

11 January 2023

Price as of 10/01/23: €13.54

Company / Sector	Fair Value	Recommendation
CropEnergies	€26.3	Strong Buy
Energy: Biofuels	(€26.0)	(unchanged)

Q3 comes in way stronger than anticipated

Share price performance



Share data

Reuters	CE2G.DE
No. of shares (m)	87,25
Daily volume (3m)	63.477
Free float	26,0%
Market cap. (m)	1.181,4
EV (m)	852,3
Sales 19-23e	15,4%

Valuation	22/23e	23/24e
EV/Sales	0,6	0,6
EV/EBITDA	2,9	5,6
EV/EBIT	3,4	7,3
PER	6,1	12,2
Div. yield	3,3%	3,3%
RoCE	44,0%	17,3%
RoE	22,7%	10,6%

Analysts

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Investment case

Q3 results were clearly better than expected and we raise our full year estimates to the upper end of the guidance. We stick to our forecasts for subsequent years. Our valuation arrives at EUR26.3, roughly twice yesterday's share price. Ethanol prices should recover with lower imports and the regulatory environment is further tightening. Ongoing newsflow from CropEnergies' expansion projects should also drive the share price. We thus reiterate our Strong Buy rating.

➤ SOUND Q3 RESULTS, ...

With a Q3 EBIT of EUR56m, CropEnergies clearly outpaced our estimate of EUR27m. Adjusting production to the market development and additional gains from derivatives were the main reasons for the outperformance. In addition, free cash flow came to EUR12m, leaving a net cash position of EUR366m.

➤ ... LEAD TO HIGHER FULL YEAR ESTIMATES

While Q3 results were clearly better than anticipated, Q4 must be expected to come in weaker than originally thought. Still, on balance, we arrive at an increase in our full year estimate, reaching the upper end of the company's guidance.

➤ MARKET ENVIRONMENT REMAINS POSITIVE

Ethanol imports, a delayed approval of the RED II amendments, and an attempt to reignite the food vs. fuel discussion from a German minister have clouded the market environment recently. However, imports have become less attractive and the regulatory environment is likely to tighten further. Ethanol prices should thus recover and progress from CropEnergies' expansion projects should provide additional positive newsflow throughout the year.

For additional disclosures please refer to the appendix

Forecasts	19/20	20/21	21/22	22/23e	23/24e
Sales (€m)	899,2	833,1	1075,3	1482,9	1597,1
EBITDA (€m)	146,3	149,3	168,8	294,5	174,5
EBIT (€m)	104,1	107,9	127,0	252,1	132,7
Adj. EPS (€)	0,85	0,97	1,02	2,22	1,11
Dividend (€)	0,30	0,35	0,45	0,45	0,45
Oper. CF (€m)	125,1	105,9	147,0	197,5	124,3
Free CF (€m)	95,2	77,0	111,2	167,5	-94,7

Q3 22/23 review and changes in estimates

EURm	Q3 22/23	Q3 22/23e	Q3 21/22	Change	FY 21/22	FY 22/23e old	FY 22/23e new	Outlook
Production	228000	275000	258000	-11,6%	1051000	1133000	1071000	
Sales	328,1	356,2	317,7	3,3%	1075,3	1574,7	1482,9	1470-1570
Gross profit	84,6	64,6	90,8	-6,9%	259,2	393,6	381,9	
Margin	25,8%	18,1%	28,6%		24,1%	25,0%	25,8%	
EBITDA	66,4	37,1	66,3	0,2%	168,8	288,4	294,5	265-295
Margin	20,2%	10,4%	20,9%		15,7%	18,3%	19,9%	
EBIT	55,7	26,6	55,9	-0,3%	127,0	246,4	252,1	225-255
Margin	17,0%	7,5%	17,6%		11,8%	15,6%	17,0%	
Net profit	44,7	19,8	35,2	27,0%	89,4	185,4	193,5	

