

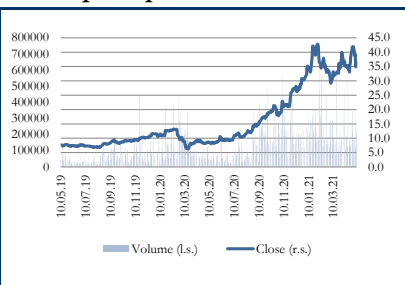
10 May 2021

Price as of 07/05/21: €36.82

Company / Sector	Fair Value	Recommendation
Verbio	€50.0	Buy
Energy: Biofuels	(unchanged)	(unchanged)

Strong Q3 results - and much more to come

Share price performance



Share data

Reuters	VBKG.DE
No. of shares (m)	63.0
Daily volume (3m)	206,791
Free float	28.1%
Market cap. (m)	2,319.7
EV (m)	2,263.1
Sales CAGR 18-22e	9.5%

Valuation	20/21e	21/22e
EV/Sales	2.3	2.3
EV/ EBITDA	15.0	16.0
EV/EBIT	18.4	20.3
PER	27.5	30.7
Div. yield	0.6%	0.7%
RoCE	26.9%	22.3%
RoE	18.3%	14.4%

Analysts

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Investment case

Q3 results have strongly benefited from high biodiesel margins and Q4 should additionally see some improvement from bioethanol. The company should thus reach EUR150m in EBITDA for the full year, a plus of more than 50% over the past two years. Moreover, upcoming newsflow, i.e. new biomethane capacity coming on stream, the marketing of bioLNG and a further improving regulatory framework should further spur the company's growth prospects and support the share price to reduce the gap to our fair value of EUR50.

➤ BIODIESEL MARGINS DRIVE Q3 RESULT

The margin situation in biodiesel has significantly improved in the third quarter. Management has thus increased its FY guidance ahead of Q3 reporting and we had upped our estimates. Q3 now shows that biodiesel is slightly ahead of our revised estimates and bioethanol is slightly lower so that group results are perfectly in line with our new forecast.

➤ FY EBITDA SHOULD REACH EUR150M

Current forward pricing suggests that Verbio should be able to top Q3 results in the last quarter. Only EUR5m more than in Q3 are needed to reach the guidance of EUR150m in FY EBITDA and this should be generated from improved results in bioethanol.

➤ STRONG NEWSFLOW SHOULD DRIVE SHARE

The upcoming summer months will be very exciting for Verbio as the build-up of the biomethane plants in Germany, India and the US enters completion, the new bioLNG product will be launched, and progress on the regulatory side is expected, first from the translation of RED II into German law and then an EU proposal for RED III, all of which should be supportive for 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	981.3	985.2
EBITDA (€m)	44.8	95.1	122.1	150.8	140.3
EBIT (€m)	22.4	73.7	91.9	122.8	110.3
Adj. EPS (€)	0.24	0.84	1.01	1.34	1.20
Dividend (€)	0.20	0.20	0.20	0.22	0.25
Oper. CF (€m)	11.1	44.3	71.7	87.8	107.3
Free CF (€m)	-14.1	-18.7	3.7	2.8	42.3

Q3 20/21 review

EURm	Q3 20/21	Q3 20/21e	Q3 19/20	Change	FY 19/20	FY 20/21e old	FY 20/21 new	Guidance 20/21
Biodiesel	177.3	181.2	152.8	16.0%	588.2	617.7	693.2	
Bioethanol	58.2	64.3	67.6	-13.9%	275.2	317.2	277.9	
Other	2.3	4.5	2.3	-3.1%	9.0	10.2	10.2	
Sales	237.8	250.0	222.7	6.7%	872.4	945.1	981.3	
Gross profit	60.2	54.8	60.7	-0.8%	198.9	232.9	231.3	
<i>Margin</i>	<i>25.3%</i>	<i>21.9%</i>	<i>27.3%</i>		<i>22.8%</i>	<i>24.6%</i>	<i>23.6%</i>	
Biodiesel	28.2	24.6	18.0	56.7%	46.1	68.7	84.2	
Bioethanol	4.0	8.2	24.6	-83.7%	74.0	81.3	64.2	
Other	0.2	0.7	0.6	n.m.	2.0	0.9	2.4	
EBITDA	32.4	33.5	43.2	-25.0%	122.1	150.9	150.8	150.0
<i>Margin</i>	<i>13.6%</i>	<i>13.4%</i>	<i>19.4%</i>		<i>14.0%</i>	<i>16.0%</i>	<i>15.4%</i>	
EBIT	25.4	25.7	36.1	-29.6%	91.9	122.9	122.8	
<i>Margin</i>	<i>10.7%</i>	<i>10.3%</i>	<i>16.2%</i>		<i>10.5%</i>	<i>13.0%</i>	<i>12.5%</i>	
Net Profit a.m.	17.6	17.7	24.7	-28.9%	63.4	84.4	84.4	

