

# Neste

## Company report

10/26/2023



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# Into the unknown

The Q3 figures reported by Neste were well ahead of our expectations, reflecting which we raised our estimates for the current year. However, our focus is on earnings growth in the coming years, driven by volume growth in Renewable Products. In this respect, the outlook for next year is very cloudy due to several variables. In the longer term, however, we are confident that rising sales volumes from investments in Renewable Products will drive earnings growth, even if margins come under pressure from current peak levels. Reflecting this overall picture, we reiterate our Accumulate recommendation, but lower our target price to EUR 37.0 (was EUR 39).

## Strong Q3 figures

Neste achieved a comparable EBITDA of EUR 1,047 million in Q3, beating our forecast by a clear margin and exceeding the consensus forecast too. Sales volumes in Renewable Products declined slightly less than expected quarter-on-quarter. This together with a sales margin of USD 912/ton, which well above our forecast and also above the guidance range, brought Renewable Products' result well above expectations. The overall refining margin, boosted by exceptionally high product margins in Oil Products, was also above our estimates and sales volumes were also higher than expected. As a result, the Q3 result for Oil Products clearly beat our estimate.

## Next year is shrouded in fog, in the long run volume growth will drive earnings growth

Neste expects Renewable Products' sales volumes in Q4 to be slightly lower than in Q3'23. This was disappointing relative to our forecasts of rising volumes. However, the company expects the segment's sales margin to remain at a high level of USD 800-900/ton, offsetting the decline in volume forecasts. Sales volumes of Oil Products are expected to remain roughly at the same level as in Q4'22 and the refining margin for Q4 is expected to decline. In light of the strong Q3 report and the Q4 forecast upgrade, our forecast for the current year went up significantly. At the same time, the company was not sure at what point the Singapore investment would reach full speed. This combined with the margin on volumes to be reallocated from the Swedish market and a possible maintenance shutdown in Porvoo, keeps next year's earnings outlook rather bleak and forecast risks clearly elevated. However, we still believe that volume growth from investments in Renewable Products will drive longer-term annual earnings growth to double-digit levels, although in our long-term forecasts we expect the segment's sales margin to be lower than its relatively high level in recent history.

## We think that the risk/return ratio is attractive

With our estimates for 2023-2024 adjusted P/E and EV/EBIT multiples are 11x and 15x, and 10x and 13x, respectively, which we believe are reasonable. 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 good indicators. In our sum of the parts model Renewable Products is valued around a 14x EV/EBIT ratio with our 2023 estimates. Thus, we don't believe that the investor bears material risk related to the long-term valuation level of Renewable Products, while the expected return is driven by the segment's operational earnings growth that we forecast over the long term. Against this backdrop, we find the risk/return ratio attractive at current share price.

## Recommendation

**Accumulate**

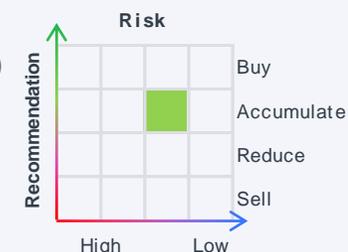
(previous Accumulate)

**EUR 37.00**

(previous EUR 39.00)

**Share price:**

31.90



## Key figures

	2022	2023e	2024e	2025e
<b>Revenue</b>	25707	21931	23570	24093
<b>growth-%</b>	70%	-15%	7%	2%
<b>EBIT adj.</b>	2898	2641	2087	2437
<b>EBIT-% adj.</b>	11.3 %	12.0 %	8.9 %	10.1 %
<b>Net Income</b>	1887	1509	1634	1946
<b>EPS (adj.)</b>	3.02	2.90	2.13	2.53
<b>P/E (adj.)</b>	14.3	11.0	15.0	12.6
<b>P/B</b>	4.0	2.8	2.6	2.3
<b>Dividend yield-%</b>	3.5 %	3.4 %	3.6 %	3.8 %
<b>EV/EBIT (adj.)</b>	11.9	10.0	12.6	10.3
<b>EV/EBITDA</b>	11.3	9.9	8.8	7.5
<b>EV/S</b>	1.3	1.2	1.1	1.0