Source: Matelan Research based on CropEnergies data and own estimates

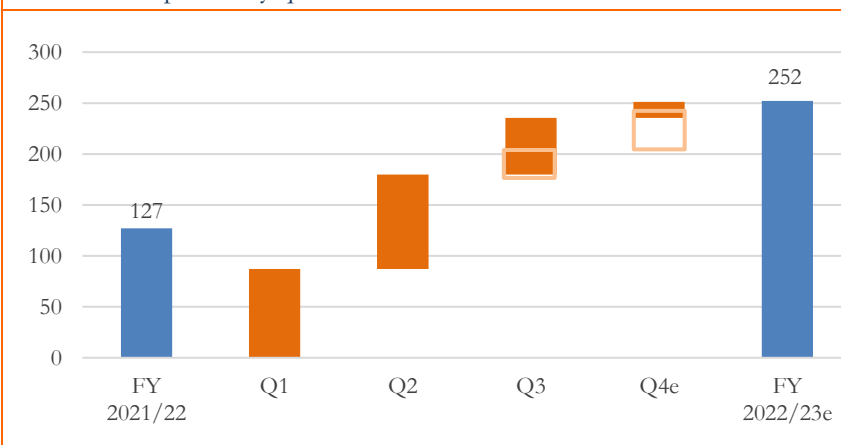
Q3 results are way better than expected

Q3 results came in as a positive surprise. As detailed in our latest Company Report, we had expected Q3 to come in rather weak as ethanol forwards for the period showed a dip while costs for raw materials were expected to go up. However, with an EBIT of EUR55.7m, CropEnergies came in roughly twice as high as we had anticipated. This is the result of two major factors. Firstly, the company realised a gain of EUR11m from derivatives that were not part of the company's hedge accounting. Secondly, production was significantly lower than we had expected due to maintenance and an intended slowing of production at the least profitable site. As a consequence, the difference in material costs compared to the full production was larger than the difference in sales. Thus, the company appears to have reacted quite flexibly to the changing market environment in the third quarter.

Slight increase in full year estimates ...

While Q3 was clearly better than we had anticipated, we now expect Q4 to come in a bit weaker. While forwards originally suggested ethanol prices to recover in Q4, we are now looking at a further decline. Maintenance should be over but we still do not expect the company to make use of its entire production capacity. In addition, hedging positions should continue to offset some of the price decline. Against this background, we anticipate an EBIT of EUR16m in Q4 which brings us to a full year estimate of EUR252m. The following chart illustrates that due to the strong Q3 result we arrive at a higher full year estimate despite a lower Q4 estimate.

EBIT development by quarter



Source: Matelan Research, EBIT in EURm, previous estimates marked in light orange

... to the upper end of the guidance

Based on Q3 results, management has narrowed its guidance for the full year to EUR225-255m in EBIT, leaving the mid-point of EUR240m unchanged. Given that the company has already reached EUR235m at the half year stage, this leaves only EUR5m for Q4. Management claims that this is a conservative forecast, factoring in uncertainties in particular with regard to the war in the Ukraine as well as an ongoing ethanol price volatility caused by imports and political statements. Reaching the upper end of this guidance, which our calculation suggests, does thus not appear to be aggressive.

Net cash increases to EUR366m

In addition to better than anticipated earnings, CropEnergies also reported a further increase in net cash. Cash earnings of EUR55m exceeded an increase in net working capital and investments of EUR18m, leaving a Free Cash Flow of EUR12m in Q3. Thus, net cash rose to EUR366m at the end of the period.

Expansion into renewable chemicals in full progress

Management also gave an update on the progress with regard to its planned 50.000t renewable ethyl acetate production. Following the basic engineering phase and the final investment decision, the company is now in the detailed engineering phase. In parallel, the company intensifies contacts with future customers and prepares the site so that construction can commence as scheduled in early 2024. With regard to the renewable ethylene project, preparations are progressing. In addition, the company is working on receiving the remaining rights for the different stages of the planned construction of a 1GW solar park which shall become the base for a renewable methanol production.

