

Neste

Company report

2/8/2024



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This report is a summary translation of the report “Sumu hälvenee pienin askelin” published on 2/8/2024 at 10:28 pm EET.

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The fog is lifting with small steps

In Neste's Q4 report, the main focus was on the outlook for Renewable Products, as the segment's expected earnings growth has been colored by a number of challenges. For these, the overall picture is now somewhat clearer, but the earnings growth from higher sales volumes seems to be coming in more slowly than expected. We have lowered our forecasts for the current year to reflect this, but over the longer term the changes have been small. The stock's valuation is low relative to the earnings growth that we expect, which is why we are raising our recommendation to Buy (was Accumulate) and lowering our target price to EUR 35.0 (was EUR 37.0).

Quite an expected end to the year

Neste achieved a comparable EBITDA of 808 MEUR in Q4, which was well in line with our and consensus expectations. Beneath the surface, the result was slightly below our expectations in terms of quality, with Renewable Products' sales volume and margin below our expectations and its fixed costs higher than expected. However, this was offset by a higher-than-expected overall refining margin in Oil Products, which again drove earnings above our expectations. The inventory revaluation weighed on the reported result, but below the operating result Neste recorded lower than expected financial expenses and a lower tax rate. As a result, adjusted EPS in Q4 exceeded our expectations. Neste will increase its basic dividend from the previous year (2022: EUR 1.02 per share) to EUR 1.20 per share, ahead of our expectations.

Earnings growth to be slower than previously anticipated

Neste has changed its guidance policy and now provides volume and margin guidance for both main segments on an annual basis. This year's sales guidance for Renewable Products was slightly below our expectations, while the sales margin was in line with our expectations. For Oil Products, the guidance came as no surprise. Reflecting this, we have lowered our full-year earnings guidance to 9% EBITDA, driven by lower sales volume forecasts for Renewable Products, and increased both our short- and medium-term fixed cost estimates. Expected earnings growth in Renewable Products, which is driven by major investments, appears to be slightly slower than previously expected due to the slowdown in the ramp-up of additional capacity in Singapore and the production losses caused by the fire in Martinez. However, this does not materially change the overall picture of long-term earnings growth. Therefore, despite the changes in our forecast, we still expect a clear double-digit earnings growth in the medium term (2024-2028e) due to the doubling of Renewable Products' capacity.

Renewable Products' earnings growth not priced in

With our estimates for 2024-2025 adjusted The P/E and EV/EBIT multiples are 15x and 12x, and 14x and 10x respectively, which we believe are quite moderate. However, due to the different outlooks of the businesses and thus also justified valuation levels, we do not consider Group-level earnings-based valuation multiples to be particularly good indicators. In our sum of the parts model Renewable Products is valued around a 15x EV/EBIT ratio with our 2025 estimates. Thus, we do not believe that the investor bears risk related to the long-term valuation level of Renewable Products, while the expected return is driven by the segment's double-digit operational earnings growth that we forecast over the long term. Against this backdrop, we believe that the risk/reward ratio is quite attractive at the current share price.

Recommendation

Buy

(previous Accumulate)

EUR 35.00

(previous EUR 37.00)

Share price:

27.74



Key figures

	2023	2024e	2025e	2026e
Revenue	22926	21547	24288	25541
growth-%	-11%	-6%	13%	5%
EBIT adj.	2592	1696	2225	2598
EBIT-% adj.	11.3 %	7.9 %	9.2 %	10.2 %
Net Income	1433	1385	1802	2119
EPS (adj.)	2.88	1.80	2.35	2.76
P/E (adj.)	11.2	15.4	11.8	10.1
P/B	2.9	2.4	2.2	2.0
Dividend yield-%	3.7 %	4.5 %	4.7 %	4.8 %
EV/EBIT (adj.)	10.5	14.0	10.4	8.4
EV/EBITDA	10.7	8.9	7.2	6.0
EV/S	1.2	1.1	1.0	0.9

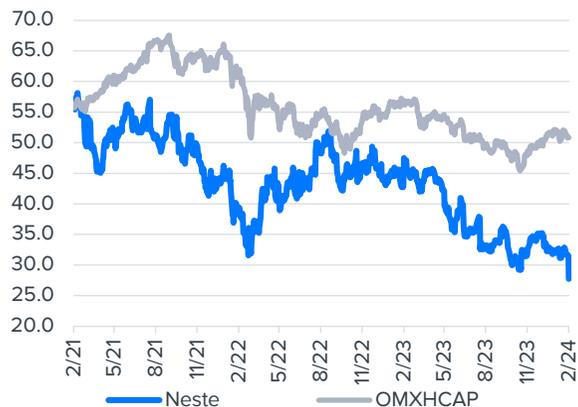
Source: Inderes

Guidance

(New guidance)

