Neste

Company report

10/25/2024 00:31 EEST

Petri Gostowski
+358 40 821 5982
petri.gostowski@inderes.fi

This report is a summary translation of the report "Marginaalin käännettä joudutaan odottamaan" published on 10/25/2024 at 00:30 am EEST

We have to wait for the margin to turn

Neste's Q3 report or the first comments from the new CEO offered no surprises. The market outlook for Renewable Products, suffering from oversupply, is challenging also for next year, but with market growth, we expect the current low gross margin to be higher in the medium term. Relative to these forecasts, the stock valuation is rather moderate looking over next year, so we reiterate our Accumulate recommendation. Reflecting our estimate changes, we lower our target price to EUR 17.5 (was EUR 19.0). The Q3 interview with Neste's new CEO can be viewed here.

The steep fall in margins was largely as strong as expected

Neste's Q3 comparable EBITDA decreased by 3% to 293 MEUR, landing between our and consensus forecasts. A significant decrease in earnings relative to the comparison period was driven by clear reductions in margins in both main segments that were broadly as expected. The gross margin for Renewable Products suffering from the difficult market situation and oversupply fell to a low level of USD 341/ton in Q3 (Q3'23: USD 912/ton). Earnings were clearly below our expectations in Renewable Products, which reflected the effects of maintenance shutdowns and unfinished capacity ramp-up (incl. costs and limited production). However, this was offset by an earnings overshoot driven by higher-than-expected sales volumes in Oil Products, although it also suffered from a low refining margin as expected. The new CEO said that he has launched a comprehensive analysis of the company's full potential, focusing on commercial activities, costs and, e.g., investments. Apart from the discontinued medium-sized hydrogen project investment, concrete measures from the analysis are expected next year.

Margin in Renewable Products likely to be subdued also next year

Neste reiterated its Renewable Products guidance updated in September, where sales volumes for the segment are expected to increase to 3.9 Mt (+/- 5%) and the comparable gross margin is expected to be USD 360-480/ton in 2024. We only fine-tuned our short-term forecasts. Reflecting this and the Q3 result, our forecast for the current year's comparable EBITDA is 1,375 MEUR. 1,332 MEUR). However, our 2025 comparable EBITDA estimate decreased by 4%, mainly driven by the gross margin forecast. We believe the key uncertainty factor is still the gross margin in Renewable Products that will suffer from oversupply next year. The supply situation, together with the expected end of the tax relief (BTC), depresses Neste's margin while increasing sales of renewable aviation fuel should strengthen it. In the medium term, we feel the margin is on a more stable footing and we expect market growth to restore a healthy margin, but it is naturally challenging to assess the exact timing of this.

Mixed valuation but we believe that patience will be rewarded

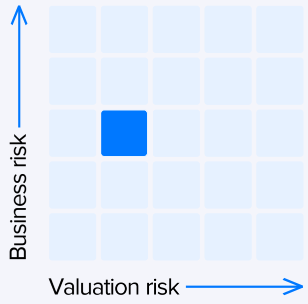
The valuation of the share is mixed, as the valuation multiples are very high with this year's weak performance. The overall picture of the valuation multiples does not turn attractive next year either (EV/EBIT 14x and P/E 15x), as we expect the Renewable Products' margin to still be at a low level. However, our medium-term forecasts for Renewable Products are significantly higher, relative to which the share is cheap. Thus, we believe that earnings growth based on increased sales volumes and a higher gross margin in Renewable Products create an attractive expected return.

Recommendation

Accumulate
(was Accumulate)

EUR 17.50
(was EUR 19.00)

Share price:
14.39



Key figures

	2023	2024e	2025e	2026e
Revenue	22926	20878	24084	27525
growth-%	-11%	-9%	15%	14%
EBIT adj.	2592	409	1030	1867
EBIT-% adj.	11.3 %	2.0 %	4.3 %	6.8 %
Net Income	1433	58	756	1485
EPS (adj.)	2.88	0.34	0.98	1.93

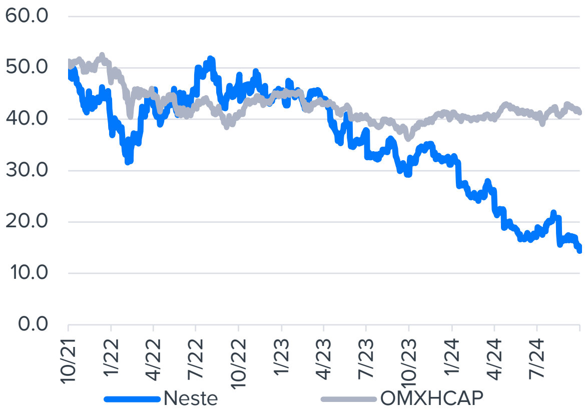
P/E (adj.)	11.2	42.4	14.6	7.4
P/B	2.9	1.5	1.3	1.2
Dividend yield-%	3.7 %	0.0 %	2.8 %	4.2 %
EV/EBIT (adj.)	10.5	36.7	14.0	7.1
EV/EBITDA	10.7	13.0	7.1	4.6
EV/S	1.2	0.7	0.6	0.5

Source: Inderes

Guidance (Unchanged)

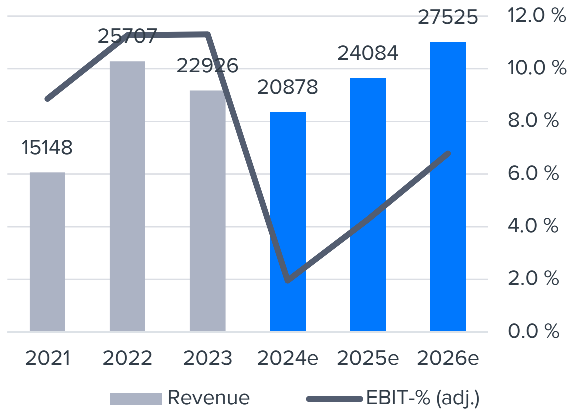
Sales volumes of Renewable Products are expected to reach around 3.9 Mt (+/- 5%) in 2024, with a sales margin of USD 360-480/ton. Total sales volumes and refining margins for Oil Products are expected to be lower in 2024 than in 2023.

