

28 September 2017

Price as of 27/09/17: €9.23

Company / Sector

Verbio

Energy: Biofuels

Fair Value

€9.1

(€9.5)

Recommendation

Neutral

(unchanged)

Correction puts stock back on the radar

Share price performance



Share data

Reuters	VBKG.DE
No. of shares (m)	63.0
Daily volume (3m)	196,614
Free float	27.9%
Market cap. (m)	581.5
EV (m)	463.5
Sales 15-19e	2.5%

Valuation	16/17e	17/18e
EV/Sales	0.7	0.6
EV/ EBITDA	6.7	6.0
EV/EBIT	9.8	8.7
PER	18.0	17.0
Div. yield	2.2%	2.2%
RoCE	20.3%	21.5%
RoE	10.3%	10.2%

Analysts

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Investment case

FY 16/17 results disclosed a rather weak Q4 and an overly prudent outlook for 17/18 which reflects some uncertainty with regard to potential biofuel imports. However, one-offs appear to have masked Q4 profitability and the impact of imports on 17/18 results are limited. Thus, we reduce our estimates only slightly, staying way ahead of company guidance. Moreover, after the recent correction, the stock appears to be priced more decently. Good reporting in H1 and successful investments are points to look out for and could even lead to an upgrade of our rating.

➤ MEETING GUIDANCE BUT NOT EXPECTATIONS

FY 2016/17 EBITDA met company guidance but came in below our estimate. The reason was the rather weak performance of the biodiesel division in the fourth quarter, which was only partly compensated by a strong bioethanol result. The performance of the biodiesel activities appear to be influenced by one-offs so that we expect decent results again in Q1.

➤ OUTLOOK EXTREMELY PRUDENT

A EUR50m EBITDA guidance for 2017/18 appears to be very conservative. Accounting for some market pressure from imports towards year end, we slightly lower our previous estimate but still are almost EUR20m ahead of company guidance.

➤ STEPPING UP INVESTMENTS

Management announced that it will double investments in order to expand capacity in straw-biomethane and sterol. This should support some future growth as well as the diversification of its business. We have priced in the investments but not yet the potential return on these investments in our model.

For additional disclosures please refer to the appendix

Forecasts	14/15	15/16	16/17	17/18e	18/19e
Sales (€m)	618.5	654.3	726.4	674.9	683.1
EBITDA (€m)	50.7	73.1	92.4	69.3	72.3
EBIT (€m)	28.5	52.0	70.7	47.5	50.1
Adj. EPS (€)	0.43	0.77	0.82	0.51	0.54
Dividend (€)	0.10	0.15	0.20	0.20	0.20
Oper. CF (€m)	46.6	76.3	75.0	58.5	57.0
Free CF (€m)	33.1	63.3	56.6	14.5	37.0

Q4 16/17 review and change in estimates

EURm	Q4 16/17	Q4 16/17e	Q4 15/16	Change	FY 16/17	FY 17/18e old	FY 17/18e new	Guidance 17/18
Biodiesel	111.6	129.7	110.2	1.3%	471.6	493.5	440.2	
Bioethanol	73.7	52.4	62.3	18.3%	245.2	223.2	224.9	
Other	2.3	1.0	-23.9	n.m.	9.6	7.4	9.8	
Sales	187.6	183.1	148.6	26.2%	726.4	724.1	674.9	
Gross profit	29.3	37.1	32.2	-9.0%	142.6	129.6	119.3	
<i>Margin</i>	<i>15.6%</i>	<i>20.3%</i>	<i>21.7%</i>		<i>19.6%</i>	<i>17.9%</i>	<i>17.7%</i>	
Biodiesel	-0.4	10.0	9.9	-104.0%	39.3	38.2	29.9	
Bioethanol	16.7	12.9	12.6	32.5%	52.4	35.6	39.1	
Other	0.2	1.1	0.1	n.m.	0.7	1.7	0.3	
EBITDA	16.5	24.0	22.6	-27.0%	92.4	75.5	69.3	50.0
<i>Margin</i>	<i>8.8%</i>	<i>13.1%</i>	<i>15.2%</i>		<i>12.7%</i>	<i>10.4%</i>	<i>10.3%</i>	
EBIT	11.0	18.2	17.1	-35.7%	70.7	53.6	47.5	
<i>Margin</i>	<i>5.9%</i>	<i>9.9%</i>	<i>11.5%</i>		<i>9.7%</i>	<i>7.4%</i>	<i>7.0%</i>	
Net Profit	10.8	13.3	22.8	-52.6%	51.5	36.8	32.4	

