

06 July 2023

Price as of 05/07/23: €9.55

Company / Sector	Fair Value	Recommendation
CropEnergies	€24.0	Strong Buy
Energy: Biofuels	(€23.7)	(unchanged)

Coming quarters should show steady improvements

Share price performance



Share data

Reuters	CE2G.DE
No. of shares (m)	87.25
Daily volume (3m)	61,095
Free float	26.0%
Market cap. (m)	833.2
EV (m)	655.1
Sales 19-23e	11.3%

Valuation	23/24e	24/25e
EV/Sales	0.5	0.8
EV/EBITDA	3.9	5.0
EV/EBIT	5.3	6.7
PER	9.1	7.8
Div. yield	5.2%	5.8%
RoCE	17.6%	13.0%
RoE	11.2%	12.0%

Analysts

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

Investment case

While the market appears to focus on lower yoy results, Q1 came in better than anticipated and an improved ethanol spread has triggered an increase in our full year estimates. We expect improving results throughout the year and there is still upside. The company's expansion runs according to plan and further projects might be presented. There is thus an increasing gap between operational development and the share price, which we see as a strong buying opportunity.

➤ Q1 BEATS ESTIMATES

Q1 had been expected to come in at a rather low earnings level due to some pressure on prices and scheduled maintenance work. Actual results are now slightly better than expected due to a higher than anticipated production.

➤ SUCCESSIVE IMPROVEMENTS UPCOMING

Looking into the earnings structure and taking into account the improved spread between ethanol and wheat we now expect a doubling of the Q1 EBIT level already in Q2 and further improvements until the end of the financial year.

➤ INCREASED FY FORECAST AND VALUATION

This leads to an increase in our full-year EBIT estimate from EUR114m to EUR126m. We are thus now in the upper half of the company's guidance range (EUR95-145m,) which management has confirmed. With all expansion projects running according to plan we leave our scenario for subsequent years unchanged. This brings us to a new fair value of EUR24 per share, which does neither include that ethanol might become scarce again in Europe nor that the company might embark on an additional expansion project.

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	-68.3	-295.5

Q1 23/24 review and change in estimates

EURm	Q1	Q1	Q1	Change	FY	FY	FY	Outlook
	23/24	23/24e	22/23		22/23	23/24e	23/24e	
						old	new	
Production	221000	200,000	281000	-21.4%	1057000	1155660	1041000	
Sales	321.4	296.3	398.9	-19.4%	1488.3	1363.1	1286.0	1270-1370
Gross profit	55.9	52.0	119.2	-53.1%	391.0	265.9	287.7	
Margin	17.4%	17.6%	29.9%		26.3%	19.5%	22.4%	
EBITDA	25.1	23.0	97.8	-74.3%	294.3	155.9	170.2	140-190
Margin	7.8%	7.8%	24.5%		19.8%	11.4%	13.2%	
EBIT	13.9	12.0	87.2	-84.0%	251.3	114.1	126.2	95-145
Margin	4.3%	4.0%	21.8%		16.9%	8.4%	9.8%	
Net profit a.m.	11.2	9.4	64.9	-82.7%	196.6	83.0	91.9	

Source: Matelan Research estimates, CropEnergies data

Q1 comes in below last year ...

Last year's first quarter was driven by extraordinarily high ethanol prices resulting from the uncertainty at the start of the war in the Ukraine. Since then, commodity prices have normalised. On the ethanol side, this was additionally fuelled by rising imports from the US and Brazil. Against this background, CropEnergies had already made it clear that Q1 results will not be able to meet the exceptional level of last year. The company had also highlighted that production in Q1 will not reach usual levels as scheduled maintenance work on two plans falls into this period.

... but beats expectations

Against this background, we had anticipated an EBIT level of EUR12m for the first quarter based on a production of 200.000 m³. In fact, CropEnergies came in with almost EUR14m in EBIT. The main reason for the better than expected result was that production reached 221.000 m³ despite the maintenance, with margins coming in perfectly in line with expectations.

EUR296m in net cash

Moreover, the first quarter revealed cash earnings of EUR20.6m. An increase in working capital of EUR-31.9m, that was largely driven by an increased cash collateral for derivative positions, left operating cash flow at EUR-11.3m. Free cash flow came to EUR-21.1m. As a result, net cash was down from last quarter's level but still stood at EUR295.6m.