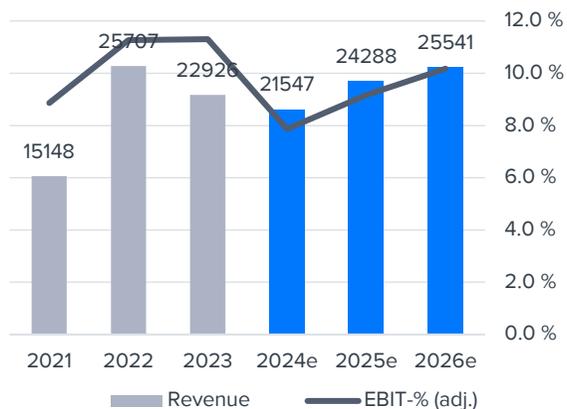
Sales volumes of Renewable Products are expected to reach around 4.4 Mt (+/- 10%) in 2024, with a sales margin of USD 600-800/ton. Total sales volumes and refining margins for Oil Products are expected to be lower in 2024 than in 2023.

Share price



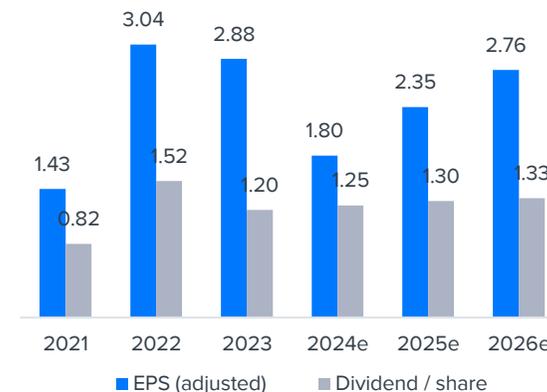
Source: Millstream Market Data AB

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	27.74	27.74	27.74
Number of shares, millions	768.2	768.2	768.2
Market cap	21310	21310	21310
EV	23794	23155	21830
P/E (adj.)	15.4	11.8	10.1
P/E	15.4	11.8	10.1
P/B	2.4	2.2	2.0
P/S	1.0	0.9	0.8
EV/Sales	1.1	1.0	0.9
EV/EBITDA	8.9	7.2	6.0
EV/EBIT (adj.)	14.0	10.4	8.4
Payout ratio (%)	69.3 %	55.4 %	48.2 %
Dividend yield-%	4.5 %	4.7 %	4.8 %

Source: Inderes

Quite an expected end to the year

Renewable Products fell short of our expectations on several indicators

In Q4, Renewable Products' sales volumes were 804 thousand tons, down just under 7% quarter-on-quarter, slightly more than our forecast of a 5% decline. In addition, the sales margin of Renewable Products in Q4 landed at the lower end of the guidance range (USD 800-900/t), below our forecast of around the midpoint (Q4'23e USD 860/t). According to the company, hedging had a significant positive impact on the sales margin, which would have been lower without successful hedging. In line with these factors and the higher-than-expected increase in fixed costs, the segment's comparable EBITDA in Q4 was significantly below our expectations (Q4'23 forecast 495 MEUR vs. 433 MEUR).

Oil Products compensated again

The underperformance in Renewable Products was compensated by Oil Products, where sales volumes were slightly better than expected, and also by the overall refining margin in Q4 (Q4'23: USD 18.9/bbl) was higher than our forecast at USD 18/bbl. Taking these factors into account, comparable EBITDA for Oil Products reached 330 MEUR, beating our estimate of 289 MEUR. There were no surprises in Other, which includes Marketing & Services, Engineering Solutions and Corporate Expenses.

Neste's net financial costs were well below our expectations, and the tax rate in Q4 (and for the full year) was also low. Adjusted for the significant revaluation of the inventory, comparable EPS landed at EUR 0.66, exceeding our forecast.

Cash flow at good level, strong investments reflected in free cash flow

At the end of 2023, Neste had generated cash flow from operating activities of 2,279 MEUR, with a slight working capital release throughout the year due to successful working capital management. Reflecting large organic investments (2023: 1,430 MEUR) and acquisitions, investment in 2023 amounted to just over 1.6 BNEUR, resulting in a free cash flow (incl IFRS16 payments) of only 419 MEUR.

As a result of the investment phase, Neste's net interest-bearing debt has risen to around 2.5 BNEUR. However, the level is only 1x the EBITDA of the previous 12 months, so Neste's overall financial position is quite solid. This, together with our projected earnings growth, will ensure that the financial position will remain quite strong despite the large investments in the coming years.

