

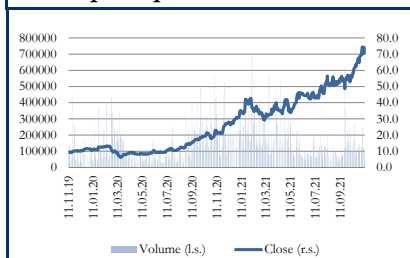
11 November 2021

Price as of 10/11/21: €70.65

Company / Sector	Fair Value	Recommendation
Verbio	€80.0	Buy
Energy: Biofuels	(€60.0)	(unchanged)

EUR200m in EBITDA could be reached already this year

Share price performance



Share data

Reuters	VBKG.DE
No. of shares (m)	63.0
Daily volume (3m)	122,320
Free float	28.4%
Market cap. (m)	4,636.8
EV (m)	4,621.1
Sales CAGR 18-22e	13.5%

Valuation	21/22e	22/23e
EV/Sales	3.1	3.5
EV/ EBITDA	22.0	23.8
EV/EBIT	26.3	29.5
PER	38.2	42.5
Div. yield	0.4%	0.4%
RoCE	27.9%	21.5%
RoE	19.0%	14.9%

Analysts

Hartmut Moers
 Tel.: +49 228 227 99 240
 hartmut.moers@matelan.de

Investment case

Verbio's Q1 results came in line with our expectations. More importantly, market conditions have further improved so that we now expect an extremely strong Q2. In addition, expansion is under way. We have raised our estimates for 2021/22 as well as subsequent years and arrive at new fair value of EUR80. Newsflow should remain positive, not only from upcoming results but also from projects that are not yet included in our estimates. We clearly reiterate our BUY rating on the stock.

➤ FY GUIDANCE COULD BE REACHED IN Q2

While Verbio's Q1 results came in perfectly in line with our estimates, the market has seen unprecedented highs in Biodiesel as well as Bioethanol spreads over the past months. According to our calculations, the company could reach its full year guidance already at the half year stage and meet EUR200m in EBITDA, which were envisaged for the mid-term, already this financial year.

➤ EXPANSION UNDER WAY

Management has confirmed that construction of the capacity expansion that was presented last quarter is progressing according to plan. The sale of BioLNG is still delayed due to regulatory issues. However, gas sales are held back anyway as prices should rise from January, 1st onwards. Hidden reserves are thus piling up.

➤ FAIR VALUE RAISED TO EUR80

With Q2 expected to come in extremely strong, we have upped our full year estimates. Based on the ongoing scarcity in the market, we have also raised our estimates for subsequent years. This drives our fair value to EUR80. Our estimates are still not aggressive as we do not yet include the predominant part of the BioLNG opportunity and the company's moves into the chemicals markets.

For additional disclosures please refer to the appendix

Forecasts	18/19	19/20	20/21	21/22e	22/23e
Sales (€m)	779.3	872.4	1026.4	1417.9	1291.6
EBITDA (€m)	95.1	122.1	166.3	201.4	187.4
EBIT (€m)	73.7	91.9	136.6	168.4	151.4
Adj. EPS (€)	0.84	1.01	1.48	1.85	1.66
Dividend (€)	0.20	0.20	0.20	0.25	0.25
Oper. CF (€m)	44.3	71.7	117.2	103.4	158.0
Free CF (€m)	-18.7	3.7	50.1	-46.6	8.0

