

Neste

Company report

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This report is a summary translation of the report “Pohjaongintaa Uusiutuvisssa tuotteissa” published on 7/25/2024 at 11:06 pm EEST.

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Finding bottoms in Renewable Products

Neste's Q2 comparable EBITDA was slightly below our forecasts, but the lower-than-expected sales margin in Renewable Products in particular made the overall picture negative. The very weak market for Renewable Products has probably bottomed out, but the rate of market recovery and its timing are of course unclear. We believe the segment's long-term sales margin will be higher than the recent lows, relative to which we believe the stock's valuation is moderate. Thus, we reiterate our Accumulate recommendation but cut our target price to EUR 21.0 (was EUR 21.5), reflecting estimate revisions.

Low sales margins in Renewable Products hit the result hard

Neste achieved a comparable EBITDA of 240 MEUR in Q2, slightly below our and clearly below rather fragmented consensus forecasts. The miss was mainly due to a sharper-than-expected decline in the main value driver, sales margin of Renewable Products, in an exceptionally weak market in the second quarter. As a result of this and slightly weaker-than-expected sales volume growth in the segment, the result was well below our expectations. This was slightly offset by an earnings beat in Oil Products, driven by sales volumes that were less impacted than expected by the maintenance shutdowns in Porvoo. Due to the group's low comparable result and inventory valuation losses driven by changes in commodity prices, the reported result for Q2 unexpectedly turned sharply negative.

Short-term forecasts remain under downward pressure

Neste reaffirmed its previous guidance for Renewable Products' sales volumes of around 4.4 Mt/year (+/- 10%) but refined its sales margin guidance to USD 480-580/ton (was USD 480-650/ton). The lowering of the upper limit was not particularly surprising, given the recent weakness of the market and also the slightly downward revision of the guidance on responsible aviation fuel sales volumes to 0.5-0.7 Mt (was 0.5-1.0 Mt). The outlook for lower sales volumes and refining margins for Oil Products was reiterated. Against this backdrop and in light of the Q2 performance, we have lowered our full-year revenue forecast for Renewable Products to 4.1 Mt and our sales margin forecast to approximately USD 515/ton. This, combined with forecast revisions due to weak refining margins for Oil Products, reduced this year's comparable EBITDA forecast by 4%, and next year's operating forecasts were also impacted (4-6%) by higher fixed cost forecasts in Renewable Products. We did not make any changes to our medium-term estimates.

Valuation has declined with Renewable Products sales margin

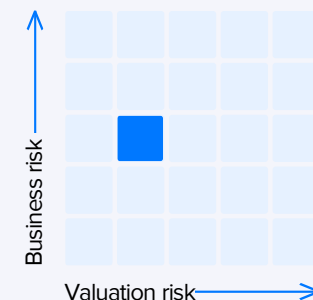
Neste's share price has fallen sharply (-45% YTD) along with lower earnings forecasts for Renewable Products. This is the result of the collapse of the Renewable Products' sales margin, which we believe is currently at an unsustainably low level. We therefore expect that the recovery of the sales margin, together with the increase in sales volumes from the known investments, will lead to a medium-term correction of the valuation, which is high compared to the current year's weak earnings. Our projections for next year value Renewable Products at a reasonable 13x EV/EBIT multiple in our sum-of-the-parts calculation, so we believe an investor can pick up good medium-term earnings growth prospects at the current price at an attractive valuation.

Recommendation

Accumulate
(previous Accumulate)

EUR 21.00
(previous EUR 21.50)

Share price:
18.12



Key figures

	2023	2024e	2025e	2026e
Revenue	22926	21603	24881	26465
growth-%	-11%	-6%	15%	6%
EBIT adj.	2592	920	1478	1910
EBIT-% adj.	11.3 %	4.3 %	5.9 %	7.2 %
Net income	1433	489	1146	1525
EPS (adj.)	2.88	0.91	1.49	1.98
P/E (adj.)	11.2	19.9	12.1	9.1
P/B	2.9	1.7	1.6	1.4
Dividend yield-%	3.7 %	3.3 %	3.6 %	3.9 %
EV/EBIT (adj.)	10.5	18.8	11.5	8.3
EV/EBITDA	10.7	10.5	6.9	5.4
EV/S	1.2	0.8	0.7	0.6

Source: Inderes

Guidance (Adjusted)

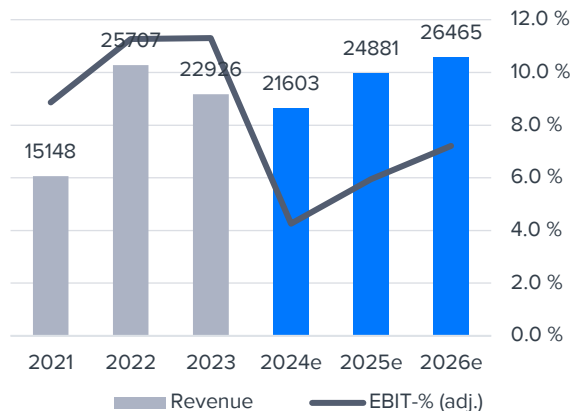
Sales volumes of Renewable Products are expected to reach around 4.4 Mt (+/- 10%) in 2024, with a sales margin of USD 480-580/ton. Total sales volumes and refining margins for Oil Products are expected to be lower in 2024 than in 2023.

