

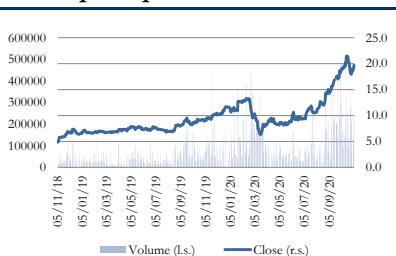
05 November 2020

Price as of 04/11/20: €19.68

Company / Sector	Fair Value	Recommendation
Verbio	€21.4	Buy
Energy: Biofuels	(€20.5)	(unchanged)

New financial year starts with record earnings

Share price performance



Share data

Reuters	VBKG.DE
No. of shares (m)	63.0
Daily volume (3m)	166,447
Free float	28.1%
Market cap. (m)	1,239.8
EV (m)	1,197.9
Sales 16/17-20/21e	9.5%

Valuation	20/21e	21/22e
EV/Sales	1.3	1.2
EV/ EBITDA	9.0	8.4
EV/EBIT	11.5	10.7
PER	17.3	16.4
Div. yield	1.1%	1.3%
RoCE	25.3%	24.3%
RoE	15.9%	14.8%

Analysts

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Investment case

Q1 reporting shows that Verbio has even topped our high estimates. This is some cushion for the price decline which the company might have to face in Q2. Thus, full year earnings estimates can be confirmed, as was company guidance. The company's valuation benefits from lower net working capital requirements. We thus still find some upside despite the strong performance of the share. Against this background we stick to our BUY rating on the stock.

➤ STRONG START INTO THE NEW YEAR

With EUR53.3m, Verbio sets a new record in quarterly EBITDA, thereby outperforming our estimate of EUR50.1m. While biodiesel came in slightly below our estimate, bioethanol was clearly ahead. Based on the strong operational performance, the company's net cash position roughly doubled to EUR87m.

➤ FULL YEAR ESTIMATES CONFIRMED

Better than expected Q1 earnings should compensate for stronger than anticipated price declines in Q2 and with pricing coming back to normal in H2, we need to make only minor adjustments to our full year estimates, which remain just ahead of company guidance. With expansion in progress, we also confirm our estimates for subsequent years.

➤ VALUATION INCREASES FURTHER

The balance sheet shows lower net working capital needs despite the reported growth. As a consequence, we lower the net working capital assumption in our valuation model, which leads to an increase in our fair value to EUR21.5. This still leaves a decent upside despite the recent run in the share price.

For additional disclosures please refer to the appendix

Forecasts	17/18	18/19	19/20	20/21e	21/22e
Sales (€m)	685.9	779.3	872.4	939.5	985.2
EBITDA (€m)	44.8	95.1	122.1	132.4	140.3
EBIT (€m)	22.4	73.7	91.9	104.4	110.3
Adj. EPS (€)	0.24	0.84	1.01	1.13	1.20
Dividend (€)	0.20	0.20	0.20	0.22	0.25
Oper. CF (€m)	11.1	44.3	71.7	104.1	102.9
Free CF (€m)	-14.1	-18.7	3.7	19.1	37.9

Q1 20/21 review

EURm	Q1 20/21	Q1 20/21e	Q1 19/20	Change	FY 19/20	FY 20/21e old	FY 20/21 new	Guidance 20/21
Biodiesel	173.0	147.1	140.5	23.1%	588.2	588.9	612.2	
Bioethanol	86.2	88.9	66.9	28.8%	275.2	321.6	317.2	
Other	2.2	4.4	2.7	-18.5%	9.0	10.2	10.2	
Sales	261.4	240.4	210.1	24.4%	872.4	920.7	939.5	
Gross profit	72.2	70.7	40.9	76.5%	198.9	215.0	214.4	
Margin	27.6%	29.4%	19.5%		22.8%	23.4%	22.8%	
Biodiesel	13.6	14.8	13.6	0.0%	46.1	52.9	50.2	
Bioethanol	38.8	34.6	9.6	304.2%	74.0	79.2	81.3	
Other	0.9	0.7	0.6	n.m.	2.0	0.9	0.9	
EBITDA	53.3	50.1	23.8	123.9%	122.1	133.0	132.4	130.0
Margin	20.4%	20.8%	11.3%		14.0%	14.4%	14.1%	
EBIT	45.6	42.3	17.6	159.1%	91.9	105.0	104.4	
Margin	17.4%	17.6%	8.4%		10.5%	11.4%	11.1%	
Net Profit a.m.	31.6	29.2	12.9	145.0%	63.4	71.9	71.5	

Source: Verbio, Matelan Research estimates

Strong start into the new financial year

In our latest note, we had highlighted that we expect the new financial year to start with a new high in quarterly EBITDA of EUR50m. This was based on the good pricing situation in particular for biomethane and CO₂ reductions. With an EBITDA of EUR53.3m, the company now beat this estimate.

