

06 November 2015

Price as of 05/05/15: €5.02

Company / Sector	Fair Value	Recommendation
Verbio	€5.9	Buy
Energy: Biofuels	(€5.5)	(unchanged)

Story remains in full swing

Share price performance



Share data

Reuters	VBKG.DE
No. of shares (m)	63.00
Daily volume (3m)	105,917
Free float	28.4%
Market cap. (m)	316.3
EV (m)	276.9
Sales 13-17e	-2.6%

Valuation	2015e	2016e
EV/Sales	0.4	0.4
EV/ EBITDA	4.6	4.1
EV/EBIT	7.7	6.5
PER	10.4	10.0
Div. yield	2.4%	3.0%
RoCE	18.2%	20.4%
RoE	13.0%	12.3%

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Investment case

Q1 results came in slightly ahead of expectations and we are now looking at a further jump in profitability in the second quarter. Against this background we have raised our full year estimates. This leads to an increase in our fair value to EUR5.9. Following yesterday's profit taking, we are now looking at an upside of 18% again. The current share price thus appears to be an interesting entry level again and we clearly reiterate our Buy rating on the stock.

➤ Q1 AHEAD OF EXPECTATIONS

Q1 showed a better than anticipated profitability in both, biodiesel as well as bioethanol. Group EBIT thus came in 5% ahead of our forecast, which fed through to the bottom line. Free cash flow of EUR6m was held back somewhat by a built-up of working capital and capex but further upped the company's net cash position. We expect an increase in free cash flow in the coming quarters.

➤ Q2 LOOKS EVEN MORE PROMISING

Though showing progress, results in the bioethanol division were subdued by maintenance work and early hedges. With both factors not recurring and prices even tending upwards, we are looking at a further jump in the division's profitability in the second quarter.

➤ INCREASE IN ESTIMATES AND FAIR VALUE

We have reflected better Q1 results and the promising Q2 outlook in our full year estimates while remaining conservative for the second half of the year. This leaves us with an EBITDA estimate of EUR60m, while management still guides for an extremely prudent EUR50m. Our new estimates lead to an increase in our fair value to EUR5.9.

For additional disclosures please refer to the appendix

Forecasts	12/13	13/14	14/15	15/16e	16/17e
Sales (€m)	705.2	733.8	618.5	623.2	633.7
EBITDA (€m)	3.6	36.2	50.7	60.2	59.2
EBIT (€m)	-122.3	10.9	28.5	36.2	37.2
Adj. EPS (€)	-0.80	0.08	0.43	0.48	0.50
Dividend (€)	0.00	0.00	0.10	0.12	0.15
Oper. CF (€m)	-19.5	76.4	46.6	52.8	52.3
Free CF (€m)	-55.9	68.9	33.1	43.3	47.3

Q3 review and change in estimates

EURm	Q1 15/16	Q1 15/16e	Q1 14/15	Change	FY 14/15	FY 15/16e old	FY 2015/16e new
Biodiesel	103.9	102.9	100.8	3.0%	397.0	403.1	403.1
Bioethanol	50.0	58.7	59.2	-15.6%	212.9	219.8	217.1
Other	2.0	1.0	2.1	-5.4%	8.6	3.0	3.0
Sales	155.9	162.6	162.1	-3.9%	618.5	625.9	623.2
EBITDA	14.6	15.0	14.1	3.5%	50.7	56.7	60.2
<i>Margin</i>	<i>9.4%</i>	<i>9.2%</i>	<i>8.7%</i>		<i>8.2%</i>	<i>9.1%</i>	<i>9.7%</i>
Biodiesel	6.0	5.7	5.4	10.6%	21.7	22.6	22.6
<i>Margin</i>	<i>5.8%</i>	<i>5.5%</i>	<i>5.4%</i>		<i>5.5%</i>	<i>5.6%</i>	<i>5.6%</i>
Bioethanol	3.2	3.2	3.0	6.4%	6.3	9.4	12.9
<i>Margin</i>	<i>6.4%</i>	<i>5.5%</i>	<i>5.1%</i>		<i>3.0%</i>	<i>4.3%</i>	<i>5.9%</i>
Other	0.2	0.1	0.1	n.m.	0.5	0.7	0.6
EBIT	9.4	9.0	8.5	10.5%	28.5	32.7	36.2
<i>Margin</i>	<i>6.0%</i>	<i>5.5%</i>	<i>5.3%</i>		<i>4.6%</i>	<i>5.2%</i>	<i>5.8%</i>
Net Profit	7.9	7.6	7.2	9.4%	26.8	27.3	30.4

Source: Verbio, Matelan Research

Q1 shows higher than expected profitability

Q1 figures came in slightly ahead of expectations. Though sales and EBITDA were slightly below our forecasts, EBIT and net profit came in higher. Biodiesel as well as bioethanol showed higher margins than we had assumed. Biodiesel delivered sales in line and a higher than expected EBIT, while bioethanol matched our EBIT expectation on lower than anticipated sales. Group EBIT margin thus reached 6.0%, with biodiesel moving up to 5.8% and bioethanol even reaching 6.4%.