MEUR / EUR	Q4'22	Q4'23	Q4'23e	Q4'23e	Consensus		Difference (%)	2023
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Actualized
Revenue	6562	6303	5309	5680	4346	- 7317	19%	22926
EBITDA (adj.)	894	797	808	784	703	- 873	-1%	3458
PTP	563	407	560	-	-	-	-27%	1596
EPS (adj.)	0.84	0.66	0.62	0.63	0.52	- 0.74	6%	2.88
DPS	1.52	1.20	1.10	1.40	1.10	- 1.52	9%	1.20
Revenue growth-%	32.1 %	-4.0 %	-19.1 %	-13.4 %	-33.8 %	- 11.5 %	15.2 pp	-10.8 %
EBITDA-% (adj.)	13.6 %	12.6 %	15.2 %	13.8 %	16.2 %	- 11.9 %	-2.6 pp	15.1 %

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

Earnings growth will be slower than we expected

Full-year guidance

Neste changed its guidance policy and now provides annual guidance for both main segments. In 2024, the company expects sales volumes of Renewable Products to be 4.4 Mt (+/- 10%) and the segment's sales margin to be USD 600-800/ton. Similarly, in Oil Products, the maintenance shutdown in Porvoo will impact the segment's sales volumes, which are expected to be lower than in the previous year. This also applies to the total refining margin.

The current year will be more intermittent than usual from a production perspective for both main segments, as in addition to the maintenance shutdown in Porvoo and the downtime caused by the usual H2 catalyst replacements in Rotterdam and Singapore, the company has planned an 8-week maintenance shutdown in Singapore in Q4. In terms

of near-term comments, the company highlighted that in Oil Products, the outlook for refining margins in the first quarter is good, supported by product margin levels. For Renewable Products, we expect the sales margin outlook to improve as the year progresses, as softness in the early part of the year should be offset by higher sales volumes of renewable jet fuel in the latter part of the year.

Short-term estimate changes

Prior to the report, we had forecast sales of Renewable Products for the year at just under 4.6 million Mtons, which was the midpoint of our guidance range. Our sales margin guidance was in the middle of the range, so our sales margin guidance remains unchanged. However, we increased our fixed cost forecasts, so as a whole our forecasts for Renewable Products decreased. Our

full-year forecasts for Oil Products were largely unchanged. However, we have increased our depreciation forecasts for both segments, and the depreciation rate for Renewable Products in particular appears to be rising faster than previously expected. At the EPS level, the impact of these changes in forecasts was offset in particular by a decrease in forecasts of the tax rate.

The overall picture for the medium-term forecasts remained unchanged after the report, although we slightly increased the fixed cost forecasts for Renewable Products. We expect segment sales volumes to roughly double from 2023 levels by the end of 2028, driven by capacity investments. Despite the projected decline in the sales margin (2028e USD 690/t), the period's earnings growth in Renewable Products is strong and well into double digits.

Estimate revisions	2023	2023	Change	2024e	2024e	Change	2025e	2025e	Change
MEUR / EUR	Inderes	Actualized	%	Old	New	%	Old	New	%
Revenue	21931	22926	5%	23570	21547	-9%	24093	24288	1%
EBITDA	2683	2548	-5%	2968	2688	-9%	3342	3221	-4%
EBIT (exc. NRIs)	2641	2592	-2%	2087	1696	-19%	2437	2225	-9%
EBIT	1856	1682	-9%	2087	1696	-19%	2437	2225	-9%
PTP	1750	1596	-9%	1971	1611	-18%	2347	2122	-10%
EPS (excl. NRIs)	2.90	2.88	-1%	2.13	1.80	-15%	2.53	2.35	-7%
DPS	1.10	1.20	9%	1.15	1.25	9%	1.20	1.30	8%

Source: Inderes

Earnings growth not priced into valuation

Short-term valuation multiples

Neste's adjusted P/E ratios for 2024 and 2025 based on our estimates are 15x and 12x and corresponding EV/EBIT ratios are 14x and 10x. In our view, the short-term valuation multiples are quite moderate, both in comparison to Neste's own historical valuation level and particularly in the context of the stock market as a whole.