Share price



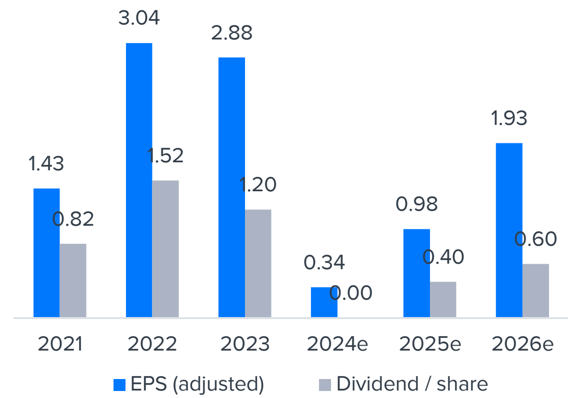
Source: Millistream Market Data AB

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
- Long-term growth outlook for the Renewable Products market, which we expect will restore a healthy margin for the segment

Risk factors

- Risks related to oversupply in 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	14.39	14.39	14.39
Number of shares, millions	768.2	768.2	768.2
Market cap	11054	11054	11054
EV	15011	14379	13276
P/E (adj.)	42.4	14.6	7.4
P/E	>100	14.6	7.4
P/B	1.5	1.3	1.2
P/S	0.5	0.5	0.4
EV/Sales	0.7	0.6	0.5
EV/EBITDA	13.0	7.1	4.6
EV/EBIT (adj.)	36.7	14.0	7.1
Payout ratio (%)	0.0 %	40.7 %	31.0 %
Dividend yield-%	0.0 %	2.8 %	4.2 %

Source: Inderes

Margin drop largely as strong as expected

No drama in the estimate miss of Renewable Products

The Q3 sales volumes of Renewable Products increased by 16% from the comparison period to 999 kt, which was slightly below our forecast. The increase in sales volumes was affected by higher capacity, but the ongoing ramp-up of the new Singapore line and the production of the Martinez joint venture, which is still limited to around 50%, prevents reaching full flight altitude. In addition, there was a maintenance shutdown in Singapore during the third quarter. Reflecting this, the quarter's production was significantly lower than the sales volume. The gross margin for Renewables decreased, as expected, to a very low level of USD 345/ton (Q3'23: USD 912/ton). Thus, the comparable EBITDA of the segment was 106 MEUR. The underperformance relative to our forecast (129 MEUR) was the result of slightly weaker volumes and gross margin than expected and somewhat higher fixed costs.

Volumes were higher than expected in Oil Products

The comparable EBITDA for Oil Products was 141 MEUR, above our 112 MEUR estimate. After Q2 affected by the maintenance shutdown in Porvoo, sales volumes were higher than expected, while the total refining margin of USD 10.6/bbl was somewhat subdued as expected. This reflects product margins that have fallen to a rather low level, which is due, e.g., to lower demand as a result of economic activity.

Marketing&Services' earnings met our expectations, and there were no surprises in the lower lines. Reflecting this overall picture, Q3's EPS exceeded our forecast.

Cash flow has spun in the wrong direction and is reflected in the financial position

After three quarters, Neste only has 272 MEUR in operating cash flow (cf. 1,590 MEUR Q1-Q3'23), while the investments boosted by, e.g., the maintenance shutdown in Porvoo and the expansion in Rotterdam, are as high as 1.2 BNEUR. Thus, free cash flow, considering repayments of leasing debts, has so far been a billion in the red.

As a result of the highly cash-intensive cash flow development, Neste's net debt was almost 4.1 BNEUR at the end of Q3. As the company's earnings level has also deteriorated, the net debt/EBITDA ratio reflecting debt servicing capacity has risen to 2.7x for the previous 12 months. The level is high, but given the liquidity situation, the financial position is not a problem as we expect the performance to improve in the coming years. However, the current balance sheet position limits capital allocation, such as investments and dividends, which is evidenced by, e.g., withdrawal from the Porvoo hydrogen project. There are no covenants in the company's loans.

MEUR / EUR	Q3'23 Comparison	Q3'24 Actualized	Q3'24e Inderes	Q3'24e Consensus	Consensus Low		High	Difference (%) Act. vs. inderes	2024e Inderes
Revenue	5973	5624	5383	5085	4048	-	5930	4%	20878
EBITDA (adj.)	1047	293	264	348	264	-	430	11%	1375
PTP	619	26	-6.8	-	-	-	-	481%	67.6
EPS (adj.)	0.88	0.02	-0.01	0.10	-0.01	-	0.18	362%	0.34
Revenue growth-%	-9.3 %	-5.8 %	-9.9 %	-14.9 %	-32.2 %	-	-0.7 %	4 pp	-8.9 %
EBITDA-% (adj.)	17.5 %	5.2 %	4.9 %	6.8 %	6.5 %	-	7.3 %	0.3 pp	6.6 %

Source: Inderes & Vara Reserach (consensus, 18 estimates)

Neste Q3'24: Towards better times

Next year's margin expectations for Renewables should be kept cautious

Guidance and outlook largely unchanged

In line with the guidance updated in September, Neste announced that the sales volumes of Renewable Products are expected to be around 3.9 Mt in 2024 (+/- 5%). The company estimates that SAF's sales volume will be 0.35-0.55 Mt and increase in Q4. Similarly, it expects the comparable gross margin to be USD 360-480/ton. The outlook for Oil Products also indicating lower sales volumes and a lower overall refining margin, was repeated for the full year.

