

11 October 2023

Price as of 10/10/23: €7.65

Company / Sector	Fair Value	Recommendation
CropEnergies	€19.5	Strong Buy
Energy: Biofuels	(unchanged)	(unchanged)

Q2 marks the start of a material earnings upswing

Share price performance



Share data

Reuters	CE2G.DE
No. of shares (m)	87.25
Daily volume (3m)	57,928
Free float	26.0%
Market cap. (m)	667.5
EV (m)	336.5
Sales 20-24e	11.3%

Valuation	23/24e	24/25e
EV/Sales	0.3	0.3
EV/EBITDA	2.0	2.4
EV/EBIT	2.8	3.3
PER	7.0	6.4
Div. yield	6.5%	7.2%
RoCE	21.2%	18.5%
RoE	11.6%	11.7%

Analysts

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

Investment case

Though we would have hoped for a slightly higher earnings level, Q2 has still seen the start of a strongly improving earnings trend. The company also continues to produce free cash. Net cash stands at EUR273m despite EUR52m being paid to shareholders (7.8% dividend yield base on the current share price). Moreover, we expect the company to decide on an investment in the production of renewable ethylene before the end of the FY. Thus, we reiterate our **Strong Buy** rating.

➤ Q2 STARTS POSITIVE EARNINGS TREND

Maintenance work in Q2 had a stronger effect on production than we thought so that sales and earnings came in slightly below our expectations. However, the effect was mitigated to a gap of just EUR2.5m on the net profit line and CropEnergies still showed a clear improvement compared to the previous two quarters.

➤ FINE-TUNING FULL YEAR ESTIMATES

While management has reiterated its full-year guidance we have fine-tuned our model, arriving rather close to the mid-point of the guidance. This suggests that operating earnings in H2 would more than double compared to the H1 level based on higher production and an improving spread between ethanol and wheat.

➤ VALUATION SUGGESTS STRONG UPSIDE

Our valuation still stands at EUR19.5. With earnings from the traditional activities improving, an ongoing strong cash generation, and the new projects being well under way, we would hope to see a positive momentum coming back to a share price that currently appears to be decoupled from the fundamental development of the company.

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	1270.5	1278.4
EBITDA (€m)	149.3	168.8	294.3	166.2	181.0
EBIT (€m)	107.9	127.0	251.3	122.2	132.0
Adj. EPS (€)	0.97	1.02	2.25	1.10	1.19
Dividend (€)	0.35	0.45	0.60	0.50	0.55
Oper. CF (€m)	105.9	147.0	187.7	145.9	125.7
Free CF (€m)	77.0	111.2	140.9	65.9	-39.9

Q2 review and change in estimates

EURm	Q2	Q2	Q2	Change	FY	FY	FY	Outlook
	23/24	23/24e	22/23		22/23	23/24e	23/24e	
						old	new	
Production	243000	260,000	302000	-19.5%	1057000	1041000	1024000	
Sales	309.2	325.4	449.8	-31.3%	1488.3	1286.0	1270.5	1270-1370
Gross profit	58.5	64.4	132.0	-55.7%	391.0	287.7	283.7	
Margin	18.9%	19.8%	29.3%		26.3%	22.4%	22.3%	
EBITDA	31.0	35.4	103.1	-70.0%	294.3	170.2	166.2	140-190
Margin	10.0%	10.9%	22.9%		19.8%	13.2%	13.1%	
EBIT	20.0	24.4	92.5	-78.4%	251.3	126.2	122.2	95-145
Margin	6.5%	7.5%	20.6%		16.9%	9.8%	9.6%	
Net profit a.m.	16.2	18.7	70.9	-77.1%	196.6	91.9	95.7	

Source: CropEnergies, Matelan Research estimates

Production in Q2 lower than we anticipated

CropEnergies' Q2 results came in a bit weaker than we had anticipated. The main reason was a lower than expected production of 243.000m³ compared to an estimated 260.000m³. The company reached only 221.000m³ in the first quarter on the base of scheduled maintenance work. At the time, management indicated that there was still some maintenance planned for the second quarter. This has had a stronger impact than we have hoped for. Management confirmed that scheduled maintenance work had been terminated in Q2 so that a normal production is expected for the second half of the year. Coming back to around 280.000m³ in quarterly production should still drive the company north of 1m m³ for the full year.