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. Therefore, we do not believe that the group-level earnings-based valuation gives a good overall picture of the valuation of the stock. 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 using the multiples of peers with a 20% premium that is based on its excellent operational efficiency and strong competitiveness. We use the multiples of the retail trade sector for Marketing & Services and consider the earnings of the Others segment and net debt. Examined this way, Renewable Products is valued at around 15x EV/EBIT ratio with 2024 estimates, representing around 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 earnings growth through high ROE investments. In addition to the shock resistance of the business, the high valuation multiple is naturally supported by an extraordinarily strong market position in a market with a good long-term growth outlook. In our view, the current valuation level of the segment is at a reasonable level. Thus, we estimate that the total expected return from double-digit annual earnings growth and dividends will reach well into double digits, which is an attractive level relative to the required return that we apply. We therefore consider the risk/return ratio of the stock to be quite attractive.

DCF model well above the current share price

We have slightly lowered our long-term earnings forecasts, but our updated cash flow model suggests a value of EUR 40.7 per share, with significant upside. In the DCF model, 55% of the value consists of the terminal value, which we consider a justified 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 risk for Renewable Products and the end of fossil processing) need to be taken into account.

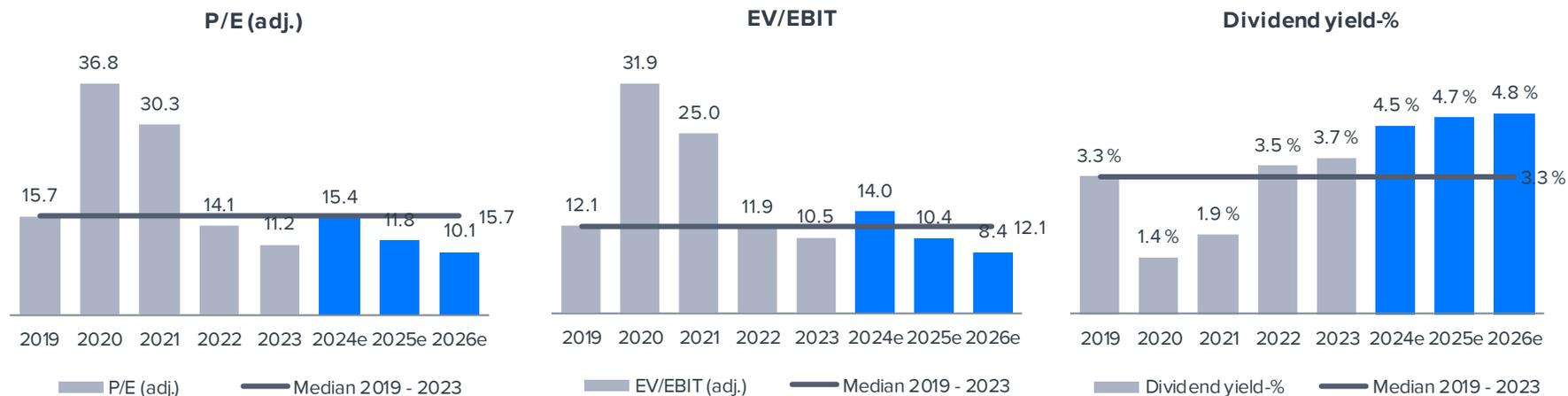
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EV	23794	23155	21830
P/E (adj.)	15.4	11.8	10.1
P/E	15.4	11.8	10.1
P/B	2.4	2.2	2.0
P/S	1.0	0.9	0.8
EV/Sales	1.1	1.0	0.9
EV/EBITDA	8.9	7.2	6.0
EV/EBIT (adj.)	14.0	10.4	8.4
Payout ratio (%)	69.3 %	55.4 %	48.2 %
Dividend yield-%	4.5 %	4.7 %	4.8 %

