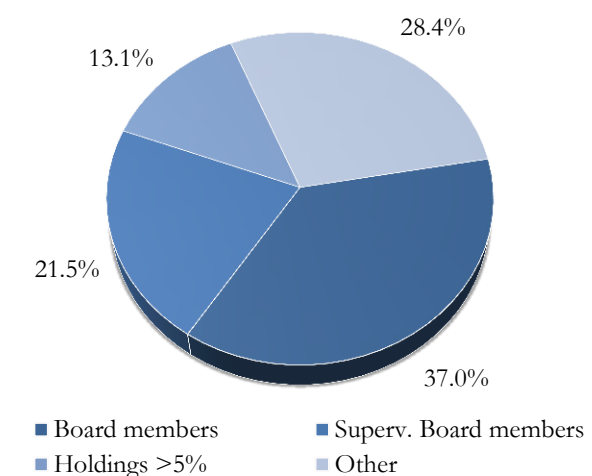
In EURm

Balance Sheet



In EURm

Shareholder structure



P & L

EURm	2016/17	2017/18	2018/19	2019/20e	2020/21e
Sales	726.4	685.9	779.3	862.2	844.0
<i>Growth</i>		-5.6%	13.6%	10.6%	-2.1%
Material costs	-583.9	-591.0	-618.4	-674.0	-669.2
Gross profit	142.6	94.9	160.9	188.2	174.7
<i>Gross margin</i>	19.6%	13.8%	20.7%	21.8%	20.7%
Other operating costs	-21.1	-23.4	-28.6	-35.0	-45.0
EBITDA	92.4	44.8	95.1	110.2	84.7
<i>Margin</i>	12.7%	6.5%	12.2%	12.8%	10.0%
Depreciation	-21.7	-22.4	-21.4	-24.0	-25.0
EBIT	70.7	22.4	73.7	86.2	59.7
<i>Margin</i>	9.7%	3.3%	9.5%	10.0%	7.1%
Financial result	-0.1	-0.2	-0.6	-1.4	-2.0
EBT	70.5	22.2	73.1	84.8	57.7
Taxes	-18.8	-7.1	-21.4	-25.4	-17.3
Net profit	51.8	15.1	51.7	59.4	40.4
Minorities / Discon. Op.	-0.3	-0.2	1.1	-0.2	-0.2
Net profit a.m.	51.5	14.9	52.8	59.2	40.2
<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	0.82	0.24	0.84	0.94	0.64
Adj. EPS	0.82	0.24	0.84	0.94	0.64
<i>Growth</i>	n.m.	n.m.	n.m.	n.m.	n.m.
Dividend	0.20	0.20	0.20	0.20	0.20

Cash Flow

EURm	2016/17	2017/18	2018/19	2019/20e	2020/21e
EBIT	70.7	22.4	73.7	86.2	59.7
Depreciation	21.7	22.4	21.4	24.0	25.0
Other non-cash items	2.5	-5.1	-13.4	0.0	0.0
Cash taxes	-4.3	-13.6	-25.2	-25.4	-17.3
Cash earnings	90.6	26.1	56.5	84.8	67.4
Change in NWC	-15.6	-15.0	-12.2	-37.5	2.3
CF from operations	75.0	11.1	44.3	47.3	69.7
Capex	-18.4	-25.2	-63.0	-85.0	-45.0
Other investm./divestm.	0.0	2.1	2.0	0.0	0.0
CF from investing	-18.4	-23.1	-61.0	-85.0	-45.0
CF from fin. and other	-19.4	-14.2	-8.8	84.6	-15.7
Change in cash	37.2	-26.2	-25.5	46.9	9.0

Valuation multiples

	2016/17	2017/18	2018/19	2019/20e	2020/21e
Share price	7.97	7.28	6.56	8.32	8.32
x No of shares	63.0	63.0	63.0	63.0	63.0
Market Capitalisation	502.1	458.6	413.3	524.2	524.2
+ Net financial debt	-112.8	-88.2	-53.0	-40.0	-49.0
+ Pension provision	0.2	0.2	0.2	0.2	0.2
+ Minorities	1.0	1.2	-0.3	1.4	1.4
- Participations	-0.1	-0.1	-0.1	-0.1	-0.1
Enterprise Value	390.4	371.8	360.0	485.7	476.7
Sales	726.4	685.9	779.3	862.2	844.0
Adj. EBITDA	92.4	44.8	95.1	110.2	84.7
Adj. EBIT	70.7	22.4	73.7	86.2	59.7
Adj. Net profit a.m.	51.5	14.9	52.8	59.2	40.2
EV / Sales	0.5	0.5	0.5	0.6	0.6
EV / EBITDA	4.2	8.3	3.8	4.4	5.6
EV / EBIT	5.5	16.6	4.9	5.6	8.0
PE	9.7	30.7	7.8	8.9	13.0