Improvement of regulatory environment should continue

On the regulatory side, we have seen a delay in the approval of the proposed amendments to RED II, which was scheduled for the end of 2022. Under the new Swedish presidency, we might now see an agreement by the end of the current quarter. Most importantly, there is only an upside to the current plan as the European Parliament aims for an even higher CO₂ reduction compared to the proposal by the European Commission. Moreover, recent statements from the German minister for agricultural affairs, Özdemir, who tried to reopen the food vs. fuel discussion, have been countered by the government's statement that it has currently no plans to change the regulation.

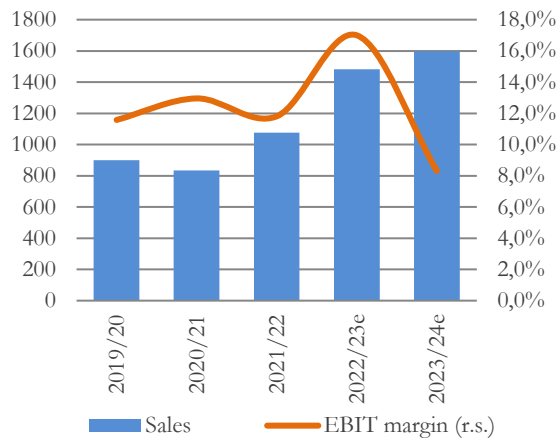
Temporary price pressure from imports

Imports, in particular from Brazil as well as the US, have put pressure on ethanol prices. We have seen some impact already in Q3 and discussed the potential effects on Q4. The forward curve now suggests some recovery to EUR790/m³ in June 2023 but also a level of around EUR700/m³ in the longer term. This is clearly lower than we had assumed in our report. On the other hand, wheat prices are also clearly below the levels assumed in our report, which compensates for the predominant part of the ethanol price decline so that the impact on profitability is limited. In addition, we would expect imports to slow down as the price difference has already been reduced to levels approaching the transport costs. In addition, tightening regulation is further increasing demand in a market that is already short in terms of local European production. There is thus a decent likelihood for a widening of the spread from current levels.

Valuation indicates
twice the current share
price

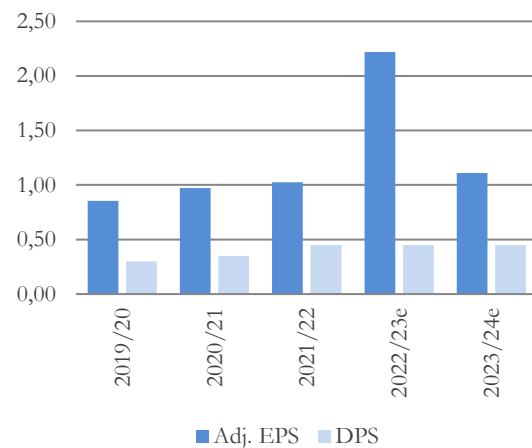
Taking all this into account, we have slightly raised our estimates for the current year but left our medium-term forecasts unchanged. This keeps in mind that – as laid out in our report -the current financial year should see a normalisation of earnings after an extraordinarily strong FY2022/23 but also recognises that earnings should clearly beat the record 2022/23 level at the end of the current expansion phase. In total, arrive at a marginal increase in our fair value to EUR26.3, which is roughly twice the level of yesterday's share price. With further positive newsflow ahead, we clearly reiterate our Strong Buy recommendation on the stock.

