

Neste

Company report

4/26/2024



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This report is a summary translation of the report “Markkinan usko tuloskasvuun on koetuksella” published on 4/25/2024 at 11:45 pm EEST

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Market confidence in earnings growth tested

Neste's Q1 figures were well below our expectations, driven by Renewable Products. Given the trajectory of sustainable aviation fuel sales, this is not particularly dramatic as long as sales volumes start to rise as expected in the coming quarters. We believe the conditions are in place for this to happen, but evidence is needed to restore market confidence. Our short-term forecasts were lowered, so we are reducing our target price to EUR 30.0 (was EUR 35.0), but we reiterate our Buy recommendation given the low valuation.

Sales volumes and margins for Renewable Products underperformed

Neste achieved a comparable EBITDA of 551 MEUR in Q1, which was clearly below our and consensus forecasts. The underperformance was driven by Renewable Products, which plays a substantially large role in the company's value creation. Its results were markedly below expectations, due to a slightly larger than expected decline in sales margin in a weak market and a smaller than expected increase in sales volumes. This was due to the usual seasonal nature of inventory build-up in preparation for the increase in sustainable aviation fuel (SAF) sales volumes and maintenance turnarounds.

Renewable Products' volume growth rate and margin level indicating future direction

As expected, Neste kept its guidance unchanged: The guidance for Renewable Products is for sales volumes of 4.4 Mt (+/-10%) and margins of USD 600-800/ton and for Oil Products for declining sales volumes and refining margins. The impact of lower-than-expected Q1 sales volumes on the Renewable Products sales volume forecast was moderate (3%) year-on-year, but the pace will need to pick up sharply already in Q2 to reach the full-year sales volume guidance. This should be made possible by SAF's growing sales volumes, and the company reiterated its guidance of 0.5-1 Mt SAF sales volumes for the current year. SAF's production already exceeded sales volumes in Q1 and this pace should accelerate in the current year as the ramp-up in Singapore progresses and the investment in Rotterdam brings more capacity. Thanks to SAF's higher sales margin, the margin outlook should also improve, although the Q1 performance and continued market weakness will test confidence in this. We have lowered our sales forecast for Renewable Products for the current year to 4.2 Mt and our sales margin forecast to around USD 650/ton. Mainly reflecting the Q1 result and these forecast changes, our forecast for operational EBITDA for the current year has been reduced by 9%, while the forecast revisions for next year remain more moderate (-4%).

Market does not price earnings growth when expectations have been missed

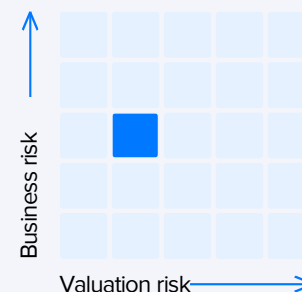
The market is pricing Renewable Products at an EV/EBIT multiple of about 16x on our current year earnings forecast, reflecting sales margins dragged down by a sluggish market and sales volumes well below potential. We believe this valuation multiple is slightly elevated, but its downside is more than offset by the earnings growth we forecast in the coming years, driven by significantly higher sales volumes. In our view, the current valuation of the stock is also moderate based solely on the projections for the next few years in the Renewable Products segment, with no value left for the Oil Products or Marketing & Services businesses. Thus, we believe that the current valuation level keeps the risk/reward ratio attractive, even if the long-term margin risks in Renewable Products remain in place.

Recommendation

Buy
(previous Buy)

EUR 30.00
(previous EUR 35.00)

Share price:
22.49



Key figures

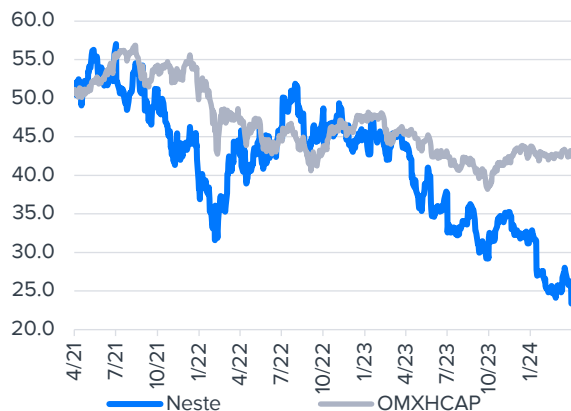
	2023	2024e	2025e	2026e
Revenue	22926	19733	23782	25541
growth-%	-11%	-14%	21%	7%
EBIT adj.	2592	1495	2106	2582
EBIT-% adj.	11.3 %	7.6 %	8.9 %	10.1 %
Net Income	1433	1118	1700	2105
EPS (adj.)	2.88	1.57	2.21	2.74
P/E (adj.)	11.2	14.3	10.2	8.2
P/B	2.9	2.0	1.8	1.6
Dividend yield-%	3.7 %	5.6 %	5.8 %	5.9 %
EV/EBIT (adj.)	10.5	13.3	9.2	7.1
EV/EBITDA	10.7	8.4	6.3	5.1
EV/S	1.2	1.0	0.8	0.7