Biodiesel runs smoothly

The biodiesel division appears to run smoothly, with utilisation being raised to 98.9% at a production spread of around EUR100/t. The improved EBIT margin mainly is a result of a slightly higher spread compared to last year. Though the first quarter is slightly ahead of expectations, we keep our full year estimates constant. Obviously, we are now looking at a slightly more conservative FY estimate.

Bioethanol segment improves – underlying results shine

The bioethanol division (including biomethane) also showed good progress. However, looking into the details, we find an even brighter picture. Firstly, a planned maintenance standstill in the Schwedt facility affected production, which only came to 58.5 thousand tonnes, a decline of -8.8% compared to last year's period. We expect that the maintenance work has negatively affected operating earnings by roughly EUR1m. Moreover, the company had tried to lock in margins at a rather early stage with hedges. According to management, this hedging has cost the company between EUR4m and EUR6m. We would thus be looking at some EUR9m in operating earnings from the ethanol division if the company had a normal production and had fully benefitted from the current price environment. This would yield an EBIT margin somewhere north of 14% for the division, which would have more than matched CropEnergies' adjusted EBIT margin of 13.5% in the June-August period.

Increase in estimates based on positive outlook for Q2

Management claims that it is no longer hedged and prices are currently even tending upwards. There is also no further maintenance scheduled so that the prospects for the ethanol division for second quarter (September-December) are very promising. On the other hand, it should be highlighted that ethanol futures are tending downwards when looking beyond the second quarter. It

might thus be fair to be somewhat cautious for the remainder of the year. Still, the positive outlook for Q2 allows us to raise our full year estimates without getting less conservative for the remainder of the year.

Guidance appears even more conservative

While management has reiterated its guidance of EUR50m in EBITDA and EUR38m in net cash, we have become more optimistic. We had already estimated EBITDA to come to EUR56.7m and raise this now further to EUR60.2m, a level we still feel very comfortable with. Below the EBITDA line, Q1 results were in line with our estimates and we have made no further changes. The increase in EBITDA estimate thus feeds through to the bottom line.

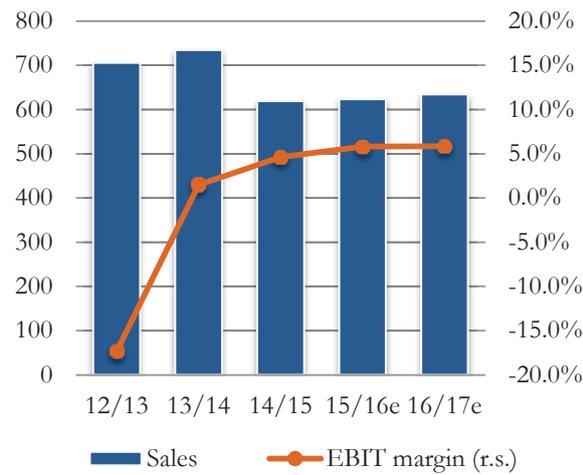
Free cash flow of EUR6m drives net cash position further north and should increase in the coming quarters

Apart from the earnings development we did not find much striking news in the release of Q1 accounts. The only mentionable point was that the free cash flow of EUR6m was a bit behind our expectation. Though cash earnings were stronger than anticipated, we saw some increase in working capital and rather high capex. However, we expect working capital to normalise over the course of the year and capex should come down in the coming quarters. In fact, management has reiterated its capex guidance for the full year and we have not made any changes, here. Net cash increased to EUR14m over the quarter and the company remains on track to beat its own target of EUR38m in net cash for the end of the financial year.