Sales and EBIT margin



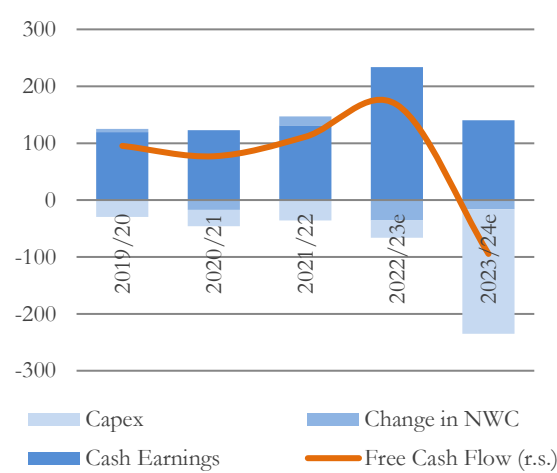
In EURm

Adj. EPS and DPS



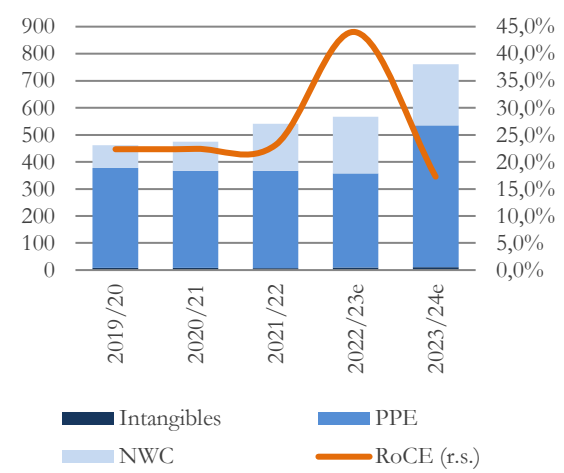
In EUR

Cash Flow



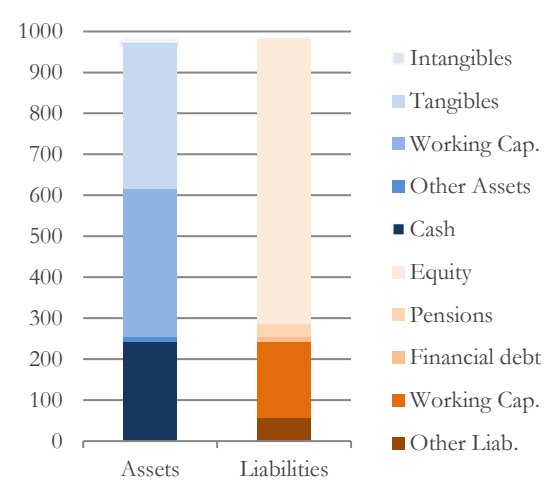
In EURm

RoCE



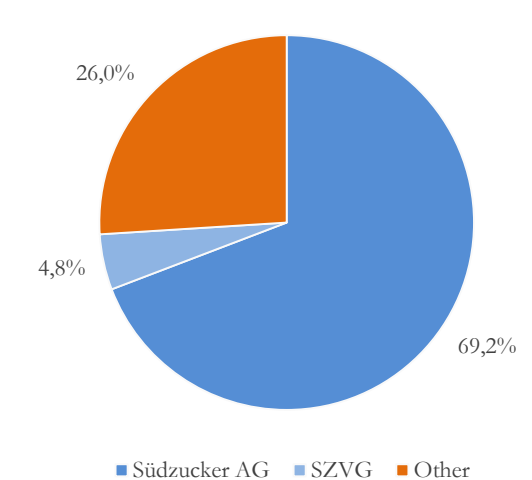
In EURm

Balance Sheet



EURm

Shareholder structure



P & L

EURm	2019/20	2020/21	2021/22	2022/23e	2023/24e
Sales	899,2	833,1	1.075,3	1.482,9	1.597,1
<i>Growth</i>		-7,3%	29,1%	37,9%	7,7%
Material costs	-660,5	-594,2	-816,2	-1.101,1	-1.312,6
Gross profit	238,7	238,9	259,2	381,9	284,5
<i>Gross margin</i>	26,5%	28,7%	24,1%	25,8%	17,8%
Other operating costs	-92,3	-89,6	-90,4	-87,4	-110,0
EBITDA	146,3	149,3	168,8	294,5	174,5
<i>Margin</i>	16,3%	17,9%	15,7%	19,9%	10,9%
Depreciation	-42,2	-41,4	-41,8	-42,4	-41,8
EBIT	104,1	107,9	127,0	252,1	132,7
<i>Margin</i>	11,6%	13,0%	11,8%	17,0%	8,3%
Financial result	-3,3	-0,5	-2,7	2,4	-2,0
EBT	100,7	107,4	124,2	254,5	130,7
Taxes	-26,2	-22,5	-34,8	-61,0	-34,0
Net profit	74,6	84,9	89,4	193,5	96,7
Minorities	0,0	0,0	0,0	0,0	0,0
Net profit a.m.	74,6	84,9	89,4	193,5	96,7
<i>Growth</i>		13,9%	5,3%	116,5%	-50,0%
No of shares	87,3	87,3	87,3	87,3	87,3
EPS	0,85	0,97	1,02	2,22	1,11
Adj. EPS	0,85	0,97	1,02	2,22	1,11
<i>Growth</i>		13,9%	5,3%	116,5%	-50,0%
Dividend	0,30	0,35	0,45	0,45	0,45