Net profit still almost in line

As a result of the lower than expected utilisation, sales, earnings, and margins came in slightly below our estimates. A better than expected interest income and slightly lower than anticipated taxes reduced the gap to our forecast to just EUR2.5m on the net profit line.

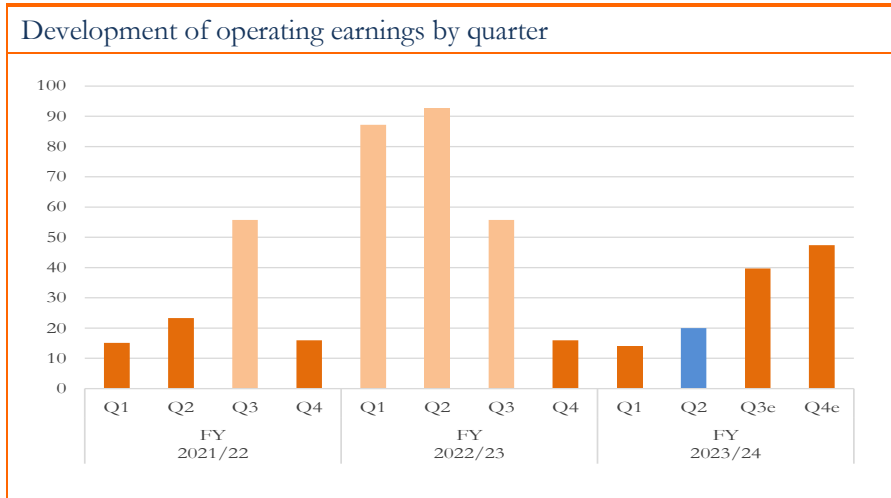
Net cash at EUR273m

Improved cash earnings compared to Q1 and a EUR14.8m reduction in net working capital left the company with EUR45.3m in operating cash in Q2, which financed EUR23.7m in investments. Thus, the free cash flow of EUR21.6m covered almost half of the company's dividend payment of EUR52.3m. As a result, the company's net cash position came down to only EUR273.4m from EUR295.6m in Q1. We expect that the company will be back to around EUR300m at the end of the year as improving cash earnings should more than compensate for an increase in capex to around EUR60m in the second half of the year (compared to EUR23.7m in H1), which results from the development of the ETAC project.

Further improvements expected for H2

It should be highlighted that Q2 23/24 showed an improvement compared to the previous two quarters and - excluding the extraordinary results in particular in Q1-Q3 22/23- looks decent in historical terms. However, the second half of the year should now show even stronger improvements. Firstly, production is expected to come to normal levels. Moreover, the spread between ethanol and wheat looks favourable. While there is currently support for ethanol pricing due to rising demand and lower imports, a good harvest and deliveries from the Ukraine weigh on wheat prices. Management has made it clear that due to its sourcing situation, the company is now less sensitive to fluctuations in the wheat price and that it is heading for the mid-point of its guidance of EUR95-145m in operating profit with ethanol prices

of around EUR800/m³. This implies an improvement in operating profit from EUR34m in H1 23/24 to EUR86m in H2 23/24. The following chart illustrates the quarterly operating earnings development on the base of our Q3 and Q4 expectations.



Source: CropEnergies, Matelan Research estimates

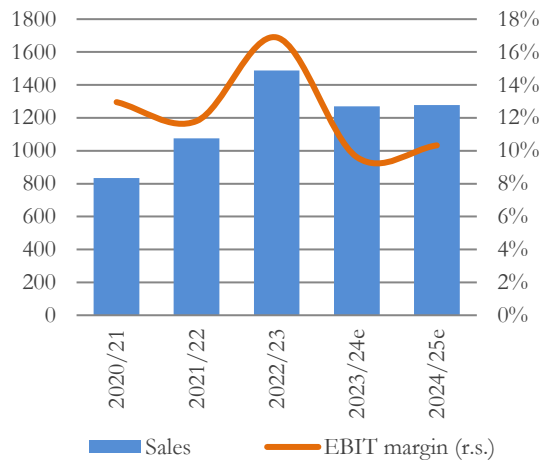
Estimates fine-tuned

While the company has reiterated its guidance for the full year, we have only fine-tuned our estimates. In fact, we have only adjusted for the lower Q2 contribution, which brings us closer to the mid-point of the guidance for the full year. This has only a marginal impact on our fair value.