Source: Inderes

Guidance (Unchanged)

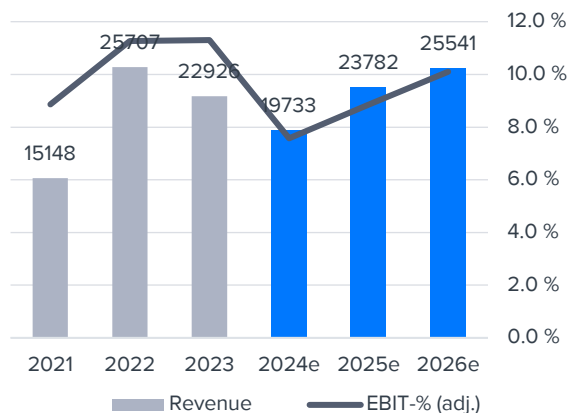
Sales volumes of Renewable Products are expected to reach around 4.4 Mt (+/- 10%) in 2024, with a sales margin of USD 600-800/ton. Total sales volumes and refining margins for Oil Products are expected to be lower in 2024 than in 2023.

Share price



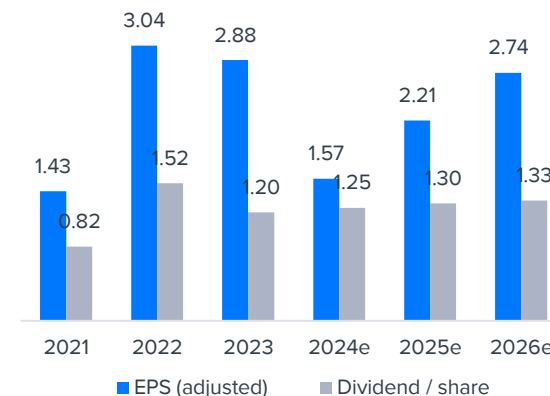
Source: Millstream Market Data AB

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	22.49	22.49	22.49
Number of shares, million:	768.2	768.2	768.2
Market cap	17277	17277	17277
EV	19827	19449	18229
P/E (adj.)	14.3	10.2	8.2
P/E	15.5	10.2	8.2
P/B	2.0	1.8	1.6
P/S	0.9	0.7	0.7
EV/Sales	1.0	0.8	0.7
EV/EBITDA	8.4	6.3	5.1
EV/EBIT (adj.)	13.3	9.2	7.1
Payout ratio (%)	85.9 %	58.7 %	48.5 %
Dividend yield-%	5.6 %	5.8 %	5.9 %

Source: Inderes

Renewable Products significantly missed forecasts

Renewable Products fell short of expectations

Sales volumes of Renewable Products in Q1 were up "only" about a third year-on-year to 849 thousand tons, which was a sharp disappointment given the sluggish level in the comparison period and the increased capacity. Volume growth was dampened by inventory build-up in preparation for the increase in SAF sales volumes and maintenance turnarounds in the current year. At the full-year level, the forecast miss of around 3% in sales volumes is not dramatic given the timing factors, assuming that sales volumes will accelerate to significant growth in the coming years. The sales margin for Renewable Products was also weak (USD 562/ton), and fixed costs in the segment exceeded our expectations. Against this background, comparable EBITDA remained weak at 242 MEUR, well below our forecast of 415 MEUR.

Oil Products good as expected

The comparable EBITDA for Oil Products settled at 278 MEUR, slightly above our estimate of 249 MEUR. Segment sales volumes were slightly below our forecast, but this was offset by a high total refining margin (USD 20.4/bbl) while segment fixed costs were slightly below our forecast. Overall, the segment had another successful quarter, despite the friction caused by the strikes in Finland. This also did not have an unforeseen impact on Marketing & Services' results, which were as good as usual and in line with our forecasts.

In the lower lines, the tax rate was broadly in line with the projected level and net financing costs also matched our expectations. Thus, the comparable EPS of EUR 0.33 and the clear forecast miss were the result of the forecast miss on the operational result.

Cash flow unexpectedly hit by working capital and investments

The working capital commitment in Q1 pushed the cash flow from operating activities to -31 MEUR coinciding with an increase in investments. Thus, free cash flow for Q1 fell to -410 MEUR. Given the current year's maintenance turnarounds and the outlook for SAF sales volumes, the inventory build-up was expected and we do not believe that the weak cash flow in Q1 justifies any major conclusions.

At the end of Q1, Neste had a net debt of almost 3 BNEUR, corresponding to a net debt/EBITDA ratio of 1.2x. Overall, the financial position remains strong despite high investments and we expect it to improve further as investments start to pay off and profit levels strengthen.

