

26 July 2023

Price as of 25/07/23: €9.25

Company / Sector	Fair Value	Recommendation
CropEnergies	€24.5	Strong Buy
Energy: Biofuels	(€24.0)	(unchanged)

Expansion accelerating

Share price performance



Share data

Reuters	CE2G.DE
No. of shares (m)	87.25
Daily volume (3m)	64,354
Free float	26.0%
Market cap. (m)	807.1
EV (m)	639.0
Sales 20-24e	11.3%

Valuation	23/24e	24/25e
EV/Sales	0.5	0.7
EV/EBITDA	3.8	4.9
EV/EBIT	5.1	6.5
PER	8.8	7.6
Div. yield	5.4%	5.9%
RoCE	16.5%	12.0%
RoE	11.2%	12.0%

Analysts

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Investment case

CropEnergies accelerates its expansion activities by spending an additional EUR100m on its site in Wilton which improves Ensus' competitive position and enables the production of a new high protein product. This should further drive sales and margins on group level. As a result, our fair value increases to EUR24.5. The gap between the development of the company and the share price is thus further increasing. Against this background, we reiterate our Strong Buy rating.

➤ EUR100M INVESTMENT IN WILTON

While CropEnergies had already announced to pursue a number of expansion projects, the company has now taken an additional investment decision. The company will spend more than EUR100m on improving efficiency at its UK site in Wilton and develop a new high protein product.

➤ STRONG FINANCIAL ...

We estimate that the new product could add at least EUR20m to the group's EBIT line on an annual basis. The group's EBIT margin could increase by roughly 1pp to 17.5% in 2027/28. Pricing this into our DCF model yields an increase in the stock's fair value to EUR24.5.

➤ ... AND STRATEGIC RATIONALE

Efficiency has been an issue at Ensus for some time which is now addressed. In addition, this puts the company further ahead of the most important competitor in the UK. Any potential benefits coming from these factors are not yet part of our model.

For additional disclosures please refer to the appendix

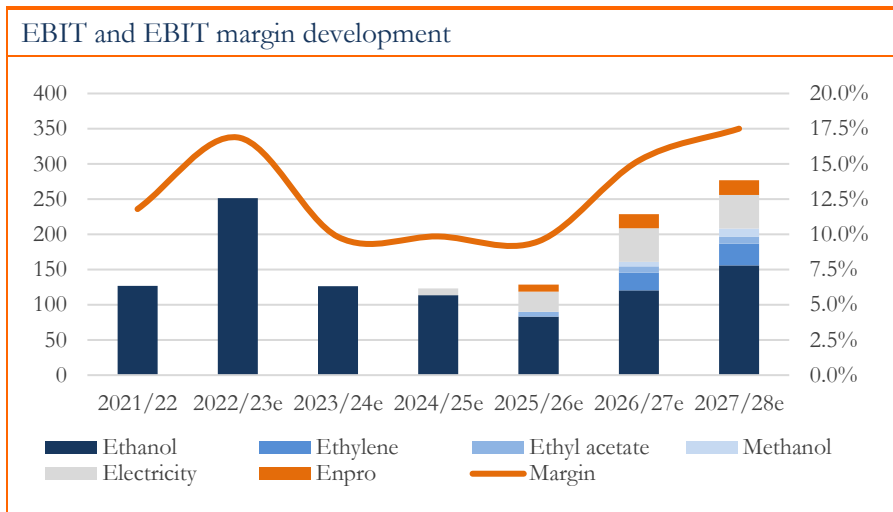
Forecasts	20/21	21/22	22/23	23/24e	24/25e
Sales (€m)	833.1	1075.3	1488.3	1286.0	1278.4
EBITDA (€m)	149.3	168.8	294.3	170.2	195.2
EBIT (€m)	107.9	127.0	251.3	126.2	146.2
Adj. EPS (€)	0.97	1.02	2.25	1.05	1.22
Dividend (€)	0.35	0.45	0.60	0.50	0.55
Oper. CF (€m)	105.9	147.0	187.7	160.7	158.5
Free CF (€m)	77.0	111.2	140.9	-118.3	-345.5

Investing in new high protein product ...