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	27.74	27.74	27.74	27.74
Number of shares, millions	768	768	768	768	768	768	768	768	768
Market cap	23814	45425	33299	33043	24744	21310	21310	21310	21310
EV	23651	45212	33494	34407	27237	23794	23155	21830	20195
P/E (adj.)	15.7	36.8	30.3	14.1	11.2	15.4	11.8	10.1	9.1
P/E	13.3	63.8	18.8	17.5	17.3	15.4	11.8	10.1	9.1
P/B	4.0	7.7	4.8	4.0	2.9	2.4	2.2	2.0	1.7
P/S	1.5	3.9	2.2	1.3	1.1	1.0	0.9	0.8	0.8
EV/Sales	1.5	3.8	2.2	1.3	1.2	1.1	1.0	0.9	0.8
EV/EBITDA	8.7	30.0	12.8	11.3	10.7	8.9	7.2	6.0	5.3
EV/EBIT (adj.)	12.1	31.9	25.0	11.9	10.5	14.0	10.4	8.4	7.1
Payout ratio (%)	44%	86%	36%	62%	64%	69%	55%	48%	44%
Dividend yield-%	3.3 %	1.4 %	1.9 %	3.5 %	3.7 %	4.5 %	4.7 %	4.8 %	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	140851	165708	5.4	5.7	3.9	4.0	0.8	0.8	6.9	6.9	5.4	5.7	1.2
ENI SPA	48512	63100	4.8	5.1	3.1	3.1	0.7	0.7	6.1	6.1	6.7	6.9	0.8
Koc Holding AS	12959	12447	2.0	1.7	1.9	1.6	0.3	0.2	4.7	3.9	2.8	3.5	1.3
TURKIYE PETROL RAFINERILERI AS	9032	7351	5.3	8.1	4.2	6.3	0.3	0.3	9.0	14.8	7.5	4.9	3.9
MOL PLC	6105	7737	4.6	4.9	2.6	2.8	0.4	0.4	4.2	4.8	7.9	8.1	0.7
EQUINOR ASA	75083	67552	2.1	2.4	1.8	2.0	0.7	0.8	7.6	8.0	9.2	7.4	1.7
VALERO ENERGY CORP	44680	52322	8.5	10.0	5.9	6.6	0.4	0.5	10	10.9	3.0	3.1	1.7
SARAS SPA	1564	1223	7.0	8.6	3.3	3.5	0.1	0.1	11.4	15.8	5.3	3.2	1.2
HELLENIC PETROLEUM SA	2341	3996	7.9	7.0	4.5	4.7	0.4	0.4	6.1	6.8	7.3	6.9	0.8
POLSKI KONCERN NAFTOWY ORLEN SA	17611	18593	3.3	3.2	2.5	2.1	0.3	0.3	5.5	5.0	7.0	7.2	0.5
MOTOR OIL HELLAS CORINTH REFINERIES SA	2987	4163	6.4	7.0	4.7	5.1	0.3	0.3	5.4	6.7	5.6	5.6	1.0
Neste (Inderes)	21310	23794	14.0	10.4	8.9	7.2	1.1	1.0	15.4	11.8	4.5	4.7	2.4
Average			5.2	5.8	3.5	3.8	0.4	0.4	7.0	8.1	6.2	5.7	1.3
Median			5.3	5.7	3.3	3.5	0.4	0.4	6.1	6.8	6.7	5.7	1.2
Diff-% to median			164%	82%	172%	103%	216%	172%	151%	74%	-33%	-17%	108%

Source: Refinitiv / Inderes

Income statement

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24e	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	25707	5298	5351	5973	6304	22926	5666	3981	5906	5994	21547	24288	25541	26251
Oil Products	14596	3174	2919	3442	3750	13285	2813	1125	2625	2813	9375	12540	12540	12255
Renewable Products	9905	1842	2164	2197	2263	8466	2624	2681	2956	2956	11217	11638	12981	14076
Marketing & Services	5876	1290	1189	1315	1375	5168	1200	1150	1300	1200	4850	3995	4000	4000
Other	147	31	30	17	23	100	30	25	25	25	105	115	120	120
Eliminations	-4816	-1039	-951	-997	-1107	-4094	-1000	-1000	-1000	-1000	-4000	-4000	-4100	-4200
EBITDA	3047	463	523	889	673	2548	658	496	770	764	2688	3221	3633	3839
Depreciation	-638	-178	-211	-220	-257	-866	-248	-248	-248	-248	-992	-995	-1034	-989
EBIT (excl. NRI)	2898	652	573	826	540	2592	410	248	522	516	1696	2225	2598	2850
EBIT	2409	285	312	669	415	1682	410	248	522	516	1696	2225	2598	2850
Oil Products	1372	304	171	409	243	1127	134	-62	74	92	238	309	343	324
Renewable Products	1480	344	376	420	286	1426	270	305	443	418	1437	1882	2215	2489
Marketing & Services	97	16	21	35	13	85	16	16	16	16	64	80	85	85
Other	-50	-10	1	-31	-8	-48	-11	-11	-11	-11	-44	-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	0	0	0	0	0	0	0	0
Net financial items	-131	-9	-17	-51	-9	-86	-10	-15	-45	-15	-85	-104	-103	-101
PTP	2278	276	295	619	406	1596	400	233	477	501	1611	2122	2496	2748
Taxes	-388	-38	-36	-80	-6	-160	-56	-33	-67	-70	-225	-318	-374	-412
Minority interest	-3	0	0	-3	0	-3	0	0	0	0	0	-2	-2	-2
Net earnings	1887	238	259	536	400	1433	344	201	410	430	1385	1802	2119	2334
EPS (adj.)	3.04	0.72	0.63	0.88	0.66	2.88	0.45	0.26	0.53	0.56	1.80	2.35	2.76	3.04
EPS (rep.)	2.46	0.31	0.34	0.70	0.52	1.86	0.45	0.26	0.53	0.56	1.80	2.35	2.76	3.04

Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24e	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	69.7 %	-4.1 %	-24.0 %	-9.3 %	-3.9 %	-10.8 %	6.9 %	-25.6 %	-1.1 %	-4.9 %	-6.0 %	12.7 %	5.2 %	2.8 %
Adjusted EBIT growth-%	115.9 %	53.8 %	-38.2 %	1.6 %	-26.3 %	-10.6 %	-37.1 %	-56.6 %	-36.8 %	-4.6 %	-34.6 %	31.2 %	16.8 %	9.7 %
EBITDA-%	11.9 %	8.7 %	9.8 %	14.9 %	10.7 %	11.1 %	11.6 %	12.5 %	13.0 %	12.7 %	12.5 %	13.3 %	14.2 %	14.6 %
Adjusted EBIT-%	11.3 %	12.3 %	10.7 %	13.8 %	8.6 %	11.3 %	7.2 %	6.2 %	8.8 %	8.6 %	7.9 %	9.2 %	10.2 %	10.9 %
Net earnings-%	7.3 %	4.5 %	4.8 %	9.0 %	6.3 %	6.2 %	6.1 %	5.0 %	6.9 %	7.2 %	6.4 %	7.4 %	8.3 %	8.9 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	7414	8858	9376	9366	9017
Goodwill	0	496	496	496	496
Intangible assets	570	185	195	205	215
Tangible assets	6570	7786	8294	8274	7915
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	6470	7645	9263
Inventories	3648	3366	3340	3643	3831
Other current assets	406	271	271	271	271
Receivables	2178	1913	1832	2064	2171
Cash and equivalents	1271	1575	1028	1666	2989
Balance sheet total	14917	15983	15846	17011	18279

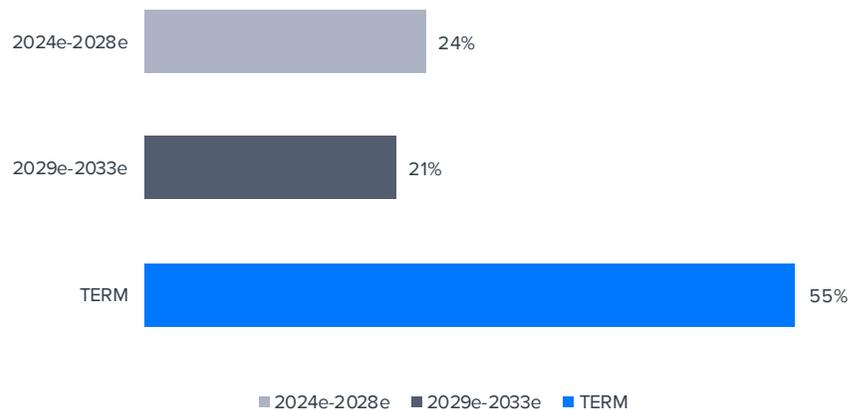
Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	8327	8463	8931	9773	10893
Share capital	40	40	40	40	40
Retained earnings	8282	8423	8886	9728	10848
Hybrid bonds	0	0	0	0	0
Revaluation reserve	0	0	0	0	0
Other equity	0	0	0	0	0
Minorities	5	0	5	5	5
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	3270	3593	3741
Interest bearing debt	651	581	500	500	500
Payables	3022	2580	2543	2866	3014
Other current liabilities	243	227	227	227	227
Balance sheet total	14917	15983	15846	17011	18279

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-10.8 %	-6.0 %	12.7 %	5.2 %	2.8 %	2.5 %	2.5 %	2.5 %	2.5 %	2.5 %	2.0 %	2.0 %
EBIT-%	7.3 %	7.9 %	9.2 %	10.2 %	10.9 %	11.5 %	11.5 %	11.5 %	11.5 %	11.5 %	11.5 %	11.5 %
EBIT (operating profit)	1682	1696	2225	2598	2850	3094	3172	3251	3332	3416	3484	
+ Depreciation	866	992	995	1034	989	900	789	698	619	618	616	
- Paid taxes	-247	-225	-318	-374	-412	-449	-461	-473	-486	-498	-678	
- 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	3	
- Change in working capital	224	70	-213	-147	-83	-77	-79	-81	-83	-85	-69	
Operating cash flow	2516	2521	2674	3096	3328	3453	3407	3381	3369	3436	3334	
+ 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	-665	
Free operating cash flow	223	1011	1689	2411	2743	2868	2807	2776	2764	2831	2669	
+/- Other	0	0	0	0	0	0	0	0	0	0	0	
FCFF	223	1011	1689	2411	2743	2868	2807	2776	2764	2831	2669	42433
Discounted FCFF		940	1449	1909	2003	1932	1743	1590	1461	1380	1200	19080
Sum of FCFF present value		34689	33749	32299	30390	28387	26455	24712	23122	21661	20280	19080
Enterprise value DCF		34689										
- Interest bearing debt		-4068										
+ Cash and cash equivalents		1575										
-Minorities		-12										
-Dividend/capital return		-922										
Equity value DCF		31262										
Equity value DCF per share		40.7										