MEUR / EUR	Q1'23	Q1'24	Q1'24e	Q1'24e	Consensus		Difference (%)	2024e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	5298	4801	5666	-	-	-	-15%	19733
EBITDA (adj.)	830	551	687	693	625	820	-20%	0.0
PTP	276	189	429	-	-	-	-56%	1300
EPS (adj.)	0.72	0.33	0.48	0.52	0.40	0.64	-32%	1.57
Revenue growth-%	-4.1 %	-9.4 %	6.9 %	-	-	-	-16.3 pp	-13.9 %
EBITDA-% (adj.)	15.7 %	11.5 %	12.1 %	-	-	-	-0.6 pp	0.0 %

Source: Inderes & Vara Research (consensus, 15 forecasts)

Forecasts lowered mainly in Renewable Products

Oil Products maintenance turnaround in Q2, sales volumes in Renewables trending upwards

In the short term, the Porvoo turnaround Oil Products' production to zero, which will also affect sales volumes in Q2, although this can be partially compensated by inventories. Therefore, Oil Products will only benefit to a limited extent from product margins, which have remained at relatively high levels. According to Neste, the maintenance turnaround will reduce Oil Products' comparable EBITDA by 190 MEUR in Q2.

The aforementioned maintenance turnarounds will also reduce Renewables' sales volumes, and Martinez's utilization rate is still below 50% following a fire at the end of last year. As a result, sales volumes for the current year will be below the nominal capacity assuming full capacity availability (5.5 Mt). However, according to Neste, SAF's production

ramp-up has continued as expected in the first half of the year and its sales are expected to grow from Q2 onwards, albeit from a low starting level, having accounted for only 5% of sales mix in Q1.

We cut our short-term forecasts for Renewable Products

We have trimmed our short-term forecasts in Renewables by reducing the expected sales volume growth rate for the current year. In addition, we also slightly lowered our Q2 sales margin due to a weaker than expected Q1 margin. For the full year, we lowered our sales volume forecast for the segment to 4.2 Mt (was 4.4 Mt) and our sales margin forecast to USD 654/ton (was USD 700/ton). We also made small positive revisions to the Oil Products' refining margin for Q2, but the impact is quite limited due to low volumes.

Additionally, we made slight downward revisions to sales volume forecasts (2025: 4.8 Mt vs. previously ~ 5.1 Mt) for 2024 in Renewable Products. The main forecast risk for next year, in addition to the usual margin risk, relates to the time frame for repairing the damaged operations of the Martinez joint venture and bringing its utilization rate up to its full potential. However, according to Neste, full production should be achieved by the end of this year.

We have made no changes to our medium-term forecasts and expect the reported investments to increase sales volumes in Renewables to just over 6.1 Mt in 2027, while our medium-term average sales margin forecast is USD 680/ton.

Estimate revisions	2024e	2024e	Change	2025e	2025e	Change	2026e	2026e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	21547	19733	-8%	24288	23782	-2%	25541	25541	0%
EBITDA	2688	2351	-13%	3221	3105	-4%	3633	3586	-1%
EBIT (exc. NRIs)	1696	1495	-12%	2225	2106	-5%	2598	2582	-1%
EBIT	1696	1386	-18%	2225	2106	-5%	2598	2582	-1%
PTP	1611	1300	-19%	2122	2003	-6%	2496	2479	-1%
EPS (excl. NRIs)	1.80	1.57	-13%	2.35	2.21	-6%	2.76	2.74	-1%
DPS	1.25	1.25	0%	1.30	1.30	0%	1.33	1.33	0%

Source: Inderes

Market confidence in earnings growth tested

Short-term valuation multiples

Neste's adjusted P/E ratios for 2024 and 2025 based on our estimates are 15x and 10x and corresponding EV/EBIT ratios are 14x and 10x. In our view, the short-term valuation multiples are moderate, especially for next year, both in comparison to Neste's own historical valuation level and particularly in the context of the stock market as a whole, given the nature of the business.

However, 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 & Service, we use the EV/EBIT ratio of 12x and consider the earnings of the Others segment and net debt. Examined this way, Renewable Products is valued at around 16x EV/EBIT ratio with 2024 estimates, representing almost 90% of the company's value.

We find the acceptable valuation multiple for Renewable Products to be higher than average in the context of Nasdaq Helsinki, considering proven excellent operational performance and high ROE. In

our view, the current valuation level of the segment is slightly elevated, but the resulting negative driver for expected return will ultimately be buried under strong earnings growth in the coming years.