Q1 21/22 review and changes in estimates

EURm	Q1 21/22	Q1 21/22e	Q1 20/21	Change	FY 20/21	FY 21/22e old	FY 21/22 new	Guidance 21/22
Biodiesel	261.6	233.8	173.0	51.2%	729.9	893.8	1058.1	
Bioethanol	86.0	76.6	86.2	-0.2%	286.6	335.7	348.6	
Other	2.8	4.4	2.2	31.2%	9.8	11.3	11.2	
Sales	350.4	314.8	261.4	34.1%	1026.4	1240.8	1417.9	
Gross profit	92.7	60.9	72.2	28.2%	272.0	269.8	299.4	
<i>Margin</i>	<i>26.4%</i>	<i>19.3%</i>	<i>27.6%</i>		<i>26.5%</i>	<i>21.7%</i>	<i>21.1%</i>	
Biodiesel	22.2	27.1	13.6	63.2%	93.2	89.6	128.5	
Bioethanol	17.1	12.5	38.8	-55.9%	70.6	78.4	69.0	
Other	0.9	0.7	0.9	n.m.	2.5	1.8	3.9	
EBITDA	40.2	40.3	53.3	-24.7%	166.3	169.8	201.4	150.0
<i>Margin</i>	<i>11.5%</i>	<i>12.8%</i>	<i>20.4%</i>		<i>16.2%</i>	<i>13.7%</i>	<i>14.2%</i>	
EBIT	33.1	32.5	45.6	-27.5%	136.6	136.8	168.4	
<i>Margin</i>	<i>9.4%</i>	<i>10.3%</i>	<i>17.4%</i>		<i>13.3%</i>	<i>11.0%</i>	<i>11.9%</i>	
Net Profit a.m.	22.5	22.4	31.6	-28.6%	93.2	94.5	116.6	

Source: Verbio, Matelan Research estimates

Q1 earnings in line with our forecasts

Earnings for the first quarter of the new financial year came in well in line with our estimates, some 25% below last year's level, which benefited from a much higher spread in ethanol. With regard to the composition of results, we find two mentionable differences to our estimates. First, sales were noticeably higher than we thought, in particular on the biodiesel side. Apparently, the company was able to realise higher prices than we had anticipated. However, this additional revenue is compensated for by hedging losses, which amount to a total of almost EUR-30. Second, with regard to the divisions, Biodiesel produced roughly EUR5m less EBITDA than estimated by us. This is exactly the amount that Bioethanol exceeds our estimates. The company indicated that hedging has played a more important role in Biodiesel compared to Bioethanol which would explain the difference. Still, on group level, EBITDA, EBIT and net profit were bang in line with our forecasts, which represents a good start into the financial year.

Additional hidden reserves

Stocks have increased further. Here, the company had already made it clear that it is keeping part of the production as double counting from 2022 onwards will allow the company to sell the current production at higher prices. We would thus expect some decline in stocks in Q3 and Q4. Most importantly, it should be noted that the profit on the production will only then be accounted for.

Net cash rises to EUR111m

Operating cash flow came to EUR18m and net cash (including segregated accounts) increased during the quarter from EUR100m at the end of the past financial year to EUR111m after Q1. EUR5-10m is spent each quarter for the company's current expansion plan.

Expansion under way

We had detailed Verbio's current expansion plan in our latest note (September, 22nd). Now, management has confirmed that since then progress has been made with regard to the expansion of its advanced biodiesel as well as bioethanol and biomethane capacity in Germany. Moreover, the new biomethane plant in the US is already producing first gas and the company is awaiting getting access to the grid. Similarly, four out of eight new fermenters relating to the erection of a combined bioethanol/biomethane unit in the US have been build.

BioLNG takes more time but prospects are better than ever

The sale of BioLNG, which had originally been planned for the second half of 2021, is still delayed due to regulatory issues. This is not too much of a problem as biogas sales are currently not a priority, as we have pointed out above. The company is already in a position to convert biogas to BioLNG by means of a thermo dynamic process and we would expect first sales as soon as the outstanding taxation issue is addressed by the new government. However, the company should only benefit fully from its BioLNG strategy when it has established its own liquefaction unit in Zörbig. Circumventing the gas grid, Verbio will then – in combination with its own filling stations - control the entire value chain, thereby earning the full margin.

Full year guidance could already be reached in Q2

While Q1 was widely in line with our expectations, Q2 has so far seen a material improvement of the spreads in Biodiesel as well as Bioethanol. Input prices have reached new highs but selling prices have skyrocketed. At the time of writing, we are looking at unprecedented spreads of around EUR600 per metric tonne of biodiesel and almost EUR500 per cubic meter of ethanol. While management has not yet altered its recently given full year guidance of EUR150m in EBITDA, which had been a prudent statement at the start of the year, they have clearly communicated that a very strong second quarter is expected. Based on the of the current forward curve, we deduct that Verbio could come close to its full year guidance at the half year stage, already.