By the end of Q3, the company has sold approximately 0.2 Mt of SAF, so in Q4 it must reach record volumes for SAF. The investment in Rotterdam and the new Singapore line that has reached momentum should provide the conditions, although in Q4 the new Singapore line will have an eight-week maintenance shutdown. At the Martinez plant, the goal is to enable a 100% utilization rate by the end of the year.

Only fine-tuning for the current year

The lower end of the guidance for Renewable Products' sales volumes requires sales of approximately 0.9 Mt in Q4, which should not be a problem despite Singapore's extensive maintenance activities. We made small revisions to the sales volume and margin estimates of Renewable Products and fine-tuned our expectations for Oil Products for Q4. Reflecting this and the Q3 result, our comparable EBITDA forecast for the current year is 1,375 MEUR. 1,332 MEUR).

Expectations for next year's margin should be kept cautious

In our forecasts, we expect Renewable Products' sales volumes to increase to 4.5 Mt in 2025 as Singapore's new line and Martinez are in full swing. Our average gross margin forecast is USD 480/ton. The key risks for next year continue to be the effects on both volumes and margins of oversupply likley to continue. In addition, the negative driver for the margin is the conversion of the BTC tax relief to support local production (CFPC). This highlights the importance of Martinez's volumes.

We made no significant changes to our medium-term forecasts and still expect the sales volumes in Renewables to grow to good 6.1 Mt in 2027, while our medium-term average sales margin forecast is USD 550/ton. Thus, in our forecasts, Renewable Products drive significant medium-term earnings growth from the current level.

Estimate revisions	2024e	2024e	Change	2025e	2025e	Change	2026e	2026e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	20411	20878	2%	23833	24084	1%	26465	27525	4%
EBITDA	1102	1153	5%	2107	2028	-4%	2923	2880	-1%
EBIT (exc. NRIs)	370	409	10%	1108	1030	-7%	1910	1867	-2%
EBIT	140	186	32%	1108	1030	-7%	1910	1867	-2%
PTP	18.9	67.6	257%	974	891	-9%	1794	1750	-2%
EPS (excl. NRIs)	0.29	0.34	15%	1.08	0.98	-9%	1.98	1.93	-2%
DPS	0.00	0.00		0.50	0.40	-20%	0.70	0.60	-14%

Source: Inderes

Neste Interim Report January-September 2024

Longer-term valuation is low

Short-term valuation multiples

Neste's adjusted P/E ratios for 2024 and 2025 based on our estimates are 43x and 15x and corresponding EV/EBIT ratios are 37x and 14x. The valuation multiples for this year are very high and will not become attractive in 2025 either.
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 19x EV/EBIT based on our 2025 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. With next year's earnings level based on the subdued margin, the valuation is high However, we expect medium-term earnings growth to more than compensate for the downside in the valuation, as our forecasts for 2027 are over 2.5x of the 2025 forecast. 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 9x and 7x, 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 cash flow model, 56% of the value consists of the terminal value, which we consider a reasonable level. 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.

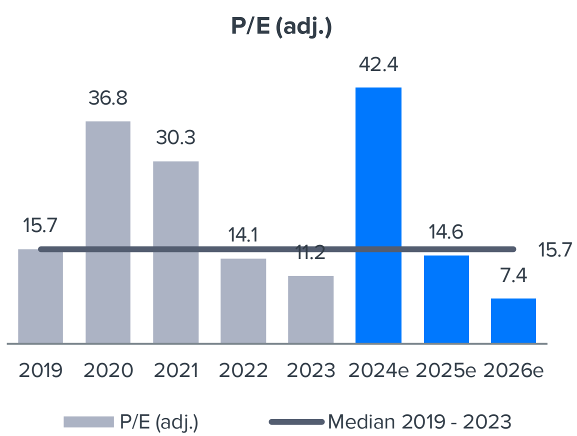
Valuation	2024e	2025e	2026e
Share price	14.39	14.39	14.39
Number of shares, millions	768.2	768.2	768.2
Market cap	11054	11054	11054
EV	15011	14379	13276
P/E (adj.)	42.4	14.6	7.4
P/E	>100	14.6	7.4
P/B	1.5	1.3	1.2
P/S	0.5	0.5	0.4
EV/Sales	0.7	0.6	0.5
EV/EBITDA	13.0	7.1	4.6
EV/EBIT (adj.)	36.7	14.0	7.1
Payout ratio (%)	0.0 %	40.7 %	31.0 %
Dividend yield-%	0.0 %	2.8 %	4.2 %