New fair value leaves 18% upside again

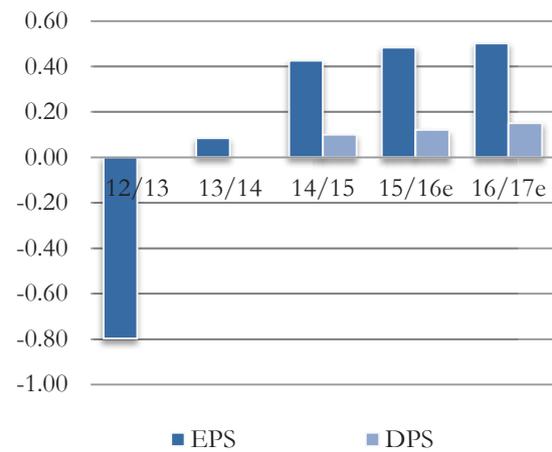
Our revised estimates lead to an increase in our fair value to EUR5.9. Based on yesterday's share price of EUR5.0, we are back to an upside of 18%. Against this background we clearly reiterate our Buy recommendation. Our fair value is determined on a DCF basis with key variables being a 5.0% terminal value EBIT-margin and an 11.3% terminal value WACC. Risks to our valuation include dramatic changes in the current price structure and major shifts in the regulatory environment.