Source: Verbio, Matelan Research estimates

FY EBITDA meets guidance but does not reach our estimate

With an EBITDA of EUR92.4m for the full year 2016/17 Verbio met its guidance of EUR90m. Following the excellent performance of the first three quarters we were hoping for a level not too far off the EUR100m mark, which could not be reached.

Biodiesel appears to be influenced by one-offs

Looking into the performance of the different divisions, we find that in particular the Biodiesel division could not live up to our expectations. The division posted a Q4 EBITDA around the break-even point despite the fact that market trading margins were on average quite satisfying during the quarter. With biodiesel as well as rapeseed oil prices at a lower level compared to the previous quarter, we believe that two effects could have played a role here. Firstly, an early stocking of raw materials could have diluted the company's spread and provisions for a potential revaluation of inventories of the end product could additionally have left its traces. Both effects are obviously non-recurring so that last quarter's performance is not a reflection of the division's average profitability in the current market situation. Moreover, looking at Q2, we find a biodiesel result, which was extraordinarily high as it might have been boosted by exactly the opposite effects. Throughout the year, we find the biodiesel division delivering a decent performance with an EBITDA of EUR39.2m and an EBIT-margin of 8.3%.

Bioethanol displays strong performance

With an EBITDA of EUR16.7m the bioethanol division posted a record quarterly result, despite the fact that market prices were a bit lower compared to the previous quarter. Production exceeded our estimates in bioethanol as well as biomethane and company pricing in particular on the end product side appears to have been quite favourable for the company. The division thus compensated for a part of the shortfall of the biodiesel activities in the fourth quarter.

Net cash slightly below target but still way beyond EUR100m

We still see some EUR7m missing compared to our estimates on the EBITDA as well as the EBIT side. Net profit comes in around 3m lower than we had anticipated. This also has an effect on cash flow. Additionally, working capital and investments were a bit higher than we had anticipated but cash taxes somewhat lower. On balance, free cash came in at EUR57m and net cash reached EUR113m. Both figures are slightly below our estimates but

still reflecting a very strong year. A dividend payment of EUR0.2 per share is in line with our expectation.

Guidance for 2017/18 shows the usual prudence

Looking into the next financial year, management has set an EBITDA guidance of EUR50m. In view of the EUR92m reached in the past financial year this appears to be rather low. However, over the past years management has built up a reputation of starting with a rather prudent guidance into the year and raise guidance with increasing certainty. We would thus interpret this figure as a minimum level the company can achieve even in rather adverse market conditions. Moreover, we have always highlighted that the year 2016/17 is extraordinarily strong year which is not repeatable with a normalisation of market conditions. Thus, our forecast for the coming year was EUR75m, already. Underlying profitability of both divisions in the fourth quarter suggests that this is still a reasonable target, given that both markets have already normalised to some extent.

Additional imports could have negative effect on margins

However, there is also some reason for additional caution. Firstly the EU has decided to reduce duties on Argentinian biodiesel. There is thus some likelihood that subsidised Argentinian biodiesel from soy beans will come back on the European market. Within this context we might also see barriers for Indonesian biodiesel from palm oil fall. Before the introduction of the Differential Export Taxes we had seen around 2.5 million litres come from these two countries to the European market. Against this background, industry associations are currently trying to re-establish some barriers. It should also be mentioned that anti-dumping duties on bioethanol from the USA end in February 2018. Here, an extension is expected but cannot be taken for granted in view of what is currently happening on the biodiesel side.