Share price



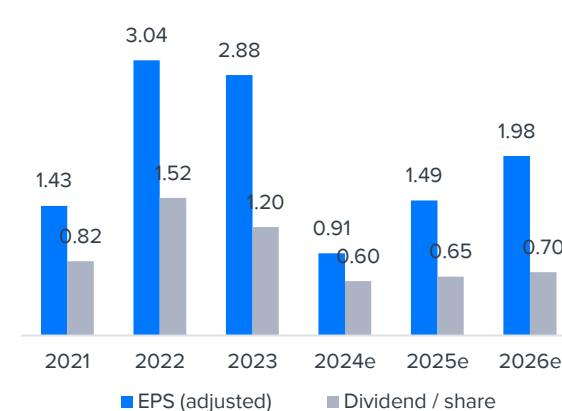
Source: Millstream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Strong market position in all businesses
- Value creation potential of growth investments in Renewable Products' production capacity
- New product applications of Renewable Products in air traffic and chemicals
- Good long-term growth prospects for the Renewable Products market



Risk factors

- Tightening competition for Renewable Products
- Long-term sales margin level for Renewable Products
- Weak long-term demand picture for oil-based fuels
- Regulatory risks (+/-)

Valuation	2024e	2025e	2026e
Share price	18.12	18.12	18.12
Number of shares, millions	768.2	768.2	768.2
Market cap	13920	13920	13920
EV	17331	16982	15813
P/E (adj.)	19.9	12.1	9.1
P/E	28.5	12.1	9.1
P/B	1.7	1.6	1.4
P/S	0.6	0.6	0.5
EV/Sales	0.8	0.7	0.6
EV/EBITDA	10.5	6.9	5.4
EV/EBIT (adj.)	18.8	11.5	8.3
Payout ratio (%)	94.2 %	43.6 %	35.3 %
Dividend yield-%	3.3 %	3.6 %	3.9 %

Source: Inderes

Low sales margins in Renewable Products hit the result

Renewable Products fell short of expectations

Q2 sales volumes of Renewable Products were practically level with the comparison period at 955 thousand tons, below our forecast of more than one million tons. In the bigger picture, the lack of volume growth was not a surprise, as it was known that volume growth from the new Singapore line would be largely concentrated in the second half of the year, and Martinez continued to operate at around 50% capacity utilization. However, a more significant driver of the underperformance in Renewable Products was the sales margin, which more than halved to USD 382/ton in a very weak market. The sales margin was also weighed by a valuation loss in biotickets and credit inventories, which affected the margin of 40 \$/ton. Against this background, the segment's comparable EBITDA margin remained weak at 152 MEUR, below our forecast of 180 MEUR.

Quarter colored by maintenance shutdown in Oil Products

The comparable EBITDA for Oil Products settled at 62 MEUR, slightly above our estimate of 50 MEUR. Sales volumes for the quarter, which were impacted by the nine-week maintenance outage at Porvoo, declined slightly less than we had anticipated, more than offsetting the earnings miss of a very good overall refining margin of USD 15.1/bbl. There were no surprises in the Marketing & Services and Other segments.

Reported results were impacted by significant inventory write-downs, while foreign exchange and fair value movements also increased net financial expenses, which were otherwise higher than we had anticipated. Against this backdrop, comparable EPS landed well below our forecast and reported earnings were also well in the red.

Free cash flow clearly in the red, has increased debt

As a result of the weak profitability and the tying up of net working capital due to the capacity expansion, the H1 net cash flow from operating activities decreased to -20 MEUR. At the same time, investments increased to 746 MEUR, which means that Neste's free cash flow for the first half of the year was even 937 MEUR in the red (incl. repayment of leasing liabilities).

As a result of the highly cash-intensive cash flow development, Neste's net debt increased to almost 4 BNEUR at the end of H1. As the company's earnings level has also deteriorated, the net debt/EBITDA ratio reflecting debt servicing capacity has risen to 1.9x for the previous 12 months. Our forecast recovery in profitability and subsequent cash flow development is expected to reverse the decline, but the overall picture of a previously strong balance sheet has been altered by recent large investments and sluggish cash flow. Overall, however, the balance sheet is still reasonably leveraged.

MEUR / EUR	Q2'23	Q2'24	Q2'24e	Q2'24e	Consensus		Difference (%)	2024e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	5351	4642	3414	3926	2939	- 5931	36%	21603
EBITDA (adj.)	784	240	253	315	213	- 416	-5%	1881
PTP	295	-169	-3.2	-	-	-	-5107%	569
EPS (adj.)	0.63	-0.05	0.00	0.06	-0.05	- 0.17	-1276%	0.91
Revenue growth-%	-24.0 %	-13.2 %	-36.2 %	-26.6 %	-45.1%	- 10.8 %	22.9 pp	-5.8 %
EBITDA-% (adj.)	14.7 %	5.2 %	7.4 %	8.0 %	7.3 %	- 7.0 %	-2.2 pp	8.7 %

Source: Inderes & Vara Research (consensus, 17 forecasts)

Short-term forecasts remain under pressure

Update on Renewable Products' sales margin and SAF sales volumes

Neste has also revised the forecast for the sales margin in Renewable Products from the level after the profit warning in May. This was not a big surprise compared to forecasts, and the market has also been quite weak since late spring. In addition, the SAF sales volumes outlook was also revised downwards for the top of the range. Neste still expects the sales volume of Renewable Products to be around 4.4 Mt in 2024 (+/- 10%). SAF sales volumes are estimated by the company to be 0.5-0.7 Mt (prev. 0.5-1.0 Mt) with a comparable sales margin of USD 480-580/ton (prev. USD 480-650/ton). The outlook for Oil Products, which indicated lower sales volumes and a lower overall refining margin, was repeated for the full year.