Sales and EBIT margin



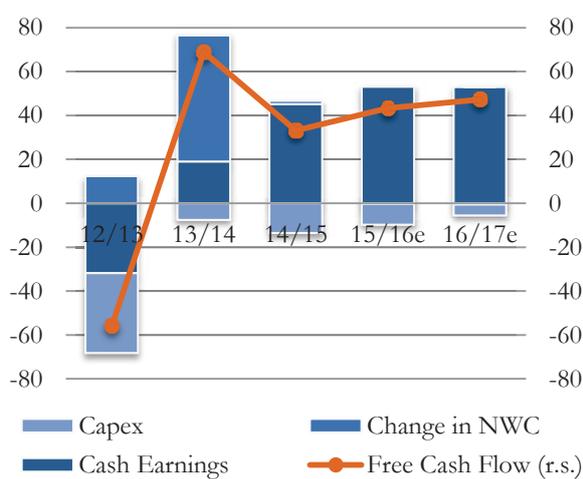
In EURm

Adj. EPS and DPS



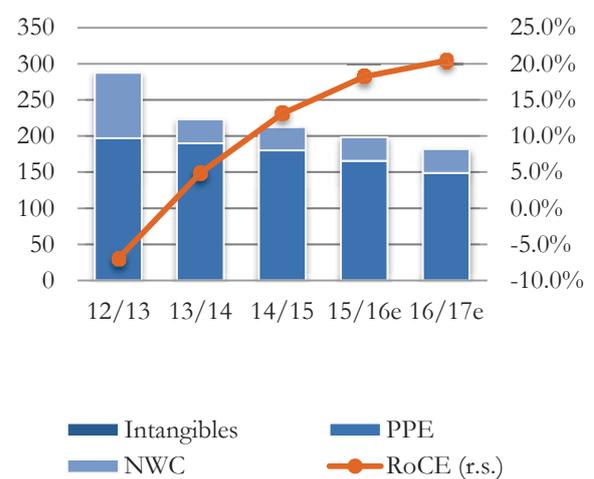
In EUR

Cash Flow



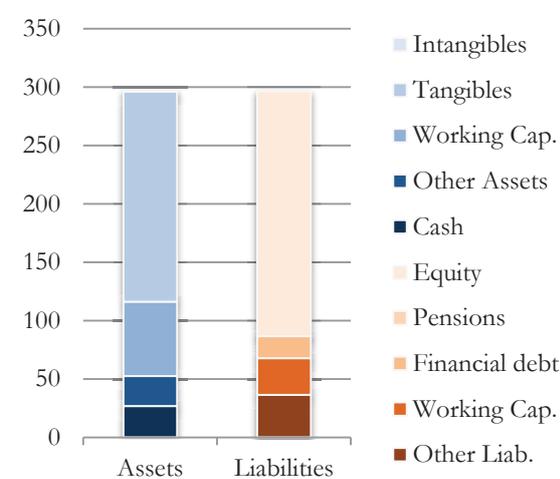
In EURm

RoCE



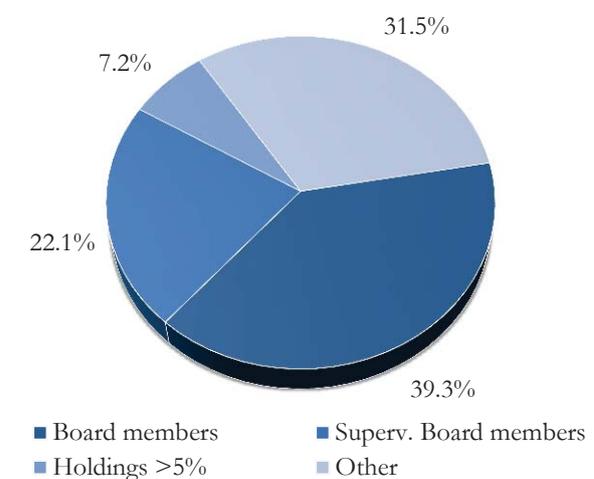
In EURm

Balance Sheet



In EURm

Shareholder structure



P & L

EURm	2012/13	2013/14	2014/15	2015/16e	2016/17e
Sales	705.2	733.8	618.5	623.2	633.7
<i>Growth</i>	<i>n.m.</i>	<i>4.0%</i>	<i>-15.7%</i>	<i>0.8%</i>	<i>1.7%</i>
Material costs	-653.7	-661.2	-528.7	-523.1	-533.5
Gross profit	51.6	72.6	89.8	100.2	100.2
<i>Gross margin</i>	<i>7.3%</i>	<i>9.9%</i>	<i>14.5%</i>	<i>16.1%</i>	<i>15.8%</i>
Other operating costs	-24.6	-13.4	-14.0	-14.5	-15.0
EBITDA	3.6	36.2	50.7	60.2	59.2
<i>Margin</i>	<i>0.5%</i>	<i>4.9%</i>	<i>8.2%</i>	<i>9.7%</i>	<i>9.3%</i>
Depreciation	-125.8	-25.3	-22.2	-24.0	-22.0
EBIT	-122.3	10.9	28.5	36.2	37.2
<i>Margin</i>	<i>n.m.</i>	<i>1.5%</i>	<i>4.6%</i>	<i>5.8%</i>	<i>5.9%</i>
Financial result	-4.2	-4.0	-3.8	-1.4	-0.8
EBT	-126.5	6.9	24.7	34.7	36.0
Taxes	0.6	-1.4	2.1	-4.2	-4.3
Net profit	-125.9	5.4	26.9	30.5	31.7
Minorities / Discon. Op.	-26.6	-0.2	-0.1	-0.1	-0.1
Net profit a.m.	-152.5	5.3	26.8	30.4	31.6
<i>Growth</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>
No of shares	63.0	63.0	63.0	63.0	63.0
EPS	-2.42	0.08	0.43	0.48	0.50
Adj. EPS	-0.80	0.08	0.43	0.48	0.50
<i>Growth</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>
Dividend	0.00	0.00	0.10	0.12	0.15

Balance Sheet

EURm	2012/13	2013/14	2014/15	2015/16e	2016/17e
Intangible assets	0.3	0.2	0.1	0.1	0.1
Tangible assets	196.7	189.6	180.0	165.5	148.5
Participations	0.1	0.1	0.1	0.1	0.1
Other non-current assets	0.1	0.1	4.5	0.1	0.1
Non-current assets	197.1	190.0	184.7	165.8	148.8
Inventories	64.1	30.2	22.2	22.4	22.7
Receivables	66.2	33.9	41.4	41.7	42.4
Cash	17.7	24.3	26.7	59.0	96.0
Other current assets	65.4	24.3	21.3	24.9	24.9
Current Assets	213.3	112.7	111.6	148.0	186.1
Total assets	410.4	302.7	296.3	313.9	334.9
Equity	177.6	183.1	209.1	233.3	257.5
Minorities	0.7	0.5	0.5	0.7	0.7
Total equity	178.3	183.5	209.7	234.0	258.2
LT financial liabilities	31.1	22.3	11.6	11.6	11.6
Pension provisions	0.2	0.2	0.2	0.2	0.2
Other LT liabilities	12.7	12.9	12.9	12.0	12.5
Non-current liabilities	43.9	35.4	24.6	23.8	24.3
ST financial liabilities	113.2	30.0	7.3	7.3	7.3
Payables	39.6	30.7	31.3	31.5	32.0
Other ST liabilities	35.4	23.0	23.5	17.3	13.2
Current liabilities	188.2	83.7	62.0	56.1	52.5
Total liabilities	410.4	302.7	296.3	313.9	334.9