Mid-term EBITDA target of EUR200m could already be reached this year

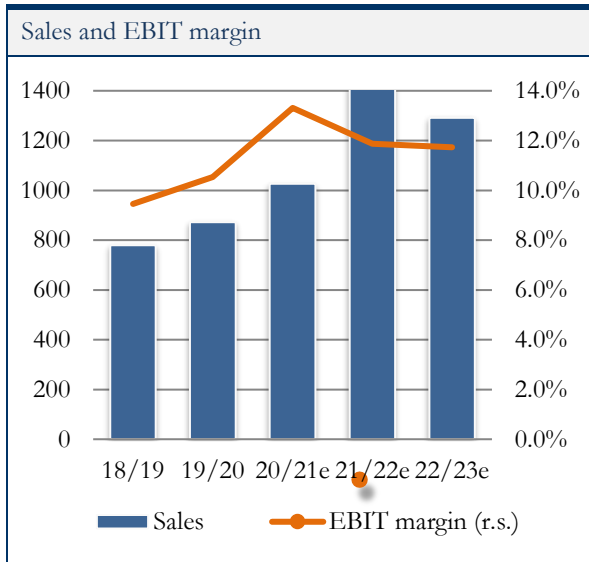
Forward curves also suggest some decline in selling prices while input prices might remain at elevated levels. Profitability in the second half could thus come down. However, we would still be looking at another EUR50m in EBITDA, not including the realisation of any additional gains from the gas production. This means that the mid-term target of EUR200m in EBITDA, which we anticipated in our large Company Report (August 2020) for 2024/25, would already be realised in 2021/22. We are thus raising our current year estimates accordingly as shown in the table of page 2.

Fair value comes to EUR80

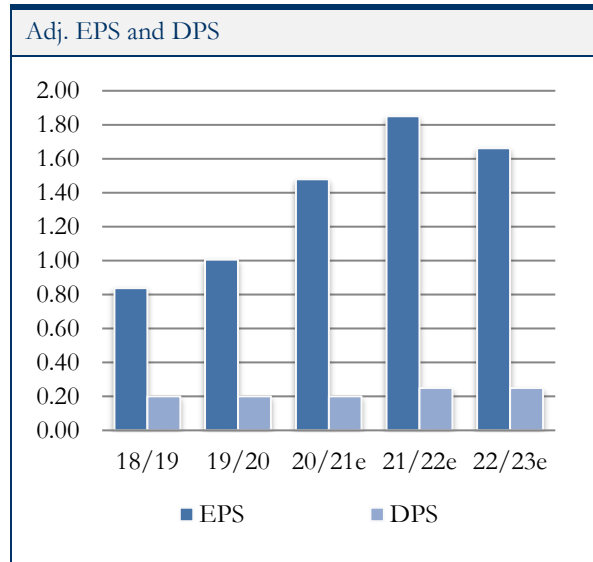
Since FY2018/19 we have been arguing that we saw an extraordinary year and that we have to account for some normalisation. In fact, each year still topped the preceding one. Regulation has improved materially over the period, creating a scarcity in the market which might simply persist. Probably not to the extremes we are currently experiencing but we might have to get used to higher prices on the input as well as the selling side with greater and more sustainable spreads. Thus, we have also revised our earnings for subsequent year. Higher prices lead to higher growth and higher margins which we now reflect in our DCF model. This yields a new fair value of EUR80, which is still not based on too aggressive estimates. Our calculations arrive at an EBITDA level of EUR276m in 2024/25 while management already indicated at the presentation of FY20/21 accounts that it could envisage a level of EUR300m at this point in time.