In the first half of the year, the company sold

approximately 105 thousand tons of SAF, so the pace is expected to accelerate significantly in H2. This should be made possible by the investment in Rotterdam and the new line in Singapore that is now operational, but it should be noted that there will be a six-week maintenance shutdown in Singapore in Q3 this year and an eight-week shutdown in Q4 to bring the new line up to full capacity. There will also be a four-week shutdown in Rotterdam in Q3. In turn, Martinez is expected to reach around 75% of nominal capacity in Q3 and 100% by the end of the year.

Short-end forecasts fell further

We have made minor revisions to our forecasts for Renewable Products, which were already lowered in connection with the May profit warning. Reflecting this and the Q2 report, our full-year sales forecast was lowered to just over 4.1 Mt. Our sales margin forecast for H2, which now averages just under USD

560/ton, has also been revised slightly downwards, resulting in a full year sales margin forecast of USD 515/ton. The recent increase in LCFS and Rinie prices, together with increasing SAF volumes, should support the conditions for higher sales margins in H2. In addition to the forecasts changes in Renewable Products, we have slightly lowered our H2 refining margin forecast for Oil Products as a result of recent market weakness.

We did not change our longer-term forecasts

The change in next year's projections reflects the slightly higher fixed cost projections, but we have not changed our other medium-term projections and expect the known investments to increase Renewable products' sales volumes to just over 6.1 Mt in 2027. Our medium-term average sales margin forecast is USD 550/ton.

Estimate revisions MEUR / EUR	2024e	2024e	Change %	2025e	2025e	Change %	2026e	2026e	Change %
	Old	New		Old	New		Old	New	
Revenue	19287	21603	12%	23056	24881	8%	24695	26465	7%
EBITDA	1859	1651	-11%	2577	2477	-4%	2919	2923	0%
EBIT (exc. NRIs)	1003	920	-8%	1578	1478	-6%	1915	1910	0%
EBIT	894	690	-23%	1578	1478	-6%	1915	1910	0%
PTP	808	569	-30%	1470	1351	-8%	1812	1796	-1%
EPS (excl. NRIs)	1.02	0.91	-11%	1.62	1.49	-8%	2.00	1.98	-1%
DPS	0.60	0.60	0%	0.65	0.65	0%	0.70	0.70	0%

Source: Inderes

Valuation has declined with the sales margin

Short-term valuation multiples

Neste's adjusted P/E ratios for 2024 and 2025 based on our estimates are 20x and 12x and corresponding EV/EBIT ratios are 19x and 11x. Valuation multiples for the current year are high, but on the other hand, the earnings levels of both segments are far from their potential and from the levels we forecast for the coming years. However, when considering the valuation at group level, it should be noted that Neste's different businesses have very different medium- and long-term demand prospects and returns on capital. Hence, we consider the levels of valuation justified for them to be very different. For the same reason, we believe that the peer group of the Oil Products segment is a poor measure of group-level valuation. Thus, we use our sum-of-the-parts calculation as the main measure of valuation. We also support the valuation with a DCF model, although its applicability is currently questionable, especially given the transformation of Oil Products in the 2030s.

Sum of the parts as a valuation indicator

In the sum-of-the-parts calculation, we determine the value of Oil Products at 5x EV/EBIT ratio. The reason for the low multiple is that the business is nearing the end of its life cycle. For Marketing & Services, we use the EV/EBIT ratio of 12x and consider the earnings of the Others segment and net debt. On this basis, Renewable Products is valued at around 26x EV/EBIT based on our 2024 estimates.

We believe that the acceptable valuation multiples for Renewable Products are above average in the context of Nasdaq Helsinki, taking into account the growth prospects of the business and the above average return on capital. However, with low earnings

this year, the valuation level is unsustainably high. However, we expect earnings growth to more than offset the valuation downside over the medium term. As a result, the expected return from earnings growth and valuation downside is in the low double digits, and together with the dividend yield, we find the risk/reward attractive.

Looking at Neste's current valuation purely on the basis of Renewable Products, the EV/EBIT multiples for 2025 and 2026 are 15x and 11x, respectively, based on our current forecasts. Thus, with our 2026 projections, the current valuation is low without assigning any value to Oil Products or M&S. In addition, we expect Renewable Products' earnings growth to continue beyond 2026, when the ongoing investments in Rotterdam reach full nominal capacity (2027 in our forecasts).

