

Neste

Company report

9/12/2024



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Renewable Products continue to flounder at the bottom

Neste lowered its Renewable Products guidance for the current year on Wednesday. The underlying factors are more or less the same as before, and we continue to believe that such low margins will not last in the long run. We therefore believe that the segment's performance will recover in the medium term, although there is uncertainty about the timing of the stabilization of supply and demand. We see the stock as moderately priced relative to our longer-term forecasts and therefore reiterate our Accumulate recommendation. Reflecting our estimate changes, we lower our target price to EUR 19.0 (was EUR 21.0).

Renewable Products guidance lowered for margin and volume

Neste has revised its sales volume guidance for Renewable Products downwards and now expects sales volumes of around 3.9 Mt (+/- 5%) with a sales margin of USD 360-580/ton. Previously, the company expected sales volumes to reach around 4.4 Mt (+/- -10%), with a sales margin of USD 480-580/ton. The sales margin is burdened by the decline in the price of conventional diesel, which is used in the pricing of Renewable Products. At the same time, feedstock costs have not eased as demand for it has increased, putting pressure on the segment's sales margin from two directions. Furthermore, another factor weighing on sales volumes and margin is the reduction in the forecast for Sustainable Aviation Fuel (SAF) sales volumes, with the company now expecting SAF volumes to be only 0.35-0.55 Mt (previously 0.5-0.7 Mt).

We do not believe that the current margin levels are long term, but recovery will take time

In H1'24, Renewable Products has sold 1.8 Mt at a sales margin of USD 466/ton, so based on the updated guidance, sales volume growth in the second half of the year will be at a lower margin than in the first half. In the Renewable Products market, some companies have already reported losses in the first half of the year and profitability is generally low. We do not expect this to continue in the long term, as returns on capital are now poor and this is holding back the investment needed to meet the growth in demand. As a result, we believe that margin levels will be higher in the medium term, although it will take time for the oversupply to clear and the current weak economic situation still weighs on the oversupplied market. We have significantly trimmed our forecasts for this year and the next, especially for Renewable Products, and lowered our 2024-2025 comparable EBITDA forecasts at the group level by 41% and 15%, respectively. However, our medium-term forecasts remain unchanged and we expect Renewable Products' result to increase significantly in 2026 and 2027, driven largely by higher sales volumes, but also by a recovery of the sales margin from current levels.

Valuation is high in the short term, but we expect long-term earnings levels to strengthen

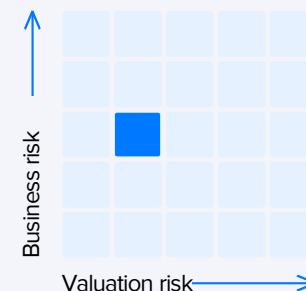
Our medium-term forecasts are unchanged, so we do not see any significant change in the valuation picture for the stock. The stock is expensive at current earnings levels, but the much higher medium-term earnings forecasts for Renewable Products push the longer-term valuation picture to attractive levels, as we forecast EV/EBIT multiples of 10-8x for Renewable Products in 2026 and 2027. Given the current market situation and the uncertainty surrounding its rebalancing, the realization of attractive longer-term expected return will require patience, and better buying opportunities may emerge if the sales margin continues to shrink in the current rather weak market environment.

Recommendation

Accumulate
(was Accumulate)

19.00 EUR
(was 21.00 EUR)

Share price:
16.06



Key figures

	2023	2024e	2025e	2026e
Revenue	22926	20411	23833	26465
growth-%	-11%	-11%	17%	11%
EBIT adj.	2592	370	1108	1910
EBIT-% adj.	11.3 %	1.8 %	4.7 %	7.2 %
Net Income	1433	17	826	1523
EPS (adj.)	2.88	0.29	1.08	1.98