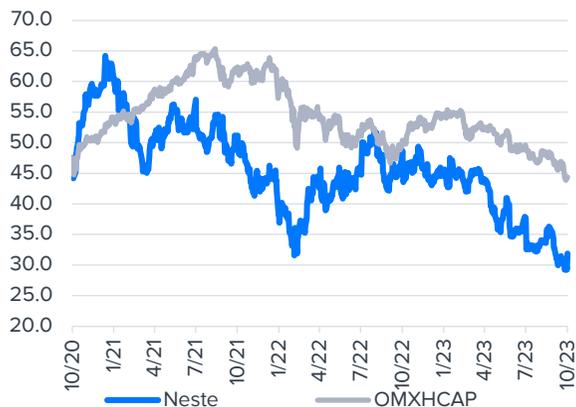
Source: Inderes

## Guidance

(New guidance)

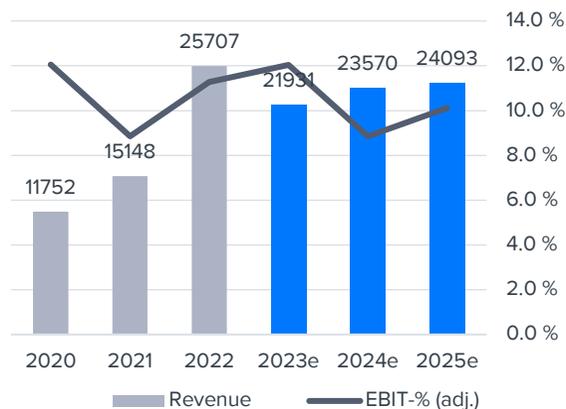
Sales volumes of Renewable Products in Q4'23 are expected to be somewhat lower than in Q3'23 and sales margins are expected to be \$800-900/ton. In Oil Products, the fourth-quarter total refining margin is expected to be lower than in the third quarter. The fourth quarter sales volumes are expected to be approximately at the same level than in the corresponding period previous year.

## Share price



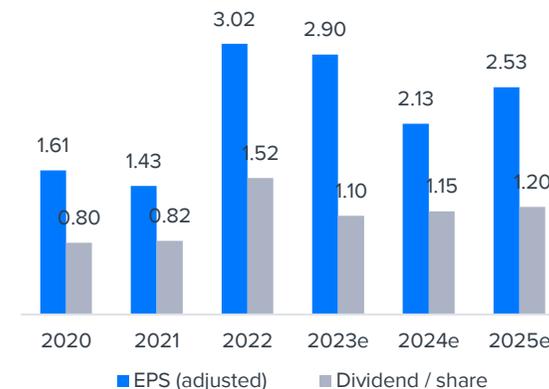
Source: Millstream Market Data AB

## 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 outlook on the market for Renewable Products



### 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	2023e	2024e	2025e
Share price	31.90	31.90	31.90
Number of shares, millions	768.1	768.1	768.1
Market cap	24502	24502	24502
EV	26518	26263	25172
P/E (adj.)	11.0	15.0	12.6
P/E	16.2	15.0	12.6
P/B	2.8	2.6	2.3
P/S	1.1	1.0	1.0
EV/Sales	1.2	1.1	1.0
EV/EBITDA	9.9	8.8	7.5
EV/EBIT (adj.)	10.0	12.6	10.3
Payout ratio (%)	56.0 %	54.1 %	47.4 %
Dividend yield-%	3.4 %	3.6 %	3.8 %

Source: Inderes

# Strong Q3 figures

## Sales margin of Renewable Products clearly beat our expectations

Sales volumes of Renewable Products were 860,000 tons in Q3, down 5% from Q2. This was a smaller decline than we expected. At the same time, the sales margin for Renewable Products in Q3 rose above the upper end of the guidance range (USD 800-900/ton) to USD 912/ton. This was well above our forecast (USD 834/ton) and combined with a slight sales volume over-forecast took the Renewables result well above our estimate. According to the company, the sales margin on Martinez production is currently lower than the margin on other capacity and dilutes the overall margin. Thus, the sales margin on "old" capacity seems to have reached a record level, although based on total volumes, Martinez volumes in Q3 have not been particularly high.

## Oil Products beat our estimates too

Oil Products grew 5% quarter-on-quarter to 2.9 million tonn, also above our Q2 forecast. The total refining margin of USD 26.9/bbl was also well above our forecast of USD 23.5/bbl. Thus, the performance level of Oil Products also beat our forecast by a wide margin in Q3. There were no surprises in the results of M&S or Other, and their small size does not change the overall picture of the main segments' performance at group level.