More projects in the pipeline

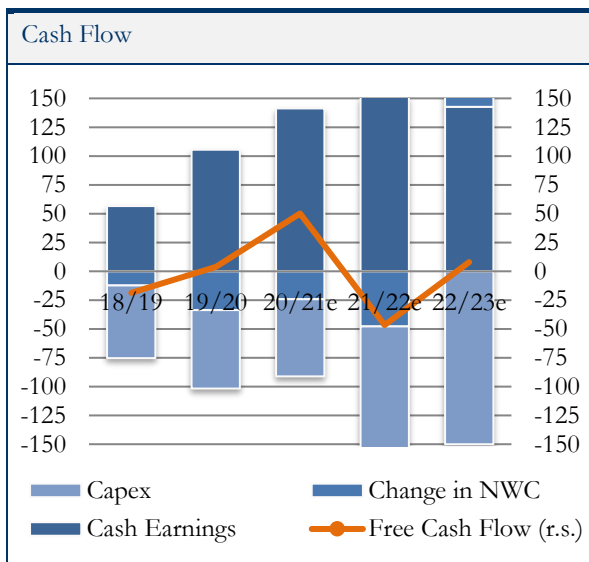
In this context, it should thus be remembered that in the area of BioLNG we have priced in only a very small first step and we have not yet included any opportunities that arise from Verbio's activities in the area of chemicals production. Moreover, management has made it clear that the current expansion plan is only "phase one" and that a follow-up plan will be presented in the process.



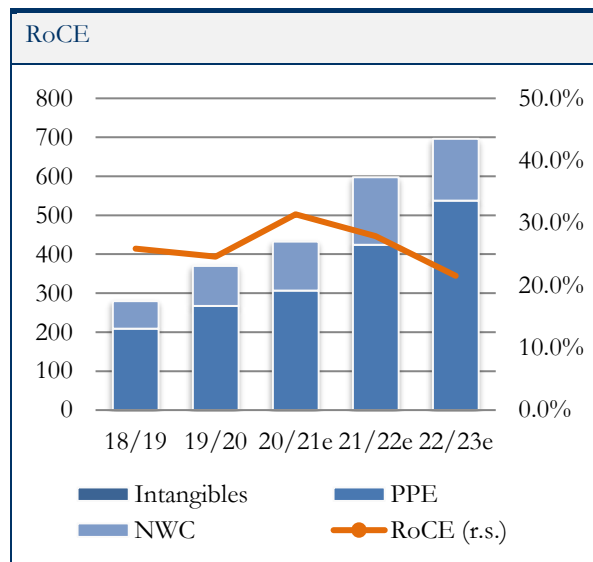
In EURm



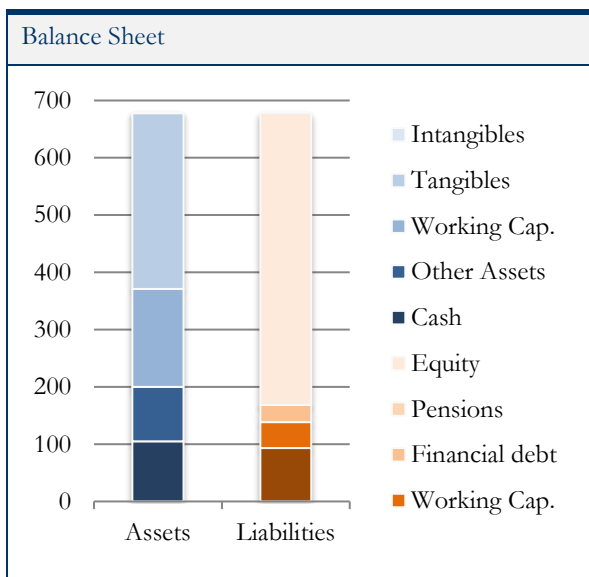
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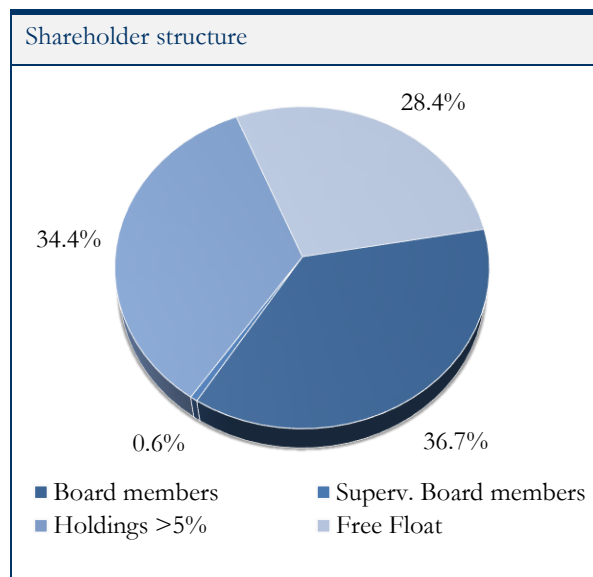
In EURm