P/E (adj.)	11.2	54.4	14.9	8.1
P/B	2.9	1.6	1.5	1.3
Dividend yield-%	3.7 %	0.0 %	3.1 %	4.4 %
EV/EBIT (adj.)	10.5	43.4	14.1	7.6
EV/EBITDA	10.7	14.6	7.4	4.9
EV/S	1.2	0.8	0.7	0.5

Source: Inderes

Guidance

(Downgraded)

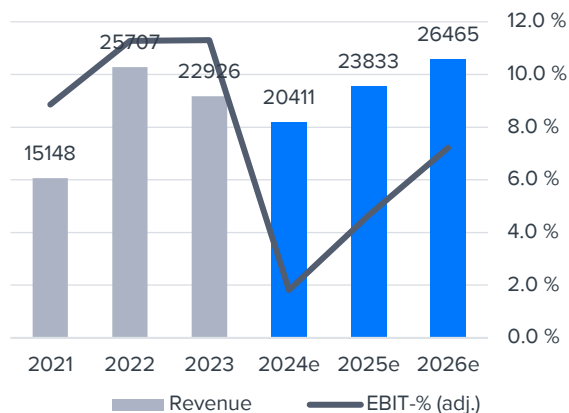
Sales volumes of Renewable Products are expected to reach around 3.9 Mt (+/- 5%) in 2024, with a sales margin of USD 360-480/ton. Total sales volumes and refining margins for Oil Products are expected to be lower in 2024 than in 2023.

Share price



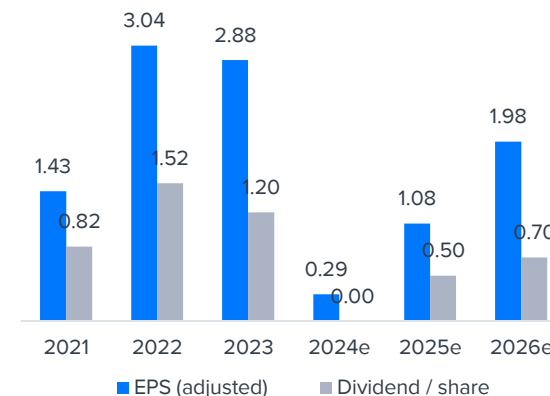
Source: Millstream Market Data AB

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
- Long-term growth prospects for the Renewable Products market



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	16.06	16.06	16.06
Number of shares, millions	768.2	768.2	768.2
Market cap	12333	12333	12333
EV	16072	15605	14446
P/E (adj.)	54.4	14.9	8.1
P/E	>100	14.9	8.1
P/B	1.6	1.5	1.3
P/S	0.6	0.5	0.5
EV/Sales	0.8	0.7	0.5
EV/EBITDA	14.6	7.4	4.9
EV/EBIT (adj.)	43.4	14.1	7.6
Payout ratio (%)	0.0 %	46.5 %	35.3 %
Dividend yield-%	0.0 %	3.1 %	4.4 %

Source: Inderes

Forecasts downgraded especially for Renewable Products

Forecasts for current year significantly reduced

We have lowered our sales volume forecast for Renewable Products for the current year to around 3.9 Mt to reflect the new guidance. At the same time, we have lowered our H2 sales margin forecast for the segment to USD 355/ton, bringing the full-year forecast to USD 415/ton. We also made minor downward revisions in the forecast for Oil Products, where product margins have been on a downward trend recently.

Reflecting these forecast changes, our forecast for Neste's full-year 2024 comparable EBITDA decreased to 1,332 MEUR (previously 1,881 MEUR). As a result, the earnings level will remain sluggish in a year burdened by the challenges in Renewable Products and the maintenance shutdown in Oil Products. This also raises our year-end net debt/EBITDA forecast up to 2.9x. In view of this, this

year's weak result and the ongoing major investment project in Rotterdam, we have cut our dividend forecast for this year to zero.

2025 forecast also lowered

We attribute the recent price pressure on oil and fossil fuels to the global economic growth outlook, where the prospects have been weakening. Reflecting this, and the oversupply situation we expect to continue in Renewable Products next year, we have also cut our 2025 forecasts for both sales volume and sales margin.