The reported result was weighed down by a significant change in the value of currency derivatives and FX differences also pushed net financial expenses well above our forecast. However, adjusted comparable EPS were significantly stronger than our forecast at EUR 0.88, thanks to a clear comparable EBIT overperformance.

## Cash flow at a good level, but large investments eat into operating cash flow

At the end of Q3, Neste has accumulated operating cash flow worth EUR 1,590 million, which has been held back by a substantial working capital commitment of EUR 473 million. In line with investment projects, organic investments have been high (Q1-Q3: 1,015 MEUR) with inorganic growth of EUR 176 million also being a cash flow grab. Thus, after Q3, Neste's free cash flow is only EUR 277 million.

With the investment phase, Neste's net debt had risen to EUR 2.2 billion at the end of Q3, but the gearing ratio is still at a very reasonable level of 22% (net debt/EBITDA 0.8x). However, the overall level of indebtedness remains moderate.

MEUR / EUR	Q3'22	Q3'23	Q3'23e	Q3'23e	Consensus		Difference (%)	2023e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	6583	5973	5290	5692	4905	- 6918	13%	21931
EBITDA (adj.)	979	1047	857	943	686	- 989	22%	3469
PTP	231	618	619	-	-	- -	0%	1750
EPS (adj.)	0.79	0.88	0.68	0.79	0.50	- 0.95	29%	2.90
Revenue growth-%	63.5 %	-9.3 %	-19.6 %	-13.5 %	-25.5 %	- 5.1 %	10.4 pp	-14.7 %
EBITDA-% (adj.)	14.9 %	17.5 %	16.2 %	16.6 %	14.0 %	- 14.3 %	1.3 pp	15.8 %

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

# Despite a foggy 2024, the big picture remains unchanged

## Short-term guidance

Neste expects Renewable Products' sales volumes in Q4'23 to be slightly lower than in Q3'23 and sales margins of USD 800-900/ton. In Oil Products, the fourth-quarter total refining margin is expected to be lower than in the third quarter. The fourth quarter sales volumes are expected to be approximately at the same level than in the corresponding period previous year.

The short-term outlook was a slight disappointment relative to our expectations for the Renewable Products' sales volume development, but at the same time the strong "old" capacity sales margin from Q3 and its higher relative contribution was positively reflected in our sales margin forecast. We also raised our refining margin forecast for Oil Products, as although the product margin for petrol has fallen sharply, the margin for diesel has remained quite strong.

## Next year will be rather foggy with high forecast risks

Neste said it expects the Singapore investment to reach 75% utilization by the end of the year under the current plan. However, the company would not comment on when full utilization would be reached but said it would require maintenance shutdowns in Singapore. This was negatively reflected in our sales volume forecasts for next year, while we made no changes to our sales margin forecast, which was significantly lower than in the current year.

There are now many variables for next year's performance, as it is not known at what point the new Singapore facility will reach full capacity. In addition, the sales margin is uncertain due to changes in sales allocation resulting from the reduction in the Swedish distribution obligation and the impact of the increase in market supply on the supply/demand balance. In turn, positive variables include an expected increase

in sales volumes of responsible aviation fuel, which we estimate should support sales margins. Neste was also silent on the margin for next year's annual contracts. In addition, next year's earnings outlook is expected to be dampened by the maintenance shutdown in Porvoo, on which comments were also imprecise. Against this background, the uncertainty and thus the forecasting risks on next year's earnings are high.

However, we see no reason to change our long-term earnings growth forecasts for Renewable Products, where we expect sales volume growth to drive brisk EBIT growth of around 14%, although our long-term sales margin forecast is below a relatively high level of recent history.

Estimate revisions	2023e		Change	2024e		Change	2025e		Change
	Old	New		Old	New		Old	New	
MEUR / EUR			%			%			%
Revenue	21206	21931	3%	23630	23570	0%	24093	24093	0%
EBITDA	2322	2683	16%	3186	2968	-7%	3358	3342	0%
EBIT (exc. NRIs)	2135	2641	24%	2312	2087	-10%	2467	2437	-1%
EBIT	1507	1856	23%	2312	2087	-10%	2467	2437	-1%
PTP	1431	1750	22%	2200	1971	-10%	2382	2347	-1%
EPS (excl. NRIs)	2.35	2.90	23%	2.37	2.13	-10%	2.57	2.53	-1%
DPS	1.10	1.10	0%	1.15	1.15	0%	1.20	1.20	0%

Source: Inderes

# We consider the risk/return ratio attractive

## Short-term valuation multiples

Neste's adjusted P/E ratios for 2023 and 2024 based on our estimates are 11x and 15x and corresponding EV/EBIT ratios are 10x and 13x. In our view, the short-term valuation multiples are quite reasonable, both in comparison to Neste's own historical valuation level and in the context of the stock market as a whole.