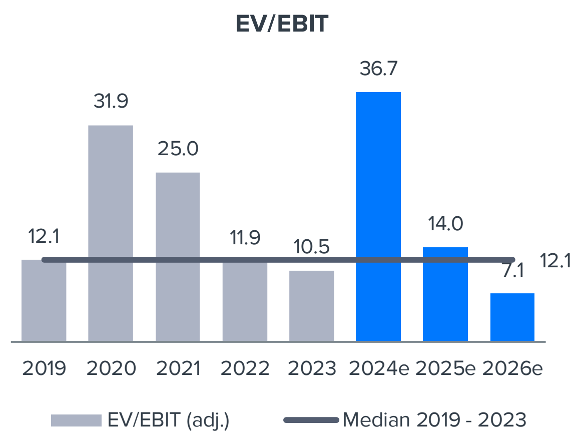
Source: Inderes

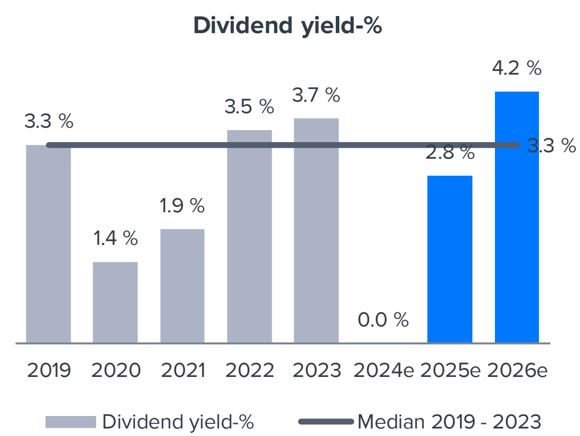
Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	31.0	59.2	43.36	43.02	32.21	**14.39**	**14.39**	**14.39**	**14.39**
Number of shares, millions	768	768	768	768	768	**768**	**768**	**768**	**768**
Market cap	23814	45425	33299	33043	24744	**11054**	**11054**	**11054**	**11054**
EV	23651	45212	33494	34407	27237	**15011**	**14379**	**13276**	**11707**
P/E (adj.)	15.7	36.8	30.3	14.1	11.2	**42.4**	**14.6**	**7.4**	**6.7**
P/E	13.3	63.8	18.8	17.5	17.3	**>100**	**14.6**	**7.4**	**6.7**
P/B	4.0	7.7	4.8	4.0	2.9	**1.5**	**1.3**	**1.2**	**1.0**
P/S	1.5	3.9	2.2	1.3	1.1	**0.5**	**0.5**	**0.4**	**0.4**
EV/Sales	1.5	3.8	2.2	1.3	1.2	**0.7**	**0.6**	**0.5**	**0.4**
EV/EBITDA	8.7	30.0	12.8	11.3	10.7	**13.0**	**7.1**	**4.6**	**3.8**
EV/EBIT (adj.)	12.1	31.9	25.0	11.9	10.5	**36.7**	**14.0**	**7.1**	**5.7**
Payout ratio (%)	44%	86%	36%	62%	64%	**0%**	**41%**	**31%**	**33%**
Dividend yield-%	3.3 %	1.4 %	1.9 %	3.5 %	3.7 %	**0.0 %**	**2.8 %**	**4.2 %**	**4.9 %**

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	143885	168502	6.2	6.6	4.3	4.5	0.9	0.8	7.8	7.9	5.3	5.6	1.3
ENI SPA	46574	70443	6.4	6.8	3.7	3.9	0.8	0.8	7.8	7.6	7.0	7.3	0.8
Koc Holding AS	11660	22419	3.7	2.6	3.1	2.2	0.4	0.3	5.7	4.0	4.6	5.6	0.6
TURKIYE PETROL RAFINERILERI AS	7493	6073	4.8	4.9	3.8	3.8	0.3	0.3	8.7	7.0	12.6	9.9	1.1
MOL PLC	5346	8817	5.2	5.8	3.1	3.3	0.4	0.4	4.1	4.6	9.0	9.3	0.5
EQUINOR ASA	62923	62734	2.2	2.3	1.7	1.8	0.7	0.7	7.4	7.5	10.7	6.4	1.6
VALERO ENERGY CORP	39513	46585	11.9	10.2	7.2	6.6	0.4	0.4	15	12.3	3.2	3.3	1.7
HELLENIC PETROLEUM SA	2130	3997	6.9	9.9	4.3	5.2	0.3	0.3	7.5	7.9	9.1	6.7	0.8
POLSKI KONCERN NAFTOWY ORLEN SA	14091	16781	4.0	3.6	2.3	2.0	0.2	0.3	5.4	4.7	8.0	8.3	0.4
MOTOR OIL HELLAS CORINTH REFINERIES SA	2269	3919	5.1	7.2	4.0	5.2	0.3	0.3	7.1	6.9	7.7	7.6	0.9
Neste (Inderes)	**11054**	**15011**	**36.7**	**14.0**	**13.0**	**7.1**	**0.7**	**0.6**	**42.4**	**14.6**	**0.0**	**2.8**	**1.5**
Average			**5.6**	**6.0**	**3.8**	**3.8**	**0.5**	**0.5**	**7.6**	**7.0**	**7.7**	**7.0**	**1.0**
Median			**5.2**	**6.2**	**3.7**	**3.8**	**0.4**	**0.4**	**7.4**	**7.2**	**7.9**	**7.0**	**0.9**
Diff-% to median			***611%***	***126%***	***248%***	***84%***	***89%***	***64%***	***471%***	***103%***	***-100%***	***-60%***	***69%***