However, in 2025, the market will grow significantly and, in addition, SAF mandates will increase demand for this higher-margin product. Based on this overall picture, we forecast sales volumes to increase to 4.6 Mt in 2025. We trimmed our sales margin forecast to USD 500/ton (previously USD 600/ton).

Medium-term estimates unchanged

Despite the short-term challenges, we have made no changes to our medium-term forecasts, where we expect Renewable Products sales volumes to rise to 5.6 Mt when Singapore and Martinez are fully operational and to 6.1 Mt when the Rotterdam expansion is completed in 2027. Our sales margin forecast for 2026-2027 is USD 550/ton, and as a result we expect the EBITDA of Renewable Products to increase from a weak 640 MEUR in the current year to 2.1-2.4 BNEUR.

Estimate revisions MEUR / EUR	2024e	2024e	Change %	2025e	2025e	Change %	2026e	2026e	Change %
	Old	New		Old	New		Old	New	
Revenue	21603	20411	-6%	24881	23833	-4%	26465	26465	0%
EBITDA	1651	1102	-33%	2477	2107	-15%	2923	2923	0%
EBIT (exc. NRIs)	920	370	-60%	1478	1108	-25%	1910	1910	0%
EBIT	690	140	-80%	1478	1108	-25%	1910	1910	0%
PTP	569	18.9	-97%	1351	974	-28%	1796	1794	0%
EPS (excl. NRIs)	0.91	0.29	-68%	1.49	1.08	-28%	1.98	1.98	0%
DPS	0.60	0.00	-100%	0.65	0.50	-23%	0.70	0.70	0%

Source: Inderes

Valuation is moderate once margins recover

Neste's different businesses have very different medium- and long-term outlooks as Renewable Products replace fossil fuels that are approaching the end of their life cycle. Hence, we consider the levels of valuation justified for them to be very different. For the same reason, the majority of the peers in the Oil Products segment in our opinion form a poor indicator for Group-level valuation as renewable products often hold a smaller weight in the result generation of large players. Thus, we use our sum-of-the-parts calculation as the main measure of valuation.

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. From this perspective, Renewable Products is valued at a fairly high multiple with a very weak and only slightly profitable operating result in 2024. However, as we believe the current market weakness is only temporary, it is not justified to base our view on short-term valuation levels. Therefore, we look at valuation based on our medium-term forecasts.

With our earnings forecasts for 2026-2027, the EV/EBIT multiples for the Renewable Products segment fall to 10x and 8x, which we consider quite low. If we assume a justified valuation multiple of, say, 12x EV/EBIT, the stock has significant upside of around 60%. This would roughly correspond to an expected annual return of 15-20% over the next three-plus years, in addition to a reasonable dividend yield to support the investor's expected return.

We believe the risk/reward is good for a patient investor

In our view, the current pricing of the stock offers a good medium-term risk/reward ratio, as we do not believe that the market is currently pricing the stock on the basis of the medium-term performance of Renewable Products. This is natural as there is no quick solution in sight to the current oversupply situation. We estimate that the margin outlook still acts as a driver of the stock in the short term, which in the current market burdened by oversupply, can also mean that better places to buy lie ahead.

Our view is that if expected returns remain subdued or even weak from current levels, the sales margin for Renewable Products would have to remain at levels that reflect chronic oversupply. This is a scenario we do not believe is likely at this time, as current margin levels are already slowing investment, which is likely to correct the supply/demand balance. Thus, a chronically low margin would imply that the market's projected demand scenario will not materialize.

Overall, we consider the current risk/reward ratio of the stock to be good. However, in a market that is difficult to predict in the short term, we remind investors of the importance of time diversification.