Biodiesel shows higher than expected sales - profitability is roughly in line

In biodiesel, a production of 154,888 tonnes came in well ahead of our estimate of 145,000 tonnes. We would attribute this to an increase in production in Canada, which should have already come to around 90%, according to our calculations. In addition, trading must have been higher than we thought, which explains the relatively high difference between reported and estimated sales in the division. As both, Canada and trading volumes do not contribute significantly to earnings, the company comes in roughly in line with our estimate on the EBITDA level. In fact, the company is EUR1m behind our estimate but EUR13.6m is still a very solid result regarding the market situation in the quarter.

Bioethanol more than delivering on high expectations

In bioethanol, we find marginally lower than expected sales but EBITDA comes in slightly better than our forecast. A divisional EBITDA of EUR38.8m is an outstanding result, reflecting the exceptionally strong pricing for bioethanol in the quarter.

Net cash position doubled

On group level, EBITDA came in EUR3m higher than we had anticipated and this difference is kept on EBIT and net profit level. Based on the high EBITDA generation in the quarter, Verbio has produced an operating cash flow of EUR56m. This was supported by a significant reduction in net working capital. After spending EUR11m in capex, the company generated a free cash flow of EUR45m. Thereby, the company's net cash position more than doubled to EUR87m during the quarter.

Q2 should come in weaker, improved pricing expected for H2

While the first quarter presented a very strong start into the year, it should be taken into consideration that the start of the second quarter shows some price declines. While this effect is still moderate in biodiesel, bioethanol is not only off its extraordinary highs, with EUR500/m³ we are even back to the lower end of the normal range. It should thus be clear that Q1 earnings will not be repeated in Q2. We are more likely to look at around half the EBITDA amount on group level, according to our estimates. Forward prices for ethanol indicate a return to more normal levels in H2 so that we should

come back to normalised earnings levels. It should be kept in mind that these should be higher compared to last year as profit drivers such as the turnaround in Canada, a higher sterol production, and the increase in biomethane production are still in place.

Full year EBITDA estimate maintained slightly ahead of guidance

Thus, we make on marginal changes with regard to our full year estimates. We had always highlighted that our FY estimates are based on a normalisation of earnings after a very strong Q1. Now we are up on our estimates in Q1 and become a bit more prudent for Q2. In biodiesel, we reflect the additional sales but become a bit more prudent on the earnings side to the marginally lower than expected earnings in Q1 and recent decline in prices. The bioethanol division is already up on our estimates in Q1 but we become a more prudent for Q2. On group level, this leaves our EBITDA estimate slightly ahead of the company's guidance of EUR130m, which management has reiterated with the release of Q1 results.

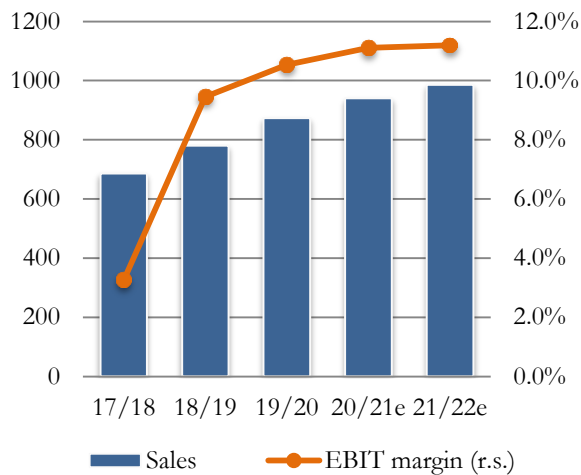
Expansion on track

The targeted expansion is running according to plan. Further progress, in particular with regard to the two biomethane plants the US and India, which are expected to be finished within the current financial year, has been made during the quarter. This supports our growth scenario for the following year, which we leave unchanged.