Source: Verbio, Matelan Research estimates

Biodiesel coming in slightly better than expected ...

Ahead of the release of Q3 results, Verbio had increased its full year EBITDA guidance from EUR130m to EUR150m. Looking at recent margin developments, it was not too hard to guess that the main driver of the better than expected performance was the biodiesel division. The release of Q3 accounts now shows that with EUR28m in EBITDA, the biodiesel activities came in even slightly ahead of our (revised) estimate, showing a 57% increase compared to last year's period. Interestingly, the strong divisional performance was realised on lower than expected sales, which were a result of a lower production volume. According to management, this can widely be attributed to a reduced production in Canada. As the Canadian operation is operating around the break-even point, the lower volumes do not affect profitability too much.

... and slight shortfall in bioethanol leave group in line with estimates

In the bioethanol division, sales equally fell short of our expectations due to a lower than anticipated production. Here, the switch to rye as the major input was a major factor that led to the lower production level. However, in contrast to biodiesel, the lower bioethanol production went along with a lower than expected EBITDA, which came in some EUR4m below our estimate. This evens out the higher EBITDA from the biodiesel division so that on group level, Verbio produced an EBITDA well in line with our estimate. With no major deviations below the EBITDA line, EBIT and net profit are also in line with our forecast.

Forward curve supports guidance of EUR150m in EBITDA

At the nine-month stage, Verbio has now reached EUR113m in EBITDA. This leaves EUR37m for the last quarter. Looking at the forward curve for selling prices and inputs in both divisions, we would expect the biodiesel division to repeat its strong Q3 result in Q4, while ethanol should improve. Adding just EUR5m to the Q3 result should be more than feasible. Against this background, we are only fine-tuning our recently upped full year 2020/21 estimates. We also leave our 2021/22 estimates untouched for the time being.

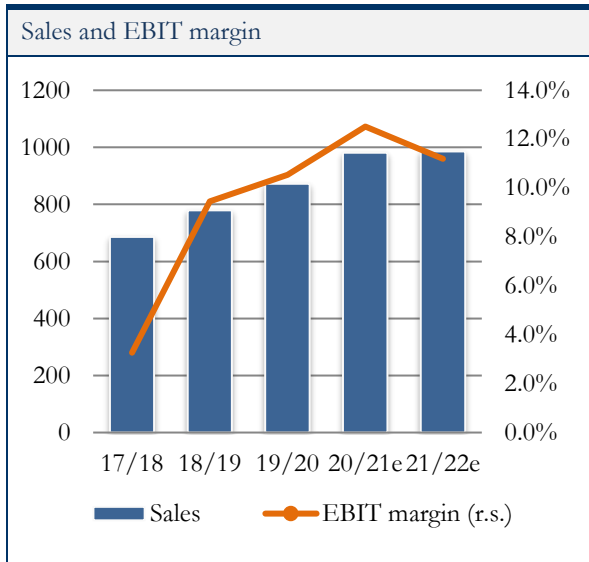
Keeping gas on hold weighs temporarily on networking capital and net cash

Despite the strong earnings development, operating cash flow came to just EUR2.3m in the third quarter. A major reason is a further increase in net working capital by roughly EUR25m. Management has highlighted that it is currently not selling part of its gas production as the company will be able to sell the gas at a 25% premium as soon as the current CO₂ reduction quota of