Only slight reduction in earnings estimate

Verbio has made it clear that it expects the good margin development to continue until the third quarter in biodiesel and until the second quarter in bioethanol. There is, however, some uncertainty with regard to market pricing towards the end of the next financial year. It should also be kept in mind that raw material prices, in particular on the biodiesel side, are currently already heading south, which might compensate for some of the potential price pressure on biodiesel. Against this background, we become more cautious with regard to our estimates but the impact on 2017/18 is rather limited. Our EBITDA estimate for the current year comes down from EUR75m to EUR69m, which is still almost EUR20m above company guidance.

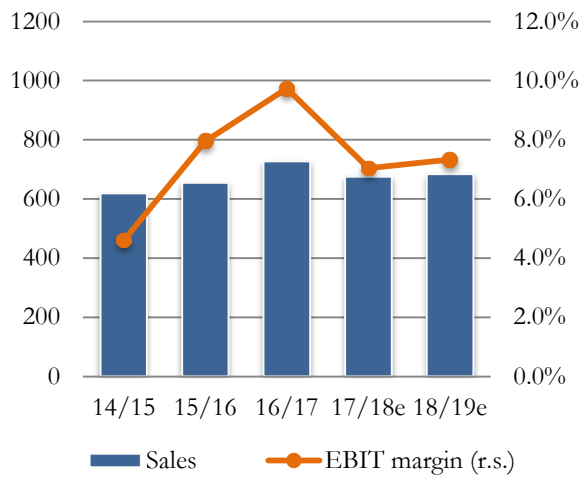
Investments stepped up

Moreover, management has made it clear that it is stepping up investments. Most importantly, a new straw-biomethane plant will be built in Pinnow and an additional sterol plant is set to double the company's capacity in this field. The company is thus prudently taking advantage of its existing growth prospects while further diversifying its business. Together with smaller optimisation projects, investments should come to EUR43.5m in the current year. Management thus guides for a reduction of net cash to EUR100m by the end of the year. We come to a slight increase to EUR120m, which is the result of our higher EBITDA estimate.

Fair Value comes to
EUR9.1

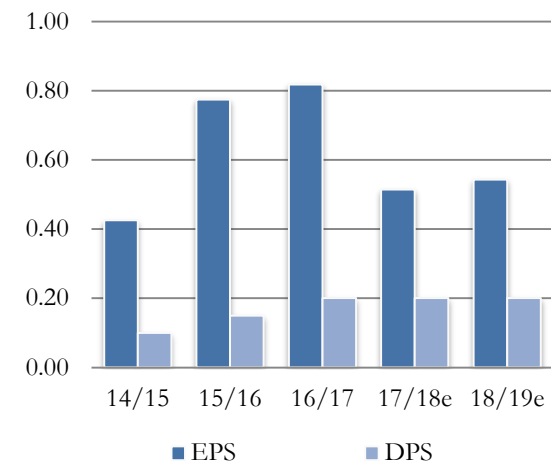
Feeding our valuation model with all the different trends leaves us with a new fair value of EUR9.1. This reduction results from the shortfall in earnings in Q4, the reduced earnings estimates for 2017/18 and beyond, the slightly higher working capital and the higher investments in 2017/18. With respect to the latter it should be mentioned that we have not yet priced in sizeable returns from the investments as they should only become visible from 2018/19 onwards and are hard to quantify. This is clearly an upside to our valuation as is a further scaling of the straw-biomethane and/or the sterol activities.