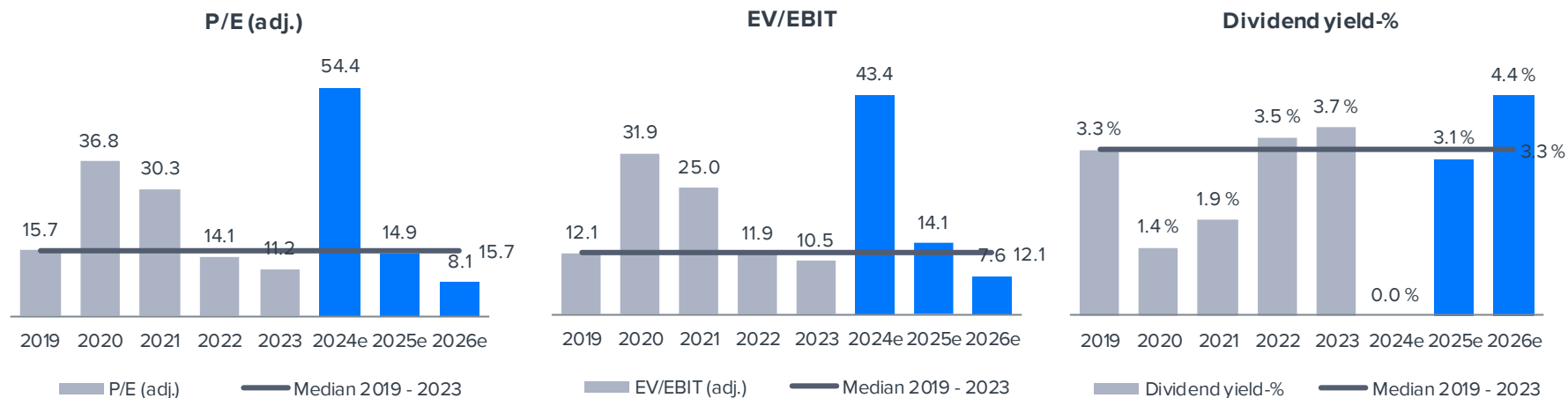
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EV/EBITDA	14.6	7.4	4.9
EV/EBIT (adj.)	43.4	14.1	7.6
Payout ratio (%)	0.0 %	46.5 %	35.3 %
Dividend yield-%	0.0 %	3.1 %	4.4 %

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	16.06	16.06	16.06	16.06
Number of shares, millions	768	768	768	768	768	768	768	768	768
Market cap	23814	45425	33299	33043	24744	12333	12333	12333	12333
EV	23651	45212	33494	34407	27237	16072	15605	14446	12920
P/E (adj.)	15.7	36.8	30.3	14.1	11.2	54.4	14.9	8.1	7.3
P/E	13.3	63.8	18.8	17.5	17.3	>100	14.9	8.1	7.3
P/B	4.0	7.7	4.8	4.0	2.9	1.6	1.5	1.3	1.2
P/S	1.5	3.9	2.2	1.3	1.1	0.6	0.5	0.5	0.5
EV/Sales	1.5	3.8	2.2	1.3	1.2	0.8	0.7	0.5	0.5
EV/EBITDA	8.7	30.0	12.8	11.3	10.7	14.6	7.4	4.9	4.1
EV/EBIT (adj.)	12.1	31.9	25.0	11.9	10.5	43.4	14.1	7.6	6.2
Payout ratio (%)	44%	86%	36%	62%	64%	0%	46%	35%	33%
Dividend yield-%	3.3 %	1.4 %	1.9 %	3.5 %	3.7 %	0.0 %	3.1 %	4.4 %	4.5 %