However, 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 inevitable 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 14x EV/EBIT ratio with 2023 estimates, representing almost 85% 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 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 attractive.

## DCF model well above the current share price

The share value indicated by our DCF model is EUR 43.7, which offers a hefty upside. In the DCF model, 58% of the value consists of the terminal value, which we consider a justified level considering the long-term earnings growth outlook for Renewable Products. However, we still believe that the elevated terminal value increases the level of risk, and we do not believe that an investor can ignore the risks associated with the long-term margin level of Renewable Products. Overall, we believe that the DCF supports the positive view, although the uncertainties associated with its application need to be taken into account.

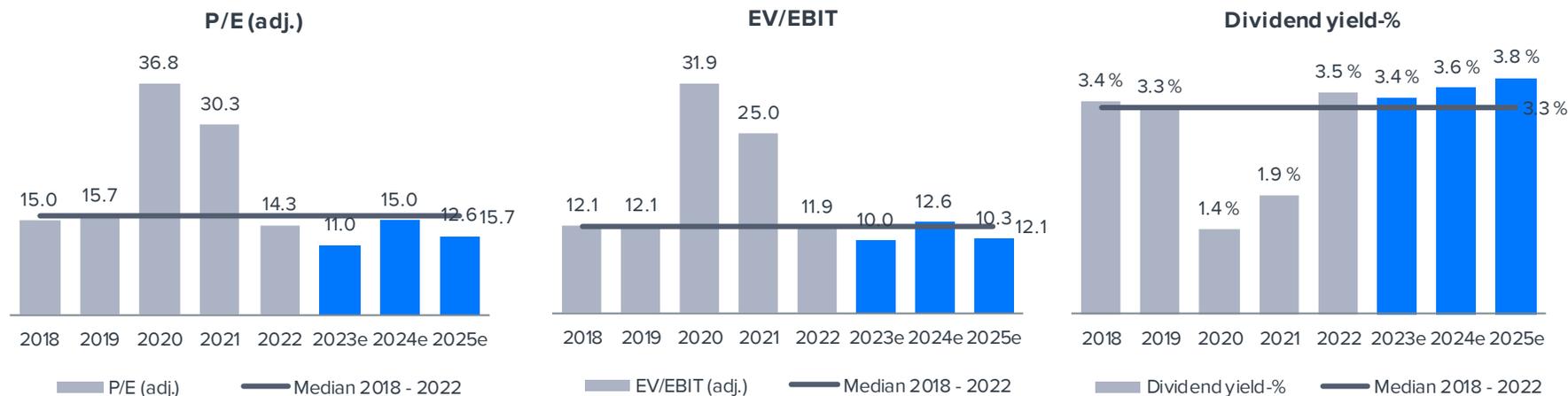
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P/E	16.2	15.0	12.6
P/B	2.8	2.6	2.3
P/S	1.1	1.0	1.0
EV/Sales	1.2	1.1	1.0
EV/EBITDA	9.9	8.8	7.5
EV/EBIT (adj.)	10.0	12.6	10.3
Payout ratio (%)	56.0 %	54.1 %	47.4 %
Dividend yield-%	3.4 %	3.6 %	3.8 %