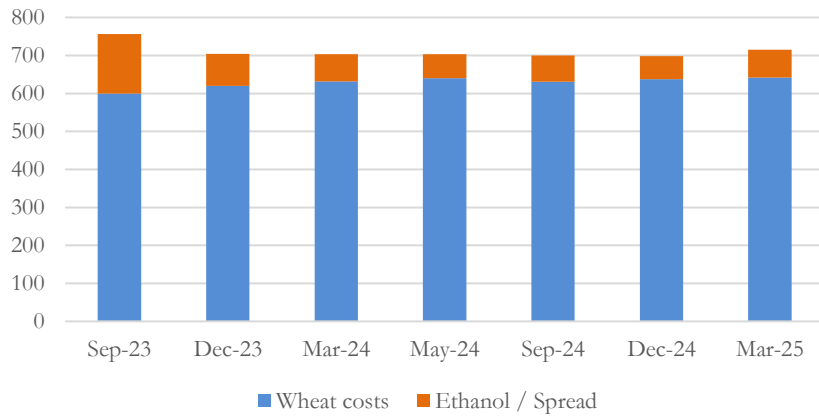
Full year guidance reiterated

For the full year, management has repeated its guidance of EUR1.27-1.37bn in sales, EUR140-190m in EBITDA and EUR95-145m in EBIT. Management also highlighted that part of the scheduled maintenance lasts into June, thereby affecting Q2, and that last year's production might not be met.

Forward curves show increased spreads

Against this background, we have lowered our production estimate for Q2 as well as the full year. In contrast, we have become more optimistic with regard to our earnings estimates. Q1 has already brought higher earnings than expected but more importantly, the spread between ethanol and wheat futures has improved further since our last update. The September spread already stands at EUR156m and we also see a margin increase at the far end. Though we base our estimates on the current curve, it should be kept in mind that the forward curve tends to shift in a parallel fashion over time and potential changes to the current E5 regime in Germany could also have an additional positive impact on the spread going forward.

Forward curves for ethanol and wheat

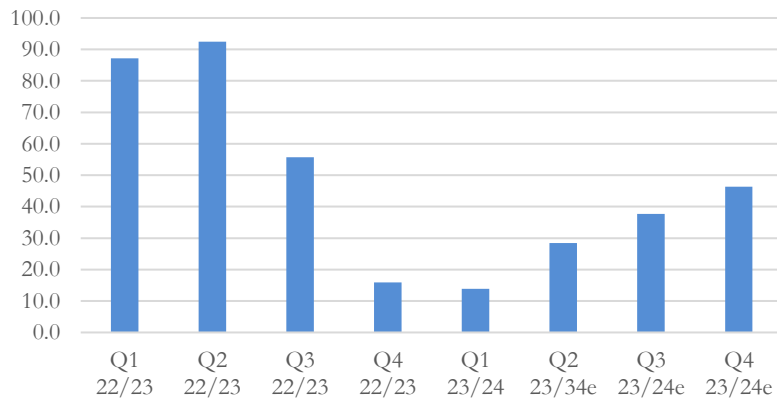


Source: Matelan Research based on Matif and Platts, in EUR/m³, cost for the wheat required to production 1 m³ of ethanol.

Successive earnings improvements in the quarters to come

Moreover, most maintenance related costs in Q1 should not reoccur in the coming quarters and the hedging burden on the wheat side should diminish further. We should thus have seen the lowest absolute EBIT level in Q1 and successive increases throughout the remainder of the year. In fact, we expect CropEnergies to double EBIT from Q1 to Q2. Further increases in H2 should bring the company to EUR126m for the full year 2023/24. Coming from just below the mid-point of the guidance (EUR114m) our estimate is now moving towards the higher end. It should also be made clear that this is no aggressive estimate. With current price levels no longer incentivising imports from the US or Brazil, there is a high likelihood of ethanol prices moving north again as European ethanol consumption exceeds local production by roughly one quarter. We would thus not exclude that even the Q3 22/23 earnings level might be reached in the course of the year. It should, however, also be clear that reaching the extraordinary level of Q2 22/23 is far from being likely. So Q2 23/24 should see a sizable improvement compared to Q1 23/24 but continue to be below the previous year's period.