DCF model well above the current share price

The revised share value indicated by our DCF model is EUR 25.0, which offers a hefty upside. In the DCF model, 53% of the value consists of the terminal value, which we consider a moderate level considering the long-term earnings growth outlook for Renewable Products and the tail risks. Overall, we believe that the DCF model supports our positive view, although the challenges/uncertainties associated with its application (long-term margin-related risks for Renewable Products and the end of fossil processing) need to be kept in mind.

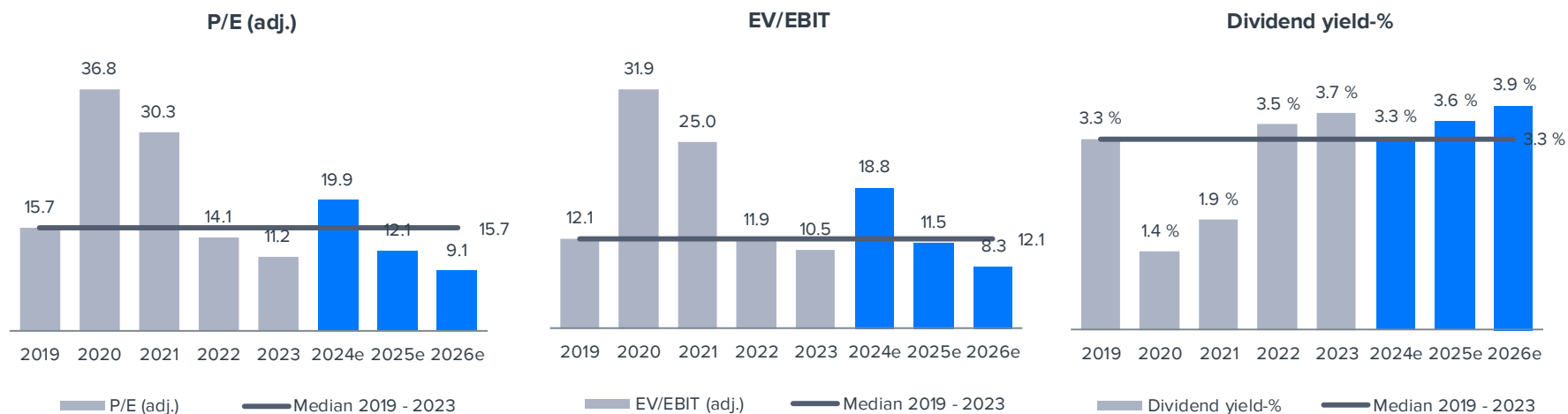
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P/E	28.5	12.1	9.1
P/B	1.7	1.6	1.4
P/S	0.6	0.6	0.5
EV/Sales	0.8	0.7	0.6
EV/EBITDA	10.5	6.9	5.4
EV/EBIT (adj.)	18.8	11.5	8.3
Payout ratio (%)	94.2 %	43.6 %	35.3 %
Dividend yield-%	3.3 %	3.6 %	3.9 %

Source: Inderes

Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	31.0	59.2	43.36	43.02	32.21	18.12	18.12	18.12	18.12
Number of shares, millions	768	768	768	768	768	768	768	768	768
Market cap	23814	45425	33299	33043	24744	13920	13920	13920	13920
EV	23651	45212	33494	34407	27237	17331	16982	15813	14287
P/E (adj.)	15.7	36.8	30.3	14.1	11.2	19.9	12.1	9.1	8.2
P/E	13.3	63.8	18.8	17.5	17.3	28.5	12.1	9.1	8.2
P/B	4.0	7.7	4.8	4.0	2.9	1.7	1.6	1.4	1.3
P/S	1.5	3.9	2.2	1.3	1.1	0.6	0.6	0.5	0.5
EV/Sales	1.5	3.8	2.2	1.3	1.2	0.8	0.7	0.6	0.5
EV/EBITDA	8.7	30.0	12.8	11.3	10.7	10.5	6.9	5.4	4.5
EV/EBIT (adj.)	12.1	31.9	25.0	11.9	10.5	18.8	11.5	8.3	6.8
Payout ratio (%)	44%	86%	36%	62%	64%	94%	44%	35%	33%
Dividend yield-%	3.3 %	1.4 %	1.9 %	3.5 %	3.7 %	3.3 %	3.6 %	3.9 %	4.0 %