Sales and EBIT margin



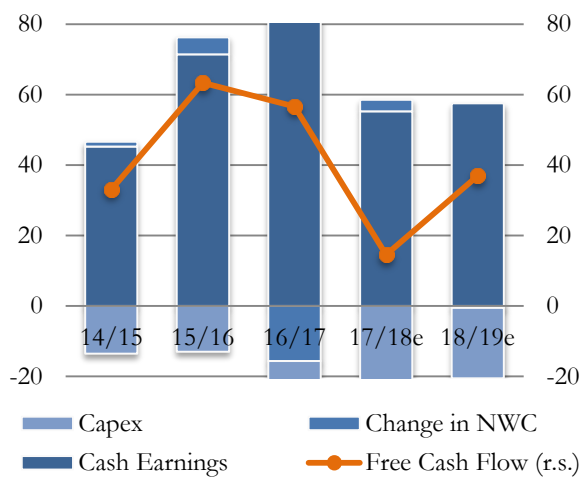
In EURm

Adj. EPS and DPS



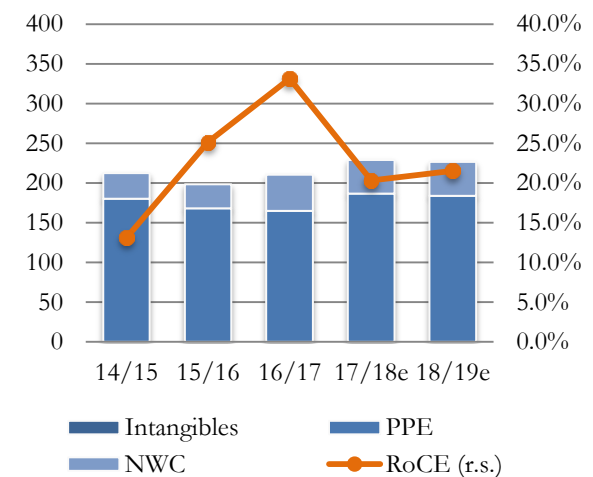
In EUR

Cash Flow



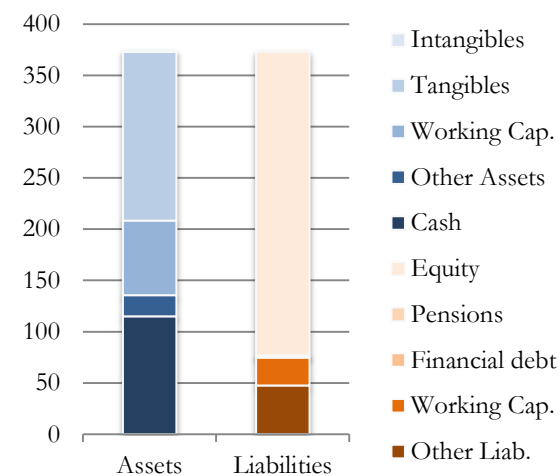
In EURm

RoCE



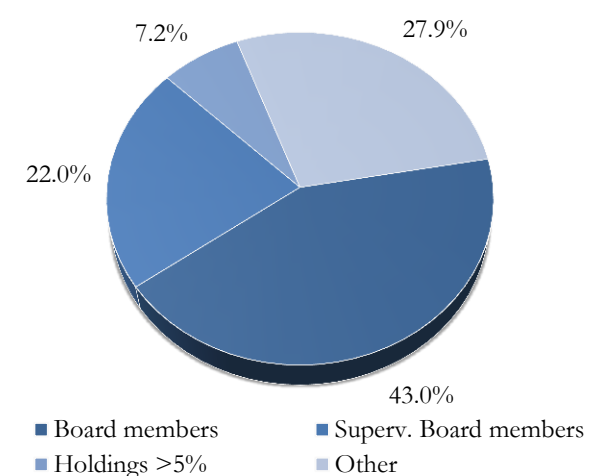
In EURm

Balance Sheet



In EURm

Shareholder structure



P & L

EURm	2014/15	2015/16	2016/17	2017/18e	2018/19e
Sales	618.5	654.3	726.4	674.9	683.1
<i>Growth</i>		5.8%	11.0%	-7.1%	1.2%
Material costs	-528.7	-538.0	-583.9	-555.6	-561.8
Gross profit	89.8	116.3	142.6	119.3	121.3
<i>Gross margin</i>	14.5%	17.8%	19.6%	17.7%	17.8%
Other operating costs	-14.0	-16.8	-21.1	-18.5	-17.5
EBITDA	50.7	73.1	92.4	69.3	72.3
<i>Margin</i>	8.2%	11.2%	12.7%	10.3%	10.6%
Depreciation	-22.2	-21.1	-21.7	-21.8	-22.2
EBIT	28.5	52.0	70.7	47.5	50.1
<i>Margin</i>	4.6%	8.0%	9.7%	7.0%	7.3%
Financial result	-3.8	-1.4	-0.1	-0.8	-0.8
EBT	24.7	50.6	70.5	46.7	49.3
Taxes	2.1	-1.7	-18.8	-14.0	-14.8
Net profit	26.9	48.9	51.8	32.7	34.5
Minorities / Discon. Op.	-0.1	-0.2	-0.3	-0.3	-0.3
Net profit a.m.	26.8	48.7	51.5	32.4	34.2
<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	0.43	0.77	0.82	0.51	0.54
Adj. EPS	0.43	0.77	0.82	0.51	0.54
<i>Growth</i>	n.m.	n.m.	n.m.	n.m.	n.m.
Dividend	0.10	0.15	0.20	0.20	0.20

Balance Sheet

EURm	2014/15	2015/16	2016/17	2017/18e	2018/19e
Intangible assets	0.1	0.2	0.2	0.2	0.2
Tangible assets	180.0	167.9	164.6	186.3	183.6
Participations	0.1	0.1	0.1	0.1	0.1