With the decision to invest more than EUR100m in its site in Wilton, UK, CropEnergies further accelerates its expansion. The predominant part of the investment, i.e. EUR75m, will be spent for the production of a new high protein product called EnPro which will serve aquafeed and pet food markets. Demand for similar products has increased materially which has had a positive effect on pricing. On this base, we calculate that the move should allow CropEnergies to increase EBIT by at least EUR20m on an annual basis, thereby clearly exceeding the company's internal RoCE target of 15% and recovering the initial investment in 4-5 years.

... accelerates earnings growth and benefits margins

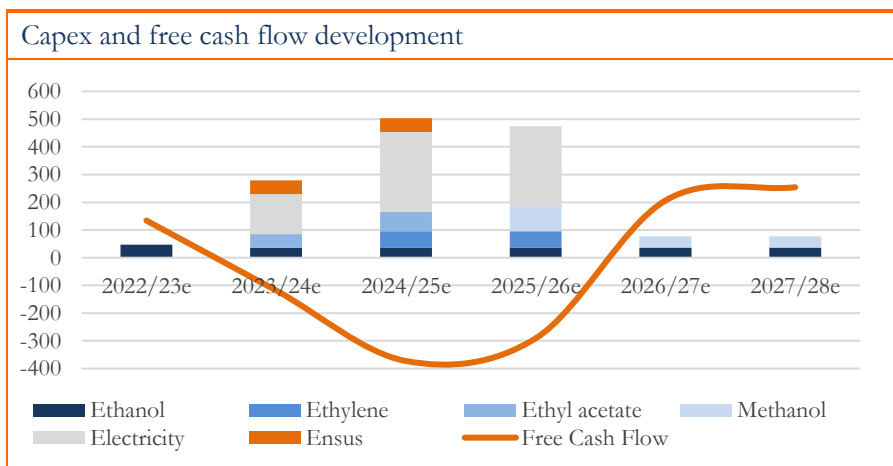
The following chart shows that this has a noticeable impact on the company's financial development. Including Enpro, EBIT in 2027/28 could exceed the exceptionally strong 2022/23 level on a sustainable basis. In addition, group EBIT margin would increase by roughly 1pp to 17.5% in 2027/28.



Source: Matelan Research estimates

Financing remains solid

The additional investments will have an effect on the company's cash flow development. We expect capex to increase to around EUR500m in the coming financial year if all projects continue to develop according to plan. Free cash flow should reach EUR-370m in the same year. Including the additional investments for Ensus, free cash flow should come to EUR-187m over the entire investment period. This stands against almost EUR300m in cash at this point in time.



Source: Matelan Research estimates

Improving efficiency
...

In addition to the financial benefits we also see a strong strategic rationale in the move. It should be remembered that Ensus had already experienced a mothballing phase in 2015/16 and CropEnergies had considered another mothballing at the end of 2022. In contrast to the other plants, production costs in Wilton are higher, in particular with regard to energy costs. Against this background, the company is investing more than EUR25m in increasing the plant's efficiency. In particular, the company plans to upgrade the feed driers and to install a mechanical vapor recompression unit to improve energy efficiency, which should lead to lower energy costs as well as less CO₂ emissions. Ensus will thus be brought closer towards the efficiency levels of CropEnergies' other sites and thus be less vulnerable to temporary market swings.

... and competitive
position of Ensus

Moreover, a higher efficiency, a higher profitability and a broader product range should also improve Ensus' competitive position in the UK, in particular when compared to the company's largest competitor, which posted sizable losses in the financial year ending August 2022. Against this background, Ensus might be able take further market share in the UK.

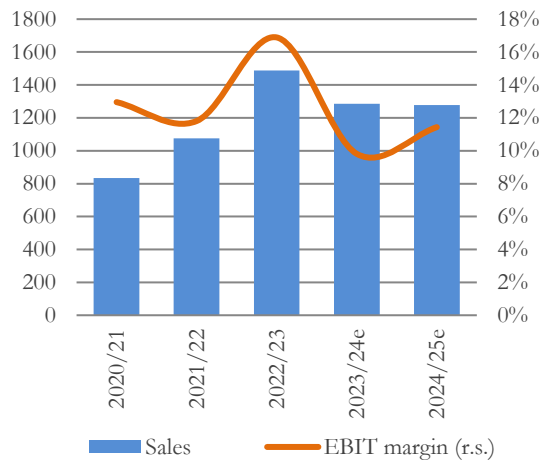
Strong strategic fit

While the company has recently focused on expanding into adjacent territories, i.e. renewable chemical markets that can be addressed on the base of further processing its ethanol production or renewable methanol, also a green fuel that can be used in the shipping or the aviation industries, the decision to invest in Wilton is now clearly closer to the traditional activities. However, the move also leads to the production of a new, higher value product and the production of ethanol with its by products has always remained a strategic pillar for the group. The move also fits perfectly with CropEnergie's mother company's strategic focus on proteins.