In EURm



In EURm



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EURm	2018/19	2019/20	2020/21	2021/22e	2022/23e
Sales	779.3	872.4	1,026.4	1,417.9	1,291.6
<i>Growth</i>		11.9%	17.6%	38.2%	-8.9%
Material costs	-618.4	-673.5	-754.4	-1,118.6	-989.2
Gross profit	160.9	198.9	272.0	299.4	302.4
<i>Gross margin</i>	20.7%	22.8%	26.5%	21.1%	23.4%
Other operating costs	-28.6	-31.9	-51.2	-41.0	-56.0
EBITDA	95.1	122.1	166.3	201.4	187.4
<i>Margin</i>	12.2%	14.0%	16.2%	14.2%	14.5%
Depreciation	-21.4	-30.2	-29.7	-33.0	-36.0
EBIT	73.7	91.9	136.6	168.4	151.4
<i>Margin</i>	9.5%	10.5%	13.3%	11.9%	11.7%
Financial result	-0.6	-0.9	-1.3	-1.5	-1.7
EBT	73.1	91.0	135.4	166.9	149.7
Taxes	-21.4	-27.2	-41.8	-50.1	-44.9
Net profit	51.7	63.8	93.5	116.8	104.8
Minorities / Discon. Op.	1.1	-0.4	-0.3	-0.2	-0.2
Net profit a.m.	52.8	63.4	93.2	116.6	104.6
<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	0.84	1.01	1.48	1.85	1.66
Adj. EPS	0.84	1.01	1.48	1.85	1.66
<i>Growth</i>	n.m.	n.m.	n.m.	n.m.	n.m.
Dividend	0.20	0.20	0.20	0.25	0.25

Cash Flow

EURm	2018/19	2019/20	2020/21	2021/22e	2022/23e
EBIT	73.7	91.9	136.6	168.4	151.4
Depreciation	21.4	30.2	29.7	33.0	36.0
Other non-cash items	-13.4	-3.2	19.5	0.0	0.0
Cash taxes	-25.2	-13.5	-44.5	-50.1	-44.9
Cash earnings	56.5	105.3	141.4	151.3	142.5
Change in NWC	-12.2	-33.7	-24.2	-47.9	15.5
CF from operations	44.3	71.7	117.2	103.4	158.0
Capex	-63.0	-68.0	-67.1	-150.0	-150.0
Other investm./divestm.	2.0	0.3	0.1	0.0	0.0
CF from investing	-61.0	-67.7	-66.9	-150.0	-150.0
CF from fin. and other	-8.8	6.8	-19.1	-13.4	-33.0
Change in cash	-25.5	10.8	31.1	-60.0	-25.0

Valuation multiples

	2018/19	2019/20	2020/21	2021/22e	2022/23e
Share price	6.56	9.35	27.57	70.65	70.65
x No of shares	63.0	63.0	63.0	63.0	63.0
Market Capitalisation	413.3	589.1	1,736.9	4,451.0	4,451.0
+ Net financial debt	-53.0	-43.6	-75.0	-15.0	10.0
+ Pension provision	0.2	0.1	0.1	0.1	0.1
+ Minorities	-0.3	1.7	2.0	2.0	2.0
- Participations	-0.1	-2.8	-2.8	-2.8	-2.8
Enterprise Value	360.0	544.4	1,661.2	4,435.2	4,460.2
Sales	779.3	872.4	1,026.4	1,417.9	1,291.6
Adj. EBITDA	95.1	122.1	166.3	201.4	187.4
Adj. EBIT	73.7	91.9	136.6	168.4	151.4
Adj. Net profit a.m.	52.8	63.4	93.2	116.6	104.6
EV / Sales	0.5	0.6	1.6	3.1	3.5
EV / EBITDA	3.8	4.5	10.0	22.0	23.8
EV / EBIT	4.9	5.9	12.2	26.3	29.5
PE	7.8	9.3	18.6	38.2	42.5