Source: Refinitiv / Inderes

Income statement

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24	Q4'24e	2024e	2025e	2026e	2027e
Revenue	**25707**	**5298**	**5351**	**5973**	**6304**	**22926**	**4801**	**4642**	**5624**	**5811**	**20878**	**24084**	**27525**	**28168**
Oil Products	14596	3174	2919	3442	3750	13285	2669	2436	3400	3600	12105	14411	14520	14190
Renewable Products	9905	1842	2164	2197	2263	8466	1766	1852	1823	1986	7427	8508	12135	13158
Marketing & Services	5876	1290	1189	1315	1375	5168	1234	1165	1180	1200	4779	4800	4850	4900
Other	147	31	30	17	23	100	18	24	44	25	111	115	120	120
Eliminations	-4816	-1039	-951	-997	-1107	-4094	-887	-834	-822	-1000	-3543	-3750	-4100	-4200
EBITDA	**3047**	**463**	**523**	**889**	**673**	**2548**	**442**	**119**	**301**	**291**	**1153**	**2028**	**2880**	**3086**
Depreciation	-638	-178	-211	-220	-257	-866	-242	-237	-247	-241	-967	-998	-1013	-1044
EBIT (excl. NRI)	**2898**	**652**	**573**	**826**	**540**	**2592**	**309**	**3**	**47**	**50**	**409**	**1030**	**1867**	**2042**
EBIT	**2409**	**285**	**312**	**669**	**415**	**1682**	**200**	**-119**	**54**	**50**	**186**	**1030**	**1867**	**2042**
Oil Products	1372	304	171	409	243	1127	203	-9	54	61	309	359	400	374
Renewable Products	1480	344	376	420	286	1426	94	5	-37	-15	46	641	1432	1640
Marketing & Services	97	16	21	35	13	85	16	16	24	16	72	76	80	76
Other	-50	-10	1	-31	-8	-48	-4	-13	0	-11	-28	-46	-45	-48
Eliminations	-1	-3	4	-6	7	2	0	4	5	0	9	0	0	0
Changes in fair value	-489	-367	-261	-157	-125	-910	-109	-121	7	0	-223	0	0	0
Net financial items	-131	-9	-17	-51	-9	-86	-11	-50	-27	-30	-118	-139	-117	-103
PTP	**2278**	**276**	**295**	**619**	**406**	**1596**	**189**	**-169**	**27**	**20**	**68**	**891**	**1750**	**1939**
Taxes	-388	-38	-36	-80	-6	-160	-27	24	-4	-3	-10	-134	-262	-291
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**	**23**	**18**	**57.7**	**756**	**1485**	**1646**
EPS (adj.)	**3.04**	**0.72**	**0.63**	**0.88**	**0.66**	**2.88**	**0.33**	**-0.03**	**0.02**	**0.02**	**0.34**	**0.98**	**1.93**	**2.14**
EPS (rep.)	**2.46**	**0.31**	**0.34**	**0.70**	**0.52**	**1.86**	**0.21**	**-0.19**	**0.03**	**0.02**	**0.08**	**0.98**	**1.93**	**2.14**

Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	69.7 %	-4.1 %	-24.0 %	-9.3 %	-3.9 %	-10.8 %	-9.4 %	-13.2 %	-5.8 %	-7.8 %	-8.9 %	15.4 %	14.3 %	2.3 %
Adjusted EBIT growth-%	115.9 %	53.8 %	-38.2 %	1.6 %	-26.3 %	-10.6 %	-52.6 %	-99.6 %	-94.4 %	-90.7 %	-84.2 %	152.1 %	81.3 %	9.4 %
EBITDA-%	11.9 %	8.7 %	9.8 %	14.9 %	10.7 %	11.1 %	9.2 %	2.6 %	5.3 %	5.0 %	5.5 %	8.4 %	10.5 %	11.0 %
Adjusted EBIT-%	11.3 %	12.3 %	10.7 %	13.8 %	8.6 %	11.3 %	6.4 %	0.1 %	0.8 %	0.9 %	2.0 %	4.3 %	6.8 %	7.2 %
Net earnings-%	7.3 %	4.5 %	4.8 %	9.0 %	6.3 %	6.2 %	3.4 %	-3.1 %	0.4 %	0.3 %	0.3 %	3.1 %	5.4 %	5.8 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	**7414**	**8858**	**9401**	**9462**	**9135**
Goodwill	0	496	496	496	496
Intangible assets	570	185	195	205	215
Tangible assets	6570	7786	8319	8370	8033
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**	**6430**	**7015**	**8018**
Inventories	3648	3366	3340	3613	4129
Other current assets	406	271	271	271	271
Receivables	2178	1913	1879	2047	2340
Cash and equivalents	1271	1575	940	1084	1278
Balance sheet total	**14917**	**15983**	**15831**	**16477**	**17152**

Source: Inderes

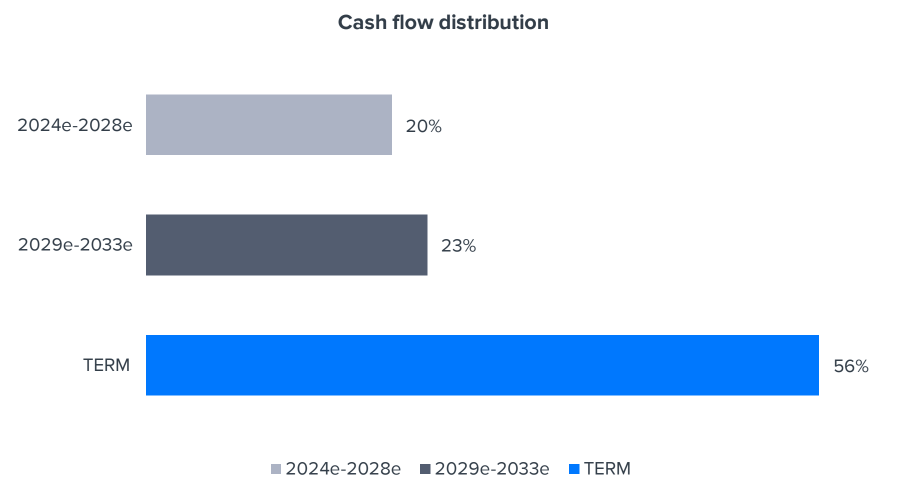
Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	**8327**	**8463**	**7599**	**8355**	**9532**
Share capital	40	40	40	40	40
Retained earnings	8282	8423	7559	8315	9492
Hybrid bonds	0	0	0	0	0
Revaluation reserve	0	0	0	0	0
Other equity	0	0	0	0	0
Minorities	5	0	0	0	0
Non-current liabilities	**2674**	**4132**	**5041**	**4554**	**3645**
Deferred tax liabilities	336	317	317	317	317
Provisions	200	187	187	187	187
Interest bearing debt	1964	3487	4396	3909	3000
Convertibles	0	0	0	0	0
Other long term liabilities	174	141	141	141	141
Current liabilities	**3916**	**3388**	**3191**	**3569**	**3975**
Interest bearing debt	651	581	500	500	500
Payables	3022	2580	2464	2842	3248
Other current liabilities	243	227	227	227	227
Balance sheet total	**14917**	**15983**	**15831**	**16477**	**17152**