Source: Verbio, Matelan Research

Balance Sheet

EURm	2016/17	2017/18	2018/19	2019/20e	2020/21e
Intangible assets	0.2	0.3	0.9	0.9	0.9
Tangible assets	164.6	168.0	209.3	270.3	290.3
Participations	0.1	0.1	0.1	0.1	0.1
Other non-current assets	2.9	3.4	3.9	3.8	4.8
Non-current assets	167.8	171.7	214.2	275.0	296.0
Inventories	34.3	45.2	63.1	99.8	97.7
Receivables	38.5	45.2	48.5	53.7	52.6
Cash	114.7	88.6	63.1	110.0	119.0
Other current assets	17.7	15.3	36.1	15.0	15.0
Current Assets	205.3	194.2	210.8	278.5	284.2
Total assets	373.1	366.0	424.9	553.5	580.3
Equity	295.4	299.0	339.2	386.0	413.8
Minorities	1.0	1.2	-0.3	1.4	1.4
Total equity	296.4	300.2	338.9	387.4	415.2
LT financial liabilities	0.6	0.0	0.1	30.0	30.0
Pension provisions	0.2	0.2	0.2	0.2	0.2
Other LT liabilities	10.3	7.5	6.9	7.5	7.5
Non-current liabilities	11.1	7.7	7.1	37.7	37.7
ST financial liabilities	1.3	0.4	10.0	40.0	40.0
Payables	27.3	31.2	41.3	45.7	44.7
Other ST liabilities	37.0	26.5	27.6	42.7	42.6
Current liabilities	65.6	58.1	78.9	128.4	127.4
Total liabilities	373.1	366.0	424.9	553.5	580.3

Segments and adjusted earnings

EURm	2016/17	2017/18	2018/19	2019/20e	2020/21e
Biodiesel	471.6	456.8	514.5	572.8	568.9
Bioethanol/-methan	245.2	219.1	254.7	279.2	264.8
Other	16.3	15.7	16.7	16.2	16.2
Consolidation	-6.6	-5.7	-6.6	-6.0	-6.0
Sales	726.4	685.9	779.3	862.2	844.0
<i>Growth</i>		-5.6%	13.6%	10.6%	-2.1%
Biodiesel	39.3	24.5	70.7	46.8	43.9
Bioethanol/-methan	52.4	19.9	23.8	62.7	39.5
Other	0.7	0.4	0.6	0.7	1.4
Consolidation	0.0	0.0	0.0	0.0	0.0
EBITDA	92.4	44.8	95.1	110.2	84.7
<i>Margin</i>	12.7%	6.5%	12.2%	12.8%	10.0%

Key operational indicators

	2016/17	2017/18	2018/19	2019/20e	2020/21e
Equity ratio	79.4%	82.0%	79.8%	70.0%	71.6%
Gearing	0.0	0.0	0.0	0.2	0.2
Asset turnover	4.3	4.0	3.6	3.1	2.9
NWC / sales	6.3%	8.6%	9.0%	12.5%	12.5%
Payable days outst.	13.7	16.6	19.4	19.4	19.4
Receivable days outst.	19.3	24.1	22.7	22.7	22.7
Fix operating assets	167.8	171.7	214.1	274.9	295.9
NWC	45.5	59.2	70.3	107.8	105.5
Capital employed	213.3	230.9	284.4	382.7	401.4
RoE	17.5%	5.0%	15.3%	15.3%	9.7%
RoA	18.9%	6.1%	17.3%	15.6%	10.3%
RoCE	33.1%	9.7%	25.9%	22.5%	14.9%
Gross margin	19.6%	13.8%	20.7%	21.8%	20.7%
EBITDA margin	12.7%	6.5%	12.2%	12.8%	10.0%
EBIT margin	9.7%	3.3%	9.5%	10.0%	7.1%
Net profit margin	7.1%	2.2%	6.8%	6.9%	4.8%

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Strong Buy:	0.0%
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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