Source: Inderes



Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	MEUR	MEUR	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e
Total SA	149759	174491	5.9	6.0	4.2	4.2	0.8	0.8	7.4	7.1	5.0	5.3	1.3
ENI SPA	46173	66863	5.7	5.7	3.4	3.5	0.7	0.7	6.6	6.6	7.1	7.3	0.8
Koc Holding AS	15968	26217	4.3	2.9	3.6	2.5	0.4	0.3	7.0	5.3	3.5	4.2	0.8
TURKIYE PETROL RAFINERILERI AS	8809	7403	5.7	7.0	3.9	4.4	0.3	0.3	7.8	7.3	12.2	8.9	1.2
MOL PLC	5885	8520	4.7	5.3	2.9	3.1	0.4	0.4	4.6	5.0	8.3	6.9	0.5
EQUINOR ASA	67245	58665	2.1	2.1	1.6	1.6	0.6	0.7	7.7	7.5	10.0	6.2	1.6
VALERO ENERGY CORP	44834	52315	9.5	9.2	6.5	6.4	0.4	0.4	12	10.9	2.9	3.0	1.8
SARAS SPA	1534	1325	4.4	8.7	2.6	3.8	0.1	0.1	8.5	15.2	5.6	3.0	1.1
HELLENIC PETROLEUM SA	2268	4297	6.4	8.4	4.4	5.3	0.4	0.4	6.1	7.6	8.7	7.1	0.7
POLSKI KONCERN NAFTOWY ORLEN SA	17054	19220	3.8	3.5	2.4	2.2	0.3	0.3	6.2	5.1	6.7	6.9	0.5
MOTOR OIL HELLAS CORINTH REFINERIES SA	2575	4626	5.8	8.0	4.6	5.8	0.4	0.4	6.3	7.3	7.1	6.7	0.9
Neste (Inderes)	13920	17331	18.8	11.5	10.5	6.9	0.8	0.7	19.9	12.1	3.3	3.6	1.7
Average			5.3	6.1	3.6	3.9	0.4	0.4	7.2	7.7	7.0	6.0	1.0
Median			5.7	6.0	3.6	3.8	0.4	0.4	7.0	7.3	7.1	6.7	0.9
Diff-% to median			232%	90%	194%	82%	111%	84%	185%	67%	-53%	-46%	97%

Source: Refinitiv / Inderes

Income statement

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	25707	5298	5351	5973	6304	22926	4801	4642	5958	6202	21603	24881	26465	27223
Oil Products	14596	3174	2919	3442	3750	13285	2669	2436	3150	3375	11630	13860	13860	13545
Renewable Products	9905	1842	2164	2197	2263	8466	1766	1852	2483	2602	8703	10406	12135	13158
Marketing & Services	5876	1290	1189	1315	1375	5168	1234	1165	1300	1200	4899	4500	4450	4600
Other	147	31	30	17	23	100	18	24	25	25	92.0	115	120	120
Eliminations	-4816	-1039	-951	-997	-1107	-4094	-887	-834	-1000	-1000	-3721	-4000	-4100	-4200
EBITDA	3047	463	523	889	673	2548	442	119	512	578	1651	2477	2923	3142
Depreciation	-638	-178	-211	-220	-257	-866	-242	-237	-241	-241	-961	-999	-1013	-1045
EBIT (excl. NRI)	2898	652	573	826	540	2592	309	3	271	337	920	1478	1910	2097
EBIT	2409	285	312	669	415	1682	200	-119	271	337	690	1478	1910	2097
Oil Products	1372	304	171	409	243	1127	203	-9	37	85	316	329	378	359
Renewable Products	1480	344	376	420	286	1426	94	5	230	247	575	1120	1497	1710
Marketing & Services	97	16	21	35	13	85	16	16	16	16	64	75	80	76
Other	-50	-10	1	-31	-8	-48	-4	-13	-11	-11	-39	-46	-45	-48
Eliminations	-1	-3	4	-6	7	2	0	4	0	0	4	0	0	0
Changes in fair value	-489	-367	-261	-157	-125	-910	-109	-121	0	0	-230	0	0	0
Net financial items	-131	-9	-17	-51	-9	-86	-11	-50	-30	-30	-121	-127	-114	-103
PTP	2278	276	295	619	406	1596	189	-169	241	307	569	1351	1796	1994
Taxes	-388	-38	-36	-80	-6	-160	-27	24	-34	-43	-79	-203	-269	-299
Minority interest	-3	0	0	-3	0	-3	0	0	0	0	0	-2	-2	-2
Net earnings	1887	238	259	536	400	1433	162	-144	207	264	489	1146	1525	1693
EPS (adj.)	3.04	0.72	0.63	0.88	0.66	2.88	0.33	-0.03	0.27	0.34	0.91	1.49	1.98	2.20
EPS (rep.)	2.46	0.31	0.34	0.70	0.52	1.86	0.21	-0.19	0.27	0.34	0.64	1.49	1.98	2.20

Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	69.7 %	-4.1 %	-24.0 %	-9.3 %	-3.9 %	-10.8 %	-9.4 %	-13.2 %	-0.3 %	-1.6 %	-5.8 %	15.2 %	6.4 %	2.9 %
Adjusted EBIT growth-%	115.9 %	53.8 %	-38.2 %	1.6 %	-26.3 %	-10.6 %	-52.6 %	-99.6 %	-67.2 %	-37.6 %	-64.5 %	60.7 %	29.2 %	9.8 %
EBITDA-%	11.9 %	8.7 %	9.8 %	14.9 %	10.7 %	11.1 %	9.2 %	2.6 %	8.6 %	9.3 %	7.6 %	10.0 %	11.0 %	11.5 %
Adjusted EBIT-%	11.3 %	12.3 %	10.7 %	13.8 %	8.6 %	11.3 %	6.4 %	0.1 %	4.6 %	5.4 %	4.3 %	5.9 %	7.2 %	7.7 %
Net earnings-%	7.3 %	4.5 %	4.8 %	9.0 %	6.3 %	6.2 %	3.4 %	-3.1 %	3.5 %	4.3 %	2.3 %	4.6 %	5.8 %	6.2 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	7414	8858	9407	9468	9139
Goodwill	0	496	496	496	496
Intangible assets	570	185	195	205	215
Tangible assets	6570	7786	8325	8376	8037
Associated companies	63	58	58	58	58
Other investments	49	54	54	54	54
Other non-current assets	103	152	152	152	152
Deferred tax assets	59	127	127	127	127
Current assets	7503	7125	6428	7238	8097
Inventories	3648	3366	3348	3732	3970
Other current assets	406	271	271	271	271
Receivables	2178	1913	1836	2115	2249
Cash and equivalents	1271	1575	972	1120	1606
Balance sheet total	14917	15983	15834	16705	17236