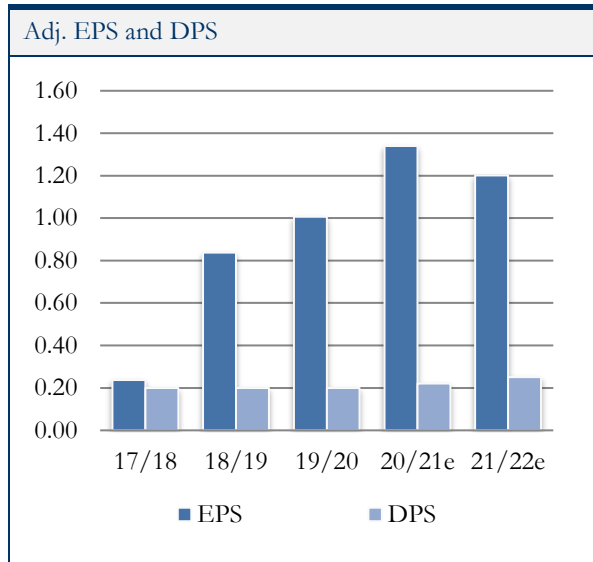
fossil gas will be abolished from next year onwards. Net cash is down to EUR54.7m (from EUR79m in Q2) but this should be reversed with the upcoming reduction of working capital. By the end of the coming quarter, management already guides for an increase to EUR65m.

Upcoming newsflow should drive share price further toward EUR50

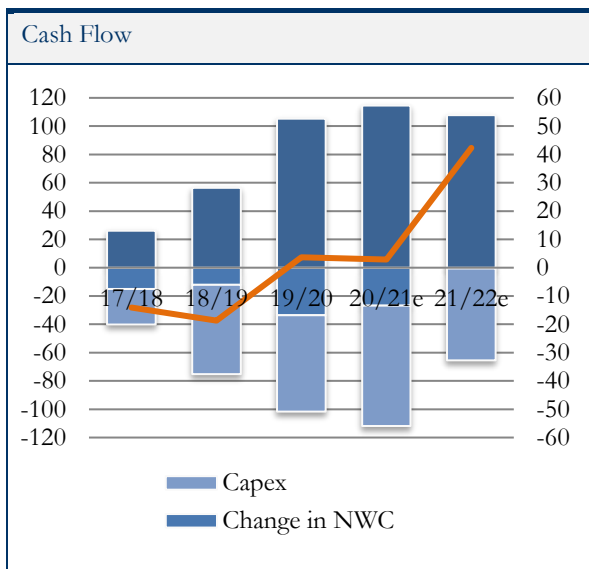
Management has made it clear that the build-up of its new biomethane facilities in Germany, the US and India are progressing according to plan, i.e. they should be ready for ramp-up in the first quarter of the coming financial year. Moreover, the company's entry into the bioLNG market is equally scheduled for the coming summer. Finally, newsflow from the regulatory side should gain traction. The translation of RED II into German law is expected any time soon and proposals for a European RED III should arrive by June. All these factors should further enhance Verbio's growth prospects and thus be supportive for the share price as reaching the growth scenario that we have priced into our fair value of EUR50 should become increasingly likely.