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	143549	168166	5.9	6.0	4.2	4.2	0.8	0.8	7.5	7.4	5.2	5.5	1.3
ENI SPA	45201	69070	5.9	6.0	3.5	3.6	0.8	0.8	6.8	6.6	7.2	7.6	0.8
Koc Holding AS	11988	22710	3.8	2.6	3.2	2.2	0.4	0.3	5.9	4.2	4.4	5.3	0.6
TURKIYE PETROL RAFINERILERI AS	8225	6826	5.5	6.1	3.7	4.1	0.3	0.3	8.0	7.4	12.2	9.0	1.1
MOL PLC	5400	8913	5.1	5.7	3.1	3.3	0.4	0.4	4.2	4.7	9.0	9.3	0.5
EQUINOR ASA	61697	61510	2.2	2.2	1.7	1.7	0.7	0.7	7.3	7.0	10.8	6.4	1.6
VALERO ENERGY CORP	39571	46530	9.7	8.4	6.4	5.9	0.4	0.4	12	10.0	3.2	3.3	1.7
SARAS SPA													
HELLENIC PETROLEUM SA	2149	4015	6.1	8.6	4.1	5.0	0.3	0.3	6.2	7.3	9.2	7.0	0.7
POLSKI KONCERN NAFTOWY ORLEN SA	16484	19211	3.8	3.5	2.4	2.2	0.3	0.3	6.3	4.9	6.9	7.2	0.5
MOTOR OIL HELLAS CORINTH REFINERIES SA	2397	4048	5.0	7.0	3.9	4.9	0.3	0.3	6.2	6.3	7.6	7.0	0.9
Neste (Inderes)	12333	16072	43.4	14.1	14.6	7.4	0.8	0.7	54.4	14.9	0.0	3.1	1.6
Average			5.3	5.6	3.6	3.7	0.5	0.5	7.0	6.6	7.6	6.7	1.0
Median			5.3	6.0	3.6	3.8	0.4	0.4	6.6	6.8	7.4	7.0	0.8
Diff-% to median			722%	133%	302%	93%	107%	82%	731%	120%	-100%	-55%	93%

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	5383	5586	20411	23833	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	1908	1986	7511	9358	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	264	277	1102	2107	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	23	36	370	1108	1910	2097
EBIT	2409	285	312	669	415	1682	200	-119	23	36	140	1108	1910	2097
Oil Products	1372	304	171	409	243	1127	203	-9	37	60	291	329	378	359
Renewable Products	1480	344	376	420	286	1426	94	5	-19	-30	50	750	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	-134	-116	-103
PTP	2278	276	295	619	406	1596	189	-169	-7	6	19	974	1794	1994
Taxes	-388	-38	-36	-80	-6	-160	-27	24	1	-1	-2	-146	-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	-5.9	5	16.5	826	1523	1693
EPS (adj.)	3.04	0.72	0.63	0.88	0.66	2.88	0.33	-0.03	-0.01	0.01	0.29	1.08	1.98	2.20
EPS (rep.)	2.46	0.31	0.34	0.70	0.52	1.86	0.21	-0.19	-0.01	0.01	0.02	1.08	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 %	-9.9 %	-11.4 %	-11.0 %	16.8 %	11.0 %	2.9 %
Adjusted EBIT growth-%	115.9 %	53.8 %	-38.2 %	1.6 %	-26.3 %	-10.6 %	-52.6 %	-99.6 %	-97.2 %	-93.4 %	-85.7 %	199.4 %	72.3 %	9.8 %
EBITDA-%	11.9 %	8.7 %	9.8 %	14.9 %	10.7 %	11.1 %	9.2 %	2.6 %	4.9 %	5.0 %	5.4 %	8.8 %	11.0 %	11.5 %
Adjusted EBIT-%	11.3 %	12.3 %	10.7 %	13.8 %	8.6 %	11.3 %	6.4 %	0.1 %	0.4 %	0.6 %	1.8 %	4.7 %	7.2 %	7.7 %
Net earnings-%	7.3 %	4.5 %	4.8 %	9.0 %	6.3 %	6.2 %	3.4 %	-3.1 %	-0.1 %	0.1 %	0.1 %	3.5 %	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	6088	6944	7878
Inventories	3648	3366	3164	3575	3970
Other current assets	406	271	271	271	271
Receivables	2178	1913	1735	2026	2249
Cash and equivalents	1271	1575	919	1072	1388
Balance sheet total	14917	15983	15495	16412	17017