Key projects under way

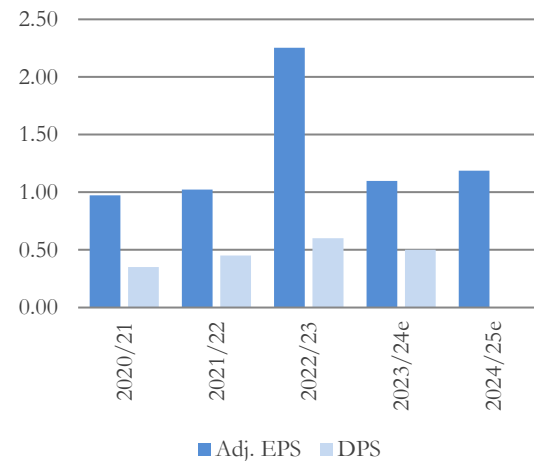
In addition to the rising earnings development, management has made it clear that it continues to work on all pillars of its “Innovation from biomass” strategy. Within this context, the development of renewable chemicals is a top priority. The renewable ETAC project is already in the investment phase and a decision on an investment in renewable ethylene will be taken until the end of the financial year. Also, the production of high-protein products in Wilton will be pushed forward. Finally, the first E20 filling station serving the Südzucker fleet will now become operational. This can be seen as a feasibility test supporting a potential E20 standard within the European Union.