EBIT development by quarter



Source: Matelan Research estimates, CropEnergies data

New projects develop according to plan ...

For the medium-term we continue to expect that CropEnergies can beat last year's exceptional record EBIT level of EUR251m by the end of the current expansion phase on a sustainable basis. Management reports that its new projects, which are all in different realisation stages, are progressing according to plan. In this respect, the company has just announced that a technology provider for the renewable ethylene project in the Netherlands has been selected. By the end of the year, the company will decide upon taking the next major step, i.e. entering the basic engineering phase.

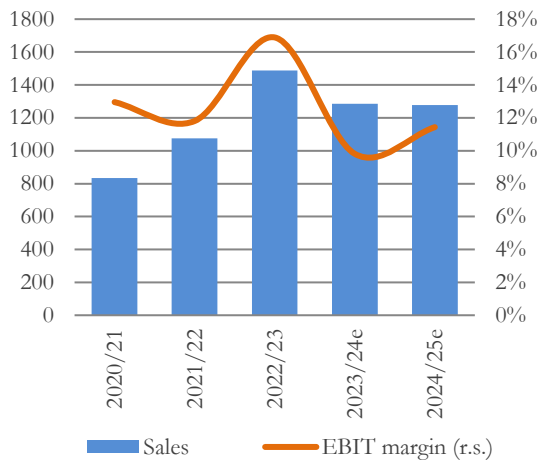
... and more is in the pipeline

Management also highlighted that it is making progress in the area of second-generation biofuels and that it intends to provide more detailed information on these efforts in due course. In contrast to the already announced projects, this not yet part of our modelling so that this comes as an add-on in terms of valuation.

Fair value comes to EUR24

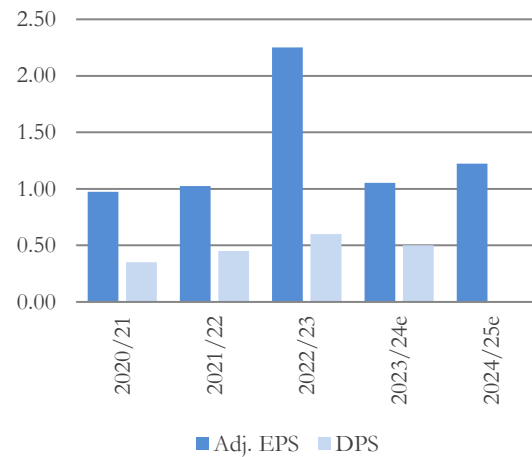
As we have upped our 2023/24 estimates but left our scenario for subsequent years unchanged there is only a small impact on our fair value, which moves from EUR23.7 to EUR24.0. In any case, the share price has fallen as a result of lower ethanol prices and currently trades around the EUR10 mark. It is clear that this not even reflects the value of the company's ethanol activities and clearly neglects any positive outcome from the expansion plans that the company is currently pursuing.