Cash Flow

EURm	2012/13	2013/14	2014/15	2015/16e	2016/17e
EBIT	-122.3	10.9	28.5	36.2	37.2
Depreciation	125.8	25.3	22.2	24.0	22.0
Other non-cash items	-34.7	-19.3	-3.3	-3.0	-2.0
Cash taxes	-0.7	2.1	-2.1	-4.2	-4.3
Cash earnings	-31.9	19.1	45.3	53.0	52.8
Change in NWC	12.4	57.3	1.3	-0.2	-0.5
CF from operations	-19.5	76.4	46.6	52.8	52.3
Capex	-36.4	-7.5	-13.5	-9.5	-5.0
Other investm./divestm.	7.4	28.7	2.8	0.0	0.0
CF from investing	-29.0	21.2	-10.7	-9.5	-5.0
CF from fin. and other	25.4	-91.0	-33.6	-10.9	-10.3
Change in cash	-23.0	6.6	2.4	32.3	37.0

Segments and adjusted earnings

EURm	2012/13	2013/14	2014/15	2015/16e	2016/17e
Biodiesel	421.7	458.2	397.0	403.1	405.7
Bioethanol/-methan	258.3	257.8	212.9	217.1	225.1
Other	33.5	48.4	15.8	10.0	10.3
Consolidation	-8.3	-30.6	-7.1	-7.0	-7.5
Sales	705.2	733.8	618.5	623.2	633.7
<i>Growth</i>	<i>n.m.</i>	<i>4.0%</i>	<i>-15.7%</i>	<i>0.8%</i>	<i>1.7%</i>
Biodiesel	-87.0	17.3	21.7	22.6	23.1
Bioethanol/-methan	-33.9	-1.2	6.3	12.9	13.4
Other	-1.4	-0.6	0.5	0.6	0.7
Consolidation	0.0	-4.7	0.0	0.0	0.0
EBIT	-122.3	10.9	28.5	36.2	37.2
<i>Margin</i>	<i>n.m.</i>	<i>1.5%</i>	<i>4.6%</i>	<i>5.8%</i>	<i>5.9%</i>

Valuation multiples

	2012/13	2013/14	2014/15	2015/16e	2016/17e
Share price	1.48	1.53	1.90	5.02	5.02
x No of shares	63.0	63.0	63.0	63.0	63.0
Market Capitalisation	93.2	96.4	119.7	316.3	316.3
+ Net financial debt	126.6	28.1	-7.8	-40.2	-77.2
+ Pension provision	0.2	0.2	0.2	0.2	0.2
+ Minorities	0.7	0.5	0.5	0.7	0.7
- Participations	-0.1	-0.1	-0.1	-0.1	-0.1
Enterprise Value	220.6	125.0	112.5	276.9	239.9
Sales	705.2	733.8	618.5	623.2	633.7
Adj. EBITDA	3.6	36.2	50.7	60.2	59.2
Adj. EBIT	-20.0	10.9	28.5	36.2	37.2
Adj. Net profit a.m.	-50.2	5.3	26.8	30.4	31.6
EV / Sales	0.3	0.2	0.2	0.4	0.4
EV / EBITDA	62.0	3.5	2.2	4.6	4.1
EV / EBIT	n.m.	11.5	3.9	7.7	6.5
PE	n.m.	18.3	4.5	10.4	10.0

Key operational indicators

	2012/13	2013/14	2014/15	2015/16e	2016/17e
Equity ratio	43.4%	60.6%	70.8%	74.6%	77.1%
Gearing	0.8	0.3	0.1	0.1	0.1
Asset turnover	3.6	3.9	3.3	3.8	4.3
NWC / sales	12.9%	4.6%	5.2%	5.2%	5.2%
Payable days outst.	20.5	15.3	18.4	18.4	18.4
Receivable days outst.	34.3	16.9	24.4	24.4	24.4
Fix operating assets	197.0	189.9	184.7	165.8	148.8
NWC	90.7	33.4	32.4	32.6	33.2
Capital employed	287.7	223.3	217.0	198.4	182.0
RoE	-70.6%	3.0%	12.8%	13.0%	12.3%
RoA	-4.9%	3.6%	9.6%	11.5%	11.1%
RoCE	-7.0%	4.9%	13.1%	18.2%	20.4%
Gross margin	7.3%	9.9%	14.5%	16.1%	15.8%
EBITDA margin	0.5%	4.9%	8.2%	9.7%	9.3%
EBIT margin	-17.3%	1.5%	4.6%	5.8%	5.9%
Net profit margin	-21.6%	0.7%	4.3%	4.9%	5.0%

Source: Verbio, Matelan Research

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Buy:	45.5%
Neutral:	45.5%
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
05/02/15	Buy
10/02/12	Neutral

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