Sales and EBIT margin



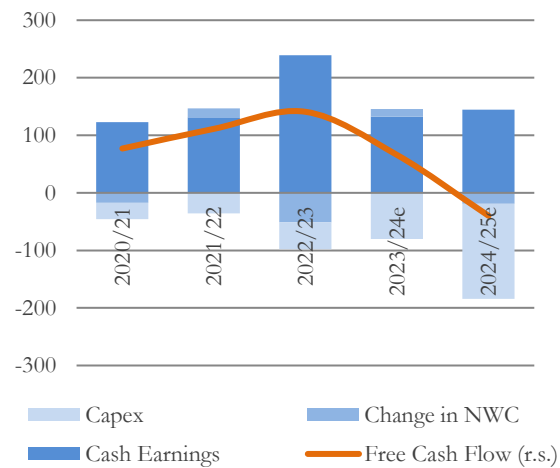
In EURm

Adj. EPS and DPS



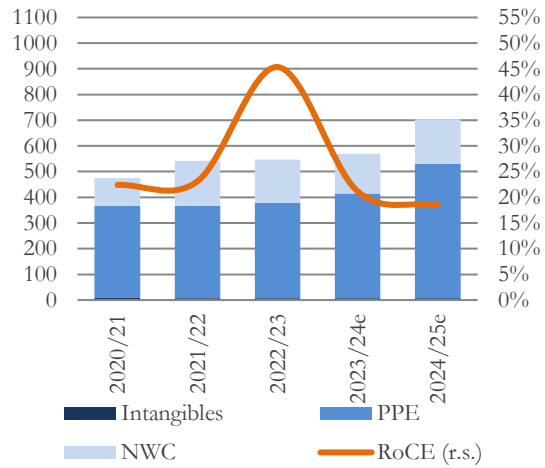
In EUR

Cash Flow



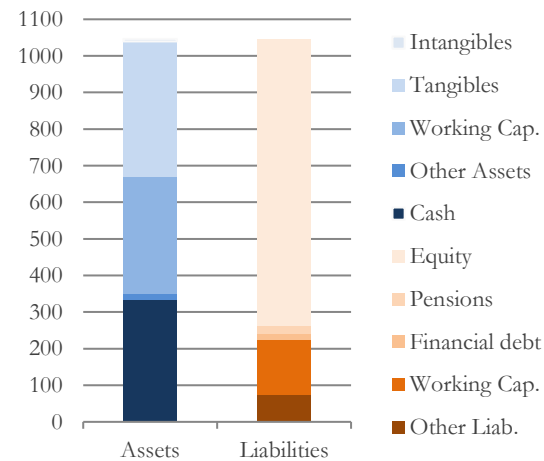
In EURm

RoCE



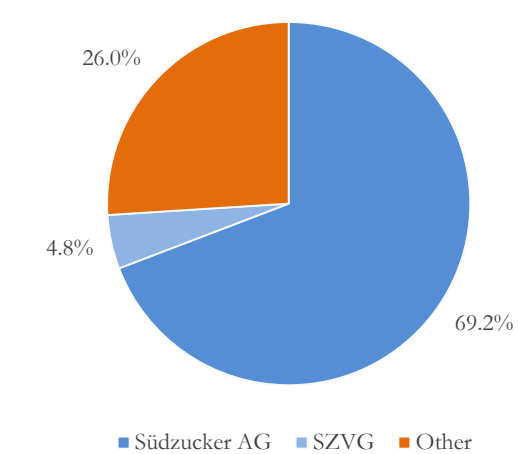
In EURm

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	1,270.5	1,278.4
<i>Growth</i>		29.1%	38.4%	-14.6%	0.6%
Material costs	-594.2	-816.2	-1,097.2	-986.9	-985.1
Gross profit	238.9	259.2	391.0	283.7	293.3
<i>Gross margin</i>	28.7%	24.1%	26.3%	22.3%	22.9%
Other operating costs	-89.6	-90.4	-96.7	-117.5	-112.3
EBITDA	149.3	168.8	294.3	166.2	181.0
<i>Margin</i>	17.9%	15.7%	19.8%	13.1%	14.2%
Depreciation	-41.4	-41.8	-43.0	-44.0	-49.0
EBIT	107.9	127.0	251.3	122.2	132.0
<i>Margin</i>	13.0%	11.8%	16.9%	9.6%	10.3%
Financial result	-0.5	-2.7	4.1	7.2	8.0
EBT	107.4	124.2	255.4	129.4	140.0
Taxes	-22.5	-34.8	-58.9	-33.6	-36.4
Net profit	84.9	89.4	196.6	95.7	103.6
Minorities	0.0	0.0	0.0	0.0	0.0
Net profit a.m.	84.9	89.4	196.6	95.7	103.6
<i>Growth</i>		5.3%	119.9%	-51.3%	8.3%
No of shares	87.3	87.3	87.3	87.3	87.3
EPS	0.97	1.02	2.25	1.10	1.19
Adj. EPS	0.97	1.02	2.25	1.10	1.19
<i>Growth</i>		5.3%	119.9%	-51.3%	8.3%
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	122.2	132.0
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	-33.6	-36.4
Cash earnings	123.0	131.2	238.8	132.5	144.6
Change in NWC	-17.1	15.8	-51.2	13.4	-19.0
CF from operations	105.9	147.0	187.7	145.9	125.7
Capex	-28.8	-35.8	-46.8	-80.0	-165.5
Other investm./divestm.	1.3	0.8	-3.5	0.0	0.0
CF from investing	-27.5	-34.9	-50.3	-80.0	-165.5
CF from fin. and other	-30.5	-35.3	-45.7	-34.0	-55.1
Change in cash	47.9	76.8	91.7	31.9	-95.0

Valuation multiples

	2020/21	2021/22	2022/23	2023/24e	2024/25e
Share price	10.82	11.18	13.01	7.65	7.65
x No of shares	87.3	87.3	87.3	87.3	87.3
Market Capitalisation	944.0	975.5	1,135.1	667.5	667.5
+ Net financial debt	-154.6	-229.9	-317.5	-347.0	-251.7
+ Pension provision	30.7	32.4	22.7	23.5	24.0
+ 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	336.5	432.3
Sales	833.1	1,075.3	1,488.3	1,270.5	1,278.4
Adj. EBITDA	149.3	168.8	294.3	166.2	181.0
Adj. EBIT	107.9	127.0	251.3	122.2	132.0
Adj. Net profit a.m.	84.9	89.4	196.6	95.7	103.6
EV / Sales	1.0	0.7	0.6	0.3	0.3
EV / EBITDA	5.5	4.6	2.8	2.0	2.4
EV / EBIT	7.6	6.1	3.3	2.8	3.3
PE	11.1	10.9	5.8	7.0	6.4