Looking at Neste's current valuation purely on the basis of Renewable Products, the EV/EBIT multiples for 2024 and 2025 are 18x and 11x, respectively, based on our current forecasts. Thanks to earnings growth, we consider the 2025 forecast to be moderate and we expect the segment's earnings to continue to grow beyond 2025. In our view, this moderate valuation picture compensates for the risks associated with the sales margin of Renewable Products, i.e. that volume growth will be masked by the decrease in the margin and that earnings growth will remain sluggish in the medium term.

DCF model well above the current share price

We have lowered our long-term earnings forecasts and have also slightly increased our required return to compensate for longer-term forecast risks. The revised share value indicated by our DCF model is EUR 34.5, which offers a hefty upside. In the DCF model, 52% of the value consists of the terminal value, which we consider a moderate level considering the long-term earnings growth outlook for Renewable Products. 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.

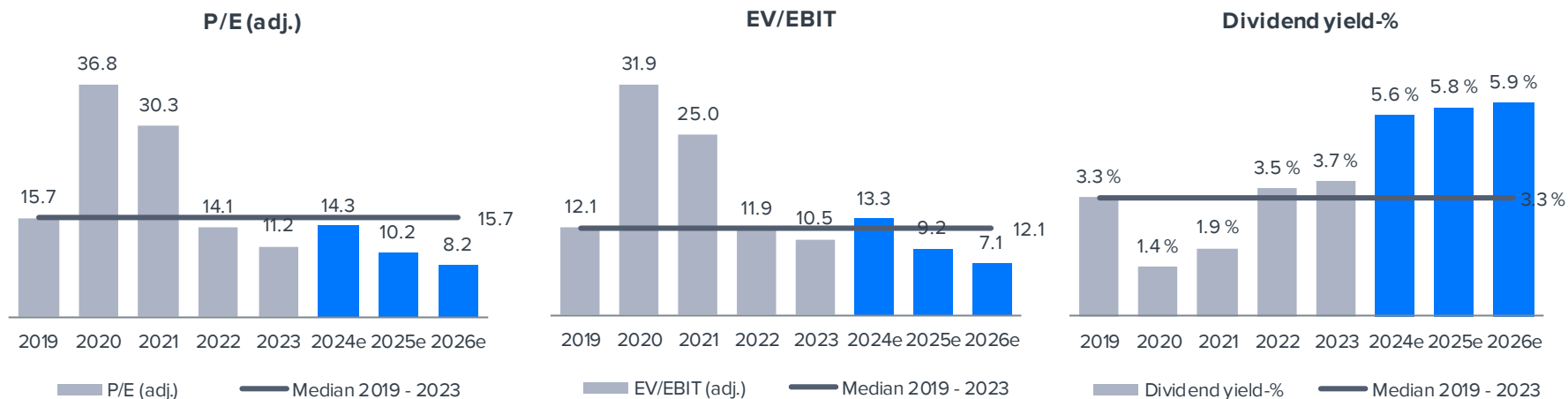
Valuation	2024e	2025e	2026e
Share price	22.49	22.49	22.49
Number of shares, millions	768.2	768.2	768.2
Market cap	17277	17277	17277
EV	19827	19449	18229
P/E (adj.)	14.3	10.2	8.2
P/E	15.5	10.2	8.2
P/B	2.0	1.8	1.6
P/S	0.9	0.7	0.7
EV/Sales	1.0	0.8	0.7
EV/EBITDA	8.4	6.3	5.1
EV/EBIT (adj.)	13.3	9.2	7.1
Payout ratio (%)	85.9 %	58.7 %	48.5 %
Dividend yield-%	5.6 %	5.8 %	5.9 %

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	22.49	22.49	22.49	22.49
Number of shares, millions	768	768	768	768	768	768	768	768	768
Market cap	23814	45425	33299	33043	24744	17277	17277	17277	17277
EV	23651	45212	33494	34407	27237	19827	19449	18229	16520
P/E (adj.)	15.7	36.8	30.3	14.1	11.2	14.3	10.2	8.2	7.3
P/E	13.3	63.8	18.8	17.5	17.3	15.5	10.2	8.2	7.3
P/B	4.0	7.7	4.8	4.0	2.9	2.0	1.8	1.6	1.5
P/S	1.5	3.9	2.2	1.3	1.1	0.9	0.7	0.7	0.7
EV/Sales	1.5	3.8	2.2	1.3	1.2	1.0	0.8	0.7	0.6
EV/EBITDA	8.7	30.0	12.8	11.3	10.7	8.4	6.3	5.1	4.2
EV/EBIT (adj.)	12.1	31.9	25.0	11.9	10.5	13.3	9.2	7.1	5.7
Payout ratio (%)	44%	86%	36%	62%	64%	86%	59%	49%	44%
Dividend yield-%	3.3 %	1.4 %	1.9 %	3.5 %	3.7 %	5.6 %	5.8 %	5.9 %	6.0 %