Cash flow distribution



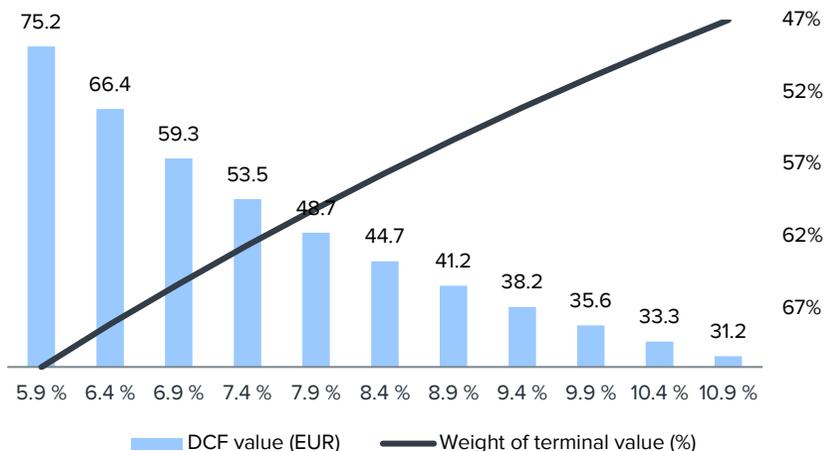
WACC

Tax-% (WACC)	15.0 %
Target debt ratio (D/(D+E))	15.0 %
Cost of debt	5.0 %
Equity Beta	1.40
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	9.2 %
Weighted average cost of capital (WACC)	8.4 %

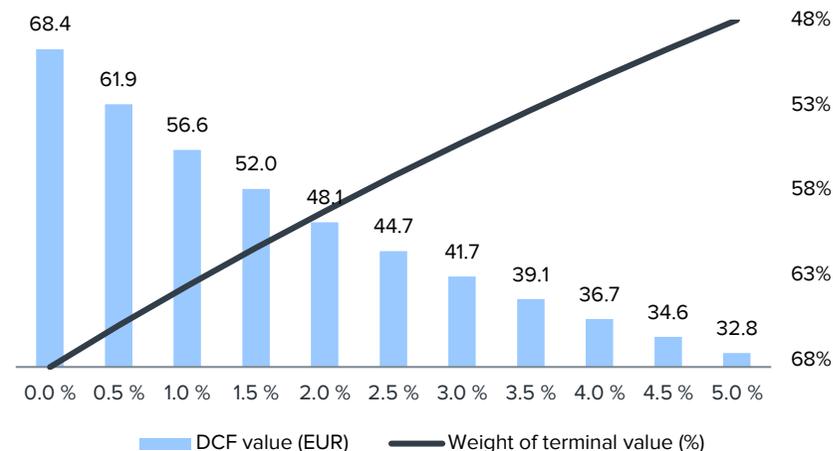
Source: Inderes

DCF sensitivity calculations and key assumptions in graphs

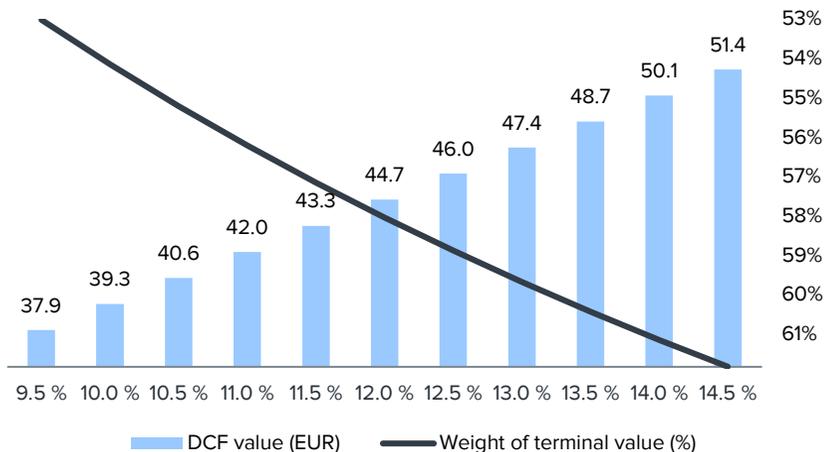
Sensitivity of DCF to changes in the WACC-%