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	407.1	523.6
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	430.1	546.8
Inventories	73.2	108.0	133.6	114.1	132.8
Receivables	126.5	251.5	184.3	195.0	196.2
Cash	164.7	241.5	333.1	365.0	270.0
Other current assets	1.7	3.9	2.0	3.0	3.5
Current Assets	366.1	604.9	653.1	677.1	602.5
Total assets	742.4	982.7	1,046.9	1,107.2	1,148.8
Equity	566.1	696.4	783.8	827.1	887.1
Minorities	0.0	0.0	0.0	0.0	0.0
Total equity	566.1	696.4	783.8	827.1	887.1
LT financial liabilities	5.9	7.0	9.8	9.8	9.8
Pension provisions	30.7	32.4	22.7	23.5	24.0
Other LT liabilities	24.7	30.8	23.7	13.0	14.0
Non-current liabilities	61.4	70.1	56.1	46.3	47.8
ST financial liabilities	4.2	4.6	5.9	8.2	8.5
Payables	91.8	185.5	150.0	154.5	155.5
Other ST liabilities	18.9	26.2	51.1	71.1	49.9
Current liabilities	114.9	216.2	207.0	233.8	213.9
Total liabilities	742.4	982.7	1,046.9	1,107.2	1,148.8

Segments

EURm	2020/21	2021/22	2022/23	2023/24e	2024/25e
Bioethanol	647.6	836.9	1,159.4	902.5	934.5
<i>Growth</i>		29.2%	38.5%	-22.2%	3.5%
Food & Feed	175.5	223.8	304.9	331.0	295.0
<i>Growth</i>		27.5%	36.3%	8.6%	-10.9%
Other	10.0	14.6	24.0	37.0	49.0
<i>Growth</i>		46.0%	63.9%	54.3%	32.4%
Sales	833.1	1,075.3	1,488.3	1,270.5	1,278.4
<i>Growth</i>		29.1%	38.4%	-14.6%	0.6%

Key operational indicators

	2020/21	2021/22	2022/23	2023/24e	2024/25e
Equity ratio	76.3%	70.9%	74.9%	74.7%	77.2%
Gearing	0.0	0.0	0.0	0.0	0.0
Asset turnover	2.2	2.9	3.9	3.0	2.4
NWC / sales	12.9%	16.2%	11.3%	12.2%	13.6%
Payable days outst.	40.2	63.0	36.8	44.4	44.4
Receivable days outst.	55.4	85.4	45.2	56.0	56.0
Fix operating assets	373.8	375.1	386.3	422.6	539.3
NWC	107.8	174.0	168.0	154.6	173.6
Capital employed	481.6	549.1	554.3	577.2	712.9
RoE	15.0%	12.8%	25.1%	11.6%	11.7%
RoA	14.5%	12.9%	24.0%	11.0%	11.5%
RoCE	22.4%	23.1%	45.3%	21.2%	18.5%
Gross margin	28.7%	24.1%	26.3%	22.3%	22.9%
EBITDA margin	17.9%	15.7%	19.8%	13.1%	14.2%
EBIT margin	13.0%	11.8%	16.9%	9.6%	10.3%
Net profit margin	10.2%	8.3%	13.2%	7.5%	8.1%

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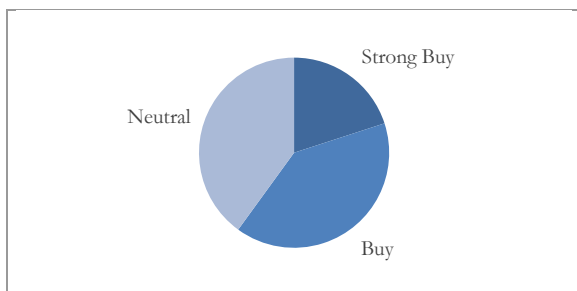
(5) Recommendation history

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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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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