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	162091	177241	6.0	6.1	4.2	4.3	0.8	0.8	8.0	7.8	4.7	5.0	1.4
ENI SPA	50042	67592	5.8	5.9	3.5	3.6	0.8	0.8	7.1	7.1	6.5	6.7	0.9
Koc Holding AS	15463	24539	4.1	3.5	3.7	3.2	0.5	0.4	5.8	4.8	2.3	2.7	1.6
TURKIYE PETROL RAFINERILERI AS	10408	8662	5.0	6.7	4.2	5.3	0.3	0.3	7.6	7.9	11.7	6.3	2.5
MOL PLC	6233	8742	4.8	5.5	3.0	3.2	0.4	0.4	4.3	5.0	7.2	7.0	0.6
EQUINOR ASA	76042	68751	2.4	2.5	1.9	1.9	0.7	0.8	8.4	7.8	8.8	5.7	1.7
VALERO ENERGY CORP	51475	59154	7.9	9.5	5.9	6.8	0.5	0.5	10	11.3	2.6	2.7	2.0
SARAS SPA	1688	1480	5.1	10.1	3.0	4.2	0.1	0.1	9.3	16.3	5.1	2.9	1.2
HELLENIC PETROLEUM SA	2531	4438	6.8	8.5	4.5	5.1	0.4	0.4	5.3	6.9	7.8	7.0	0.8
POLSKI KONCERN NAFTOWY ORLEN SA	17948	20489	3.8	4.0	2.8	2.4	0.3	0.3	8.0	5.9	6.4	6.6	0.5
MOTOR OIL HELLAS CORINTH REFINERIES SA	3022	4636	6.1	8.1	4.6	5.7	0.4	0.4	5.4	7.5	5.9	5.8	1.0
Neste (Inderes)	17277	19827	13.3	9.2	8.4	6.3	1.0	0.8	14.3	10.2	5.6	5.8	2.0
Average			5.2	6.4	3.7	4.1	0.5	0.5	7.2	8.0	6.3	5.3	1.3
Median			5.1	6.1	3.7	4.2	0.4	0.4	7.6	7.5	6.4	5.8	1.2
Diff-% to median			159%	51%	127%	48%	145%	104%	89%	36%	-12%	0%	65%

Source: Refinitiv / Inderes

Income statement

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	25707	5298	5351	5973	6304	22926	4801	3569	5607	5757	19733	23782	25541	26251
Oil Products	14596	3174	2919	3442	3750	13285	2669	1125	2625	2813	9232	12540	12540	12255
Renewable Products	9905	1842	2164	2197	2263	8466	1766	2269	2657	2720	9411	11132	12981	14076
Marketing & Services	5876	1290	1189	1315	1375	5168	1234	1150	1300	1200	4884	3995	4000	4000
Other	147	31	30	17	23	100	18	25	25	25	93.3	115	120	120
Eliminations	-4816	-1039	-951	-997	-1107	-4094	-887	-1000	-1000	-1000	-3887	-4000	-4100	-4200
EBITDA	3047	463	523	889	673	2548	442	410	736	764	2351	3105	3586	3921
Depreciation	-638	-178	-211	-220	-257	-866	-242	-241	-241	-241	-965	-999	-1004	-1036
EBIT (excl. NRI)	2898	652	573	826	540	2592	309	169	495	523	1495	2106	2582	2885
EBIT	2409	285	312	669	415	1682	200	169	495	523	1386	2106	2582	2885
Oil Products	1372	304	171	409	243	1127	203	-25	84	102	364	329	378	359
Renewable Products	1480	344	376	420	286	1426	94	189	406	415	1105	1748	2164	2489
Marketing & Services	97	16	21	35	13	85	16	16	16	16	64	75	85	85
Other	-50	-10	1	-31	-8	-48	-4	-11	-11	-11	-37	-46	-45	-48
Eliminations	-1	-3	4	-6	7	2	0	0	0	0	0	0	0	0
Changes in fair value	-489	-367	-261	-157	-125	-910	-109	0	0	0	-109	0	0	0
Net financial items	-131	-9	-17	-51	-9	-86	-11	-15	-45	-15	-86	-104	-103	-102
PTP	2278	276	295	619	406	1596	189	154	450	508	1300	2003	2479	2783
Taxes	-388	-38	-36	-80	-6	-160	-27	-22	-63	-71	-183	-300	-372	-417
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	133	387	436	1118	1700	2105	2364
EPS (adj.)	3.04	0.72	0.63	0.88	0.66	2.88	0.33	0.17	0.50	0.57	1.57	2.21	2.74	3.08
EPS (rep.)	2.46	0.31	0.34	0.70	0.52	1.86	0.21	0.17	0.50	0.57	1.46	2.21	2.74	3.08

Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	69.7 %	-4.1 %	-24.0 %	-9.3 %	-3.9 %	-10.8 %	-9.4 %	-33.3 %	-6.1 %	-8.7 %	-13.9 %	20.5 %	7.4 %	2.8 %
Adjusted EBIT growth-%	115.9 %	53.8 %	-38.2 %	1.6 %	-26.3 %	-10.6 %	-52.6 %	-70.4 %	-40.1 %	-3.3 %	-42.3 %	40.9 %	22.6 %	11.7 %
EBITDA-%	11.9 %	8.7 %	9.8 %	14.9 %	10.7 %	11.1 %	9.2 %	11.5 %	13.1 %	13.3 %	11.9 %	13.1 %	14.0 %	14.9 %
Adjusted EBIT-%	11.3 %	12.3 %	10.7 %	13.8 %	8.6 %	11.3 %	6.4 %	4.7 %	8.8 %	9.1 %	7.6 %	8.9 %	10.1 %	11.0 %
Net earnings-%	7.3 %	4.5 %	4.8 %	9.0 %	6.3 %	6.2 %	3.4 %	3.7 %	6.9 %	7.6 %	5.7 %	7.1 %	8.2 %	9.0 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	7414	8858	9403	9389	9070
Goodwill	0	496	496	496	496
Intangible assets	570	185	195	205	215
Tangible assets	6570	7786	8321	8297	7968
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	5957	7188	8821
Inventories	3648	3366	3059	3567	3831
Other current assets	406	271	271	271	271
Receivables	2178	1913	1677	2021	2171
Cash and equivalents	1271	1575	949	1328	2548
Balance sheet total	14917	15983	15360	16577	17891

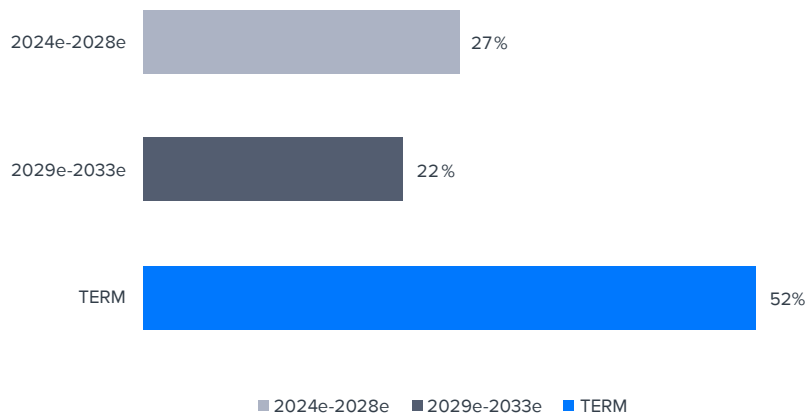
Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	8327	8463	8659	9399	10505
Share capital	40	40	40	40	40
Retained earnings	8282	8423	8619	9359	10465
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	3645	3645	3645
Deferred tax liabilities	336	317	317	317	317
Provisions	200	187	187	187	187
Interest bearing debt	1964	3487	3000	3000	3000
Convertibles	0	0	0	0	0
Other long term liabilities	174	141	141	141	141
Current liabilities	3916	3388	3056	3533	3741
Interest bearing debt	651	581	500	500	500
Payables	3022	2580	2329	2806	3014
Other current liabilities	243	227	227	227	227
Balance sheet total	14917	15983	15360	16577	17891

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-10.8 %	-13.9 %	20.5 %	7.4 %	2.8 %	2.5 %	2.5 %	2.5 %	2.5 %	2.5 %	2.0 %	2.0 %
EBIT-%	7.3 %	7.0 %	8.9 %	10.1 %	11.0 %	11.0 %	11.0 %	10.5 %	10.0 %	10.0 %	10.0 %	10.0 %
EBIT (operating profit)	1682	1386	2106	2582	2885	2960	3034	2968	2898	2970	3029	
+ Depreciation	866	965	999	1004	1036	976	782	692	615	613	612	
- Paid taxes	-247	-183	-300	-372	-417	-429	-440	-431	-420	-431	-587	
- Tax, financial expenses	-9	-12	-16	-16	-16	-16	-16	-16	-16	-16	-21	
+ Tax, financial income	0	0	0	0	1	1	1	1	1	2	2	
- Change in working capital	224	292	-375	-206	-83	-77	-79	-81	-83	-85	-69	
Operating cash flow	2516	2448	2414	2993	3405	3415	3282	3134	2995	3053	2966	
+ Change in other long-term liabilities	-46	0	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	-2247	-1510	-985	-685	-585	-585	-600	-605	-605	-605	-631	
Free operating cash flow	223	938	1429	2308	2820	2830	2682	2529	2390	2448	2335	
+/- Other	0	0	0	0	0	0	0	0	0	0	0	
FCFF	223	938	1429	2308	2820	2830	2682	2529	2390	2448	2335	34935
Discounted FCFF		886	1239	1839	2065	1905	1659	1438	1248	1175	1030	15411
Sum of FCFF present value		29895	29010	27770	25931	23865	21961	20302	18864	17616	16441	15411
Enterprise value DCF		29895										
- Interest bearing debt		-4068										
+ Cash and cash equivalents		1575										
-Minorities		0										
-Dividend/capital return		-922										
Equity value DCF		26480										
Equity value DCF per share		34.5										