Other non-current assets	4.5	8.5	2.9	5.0	6.0
Non-current assets	184.7	176.7	167.8	191.6	189.9
Inventories	22.2	26.3	34.3	31.9	32.3
Receivables	41.4	31.6	38.5	35.8	36.2
Cash	26.7	77.5	114.7	121.0	150.0
Other current assets	21.3	10.9	17.7	19.0	20.0
Current Assets	111.6	146.3	205.3	207.7	238.5
Total assets	296.3	323.0	373.1	399.3	428.4
Equity	209.1	253.6	295.4	315.5	337.4
Minorities	0.5	0.7	1.0	1.0	1.0
Total equity	209.7	254.3	296.4	316.5	338.4
LT financial liabilities	11.6	1.5	0.6	0.6	0.6
Pension provisions	0.2	0.2	0.2	0.2	0.2
Other LT liabilities	12.9	11.2	10.3	11.0	11.5
Non-current liabilities	24.6	12.9	11.1	11.8	12.3
ST financial liabilities	7.3	10.4	1.3	1.3	1.3
Payables	31.3	27.5	27.3	25.4	25.7
Other ST liabilities	23.5	17.9	37.0	44.4	50.8
Current liabilities	62.0	55.8	65.6	71.1	77.8
Total liabilities	296.3	323.0	373.1	399.3	428.4

Cash Flow

EURm	2014/15	2015/16	2016/17	2017/18e	2018/19e
EBIT	28.5	52.0	70.7	47.5	50.1
Depreciation	22.2	21.1	21.7	21.8	22.2
Other non-cash items	-3.3	1.6	2.5	0.0	0.0
Cash taxes	-2.1	-3.2	-4.3	-14.0	-14.8
Cash earnings	45.3	71.4	90.6	55.3	57.5
Change in NWC	1.3	4.9	-15.6	3.2	-0.5
CF from operations	46.6	76.3	75.0	58.5	57.0
Capex	-13.5	-13.0	-18.4	-44.0	-20.0
Other investm./divestm.	2.8	0.8	0.0	0.5	0.5
CF from investing	-10.7	-12.2	-18.4	-43.5	-19.5
CF from fin. and other	-33.6	-13.3	-19.4	-8.7	-8.5
Change in cash	2.4	50.8	37.2	6.3	29.0