DCF calculation

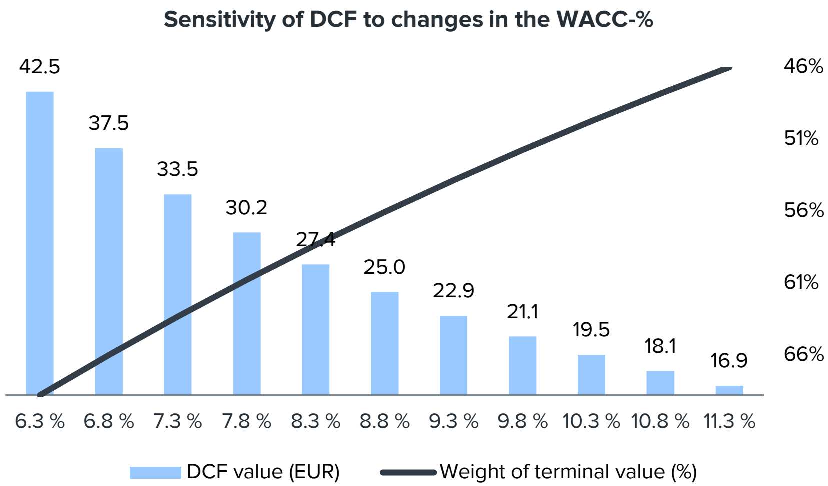
DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-10.8 %	-8.9 %	15.4 %	14.3 %	2.3 %	2.5 %	2.5 %	2.5 %	2.5 %	2.5 %	2.0 %	2.0 %
EBIT-%	7.3 %	0.9 %	4.3 %	6.8 %	7.2 %	7.5 %	7.5 %	7.5 %	7.5 %	7.5 %	7.5 %	7.5 %
EBIT (operating profit)	**1682**	**186**	**1030**	**1867**	**2042**	**2165**	**2220**	**2275**	**2332**	**2390**	**2438**	
+ Depreciation	866	967	998	1013	1044	983	787	696	618	616	615	
- Paid taxes	-247	-10	-134	-262	-291	-310	-318	-326	-335	-344	-468	
- Tax, financial expenses	-9	-17	-21	-18	-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	-57	-62	-403	-75	-82	-84	-87	-89	-91	-75	
Operating cash flow	**2516**	**1069**	**1812**	**2197**	**2705**	**2741**	**2589**	**2544**	**2511**	**2557**	**2491**	
+ 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	-647	
Free operating cash flow	**223**	**-441**	**752**	**1512**	**2120**	**2156**	**1989**	**1939**	**1906**	**1952**	**1844**	
+/- Other	0	0	0	0	0	0	0	0	0	0	0	
FCFF	223	-441	752	1512	2120	2156	1989	1939	1906	1952	1844	27587
Discounted FCFF		**-434**	**680**	**1257**	**1619**	**1514**	**1283**	**1149**	**1039**	**977**	**849**	**12693**
Sum of FCFF present value		22626	23061	22381	21123	19504	17990	16707	15557	14519	13541	12693
Enterprise value DCF		**22626**										
- Interest bearing debt		-4068										
+ Cash and cash equivalents		1575										
-Minorities		0										
-Dividend/capital return		-922										
Equity value DCF		**19217**										
Equity value DCF per share		**25.0**										

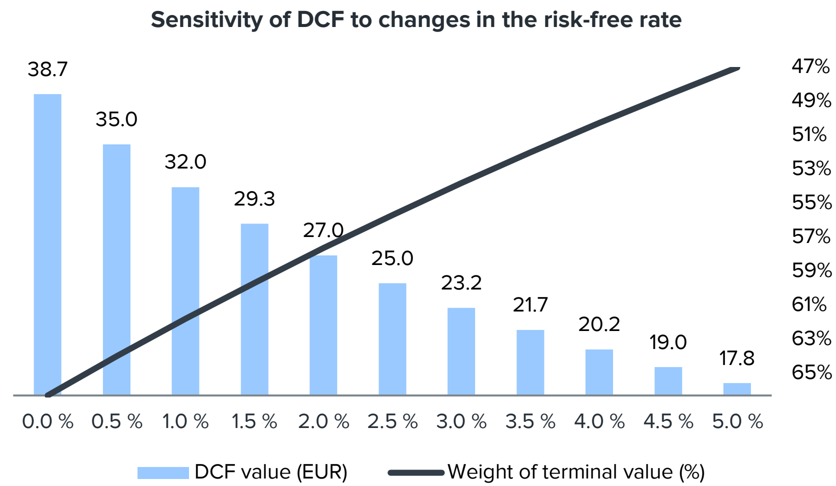
WACC	
Tax-% (WACC)	15.0 %
Target debt ratio (D/(D+E)	15.0 %
Cost of debt	5.0 %
Equity Beta	1.50
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	**9.6 %**
Weighted average cost of capital (WACC)	**8.8 %**