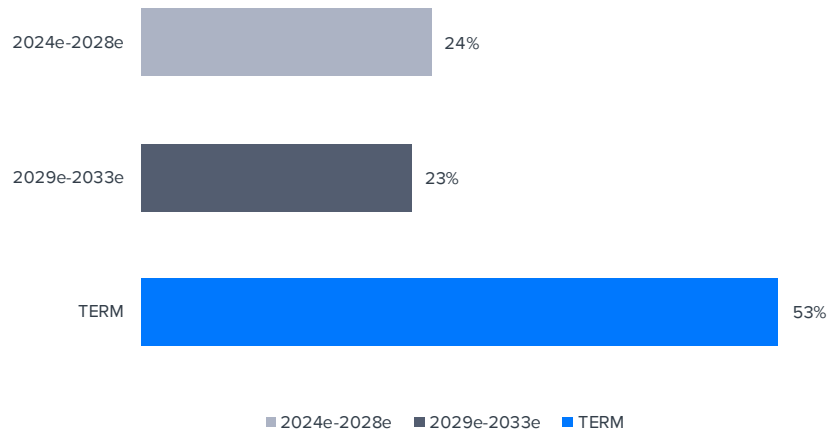
Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	8327	8463	8030	8716	9741
Share capital	40	40	40	40	40
Retained earnings	8282	8423	7990	8676	9701
Hybrid bonds	0	0	0	0	0
Revaluation reserve	0	0	0	0	0
Other equity	0	0	0	0	0
Minorities	5	0	0	0	0
Non-current liabilities	2674	4132	4528	4327	3645
Deferred tax liabilities	336	317	317	317	317
Provisions	200	187	187	187	187
Interest bearing debt	1964	3487	3883	3682	3000
Convertibles	0	0	0	0	0
Other long term liabilities	174	141	141	141	141
Current liabilities	3916	3388	3276	3663	3850
Interest bearing debt	651	581	500	500	500
Payables	3022	2580	2549	2936	3123
Other current liabilities	243	227	227	227	227
Balance sheet total	14917	15983	15834	16705	17236

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-10.8 %	-5.8 %	15.2 %	6.4 %	2.9 %	2.5 %	2.5 %	2.5 %	2.5 %	2.5 %	2.0 %	2.0 %
EBIT-%	7.3 %	3.2 %	5.9 %	7.2 %	7.7 %	8.0 %	8.0 %	7.5 %	7.5 %	7.5 %	7.5 %	7.5 %
EBIT (operating profit)	1682	690	1478	1910	2097	2232	2288	2199	2254	2310	2356	
+ Depreciation	866	961	999	1013	1045	984	787	697	618	617	615	
- Paid taxes	-247	-79	-203	-269	-299	-320	-328	-315	-323	-332	-452	
- Tax, financial expenses	-9	-17	-19	-17	-16	-16	-16	-16	-16	-16	-21	
+ Tax, financial income	0	0	0	0	0	1	1	1	1	1	2	
- Change in working capital	224	63	-276	-185	-89	-80	-82	-84	-86	-88	-72	
Operating cash flow	2516	1618	1980	2452	2738	2802	2651	2482	2448	2492	2428	
+ Change in other long-term liabilities	-46	0	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	-2247	-1510	-1060	-685	-585	-585	-600	-605	-605	-605	-641	
Free operating cash flow	223	108	920	1767	2153	2217	2051	1877	1843	1887	1787	
+/- Other	0	0	0	0	0	0	0	0	0	0	0	
FCFF	223	108	920	1767	2153	2217	2051	1877	1843	1887	1787	26729
Discounted FCFF		104	815	1438	1611	1524	1296	1090	983	925	805	12044
Sum of FCFF present value		22637	22533	21717	20279	18668	17144	15848	14758	13775	12849	12044
Enterprise value DCF		22637										
- Interest bearing debt		-4068										
+ Cash and cash equivalents		1575										
-Minorities		0										
-Dividend/capital return		-922										
Equity value DCF		19222										
Equity value DCF per share		25.0										