Source: Inderes

# Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	22.5	31.0	59.16	43.36	43.02	<b>31.90</b>	<b>31.90</b>	<b>31.90</b>	<b>31.90</b>
Number of shares, millions	767	768	768	768	768	<b>768</b>	<b>768</b>	<b>768</b>	<b>768</b>
Market cap	17233	23814	45425	33299	33043	<b>24502</b>	<b>24502</b>	<b>24502</b>	<b>24502</b>
EV	17244	23651	45212	33494	34407	<b>26518</b>	<b>26263</b>	<b>25172</b>	<b>23630</b>
P/E (adj.)	15.0	15.7	36.8	30.3	14.3	<b>11.0</b>	<b>15.0</b>	<b>12.6</b>	<b>10.5</b>
P/E	22.1	13.3	63.8	18.8	17.5	<b>16.2</b>	<b>15.0</b>	<b>12.6</b>	<b>10.5</b>
P/B	3.7	4.0	7.7	4.8	4.0	<b>2.8</b>	<b>2.6</b>	<b>2.3</b>	<b>2.1</b>
P/S	1.2	1.5	3.9	2.2	1.3	<b>1.1</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>
EV/Sales	1.2	1.5	3.8	2.2	1.3	<b>1.2</b>	<b>1.1</b>	<b>1.0</b>	<b>0.9</b>
EV/EBITDA	10.5	8.7	30.0	12.8	11.3	<b>9.9</b>	<b>8.8</b>	<b>7.5</b>	<b>6.3</b>
EV/EBIT (adj.)	12.1	12.1	31.9	25.0	11.9	<b>10.0</b>	<b>12.6</b>	<b>10.3</b>	<b>8.3</b>
Payout ratio (%)	75%	44%	86%	36%	62%	<b>56%</b>	<b>54%</b>	<b>47%</b>	<b>45%</b>
Dividend yield-%	3.4 %	3.3 %	1.4 %	1.9 %	3.5 %	<b>3.4 %</b>	<b>3.6 %</b>	<b>3.8 %</b>	<b>4.3 %</b>

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	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e
Total SA	150042	174384	5.0	5.1	3.7	3.7	0.8	0.7	6.6	6.7	4.8	5.1	1.3
ENI SPA	52057	67074	4.9	5.1	3.1	3.2	0.7	0.7	6.2	6.3	6.1	6.2	0.9
Koc Holding AS	11654	17548	4.3	2.5	3.1	2.3	0.6	0.4	4.7	4.1	2.6	3.1	1.5
TURKIYE PETROL RAFINERILERI AS	8318	7929	4.2	5.5	4.1	4.9	0.5	0.3	6.4	7.7	13.2	9.4	3.1
MOL PLC	6105	8002	4.5	4.7	2.8	2.7	0.4	0.4	4.3	4.2	9.5	7.7	0.7
EQUINOR ASA	94006	81412	2.2	2.2	1.8	1.8	0.8	0.9	8.7	8.0	10.5	6.6	2.1
VALERO ENERGY CORP	42316	50005	4.2	6.8	3.5	5.2	0.4	0.4	5	8.3	3.2	3.3	1.6
SARAS SPA	1210	1105	2.2	6.6	1.6	3.0	0.1	0.1	3.7	9.1	10.8	6.8	0.9
HELLENIC PETROLEUM SA	2084	3914	6.7	12.4	4.4	6.2	0.3	0.4	5.1	10.3	8.3	7.3	0.7
POLSKI KONCERN NAFTOWY ORLEN SA	17091	15732	2.1	2.8	1.5	1.8	0.2	0.2	3.7	4.8	7.1	6.5	0.5
MOTOR OIL HELLAS CORINTH REFINERIES SA	2510	4131	4.6	7.7	3.5	5.2	0.3	0.3	3.4	5.3	6.6	6.5	1.1
<b>Neste (Inderes)</b>	<b>24502</b>	<b>26518</b>	<b>10.0</b>	<b>12.6</b>	<b>9.9</b>	<b>8.8</b>	<b>1.2</b>	<b>1.1</b>	<b>11.0</b>	<b>15.0</b>	<b>3.4</b>	<b>3.6</b>	<b>2.8</b>
<b>Average</b>			<b>4.1</b>	<b>5.6</b>	<b>3.0</b>	<b>3.6</b>	<b>0.5</b>	<b>0.4</b>	<b>5.3</b>	<b>6.8</b>	<b>7.5</b>	<b>6.2</b>	<b>1.3</b>
<b>Median</b>			<b>4.3</b>	<b>5.1</b>	<b>3.1</b>	<b>3.2</b>	<b>0.4</b>	<b>0.4</b>	<b>5.0</b>	<b>6.7</b>	<b>7.1</b>	<b>6.5</b>	<b>1.1</b>
<b>Diff-% to median</b>			<b>136%</b>	<b>146%</b>	<b>218%</b>	<b>179%</b>	<b>227%</b>	<b>210%</b>	<b>119%</b>	<b>123%</b>	<b>-52%</b>	<b>-44%</b>	<b>162%</b>