Fair value comes to
EUR24.5

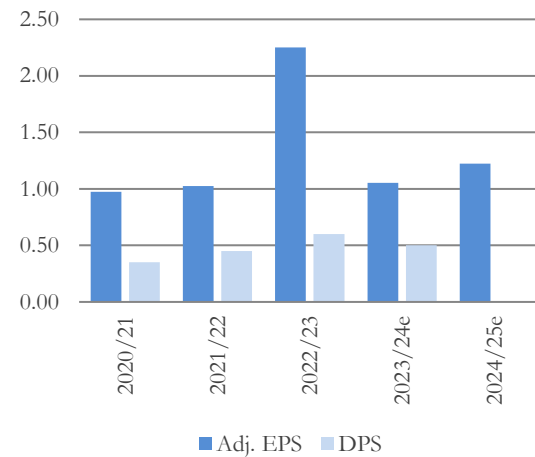
Valuing just the investment and the prospective earnings from EnPro, i.e. disregarding any strategic benefits, we arrive at an increase in our valuation to EUR24.5. There is thus an increasing gap between the positive development of the company and the share price. We thus reiterate our Strong Buy rating.

Sales and EBIT margin



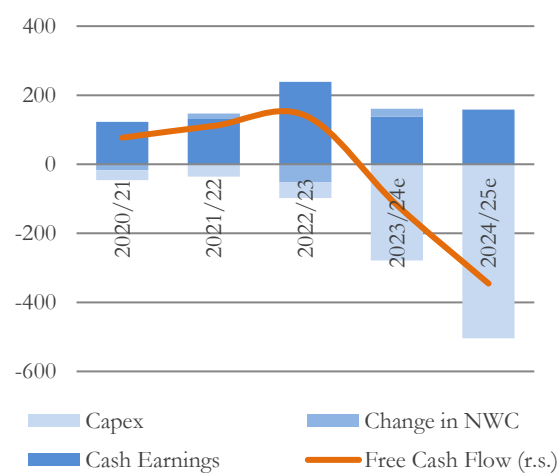
In EURm

Adj. EPS and DPS



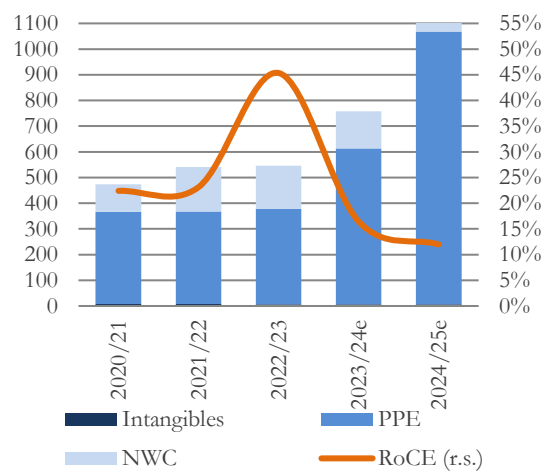
In EUR

Cash Flow



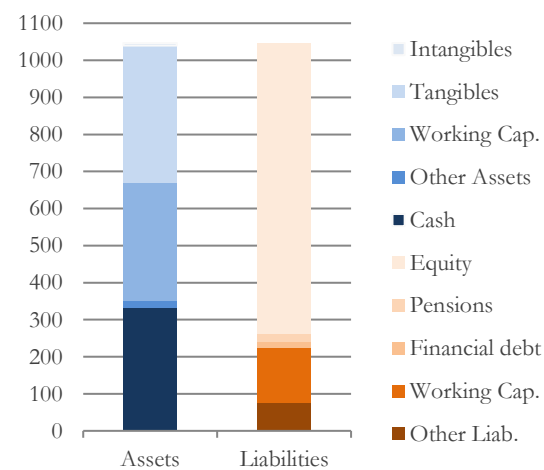
In EURm

RoCE



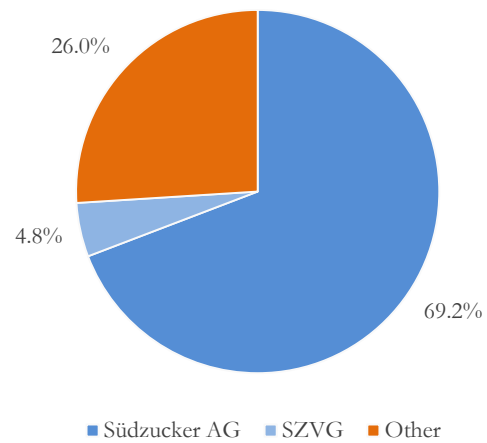
In EURm

Balance Sheet



EURm

Shareholder structure



P & L

EURm	2020/21	2021/22	2022/23	2023/24e	2024/25e
Sales	833.1	1,075.3	1,488.3	1,286.0	1,278.4
<i>Growth</i>		29.1%	38.4%	-13.6%	-0.6%
Material costs	-594.2	-816.2	-1,097.2	-998.3	-971.0
Gross profit	238.9	259.2	391.0	287.7	307.5
<i>Gross margin</i>	28.7%	24.1%	26.3%	22.4%	24.0%
Other operating costs	-89.6	-90.4	-96.7	-117.5	-112.3
EBITDA	149.3	168.8	294.3	170.2	195.2
<i>Margin</i>	17.9%	15.7%	19.8%	13.2%	15.3%
Depreciation	-41.4	-41.8	-43.0	-44.0	-49.0
EBIT	107.9	127.0	251.3	126.2	146.2
<i>Margin</i>	13.0%	11.8%	16.9%	9.8%	11.4%
Financial result	-0.5	-2.7	4.1	-2.0	-2.0
EBT	107.4	124.2	255.4	124.2	144.2
Taxes	-22.5	-34.8	-58.9	-32.3	-37.5
Net profit	84.9	89.4	196.6	91.9	106.7
Minorities	0.0	0.0	0.0	0.0	0.0
Net profit a.m.	84.9	89.4	196.6	91.9	106.7
<i>Growth</i>		5.3%	119.9%	-53.2%	16.1%