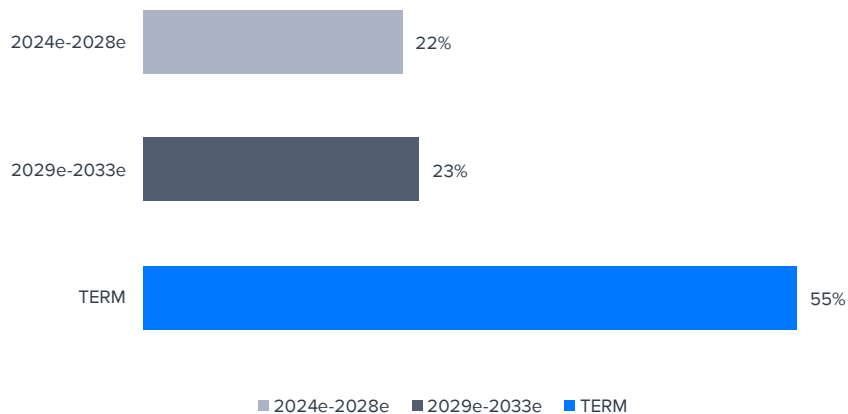
Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	8327	8463	7558	8384	9522
Share capital	40	40	40	40	40
Retained earnings	8282	8423	7518	8344	9482
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	4802	4489	3645
Deferred tax liabilities	336	317	317	317	317
Provisions	200	187	187	187	187
Interest bearing debt	1964	3487	4157	3844	3000
Convertibles	0	0	0	0	0
Other long term liabilities	174	141	141	141	141
Current liabilities	3916	3388	3136	3539	3850
Interest bearing debt	651	581	500	500	500
Payables	3022	2580	2409	2812	3123
Other current liabilities	243	227	227	227	227
Balance sheet total	14917	15983	15495	16412	17017

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-10.8 %	-11.0 %	16.8 %	11.0 %	2.9 %	2.5 %	2.5 %	2.5 %	2.5 %	2.5 %	2.0 %	2.0 %
EBIT-%	7.3 %	0.7 %	4.7 %	7.2 %	7.7 %	8.0 %	8.0 %	7.5 %	7.5 %	7.5 %	7.5 %	7.5 %
EBIT (operating profit)	1682	140	1108	1910	2097	2232	2288	2199	2254	2310	2356	
+ Depreciation	866	961	999	1013	1045	984	787	697	618	617	615	
- Paid taxes	-247	-2	-146	-269	-299	-320	-328	-315	-323	-332	-452	
- Tax, financial expenses	-9	-16	-20	-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	209	-298	-308	-89	-80	-82	-84	-86	-88	-72	
Operating cash flow	2516	1292	1643	2329	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	-218	583	1644	2153	2217	2051	1877	1843	1887	1787	
+/- Other	0	0	0	0	0	0	0	0	0	0	0	
FCFF	223	-218	583	1644	2153	2217	2051	1877	1843	1887	1787	26729
Discounted FCFF		-212	522	1353	1629	1541	1310	1102	994	936	814	12176
Sum of FCFF present value		22164	22376	21854	20501	18872	17331	16021	14920	13925	12990	12176
Enterprise value DCF		22164										
- Interest bearing debt		-4068										
+ Cash and cash equivalents		1575										
-Minorities		0										
-Dividend/capital return		-922										
Equity value DCF		18749										
Equity value DCF per share		24.4										