Cash flow distribution



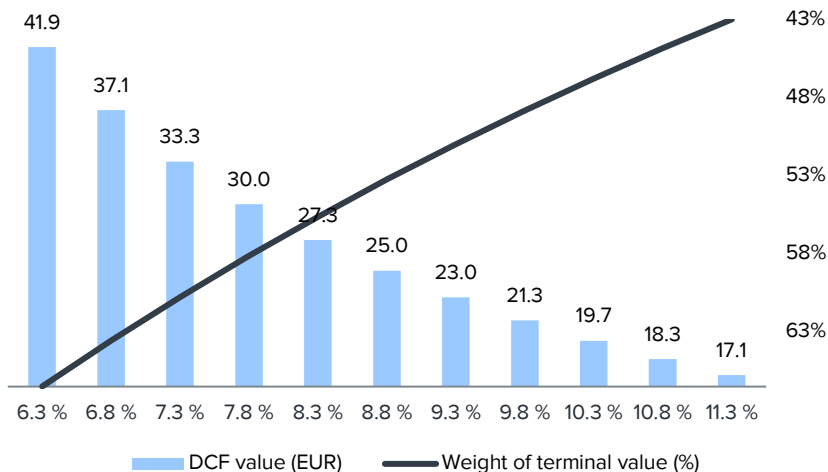
WACC

Tax-% (WACC)	15.0 %
Target debt ratio (D/(D+E))	15.0 %
Cost of debt	5.0 %
Equity Beta	1.50
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	9.6 %
Weighted average cost of capital (WACC)	8.8 %

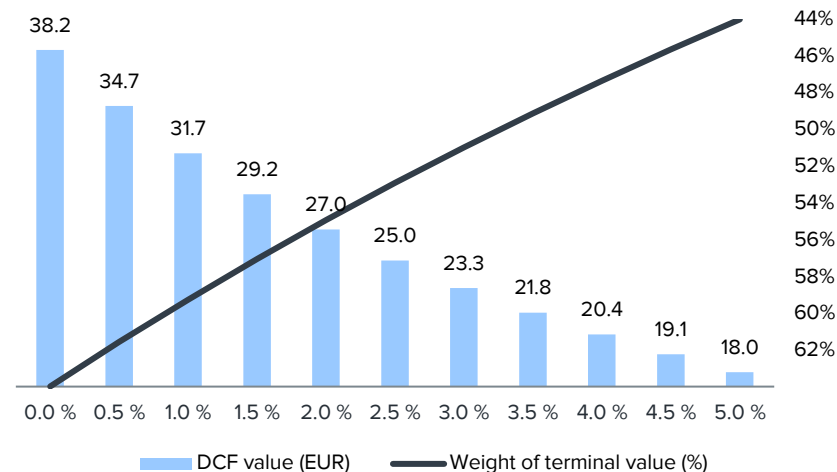
Source: Inderes

DCF sensitivity calculations and key assumptions in graphs

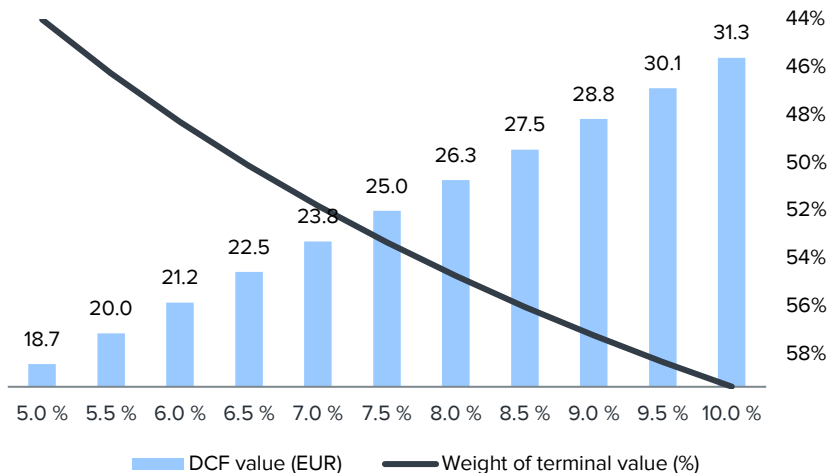
Sensitivity of DCF to changes in the WACC-%



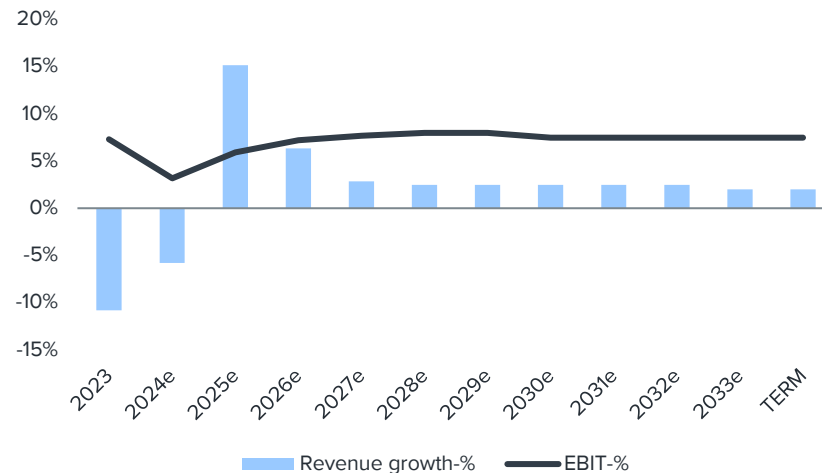
Sensitivity of DCF to changes in the risk-free rate