Slight increase in valuation

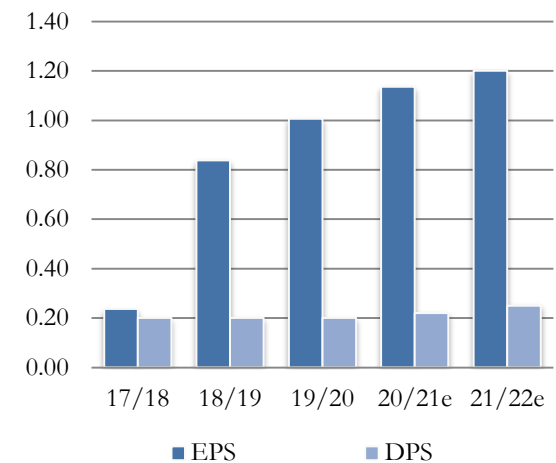
While we make only marginal changes to our earnings forecasts, we reflect the company's improved net working capital balance in our valuation model. This yields a slight increase in our fair value to EUR21.5, which still leaves some upside even after the strong run in share price in recent months.

Sales and EBIT margin



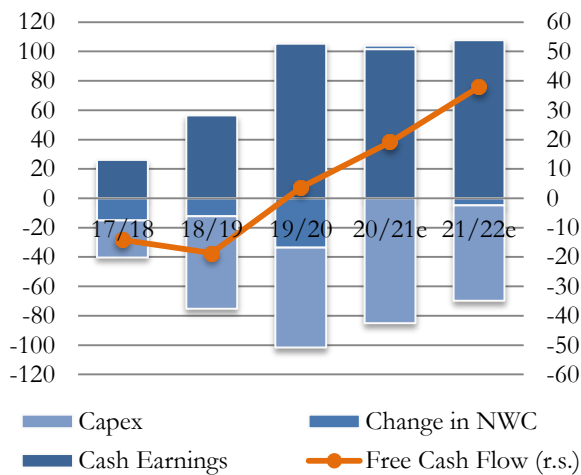
In EURm

Adj. EPS and DPS



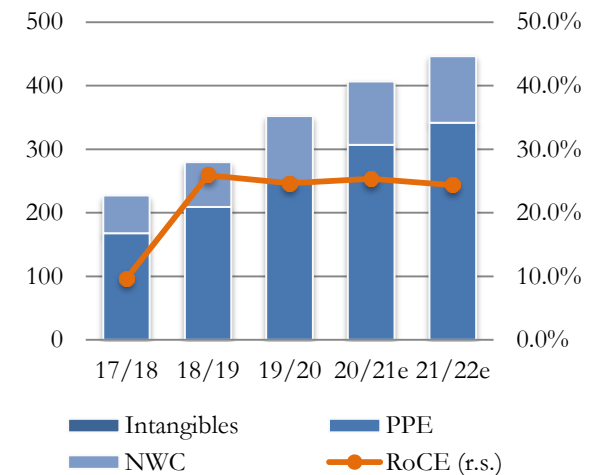
In EUR

Cash Flow



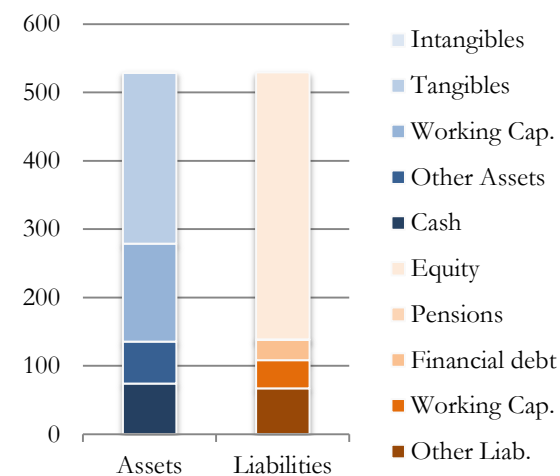
In EURm

RoCE



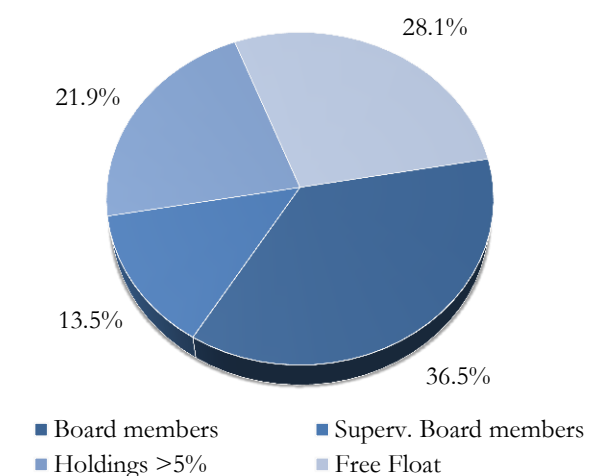
In EURm

Balance Sheet



In EURm

Shareholder structure



P & L

EURm	2017/18	2018/19	2019/20	2020/21e	2021/22e
Sales	685.9	779.3	872.4	939.5	985.2
<i>Growth</i>		13.6%	11.9%	7.7%	4.9%
Material costs	-591.0	-618.4	-673.5	-725.1	-765.1
Gross profit	94.9	160.9	198.9	214.4	220.1
<i>Gross margin</i>	13.8%	20.7%	22.8%	22.8%	22.3%
Other operating costs	-23.4	-28.6	-31.9	-37.0	-35.8
EBITDA	44.8	95.1	122.1	132.4	140.3
<i>Margin</i>	6.5%	12.2%	14.0%	14.1%	14.2%
Depreciation	-22.4	-21.4	-30.2	-28.0	-30.0
EBIT	22.4	73.7	91.9	104.4	110.3
<i>Margin</i>	3.3%	9.5%	10.5%	11.1%	11.2%
Financial result	-0.2	-0.6	-0.9	-2.0	-2.0
EBT	22.2	73.1	91.0	102.4	108.3
Taxes	-7.1	-21.4	-27.2	-30.7	-32.5
Net profit	15.1	51.7	63.8	71.7	75.8
Minorities / Discon. Op.	-0.2	1.1	-0.4	-0.2	-0.2
Net profit a.m.	14.9	52.8	63.4	71.5	75.6