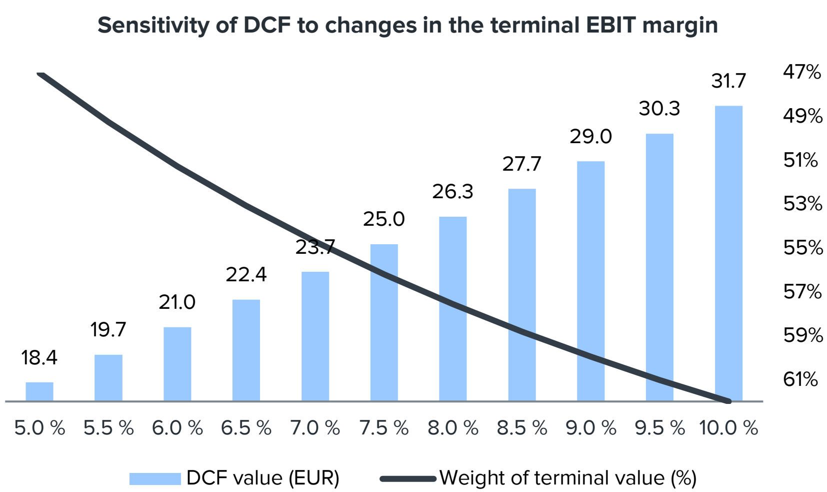
Source: Inderes

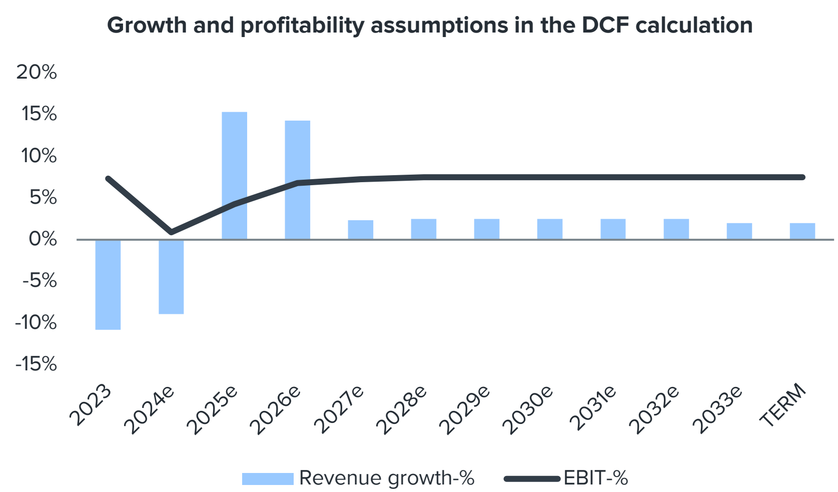


DCF sensitivity calculations and key assumptions in graphs









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
Revenue	15148	25707	22926	**20878**	**24084**
EBITDA	2607	3047	2548	**1153**	**2028**
EBIT	2023	2409	1682	**186**	**1030**
PTP	1962	2278	1596	**68**	**891**
Net Income	1771	1887	1433	**58**	**756**
Extraordinary items	681	-489	-910	**-223**	**0**

Per share data	2021	2022	2023	2024e	2025e
EPS (reported)	2.31	2.46	1.86	**0.08**	**0.98**
EPS (adj.)	1.43	3.04	2.88	**0.34**	**0.98**
OCF / share	2.40	2.16	3.28	**1.39**	**2.36**
FCF / share	0.46	-0.66	0.29	**-0.57**	**0.98**
Book value / share	9.09	10.83	11.02	**9.89**	**10.88**
Dividend / share	0.82	1.52	1.20	**0.00**	**0.40**

Balance sheet	2021	2022	2023	2024e	2025e
Balance sheet total	12417	14917	15983	**15831**	**16477**
Equity capital	6985	8327	8463	**7599**	**8355**
Goodwill	0	0	496	**496**	**496**
Net debt	176	1344	2493	**3957**	**3325**

Growth and profitability	2021	2022	2023	2024e	2025e
Revenue growth-%	29%	70%	-11%	**-9%**	**15%**
EBITDA growth-%	73%	17%	-16%	**-55%**	**76%**
EBIT (adj.) growth-%	-5%	116%	-11%	**-84%**	**152%**
EPS (adj.) growth-%	-11%	112%	-5%	**-88%**	**190%**
EBITDA-%	17.2 %	11.9 %	11.1 %	**5.5 %**	**8.4 %**
EBIT (adj.)-%	8.9 %	11.3 %	11.3 %	**2.0 %**	**4.3 %**
EBIT-%	13.4 %	9.4 %	7.3 %	**0.9 %**	**4.3 %**
ROE-%	27.5 %	24.7 %	17.1 %	**0.7 %**	**9.5 %**
ROI-%	25.3 %	24.5 %	14.3 %	**1.5 %**	**8.2 %**
Equity ratio	56.6 %	56.3 %	53.0 %	**48.0 %**	**50.7 %**
Gearing	2.5 %	16.1 %	29.5 %	**52.1 %**	**39.8 %**

Cash flow	2021	2022	2023	2024e	2025e
EBITDA	2607	3047	2548	**1153**	**2028**
Change in working capital	-650	-990	224	**-57**	**-62**
Operating cash flow	1840	1660	2516	**1069**	**1812**
CAPEX	-1518	-2142	-2247	**-1510**	**-1060**
Free cash flow	356	-508	223	**-441**	**752**

Valuation multiples	2021	2022	2023	2024e	2025e
EV/S	2.2	1.3	1.2	**0.7**	**0.6**
EV/EBITDA	12.8	11.3	10.7	**13.0**	**7.1**
EV/EBIT (adj.)	25.0	11.9	10.5	**36.7**	**14.0**
P/E (adj.)	30.3	14.1	11.2	**42.4**	**14.6**
P/B	4.8	4.0	2.9	**1.5**	**1.3**
Dividend-%	1.9 %	3.5 %	3.7 %	**0.0 %**	**2.8 %**

Source: Inderes

Climate target and taxonomy analysis

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 the Paris agreement (1.5 °C warming scenario)	No	No

*the figures are not comparable die to taxonomy development

We are starting to increase the visibility of sustainability assessments by looking at the climate target and taxonomy impacts because we believe that they are currently, on average, most significant in the company's value formation. Visibility to other factors will be gradually increased. The analyst considers the impact of all sustainability factors on the company's growth and profitability potential and risk (i.e. the required return) when forming the investment view.