No of shares	87.3	87.3	87.3	87.3	87.3
EPS	0.97	1.02	2.25	1.05	1.22
Adj. EPS	0.97	1.02	2.25	1.05	1.22
<i>Growth</i>		5.3%	119.9%	-53.2%	16.1%
Dividend	0.35	0.45	0.60	0.50	0.55

Cash Flow

EURm	2020/21	2021/22	2022/23	2023/24e	2024/25e
EBIT	107.9	127.0	251.3	126.2	146.2
Depreciation	41.4	41.8	43.0	44.0	49.0
Other non-cash items	-3.8	-2.8	3.4	0.0	0.0
Cash taxes	-22.5	-34.8	-58.9	-32.3	-37.5
Cash earnings	123.0	131.2	238.8	137.9	157.7
Change in NWC	-17.1	15.8	-51.2	22.8	0.9
CF from operations	105.9	147.0	187.7	160.7	158.5
Capex	-28.8	-35.8	-46.8	-279.0	-504.0
Other investm./divestm.	1.3	0.8	-3.5	0.0	0.0
CF from investing	-27.5	-34.9	-50.3	-279.0	-504.0
CF from fin. and other	-30.5	-35.3	-45.7	125.1	332.5
Change in cash	47.9	76.8	91.7	6.9	-13.0

Valuation multiples

	2020/21	2021/22	2022/23	2023/24e	2024/25e
Share price	10.82	11.18	13.01	9.25	9.25
x No of shares	87.3	87.3	87.3	87.3	87.3
Market Capitalisation	944.0	975.5	1,135.1	807.1	807.1
+ Net financial debt	-154.6	-229.9	-317.5	-182.6	130.4
+ Pension provision	30.7	32.4	22.7	22.0	19.0
+ Minorities	0.0	0.0	0.0	0.0	0.0
- Participations	-2.5	-2.8	-7.5	-7.5	-7.5
Enterprise Value	817.6	775.1	832.8	639.0	949.0
Sales	833.1	1,075.3	1,488.3	1,286.0	1,278.4
Adj. EBITDA	149.3	168.8	294.3	170.2	195.2
Adj. EBIT	107.9	127.0	251.3	126.2	146.2
Adj. Net profit a.m.	84.9	89.4	196.6	91.9	106.7
EV / Sales	1.0	0.7	0.6	0.5	0.7
EV / EBITDA	5.5	4.6	2.8	3.8	4.9
EV / EBIT	7.6	6.1	3.3	5.1	6.5
PE	11.1	10.9	5.8	8.8	7.6