Cash Flow

EURm	2019/20	2020/21	2021/22	2022/23e	2023/24e
EBIT	104,1	107,9	127,0	252,1	132,7
Depreciation	42,2	41,4	41,8	42,4	41,8
Other non-cash items	-0,8	-3,8	-2,8	0,0	0,0
Cash taxes	-26,2	-22,5	-34,8	-61,0	-34,0
Cash earnings	119,4	123,0	131,2	233,5	140,5
Change in NWC	5,7	-17,1	15,8	-36,0	-16,2
CF from operations	125,1	105,9	147,0	197,5	124,3
Capex	-29,9	-28,8	-35,8	-30,0	-219,0
Other investm./divestm.	0,1	1,3	0,8	0,0	0,0
CF from investing	-29,8	-27,5	-34,9	-30,0	-219,0
CF from fin. and other	-15,3	-30,5	-35,3	-48,9	74,7
Change in cash	80,0	47,9	76,8	118,5	-20,0

Valuation multiples

	2019/20	2020/21	2021/22	2022/23e	2023/24e
Share price	7,04	10,82	11,18	13,54	13,54
x No of shares	87,3	87,3	87,3	87,3	87,3
Market Capitalisation	614,2	944,0	975,5	1.181,4	1.181,4
+ Net financial debt	-107,3	-154,6	-229,9	-346,4	-225,4
+ Pension provision	35,0	30,7	32,4	21,0	22,0
+ Minorities	0,0	0,0	0,0	0,0	0,0
- Participations	-2,3	-2,5	-2,8	-3,7	-3,7
Enterprise Value	539,7	817,6	775,1	852,3	974,3
Sales	899,2	833,1	1.075,3	1.482,9	1.597,1
Adj. EBITDA	146,3	149,3	168,8	294,5	174,5
Adj. EBIT	104,1	107,9	127,0	252,1	132,7
Adj. Net profit a.m.	74,6	84,9	89,4	193,5	96,7
EV / Sales	0,6	1,0	0,7	0,6	0,6
EV / EBITDA	3,7	5,5	4,6	2,9	5,6
EV / EBIT	5,2	7,6	6,1	3,4	7,3
PE	8,2	11,1	10,9	6,1	12,2