<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	0.24	0.84	1.01	1.13	1.20
Adj. EPS	0.24	0.84	1.01	1.13	1.20
<i>Growth</i>	n.m.	n.m.	n.m.	n.m.	n.m.
Dividend	0.20	0.20	0.20	0.22	0.25

Cash Flow

EURm	2017/18	2018/19	2019/20	2020/21e	2021/22e
EBIT	22.4	73.7	91.9	104.4	110.3
Depreciation	22.4	21.4	30.2	28.0	30.0
Other non-cash items	-5.1	-13.4	-3.2	0.0	0.0
Cash taxes	-13.6	-25.2	-13.5	-30.7	-32.5
Cash earnings	26.1	56.5	105.3	101.7	107.8
Change in NWC	-15.0	-12.2	-33.7	2.4	-4.9
CF from operations	11.1	44.3	71.7	104.1	102.9
Capex	-25.2	-63.0	-68.0	-85.0	-65.0
Other investm./divestm.	2.1	2.0	0.3	0.0	0.0
CF from investing	-23.1	-61.0	-67.7	-85.0	-65.0
CF from fin. and other	-14.2	-8.8	6.8	-13.9	-15.9
Change in cash	-26.2	-25.5	10.8	5.2	22.0

Valuation multiples

	2017/18	2018/19	2019/20	2020/21e	2021/22e
Share price	7.28	6.56	9.35	19.68	19.68
x No of shares	63.0	63.0	63.0	63.0	63.0
Market Capitalisation	458.6	413.3	589.1	1,239.8	1,239.8
+ Net financial debt	-88.2	-53.0	-43.6	-48.8	-70.8
+ Pension provision	0.2	0.2	0.1	0.2	0.2
+ Minorities	1.2	-0.3	1.7	1.8	1.9
- Participations	-0.1	-0.1	-2.8	-2.8	-2.8
Enterprise Value	371.8	360.0	544.4	1,190.2	1,168.3
Sales	685.9	779.3	872.4	939.5	985.2
Adj. EBITDA	44.8	95.1	122.1	132.4	140.3
Adj. EBIT	22.4	73.7	91.9	104.4	110.3
Adj. Net profit a.m.	14.9	52.8	63.4	71.5	75.6
EV / Sales	0.5	0.5	0.6	1.3	1.2
EV / EBITDA	8.3	3.8	4.5	9.0	8.3
EV / EBIT	16.6	4.9	5.9	11.4	10.6
PE	30.7	7.8	9.3	17.3	16.4