Source: Verbio, Matelan Research

Balance Sheet

EURm	2018/19	2019/20	2020/21	2021/22e	2022/23e
Intangible assets	0.9	0.7	0.6	0.6	0.6
Tangible assets	209.3	267.6	306.8	423.8	537.8
Participations	0.1	2.8	2.8	2.8	2.8
Other non-current assets	3.9	2.7	2.1	5.8	6.8
Non-current assets	214.2	273.8	312.3	433.0	548.0
Inventories	63.1	78.8	101.5	140.2	127.7
Receivables	48.5	64.7	69.6	96.1	87.5
Cash	63.1	73.9	105.0	45.0	20.0
Other current assets	36.1	38.1	90.3	42.0	42.0
Current Assets	210.8	255.4	366.3	323.3	277.3
Total assets	424.9	529.2	678.6	756.3	825.3
Equity	339.2	389.1	507.8	612.1	701.1
Minorities	-0.3	1.7	2.0	2.0	2.0
Total equity	338.9	390.8	509.9	614.1	703.1
LT financial liabilities	0.1	30.1	30.0	30.0	30.0
Pension provisions	0.2	0.1	0.1	0.1	0.1
Other LT liabilities	6.9	19.1	15.3	19.0	19.0
Non-current liabilities	7.1	49.3	45.5	49.1	49.1
ST financial liabilities	10.0	0.1	0.0	0.0	0.0
Payables	41.3	41.1	45.4	62.7	57.1
Other ST liabilities	27.6	47.8	77.9	30.5	15.9
Current liabilities	78.9	89.1	123.3	93.2	73.0
Total liabilities	424.9	529.2	678.6	756.3	825.3

Segments and adjusted earnings

EURm	2018/19	2019/20	2020/21	2021/22e	2022/23e
Biodiesel	514.5	588.2	729.9	1,058.1	932.0
Bioethanol/-methan	254.7	275.2	286.6	348.6	347.5
Other	16.7	15.8	16.7	17.2	18.2
Consolidation	-6.6	-6.9	-6.8	-6.0	-6.0
Sales	779.3	872.4	1,026.4	1,417.9	1,291.6
<i>Growth</i>		11.9%	17.6%	38.2%	-8.9%
Biodiesel	70.7	46.1	93.2	128.5	104.7
Bioethanol/-methan	23.8	74.0	70.6	69.0	79.1
Other	0.6	2.0	2.5	3.9	3.7
Consolidation	0.0	0.0	0.0	0.0	0.0
EBITDA	95.1	122.1	166.3	201.4	187.4
<i>Margin</i>	12.2%	14.0%	16.2%	14.2%	14.5%

Key operational indicators

	2018/19	2019/20	2020/21	2021/22e	2022/23e
Equity ratio	79.8%	73.9%	75.1%	81.2%	85.2%
Gearing	0.0	0.1	0.1	0.0	0.0
Asset turnover	3.6	3.2	3.3	3.3	2.4
NWC / sales	9.0%	11.7%	12.2%	12.2%	12.2%
Payable days outst.	19.4	17.2	16.1	16.1	16.1
Receivable days outst.	22.7	27.1	24.7	24.7	24.7
Fix operating assets	214.1	270.9	309.5	430.2	545.2
NWC	70.3	102.4	125.6	173.6	158.1
Capital employed	284.4	373.3	435.1	603.8	703.3
RoE	15.3%	16.3%	18.3%	19.0%	14.9%
RoA	17.3%	17.4%	20.1%	22.3%	18.4%
RoCE	25.9%	24.6%	31.4%	27.9%	21.5%
Gross margin	20.7%	22.8%	26.5%	21.1%	23.4%
EBITDA margin	12.2%	14.0%	16.2%	14.2%	14.5%
EBIT margin	9.5%	10.5%	13.3%	11.9%	11.7%
Net profit margin	6.8%	7.3%	9.1%	8.2%	8.1%

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Neutral:	37.5%
Reduce:	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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CONTACT DATA

For further information please contact:

Matelan Research GmbH Koblenzer Straße 79 53177 Bonn www.matelan.de	Head Analyst: Hartmut Moers Tel: +49 228 227 99 240 e-mail: hartmut.moers@matelan.de
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