Cash flow distribution



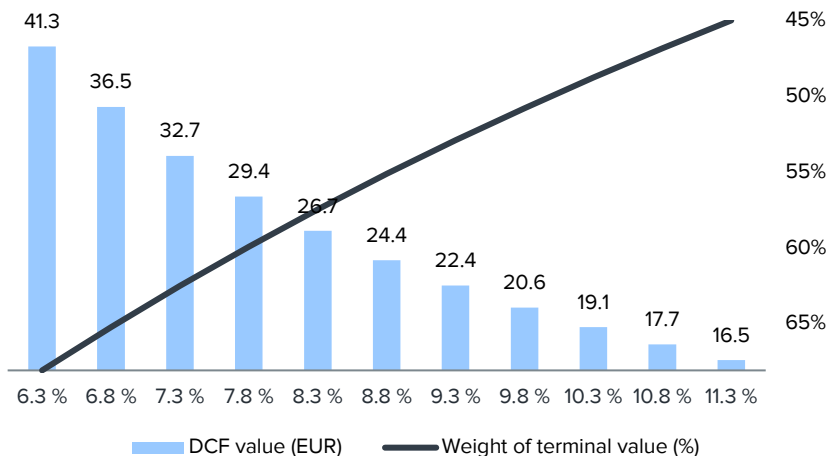
WACC

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 %

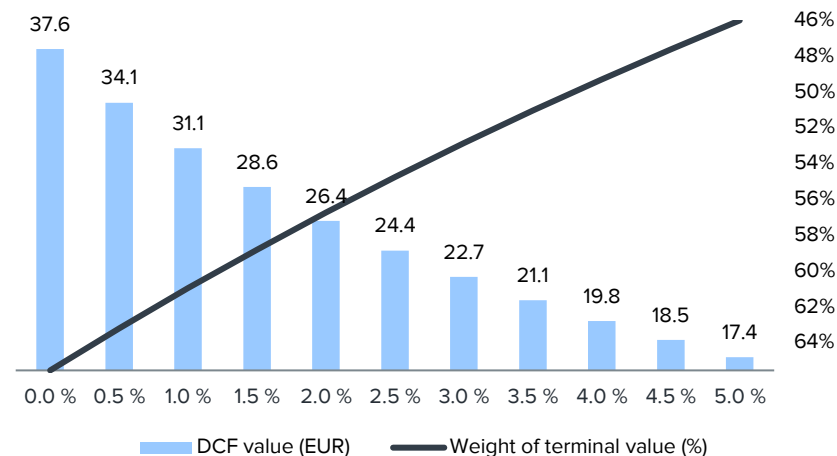
Source: Inderes

DCF sensitivity calculations and key assumptions in graphs

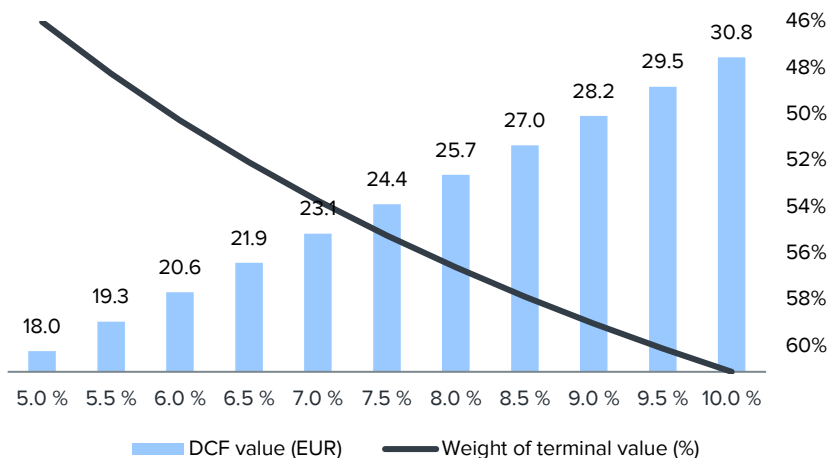
Sensitivity of DCF to changes in the WACC-%