Sensitivity of DCF to changes in the terminal EBIT margin



Growth and profitability assumptions in the DCF calculation



Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

Summary

Income statement	2021	2022	2023	2024e	2025e	Per share data	2021	2022	2023	2024e	2025e
Revenue	15148	25707	22926	21603	24881	EPS (reported)	2.31	2.46	1.86	0.64	1.49
EBITDA	2607	3047	2548	1651	2477	EPS (adj.)	1.43	3.04	2.88	0.91	1.49
EBIT	2023	2409	1682	690	1478	OCF / share	2.40	2.16	3.28	2.11	2.58
PTP	1962	2278	1596	569	1351	FCF / share	0.46	-0.66	0.29	0.14	1.20
Net Income	1771	1887	1433	489	1146	Book value / share	9.09	10.83	11.02	10.45	11.35
Extraordinary items	681	-489	-910	-230	0	Dividend / share	0.82	1.52	1.20	0.60	0.65
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	12417	14917	15983	15834	16705	Revenue growth-%	29%	70%	-11%	-6%	15%
Equity capital	6985	8327	8463	8030	8716	EBITDA growth-%	73%	17%	-16%	-35%	50%
Goodwill	0	0	496	496	496	EBIT (adj.) growth-%	-5%	116%	-11%	-65%	61%
Net debt	176	1344	2493	3411	3062	EPS (adj.) growth-%	-11%	112%	-5%	-68%	64%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	17.2 %	11.9 %	11.1 %	7.6 %	10.0 %
EBITDA	2607	3047	2548	1651	2477	EBIT (adj.)-%	8.9 %	11.3 %	11.3 %	4.3 %	5.9 %
Change in working capital	-650	-990	224	63	-276	EBIT-%	13.4 %	9.4 %	7.3 %	3.2 %	5.9 %
Operating cash flow	1840	1660	2516	1618	1980	ROE-%	27.5 %	24.7 %	17.1 %	5.9 %	13.7 %
CAPEX	-1518	-2142	-2247	-1510	-1060	ROI-%	25.3 %	24.5 %	14.3 %	5.5 %	11.7 %
Free cash flow	356	-508	223	108	920	Equity ratio	56.6 %	56.3 %	53.0 %	50.7 %	52.2 %
						Gearing	2.5 %	16.1%	29.5 %	42.5 %	35.1 %
Valuation multiples	2021	2022	2023	2024e	2025e						
EV/S	2.2	1.3	1.2	0.8	0.7						
EV/EBITDA	12.8	11.3	10.7	10.5	6.9						
EV/EBIT (adj.)	25.0	11.9	10.5	18.8	11.5						
P/E (adj.)	30.3	14.1	11.2	19.9	12.1						
P/B	4.8	4.0	2.9	1.7	1.6						
Dividend-%	1.9 %	3.5 %	3.7 %	3.3 %	3.6 %						

Source: Inderes

ESG

Neste's taxonomy percentage reflects the company's revenue in renewable raw materials and investments reflect the company's investments in renewable raw materials. The company estimates that renewable products are already broadly covered by the taxonomy, although we may see minor changes as the taxonomy criteria become more precise and as new product categories are added to the taxonomy list.

The political dimension of business is important for continuity

We see that the political dimension of Neste's business is quite important for the business continuity because the zero emissions in the energy and fuel sector is one of the key elements in the development of the energy market in Europe and to some extent already globally. The high taxonomy percentage gives credibility to the fact that the fuel produced by Neste contributes to the environmentally beneficial activities that will be supported by policy decisions in the future.

So far, we do not see other direct positive short-term economic effects, such as significantly lower financing costs, for taxonomy.

The company sees a positive market situation in renewable fuels

Neste's climate targets have developed positively in recent years and the company has extended its target setting to scope 3 in addition to scope 1 and 2. In our view, this means that the company will continue its efforts to reduce emissions from the use of its products and sees the market situation as very positive for renewable fuels.

No additional costs in sight

Based on current information, we believe that there are clear synergies between increasing the taxonomy percentage, business and meeting climate targets and we do not believe that there will be any unforeseen costs to the company over the next few years.

Taxonomy eligibility	2022*	2023
Revenue	3%	4%
OPEX	4%	4%
CAPEX	10%	9%

Taxonomy alignment	2022*	2023
Revenue	29%	28%
OPEX	28%	40%
CAPEX	75%	68%

Climate

Climate target	Yes	Yes
Target according to Paris agreement (1.5°C warming scenario)	No	No

*the figures are not comparable due to taxonomy development

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Reduce	The 12-month risk-adjusted expected shareholder return of the share is weak
Sell	The 12-month risk-adjusted expected shareholder return of the share is very weak

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
6/21/2022	Reduce	44.00 €	43.06 €
7/29/2022	Reduce	46.00 €	48.68 €
10/25/2022	Reduce	48.00 €	47.10 €
10/28/2022	Reduce	48.00 €	45.46 €
2/9/2023	Reduce	50.00 €	47.50 €
4/24/2023	Accumulate	48.00 €	43.77 €
5/2/2023	Accumulate	48.00 €	43.94 €
7/28/2023	Accumulate	39.00 €	32.57 €
10/27/2023	Accumulate	37.00 €	31.90 €
2/9/2024	Buy	35.00 €	27.74 €
4/25/2024	Buy	30.00 €	22.49 €
5/15/2024	Accumulate	21.50 €	18.88 €
7/26/2024	Accumulate	21.00 €	18.12 €



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