Balance Sheet

EURm	2019/20	2020/21	2021/22	2022/23e	2023/24e
Intangible assets	8,3	7,9	7,5	9,5	10,5
Tangible assets	369,3	358,7	359,7	347,3	524,5
Participations	2,3	2,5	2,8	3,7	3,7
Other non-current assets	4,8	7,3	7,9	6,2	7,2
Non-current assets	384,7	376,4	377,9	366,7	545,9
Inventories	66,6	73,2	108,0	120,0	129,2
Receivables	94,6	126,5	251,5	300,0	323,1
Cash	116,9	164,7	241,5	360,0	340,0
Other current assets	7,0	1,7	3,9	4,0	4,0
Current Assets	285,0	366,1	604,9	784,0	796,3
Total assets	669,6	742,4	982,7	1.150,7	1.342,3
Equity	502,9	566,1	696,4	850,7	908,1
Minorities	0,0	0,0	0,0	0,0	0,0
Total equity	502,9	566,1	696,4	850,7	908,1
LT financial liabilities	6,3	5,9	7,0	7,0	107,0
Pension provisions	35,0	30,7	32,4	21,0	22,0
Other LT liabilities	24,2	24,7	30,8	37,0	38,0
Non-current liabilities	65,5	61,4	70,1	65,0	167,0
ST financial liabilities	3,2	4,2	4,6	6,6	7,6
Payables	77,6	91,8	185,5	210,0	226,2
Other ST liabilities	20,4	18,9	26,2	18,5	33,4
Current liabilities	101,3	114,9	216,2	235,1	267,2
Total liabilities	669,6	742,4	982,7	1.150,7	1.342,3

Segments

EURm	2019/20	2020/21	2021/22	2022/23e	2023/24e
Bioethanol	696,5	647,6	836,9	1.202,3	1.291,0
<i>Growth</i>		-7,0%	29,2%	43,7%	7,4%
Food & Feed	192,5	175,5	223,8	265,8	291,1
<i>Growth</i>		-8,8%	27,5%	18,8%	9,5%
Other	10,2	10,0	14,6	14,8	15,0
<i>Growth</i>		-1,8%	46,0%	1,2%	1,4%
Sales	899,2	833,1	1.075,3	1.482,9	1.597,1
<i>Growth</i>		-7,3%	29,1%	37,9%	7,7%

Key operational indicators

	2019/20	2020/21	2021/22	2022/23e	2023/24e
Equity ratio	75,1%	76,3%	70,9%	73,9%	67,7%
Gearing	0,0	0,0	0,0	0,0	0,1
Asset turnover	2,4	2,2	2,9	4,1	2,9
NWC / sales	9,3%	12,9%	16,2%	14,2%	14,2%
Payable days outst.	31,5	40,2	63,0	51,7	51,7
Receivable days outst.	38,4	55,4	85,4	73,8	73,8
Fix operating assets	382,4	373,8	375,1	363,0	542,2
NWC	83,5	107,8	174,0	210,0	226,2
Capital employed	465,9	481,6	549,1	573,0	768,4
RoE	14,8%	15,0%	12,8%	22,7%	10,6%
RoA	15,5%	14,5%	12,9%	21,9%	9,9%
RoCE	22,3%	22,4%	23,1%	44,0%	17,3%
Gross margin	26,5%	28,7%	24,1%	25,8%	17,8%
EBITDA margin	16,3%	17,9%	15,7%	19,9%	10,9%
EBIT margin	11,6%	13,0%	11,8%	17,0%	8,3%
Net profit margin	8,3%	10,2%	8,3%	13,0%	6,1%

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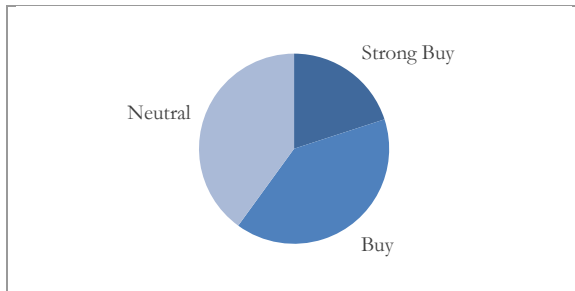
(5) Recommendation history

Stock ratings for the company covered in this report have developed as follows:

CropEnergies	
Date	Rating
14/10/22	Strong Buy
18/05/22	Neutral
18/06/20	Buy
17/12/19	Neutral
27/04/16	Buy

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