Source: Verbio, Matelan Research

Balance Sheet

EURm	2017/18	2018/19	2019/20	2020/21e	2021/22e
Intangible assets	0.3	0.9	0.7	0.7	0.7
Tangible assets	168.0	209.3	249.8	306.8	341.8
Participations	0.1	0.1	2.8	2.8	2.8
Other non-current assets	3.4	3.9	20.5	4.8	5.8
Non-current assets	171.7	214.2	273.8	315.0	351.0
Inventories	45.2	63.1	78.8	84.9	89.0
Receivables	45.2	48.5	64.7	59.4	62.3
Cash	88.6	63.1	73.9	79.1	101.1
Other current assets	15.3	36.1	38.1	38.0	38.0
Current Assets	194.2	210.8	255.4	261.4	290.4
Total assets	366.0	424.9	529.2	576.4	641.4
Equity	299.0	339.2	389.1	448.2	510.2
Minorities	1.2	-0.3	1.7	1.8	1.9
Total equity	300.2	338.9	390.8	450.0	512.1
LT financial liabilities	0.0	0.1	30.1	30.1	30.1
Pension provisions	0.2	0.2	0.1	0.2	0.2
Other LT liabilities	7.5	6.9	19.1	7.5	7.5
Non-current liabilities	7.7	7.1	49.3	37.8	37.8
ST financial liabilities	0.4	10.0	0.1	0.1	0.1
Payables	31.2	41.3	41.1	44.3	46.4
Other ST liabilities	26.5	27.6	47.8	44.1	45.0
Current liabilities	58.1	78.9	89.1	88.5	91.5
Total liabilities	366.0	424.9	529.2	576.4	641.4

Segments and adjusted earnings

EURm	2017/18	2018/19	2019/20	2020/21e	2021/22e
Biodiesel	456.8	514.5	588.2	612.2	665.9
Bioethanol/-methan	219.1	254.7	275.2	317.2	308.1
Other	15.7	16.7	16.2	16.2	17.2
Consolidation	-5.7	-6.6	-7.2	-6.0	-6.0
Sales	685.9	779.3	872.4	939.5	985.2
<i>Growth</i>		13.6%	11.9%	7.7%	4.9%
Biodiesel	24.5	70.7	46.1	50.2	63.0
Bioethanol/-methan	19.9	23.8	74.0	81.3	77.2
Other	0.4	0.6	2.0	0.9	0.1
Consolidation	0.0	0.0	0.0	0.0	0.0
EBITDA	44.8	95.1	122.1	132.4	140.3
<i>Margin</i>	6.5%	12.2%	14.0%	14.1%	14.2%

Key operational indicators

	2017/18	2018/19	2019/20	2020/21e	2021/22e
Equity ratio	82.0%	79.8%	73.9%	78.1%	79.8%
Gearing	0.0	0.0	0.1	0.1	0.1
Asset turnover	4.0	3.6	3.2	3.0	2.8
NWC / sales	8.6%	9.0%	11.7%	10.6%	10.6%
Payable days outst.	16.6	19.4	17.2	17.2	17.2
Receivable days outst.	24.1	22.7	27.1	23.1	23.1
Fix operating assets	171.7	214.1	270.9	312.2	348.2
NWC	59.2	70.3	102.4	100.0	104.8
Capital employed	230.9	284.4	373.3	412.2	453.1
RoE	5.0%	15.3%	16.3%	15.9%	14.8%
RoA	6.1%	17.3%	17.4%	18.1%	17.2%
RoCE	9.7%	25.9%	24.6%	25.3%	24.3%
Gross margin	13.8%	20.7%	22.8%	22.8%	22.3%
EBITDA margin	6.5%	12.2%	14.0%	14.1%	14.2%
EBIT margin	3.3%	9.5%	10.5%	11.1%	11.2%
Net profit margin	2.2%	6.8%	7.3%	7.6%	7.7%

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Reduce:	In the next 6 to 12 months, we expect a potential absolute negative change in value of up to -10%.
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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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