Source: Refinitiv / Inderes

# Income statement

Income statement	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23	Q4'23e	2023e	2024e	2025e	2026e
<b>Revenue</b>	<b>15148</b>	<b>5523</b>	<b>7039</b>	<b>6583</b>	<b>6562</b>	<b>25707</b>	<b>5298</b>	<b>5351</b>	<b>5973</b>	<b>5309</b>	<b>21931</b>	<b>23570</b>	<b>24093</b>	<b>25605</b>
Oil Products	7810	3019	4043	3877	3657	14596	3174	2919	3442	3000	12535	10050	10560	10560
Renewable Products	5895	2176	2729	2403	2597	9905	1842	2164	2197	2054	8257	11130	12018	13450
Marketing & Services	3803	1229	1481	1604	1562	5876	1290	1189	1315	1220	5014	4850	3995	4000
Other	170	35	38	37	37	147	31	30	17	35	113	140	145	145
Elimination	-2530	-937	-1251	-1338	-1290	-4816	-1039	-951	-997	-1000	-3987	-2600	-2625	-2550
<b>EBITDA</b>	<b>2607</b>	<b>915</b>	<b>927</b>	<b>456</b>	<b>749</b>	<b>3047</b>	<b>463</b>	<b>523</b>	<b>889</b>	<b>808</b>	<b>2683</b>	<b>2968</b>	<b>3342</b>	<b>3753</b>
Depreciation	-584	-153	-158	-167	-161	-638	-178	-211	-220	-218	-827	-881	-905	-892
<b>EBIT (excl. NRI)</b>	<b>1342</b>	<b>424</b>	<b>927</b>	<b>813</b>	<b>734</b>	<b>2898</b>	<b>652</b>	<b>573</b>	<b>826</b>	<b>590</b>	<b>2641</b>	<b>2087</b>	<b>2437</b>	<b>2861</b>
<b>EBIT</b>	<b>2023</b>	<b>762</b>	<b>769</b>	<b>289</b>	<b>589</b>	<b>2409</b>	<b>285</b>	<b>312</b>	<b>669</b>	<b>590</b>	<b>1856</b>	<b>2087</b>	<b>2437</b>	<b>2861</b>
Oil Products	71	64	456	475	377	1372	304	171	409	214	1098	249	339	378
Renewable Products	1238	358	472	303	347	1480	344	376	420	370	1510	1793	2058	2438
Marketing & Services	74	25	18	41	13	97	16	21	35	16	88	85	80	85
Other	-35	-13	-22	-7	-8	-50	-10	1	-31	-10	-50	-40	-40	-40
Elimination	-6	0	-6	1	4	-1	-3	4	-6	0	-5	0	0	0
Changes in fair value	681	328	-148	-524	-145	-489	-367	-261	-157	0	-785	0	0	0
Net financial items	-61	-27	-20	-59	-26	-131	-9	-17	-51	-30	-107	-116	-90	-48
<b>PTP</b>	<b>1962</b>	<b>735</b>	<b>750</b>	<b>231</b>	<b>563</b>	<b>2278</b>	<b>276</b>	<b>295</b>	<b>618</b>	<b>560</b>	<b>1750</b>	<b>1971</b>	<b>2347</b>	<b>2813</b>
Taxes	-188	-96	-151	-92	-49	-388	-38	-36	-80	-84	-238	-335	-399	-478
Minority interest	-2	-1	1	-3	0	-3	0	0	-3	0	-3	-2	-2	-2
<b>Net earnings</b>	<b>1771</b>	<b>638</b>	<b>599</b>	<b>136</b>	<b>514</b>	<b>1887</b>	<b>238</b>	<b>259</b>	<b>536</b>	<b>476</b>	<b>1509</b>	<b>1634</b>	<b>1946</b>	<b>2333</b>
<b>EPS (adj.)</b>	<b>1.43</b>	<b>0.39</b>	<b>0.97</b>	<b>0.79</b>	<b>0.86</b>	<b>3.02</b>	<b>0.72</b>	<b>0.68</b>	<b>0.88</b>	<b>0.62</b>	<b>2.90</b>	<b>2.13</b>	<b>2.53</b>	<b>3.04</b>
<b>EPS (rep.)</b>	<b>2.31</b>	<b>0.83</b>	<b>0.78</b>	<b>0.18</b>	<b>0.67</b>	<b>2.46</b>	<b>0.31</b>	<b>0.34</b>	<b>0.70</b>	<b>0.62</b>	<b>1.96</b>	<b>2.13</b>	<b>2.53</b>	<b>3.04</b>