NB! Taxonomy eligibility % is shown in the table without taxonomy-aligned activities.

Disclaimer and recommendation history

The information presented in Inderes reports is obtained from several different public sources that Inderes considers to be reliable. Inderes aims to use reliable and comprehensive information, but Inderes does not guarantee the accuracy of the presented information. Any opinions, estimates and forecasts represent the views of the authors. Inderes is not responsible for the content or accuracy of the presented information. Inderes and its employees are also not responsible for the financial outcomes of investment decisions made based on the reports or any direct or indirect damage caused by the use of the information. The information used in producing the reports may change quickly. Inderes makes no commitment to announcing any potential changes to the presented information and opinions.

The reports produced by Inderes are intended for informational use only. The reports should not be construed as offers or advice to buy, sell or subscribe investment products. Customers should also understand that past performance is not a guarantee of future results. When making investment decisions, customers must base their decisions on their own research and their estimates of the factors that influence the value of the investment and take into account their objectives and financial position and use advisors as necessary. Customers are responsible for their investment decisions and their financial outcomes.

Reports produced by Inderes may not be edited, copied or made available to others in their entirety, or in part, without Inderes' written consent. No part of this report, or the report as a whole, shall be transferred or shared in any form to the United States, Canada or Japan or the citizens of the aforementioned countries. The legislation of other countries may also lay down restrictions pertaining to the distribution of the information contained in this report. Any individuals who may be subject to such restrictions must take said restrictions into account.

Inderes issues target prices for the shares it follows. The recommendation methodology used by Inderes is based on the share's 12-month expected total shareholder return (including the share price and dividends) and takes into account Inderes' view of the risk associated with the expected returns. The recommendation policy consists of four tiers: Sell, Reduce, Accumulate and Buy. As a rule, Inderes' investment recommendations and target prices are reviewed at least 2–4 times per year in connection with the companies' interim reports, but the recommendations and target prices may also be changed at other times depending on the market conditions. The issued recommendations and target prices do not guarantee that the share price will develop in line with the estimate. Inderes primarily uses the following valuation methods in determining target prices and recommendations: Cash flow analysis (DCF), valuation multiples, peer group analysis and sum of parts analysis. The valuation methods and target price criteria used are always company-specific and they may vary significantly depending on the company and (or) industry.

Inderes' recommendation policy is based on the following distribution relative to the 12-month risk-adjusted expected total shareholder return.

Buy — The 12-month risk-adjusted expected shareholder return of the share is very attractive

Accumulate — The 12-month risk-adjusted expected shareholder return of the share is attractive

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

The assessment of the 12-month risk-adjusted expected total shareholder return based on the above-mentioned definitions is company-specific and subjective. Consequently, similar 12-month expected total shareholder returns between different shares may result in different recommendations, and the recommendations and 12-month expected total shareholder returns between different shares should not be compared with each other. The counterpart of the expected total shareholder return is Inderes' view of the risk taken by the investor, which varies considerably between companies and scenarios. Thus, a high expected total shareholder return does not necessarily lead to positive performance when the risks are exceptionally high and, correspondingly, a low expected total shareholder return does not necessarily lead to a negative recommendation if Inderes considers the risks to be moderate.

The analysts who produce Inderes' research and Inderes employees cannot have 1) shareholdings that exceed the threshold of significant financial gain or 2) shareholdings exceeding 1% in any company subject to Inderes' research activities. Inderes Oyj can only own shares in the target companies it follows to the extent shown in the company's model portfolio investing real funds. All of Inderes Oyj's shareholdings are presented in itemised form in the model portfolio. Inderes Oyj does not have other shareholdings in the target companies analysed. The remuneration of the analysts who produce the analysis are not directly or indirectly linked to the issued recommendation or views. Inderes Oyj does not have investment bank operations.

Inderes or its partners whose customer relationships may have a financial impact on Inderes may, in their business operations, seek assignments with various issuers with respect to services provided by Inderes or its partners. Thus, Inderes may be in a direct or indirect contractual relationship with an issuer that is the subject of research activities. Inderes and its partners may provide investor relations services to issuers. The aim of such services is to improve communication between the company and the capital markets. These services include the organisation of investor events, advisory services related to investor relations and the production of investor research reports.

More information about research disclaimers can be found at www.inderes.fi/research-disclaimer.

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	Osta	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 €
9/12/2024	Accumulate	19.00 €	16.06 €
10/25/2024	Accumulate	17.50 €	14.39 €

inderes.

Inderes democratizes investor information by connecting investors and listed companies.

We help over 400 listed companies better serve investors. Our investor community is home to over 70,000 active members.

We build solutions for listed companies that enable frictionless and effective investor relations. For listed companies, we offer Commissioned Research, IR Events, AGMs, and IR Software.

Inderes is listed on the Nasdaq First North growth market and operates in Finland, Sweden, Norway, and Denmark.

Inderes Oyj

Itämerentori 2

FI-00180 Helsinki, Finland

+358 10 219 4690

Award-winning research at **inderes.fi**

STARMINE ANALYST AWARDS FROM REFINITIV

THOMSON REUTERS ANALYST AWARDS

Juha Kinnunen
2012, 2016, 2017, 2018, 2019, 2020

Mikael Rautanen
2014, 2016, 2017, 2019

Sauli Vilén
2012, 2016, 2018, 2019, 2020

Antti Viljakainen
2014, 2015, 2016, 2018, 2019, 2020

Olli Koponen
2020

Joni Grönqvist
2019, 2020

Erkki Vesola
2018, 2020

Petri Gostowski
2020

Atte Riikola
2020

Connecting investors and listed companies.