Cash flow distribution



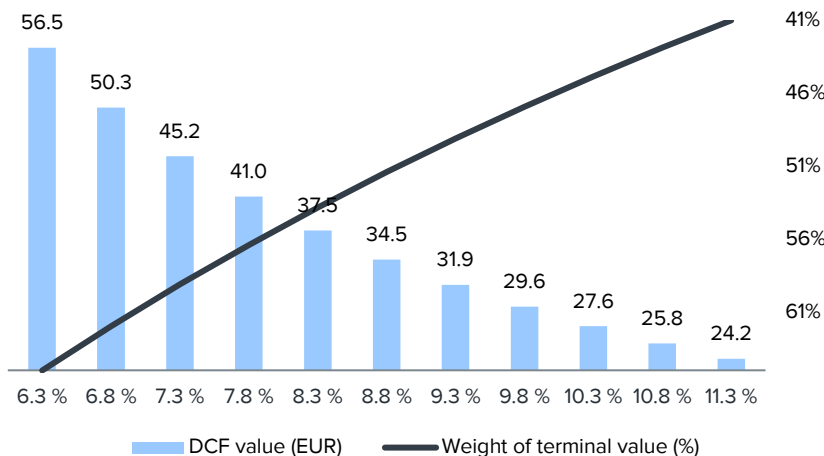
WACC

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 %

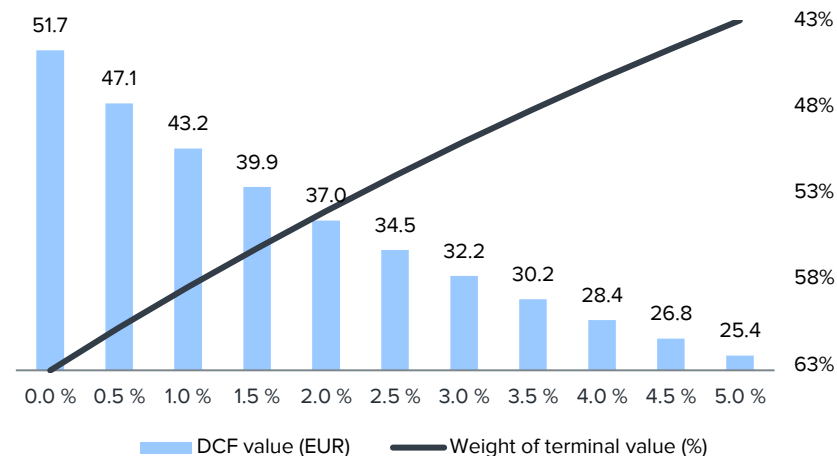
Source: Inderes

DCF sensitivity calculations and key assumptions in graphs

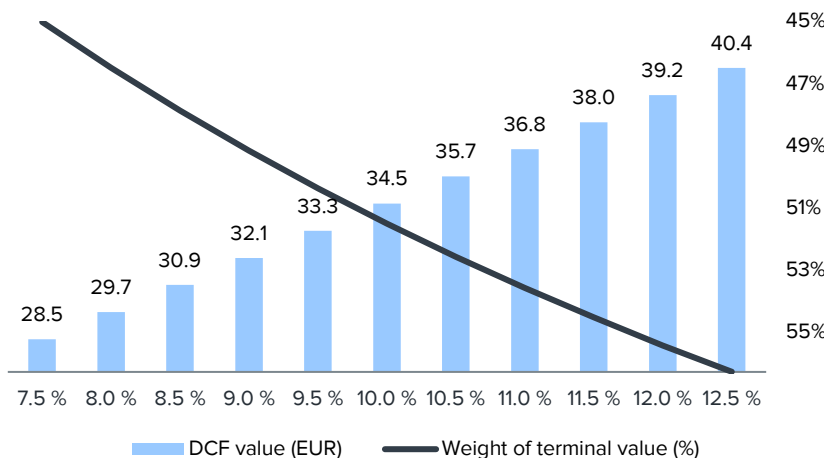
Sensitivity of DCF to changes in the WACC-%