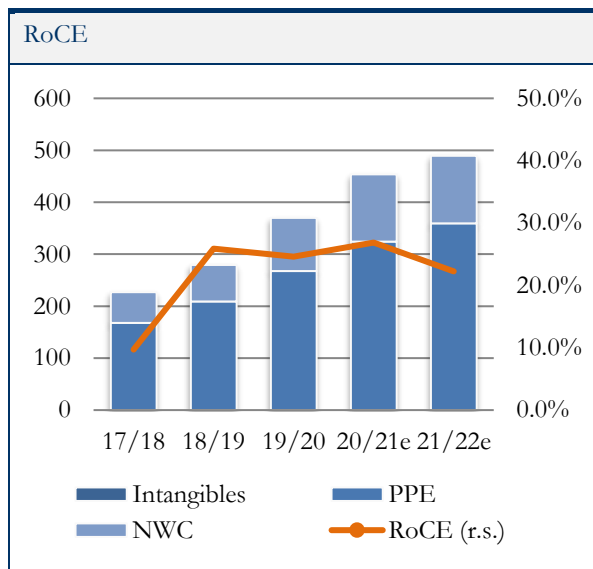
In EURm



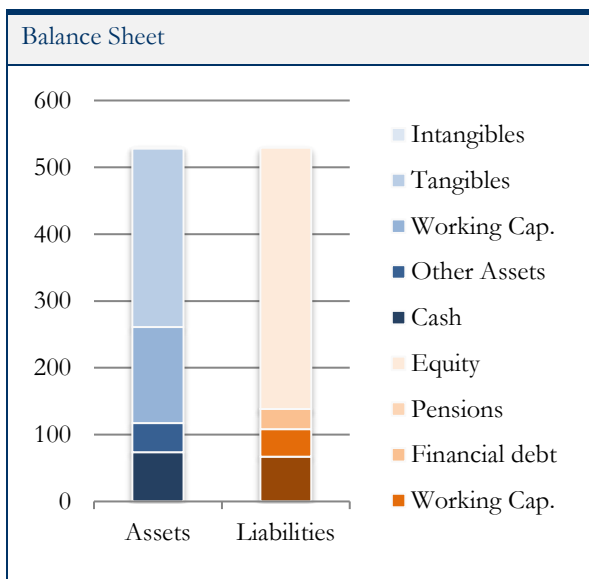
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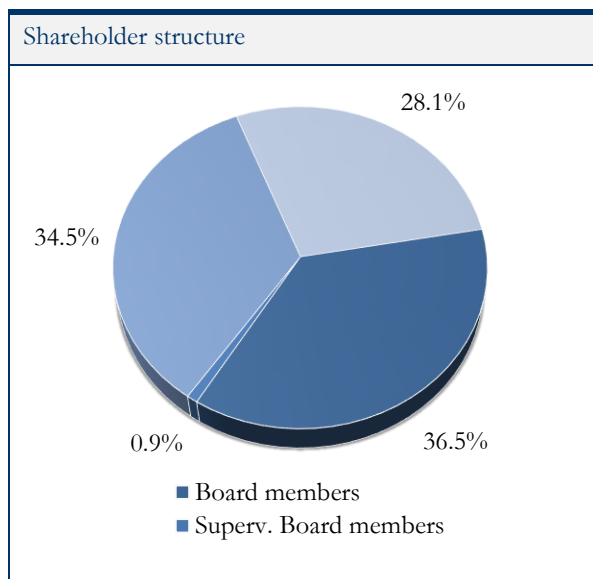
In EURm



In EURm



In EURm



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EURm	2017/18	2018/19	2019/20	2020/21e	2021/22e
Sales	685.9	779.3	872.4	981.3	985.2
<i>Growth</i>		13.6%	11.9%	12.5%	0.4%
Material costs	-591.0	-618.4	-673.5	-750.0	-765.1
Gross profit	94.9	160.9	198.9	231.3	220.1
<i>Gross margin</i>	13.8%	20.7%	22.8%	23.6%	22.3%
Other operating costs	-23.4	-28.6	-31.9	-35.5	-35.8
EBITDA	44.8	95.1	122.1	150.8	140.3
<i>Margin</i>	6.5%	12.2%	14.0%	15.4%	14.2%
Depreciation	-22.4	-21.4	-30.2	-28.0	-30.0
EBIT	22.4	73.7	91.9	122.8	110.3
<i>Margin</i>	3.3%	9.5%	10.5%	12.5%	11.2%
Financial result	-0.2	-0.6	-0.9	-2.0	-2.0
EBT	22.2	73.1	91.0	120.8	108.3
Taxes	-7.1	-21.4	-27.2	-36.2	-32.5
Net profit	15.1	51.7	63.8	84.6	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	84.4	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	1.34	1.20
Adj. EPS	0.24	0.84	1.01	1.34	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

Balance Sheet

EURm	2017/18	2018/19	2019/20	2020/21e	2021/22e
Intangible assets	0.3	0.9	0.7	0.6	0.6
Tangible assets	168.0	209.3	267.6	324.6	359.6
Participations	0.1	0.1	2.8	2.8	2.8
Other non-current assets	3.4	3.9	2.7	2.8	5.8
Non-current assets	171.7	214.2	273.8	330.8	368.8
Inventories	45.2	63.1	78.8	90.6	91.0
Receivables	45.2	48.5	64.7	69.4	69.7
Cash	88.6	63.1	73.9	85.9	107.9
Other current assets	15.3	36.1	38.1	40.0	42.0
Current Assets	194.2	210.8	255.4	285.9	310.5
Total assets	366.0	424.9	529.2	616.7	679.3
Equity	299.0	339.2	389.1	461.1	523.1
Minorities	1.2	-0.3	1.7	1.8	1.9
Total equity	300.2	338.9	390.8	462.9	525.0
LT financial liabilities	0.0	0.1	30.1	30.1	30.1
Pension provisions	0.2	0.2	0.1	0.1	0.1
Other LT liabilities	7.5	6.9	19.1	18.5	19.0
Non-current liabilities	7.7	7.1	49.3	48.7	49.2
ST financial liabilities	0.4	10.0	0.1	0.1	0.1
Payables	31.2	41.3	41.1	30.9	31.0
Other ST liabilities	26.5	27.6	47.8	74.0	74.0
Current liabilities	58.1	78.9	89.1	105.0	105.1
Total liabilities	366.0	424.9	529.2	616.7	679.3