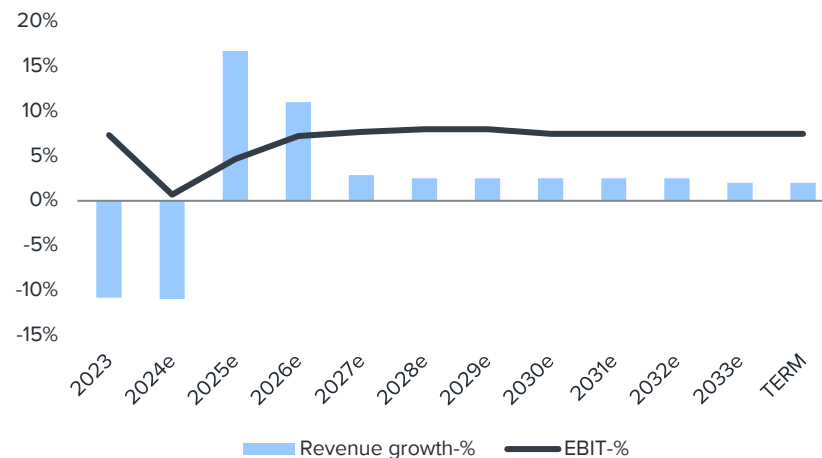
Sensitivity of DCF to changes in the risk-free rate



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	20411	23833	EPS (reported)	2.31	2.46	1.86	0.02	1.08
EBITDA	2607	3047	2548	1102	2107	EPS (adj.)	1.43	3.04	2.88	0.29	1.08
EBIT	2023	2409	1682	140	1108	OCF / share	2.40	2.16	3.28	1.68	2.14
PTP	1962	2278	1596	19	974	FCF / share	0.46	-0.66	0.29	-0.28	0.76
Net Income	1771	1887	1433	17	826	Book value / share	9.09	10.83	11.02	9.84	10.91
Extraordinary items	681	-489	-910	-230	0	Dividend / share	0.82	1.52	1.20	0.00	0.50
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	12417	14917	15983	15495	16412	Revenue growth-%	29%	70%	-11%	-11%	17%
Equity capital	6985	8327	8463	7558	8384	EBITDA growth-%	73%	17%	-16%	-57%	91%
Goodwill	0	0	496	496	496	EBIT (adj.) growth-%	-5%	116%	-11%	-86%	199%
Net debt	176	1344	2493	3738	3271	EPS (adj.) growth-%	-11%	112%	-5%	-90%	265%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	17.2 %	11.9 %	11.1 %	5.4 %	8.8 %
EBITDA	2607	3047	2548	1102	2107	EBIT (adj.)-%	8.9 %	11.3 %	11.3 %	1.8 %	4.7 %
Change in working capital	-650	-990	224	209	-298	EBIT-%	13.4 %	9.4 %	7.3 %	0.7 %	4.7 %
Operating cash flow	1840	1660	2516	1292	1643	ROE-%	27.5 %	24.7 %	17.1 %	0.2 %	10.4 %
CAPEX	-1518	-2142	-2247	-1510	-1060	ROI-%	25.3 %	24.5 %	14.3 %	1.1 %	8.9 %
Free cash flow	356	-508	223	-218	583	Equity ratio	56.6 %	56.3 %	53.0 %	48.8 %	51.1 %
Valuation multiples	2021	2022	2023	2024e	2025e	Gearing	2.5 %	16.1%	29.5 %	49.5 %	39.0 %
EV/S	2.2	1.3	1.2	0.8	0.7						
EV/EBITDA	12.8	11.3	10.7	14.6	7.4						
EV/EBIT (adj.)	25.0	11.9	10.5	43.4	14.1						
P/E (adj.)	30.3	14.1	11.2	54.4	14.9						
P/B	4.8	4.0	2.9	1.6	1.5						
Dividend-%	1.9 %	3.5 %	3.7 %	0.0 %	3.1 %						

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

*the figures are not comparable due to taxonomy development

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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

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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 €
9/12/2024	Accumulate	19.00 €	16.06 €



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