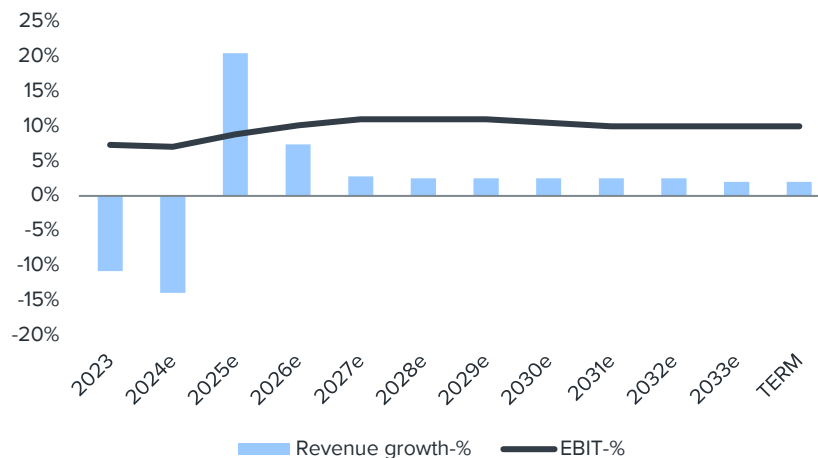
Sensitivity of DCF to changes in the risk-free rate



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	19733	23782	EPS (reported)	2.31	2.46	1.86	1.46	2.21
EBITDA	2607	3047	2548	2351	3105	EPS (adj.)	1.43	3.04	2.88	1.57	2.21
EBIT	2023	2409	1682	1386	2106	OCF / share	2.40	2.16	3.28	3.19	3.14
PTP	1962	2278	1596	1300	2003	FCF / share	0.46	-0.66	0.29	1.22	1.86
Net Income	1771	1887	1433	1118	1700	Book value / share	9.09	10.83	11.02	11.27	12.23
Extraordinary items	681	-489	-910	-109	0	Dividend / share	0.82	1.52	1.20	1.25	1.30
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	12417	14917	15983	15360	16577	Revenue growth-%	29%	70%	-11%	-14%	21%
Equity capital	6985	8327	8463	8659	9399	EBITDA growth-%	73%	17%	-16%	-8%	32%
Goodwill	0	0	496	496	496	EBIT (adj.) growth-%	-5%	116%	-11%	-42%	41%
Net debt	176	1344	2493	2551	2172	EPS (adj.) growth-%	-11%	112%	-5%	-45%	41%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	17.2 %	11.9 %	11.1 %	11.9 %	13.1 %
EBITDA	2607	3047	2548	2351	3105	EBIT (adj.)-%	8.9 %	11.3 %	11.3 %	7.6 %	8.9 %
Change in working capital	-650	-990	224	292	-375	EBIT-%	13.4 %	9.4 %	7.3 %	7.0 %	8.9 %
Operating cash flow	1840	1660	2516	2448	2414	ROE-%	27.5 %	24.7 %	17.1 %	13.1 %	18.8 %
CAPEX	-1518	-2142	-2247	-1510	-985	ROI-%	25.3 %	24.5 %	14.3 %	11.2 %	16.8 %
Free cash flow	356	-508	223	938	1429	Equity ratio	56.6 %	56.3 %	53.0 %	56.4 %	56.7 %
						Gearing	2.5 %	16.1%	29.5 %	29.5 %	23.1 %
Valuation multiples	2021	2022	2023	2024e	2025e						
EV/S	2.2	1.3	1.2	1.0	0.8						
EV/EBITDA (adj.)	12.8	11.3	10.7	8.4	6.3						
EV/EBIT (adj.)	25.0	11.9	10.5	13.3	9.2						
P/E (adj.)	30.3	14.1	11.2	14.3	10.2						
P/B	4.8	4.0	2.9	2.0	1.8						
Dividend-%	1.9 %	3.5 %	3.7 %	5.6 %	5.8 %						

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
1/20/2020	Accumulate	36.00 €	33.83 €
2/10/2020	Reduce	38.00 €	39.53 €
3/13/2020	Accumulate	32.00 €	28.77 €
4/27/2020	Accumulate	32.00 €	29.61 €
5/27/2020	Reduce	35.00 €	35.86 €
7/24/2020	Reduce	40.00 €	41.42 €
10/1/2020	Accumulate	50.00 €	44.97 €
10/26/2020	Reduce	50.00 €	49.00 €
2/8/2021	Reduce	50.00 €	55.20 €
4/20/2021	Reduce	50.00 €	50.56 €
4/30/2021	Reduce	50.00 €	52.04 €
7/28/2021	Reduce	50.00 €	52.18 €
10/28/2021	Reduce	50.00 €	48.94 €
12/27/2021	Accumulate	50.00 €	43.71 €
2/11/2022	Accumulate	44.00 €	38.43 €
3/3/2022	Buy	44.00 €	36.07 €
5/2/2022	Accumulate	44.00 €	41.20 €
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 €



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