Cash Flow

EURm	2017/18	2018/19	2019/20	2020/21e	2021/22e
EBIT	22.4	73.7	91.9	122.8	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	-36.2	-32.5
Cash earnings	26.1	56.5	105.3	114.6	107.8
Change in NWC	-15.0	-12.2	-33.7	-26.7	-0.5
CF from operations	11.1	44.3	71.7	87.8	107.3
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	9.2	-20.3
Change in cash	-26.2	-25.5	10.8	12.0	22.0

Segments and adjusted earnings

EURm	2017/18	2018/19	2019/20	2020/21e	2021/22e
Biodiesel	456.8	514.5	588.2	693.2	665.9
Bioethanol/-methan	219.1	254.7	275.2	277.9	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	981.3	985.2
<i>Growth</i>		13.6%	11.9%	12.5%	0.4%
Biodiesel	24.5	70.7	46.1	84.2	63.0
Bioethanol/-methan	19.9	23.8	74.0	64.2	77.2
Other	0.4	0.6	2.0	2.4	0.1
Consolidation	0.0	0.0	0.0	0.0	0.0
EBITDA	44.8	95.1	122.1	150.8	140.3
<i>Margin</i>	6.5%	12.2%	14.0%	15.4%	14.2%

Valuation multiples

	2017/18	2018/19	2019/20	2020/21e	2021/22e
Share price	7.28	6.56	9.35	36.82	36.82
x No of shares	63.0	63.0	63.0	63.0	63.0
Market Capitalisation	458.6	413.3	589.1	2,319.7	2,319.7
+ Net financial debt	-88.2	-53.0	-43.6	-55.6	-77.6
+ Pension provision	0.2	0.2	0.1	0.1	0.1
+ 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	2,263.1	2,241.2
Sales	685.9	779.3	872.4	981.3	985.2
Adj. EBITDA	44.8	95.1	122.1	150.8	140.3
Adj. EBIT	22.4	73.7	91.9	122.8	110.3
Adj. Net profit a.m.	14.9	52.8	63.4	84.4	75.6
EV / Sales	0.5	0.5	0.6	2.3	2.3
EV / EBITDA	8.3	3.8	4.5	15.0	16.0
EV / EBIT	16.6	4.9	5.9	18.4	20.3
PE	30.7	7.8	9.3	27.5	30.7

Key operational indicators

	2017/18	2018/19	2019/20	2020/21e	2021/22e
Equity ratio	82.0%	79.8%	73.9%	75.1%	77.3%
Gearing	0.0	0.0	0.1	0.1	0.1
Asset turnover	4.0	3.6	3.2	3.0	2.7
NWC / sales	8.6%	9.0%	11.7%	13.2%	13.2%
Payable days outst.	16.6	19.4	17.2	11.5	11.5
Receivable days outst.	24.1	22.7	27.1	25.8	25.8
Fix operating assets	171.7	214.1	270.9	328.0	366.0
NWC	59.2	70.3	102.4	129.1	129.6
Capital employed	230.9	284.4	373.3	457.1	495.6
RoE	5.0%	15.3%	16.3%	18.3%	14.4%
RoA	6.1%	17.3%	17.4%	19.9%	16.2%
RoCE	9.7%	25.9%	24.6%	26.9%	22.3%
Gross margin	13.8%	20.7%	22.8%	23.6%	22.3%
EBITDA margin	6.5%	12.2%	14.0%	15.4%	14.2%
EBIT margin	3.3%	9.5%	10.5%	12.5%	11.2%
Net profit margin	2.2%	6.8%	7.3%	8.6%	7.7%

Source: Verbio, Matelan Research

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Buy:	62.5%
Neutral:	37.5%
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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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