Sales and EBIT margin



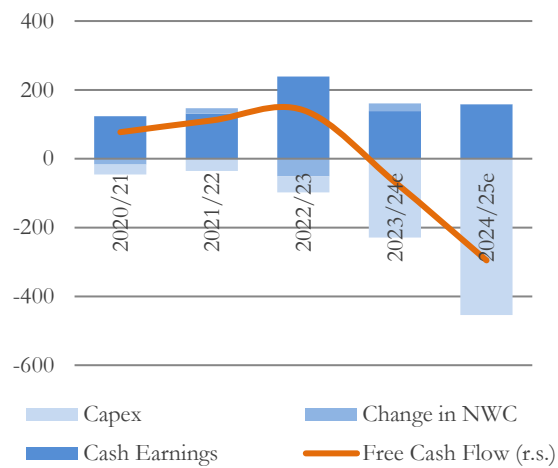
In EURm

Adj. EPS and DPS



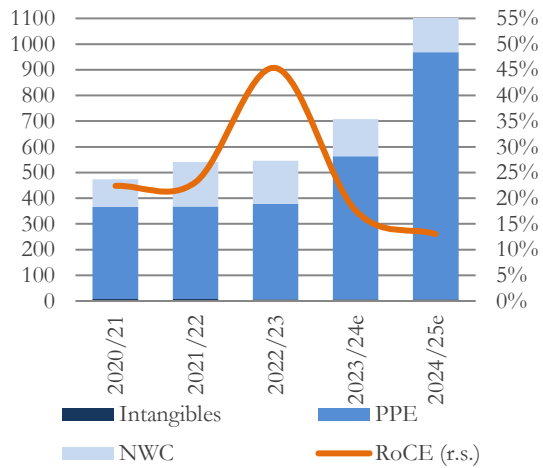
In EUR

Cash Flow



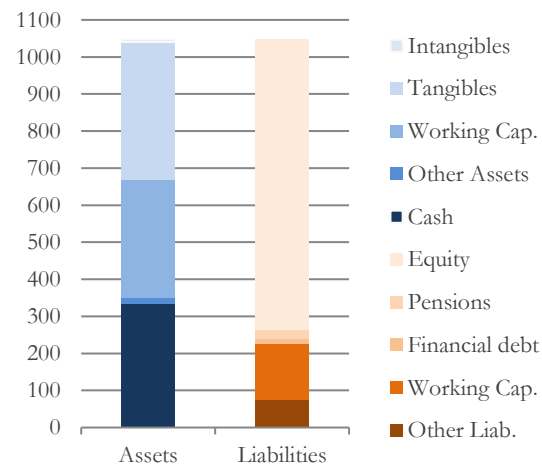
In EURm

RoCE



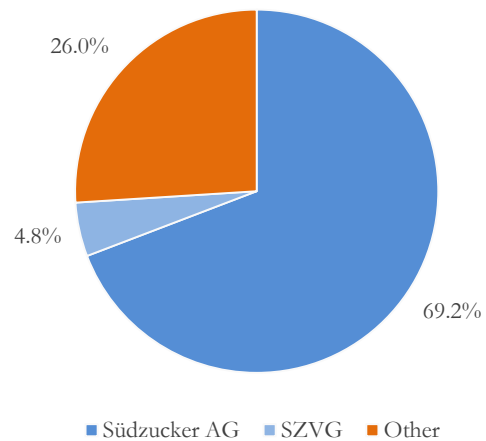
In EURm

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	-229.0	-454.0
Other investm./divestm.	1.3	0.8	-3.5	0.0	0.0
CF from investing	-27.5	-34.9	-50.3	-229.0	-454.0
CF from fin. and other	-30.5	-35.3	-45.7	75.1	282.5
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	9.55	9.55
x No of shares	87.3	87.3	87.3	87.3	87.3
Market Capitalisation	944.0	975.5	1,135.1	833.2	833.2
+ 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	665.1	975.1
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	0.8
EV / EBITDA	5.5	4.6	2.8	3.9	5.0
EV / EBIT	7.6	6.1	3.3	5.3	6.7
PE	11.1	10.9	5.8	9.1	7.8

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	556.1	961.1
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	579.1	984.3
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	1,196.8	1,587.4
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	26.5	57.8
Current liabilities	114.9	216.2	207.0	163.7	194.2
Total liabilities	742.4	982.7	1,046.9	1,196.8	1,587.4

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%	68.8%	55.8%
Gearing	0.0	0.0	0.0	0.2	0.5
Asset turnover	2.2	2.9	3.9	2.2	1.3
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	571.6	976.8
NWC	107.8	174.0	168.0	145.1	144.3
Capital employed	481.6	549.1	554.3	716.7	1,121.1
RoE	15.0%	12.8%	25.1%	11.2%	12.0%
RoA	14.5%	12.9%	24.0%	10.5%	9.2%
RoCE	22.4%	23.1%	45.3%	17.6%	13.0%
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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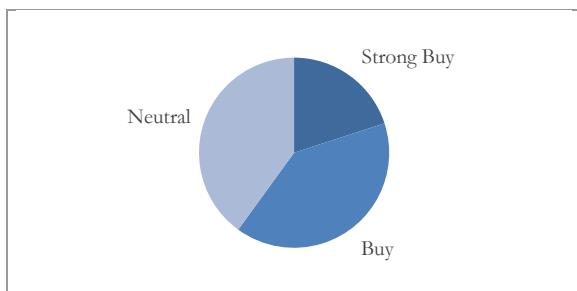
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CropEnergies	
Date	Rating
14/10/22	Strong Buy
18/05/22	Neutral
18/06/20	Buy
17/12/19	Neutral
27/04/16	Buy

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CONTACT DATA

For further information, please contact:

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