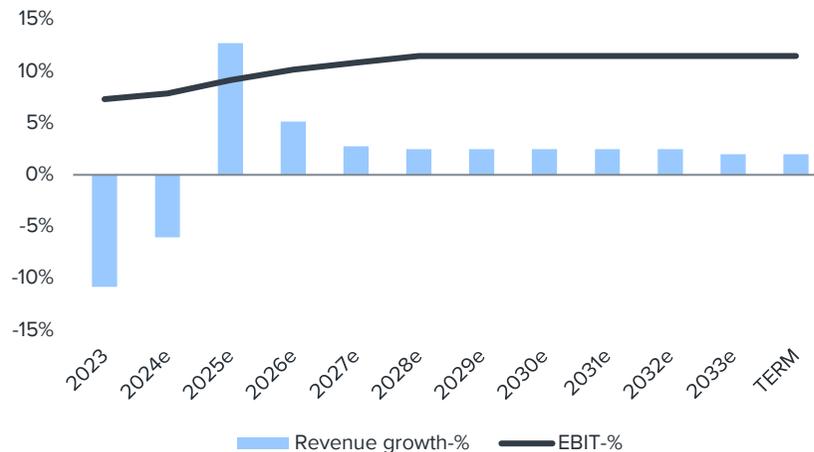
Sensitivity of DCF to changes in the risk-free rate



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	21547	24288	EPS (reported)	2.31	2.46	1.86	1.80	2.35
EBITDA	2607	3047	2548	2688	3221	EPS (adj.)	1.43	3.04	2.88	1.80	2.35
EBIT	2023	2409	1682	1696	2225	OCF / share	2.40	2.16	3.28	3.28	3.48
PTP	1962	2278	1596	1611	2122	FCF / share	0.46	-0.66	0.29	1.32	2.20
Net Income	1771	1887	1433	1385	1802	Book value / share	9.09	10.83	11.02	11.62	12.71
Extraordinary items	681	-489	-910	0	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	15846	17011	Revenue growth-%	29%	70%	-11%	-6%	13%
Equity capital	6985	8327	8463	8931	9773	EBITDA growth-%	73%	17%	-16%	6%	20%
Goodwill	0	0	496	496	496	EBIT (adj.) growth-%	-5%	116%	-11%	-35%	31%
Net debt	176	1344	2493	2472	1834	EPS (adj.) growth-%	-11%	112%	-5%	-37%	30%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	17.2 %	11.9 %	11.1 %	12.5 %	13.3 %
EBITDA	2607	3047	2548	2688	3221	EBIT (adj.)-%	8.9 %	11.3 %	11.3 %	7.9 %	9.2 %
Change in working capital	-650	-990	224	70	-213	EBIT-%	13.4 %	9.4 %	7.3 %	7.9 %	9.2 %
Operating cash flow	1840	1660	2516	2521	2674	ROE-%	27.5 %	24.7 %	17.1 %	15.9 %	19.3 %
CAPEX	-1518	-2142	-2247	-1510	-985	ROI-%	25.3 %	24.5 %	14.3 %	13.6 %	17.3 %
Free cash flow	356	-508	223	1011	1689	Equity ratio	56.6 %	56.3 %	53.0 %	56.4 %	57.5 %
						Gearing	2.5 %	16.1%	29.5 %	27.7 %	18.8 %
Valuation multiples	2021	2022	2023	2024e	2025e						
EV/S	2.2	1.3	1.2	1.1	1.0						
EV/EBITDA (adj.)	12.8	11.3	10.7	8.9	7.2						
EV/EBIT (adj.)	25.0	11.9	10.5	14.0	10.4						
P/E (adj.)	30.3	14.1	11.2	15.4	11.8						
P/B	4.8	4.0	2.9	2.4	2.2						
Dividend-%	1.9 %	3.5 %	3.7 %	4.5 %	4.7 %						

Source: Inderes

ESG

Neste's taxonomy percentage reflects the company's net sales in renewable raw materials and investments reflect the company's investments in renewable raw materials. The company estimates that renewable products are broadly covered by the taxonomy, although we may see minor changes as the taxonomy criteria become more precise.

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 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	2021	2022
Revenue	-	3
OPEX	-	4
CAPEX	-	10

Taxonomy alignment	2021	2022
Revenue	32%	29%
OPEX	26%	28%
CAPEX	54%	75%

Climate

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

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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 €
2/8/2024	Buy	35.00 €	27.74 €



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