Balance Sheet

EURm	2020/21	2021/22	2022/23	2023/24e	2024/25e
Intangible assets	7.9	7.5	7.0	7.0	7.0
Tangible assets	358.7	359.7	371.1	606.1	1,061.1
Participations	2.5	2.8	7.5	7.5	7.5
Other non-current assets	7.3	7.9	8.2	8.5	8.7
Non-current assets	376.4	377.9	393.8	629.1	1,084.3
Inventories	73.2	108.0	133.6	115.5	114.8
Receivables	126.5	251.5	184.3	159.2	158.3
Cash	164.7	241.5	333.1	340.0	327.0
Other current assets	1.7	3.9	2.0	3.0	3.5
Current Assets	366.1	604.9	653.1	617.7	603.6
Total assets	742.4	982.7	1,046.9	1,246.8	1,687.4
Equity	566.1	696.4	783.8	823.3	886.4
Minorities	0.0	0.0	0.0	0.0	0.0
Total equity	566.1	696.4	783.8	823.3	886.4
LT financial liabilities	5.9	7.0	9.8	149.8	449.8
Pension provisions	30.7	32.4	22.7	22.0	19.0
Other LT liabilities	24.7	30.8	23.7	38.0	38.0
Non-current liabilities	61.4	70.1	56.1	209.8	506.8
ST financial liabilities	4.2	4.6	5.9	7.6	7.6
Payables	91.8	185.5	150.0	129.6	128.8
Other ST liabilities	18.9	26.2	51.1	76.5	157.8
Current liabilities	114.9	216.2	207.0	213.7	294.2
Total liabilities	742.4	982.7	1,046.9	1,246.8	1,687.4

Segments

EURm	2020/21	2021/22	2022/23	2023/24e	2024/25e
Bioethanol	647.6	836.9	1,159.4	919.0	934.5
<i>Growth</i>		29.2%	38.5%	-20.7%	1.7%
Food & Feed	175.5	223.8	273.1	331.0	218.0
<i>Growth</i>		27.5%	22.0%	21.2%	-34.2%
Other	10.0	14.6	18.1	36.0	49.0
<i>Growth</i>		46.0%	23.8%	98.9%	36.1%
Sales	833.1	1,075.3	1,450.6	1,286.0	1,201.4
<i>Growth</i>		29.1%	34.9%	-11.3%	-6.6%

Key operational indicators

	2020/21	2021/22	2022/23	2023/24e	2024/25e
Equity ratio	76.3%	70.9%	74.9%	66.0%	52.5%
Gearing	0.0	0.0	0.0	0.2	0.5
Asset turnover	2.2	2.9	3.9	2.1	1.2
NWC / sales	12.9%	16.2%	11.3%	11.3%	11.3%
Payable days outst.	40.2	63.0	36.8	36.8	36.8
Receivable days outst.	55.4	85.4	45.2	45.2	45.2
Fix operating assets	373.8	375.1	386.3	621.6	1,076.8
NWC	107.8	174.0	168.0	145.1	144.3
Capital employed	481.6	549.1	554.3	766.7	1,221.1
RoE	15.0%	12.8%	25.1%	11.2%	12.0%
RoA	14.5%	12.9%	24.0%	10.1%	8.7%
RoCE	22.4%	23.1%	45.3%	16.5%	12.0%
Gross margin	28.7%	24.1%	26.3%	22.4%	24.0%
EBITDA margin	17.9%	15.7%	19.8%	13.2%	15.3%
EBIT margin	13.0%	11.8%	16.9%	9.8%	11.4%
Net profit margin	10.2%	8.3%	13.2%	7.1%	8.3%

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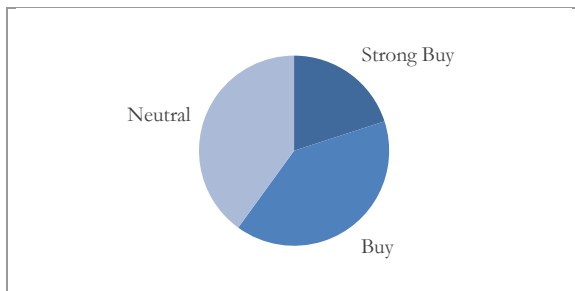
(5) Recommendation history

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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