Segments and adjusted earnings

EURm	2014/15	2015/16	2016/17	2017/18e	2018/19e
Biodiesel	397.0	423.2	471.6	440.2	441.1
Bioethanol/-methan	212.9	222.1	245.2	224.9	231.7
Other	15.8	15.8	16.3	16.7	17.2
Consolidation	-7.1	-6.8	-6.6	-7.0	-7.0
Sales	618.5	654.3	726.4	674.9	683.1
<i>Growth</i>		5.8%	11.0%	-7.1%	1.2%
Biodiesel	21.7	25.3	34.6	24.9	25.8
Bioethanol/-methan	6.3	26.2	36.0	22.4	23.5
Other	0.5	0.6	0.1	0.1	0.7
Consolidation	0.0	0.0	0.0	0.0	1.0
EBIT	28.5	52.0	70.7	47.5	50.1
<i>Margin</i>	4.6%	8.0%	9.7%	7.0%	7.3%

Valuation multiples

	2014/15	2015/16	2016/17	2017/18e	2018/19e
Share price	1.90	5.63	7.97	9.23	9.23
x No of shares	63.0	63.0	63.0	63.0	63.0
Market Capitalisation	119.7	354.7	502.1	581.5	581.5
+ Net financial debt	-7.8	-65.6	-112.8	-119.1	-148.1
+ Pension provision	0.2	0.2	0.2	0.2	0.2
+ Minorities	0.5	0.7	1.0	1.0	1.0
- Participations	-0.1	-0.1	-0.1	-0.1	-0.1
Enterprise Value	112.5	289.9	390.4	463.5	434.5
Sales	618.5	654.3	726.4	674.9	683.1
Adj. EBITDA	50.7	73.1	92.4	69.3	72.3
Adj. EBIT	28.5	52.0	70.7	47.5	50.1
Adj. Net profit a.m.	26.8	48.7	51.5	32.4	34.2
EV / Sales	0.2	0.4	0.5	0.7	0.6
EV / EBITDA	2.2	4.0	4.2	6.7	6.0
EV / EBIT	3.9	5.6	5.5	9.8	8.7
PE	4.5	7.3	9.7	18.0	17.0

Key operational indicators

	2014/15	2015/16	2016/17	2017/18e	2018/19e
Equity ratio	70.8%	78.7%	79.4%	79.3%	79.0%
Gearing	0.1	0.0	0.0	0.0	0.0
Asset turnover	3.3	3.7	4.3	3.5	3.6
NWC / sales	5.2%	4.6%	6.3%	6.3%	6.3%
Payable days outst.	18.4	15.4	13.7	13.7	13.7
Receivable days outst.	24.4	17.6	19.3	19.3	19.3
Fix operating assets	184.7	176.7	167.8	191.6	189.9
NWC	32.4	30.3	45.5	42.3	42.8
Capital employed	217.0	207.0	213.3	233.9	232.7
RoE	12.8%	19.2%	17.5%	10.3%	10.2%
RoA	9.6%	16.1%	18.9%	11.9%	11.7%
RoCE	13.1%	25.1%	33.1%	20.3%	21.5%
Gross margin	14.5%	17.8%	19.6%	17.7%	17.8%
EBITDA margin	8.2%	11.2%	12.7%	10.3%	10.6%
EBIT margin	4.6%	8.0%	9.7%	7.0%	7.3%
Net profit margin	4.3%	7.4%	7.1%	4.8%	5.0%

Source: Verbio, Matelan Research

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Buy:	45.5%
Neutral:	45.5%
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
29/03/16	Neutral
05/02/15	Buy
10/02/12	Neutral

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