Key figures	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23	Q4'23e	2023e	2024e	2025e	2026e
<b>Revenue growth-%</b>	28.9 %	76.3 %	132.9 %	63.5 %	32.1 %	69.7 %	-4.1 %	-24.0 %	-9.3 %	-19.1 %	-14.7 %	7.5 %	2.2 %	6.3 %
<b>Adjusted EBIT growth-%</b>	-5.2 %	40.6 %	285.0 %	121.2 %	69.8 %	115.9 %	53.8 %	-38.2 %	1.6 %	-19.5 %	-8.9 %	-21.0 %	16.8 %	17.4 %
<b>EBITDA-%</b>	17.2 %	16.6 %	13.2 %	6.9 %	11.4 %	11.9 %	8.7 %	9.8 %	14.9 %	15.2 %	12.2 %	12.6 %	13.9 %	14.7 %
<b>Adjusted EBIT-%</b>	8.9 %	7.7 %	13.2 %	12.3 %	11.2 %	11.3 %	12.3 %	10.7 %	13.8 %	11.1 %	12.0 %	8.9 %	10.1 %	11.2 %
<b>Net earnings-%</b>	11.7 %	11.6 %	8.5 %	2.1 %	7.8 %	7.3 %	4.5 %	4.8 %	9.0 %	9.0 %	6.9 %	6.9 %	8.1 %	9.1 %

Source: Inderes

# Balance sheet

Assets	2021	2022	2023e	2024e	2025e
<b>Non-current assets</b>	<b>5893</b>	<b>7414</b>	<b>8323</b>	<b>8877</b>	<b>8906</b>
Goodwill	0	0	0	0	0
Intangible assets	516	570	580	590	600
Tangible assets	5152	6570	7469	8013	8032
Associated companies	60	63	63	63	63
Other investments	59	49	49	49	49
Other non-current assets	63	103	103	103	103
Deferred tax assets	45	59	59	59	59
<b>Current assets</b>	<b>6524</b>	<b>7503</b>	<b>6941</b>	<b>7123</b>	<b>7152</b>
Inventories	2618	3648	3509	3653	3614
Other current assets	648	406	406	406	406
Receivables	1677	2178	1974	2003	2048
Cash and equivalents	1581	1271	1053	1061	1084
<b>Balance sheet total</b>	<b>12417</b>	<b>14917</b>	<b>15265</b>	<b>16000</b>	<b>16058</b>

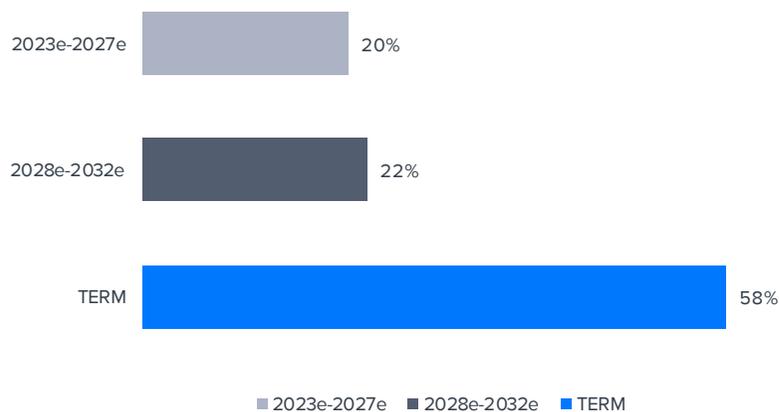
Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
<b>Equity</b>	<b>6985</b>	<b>8327</b>	<b>8669</b>	<b>9457</b>	<b>10520</b>
Share capital	40	40	40	40	40
Retained earnings	6941	8282	8624	9412	10475
Hybrid bonds	0	0	0	0	0
Revaluation reserve	0	0	0	0	0
Other equity	0	0	0	0	0
Minorities	4	5	5	5	5
<b>Non-current liabilities</b>	<b>2087</b>	<b>2674</b>	<b>3165</b>	<b>2919</b>	<b>1852</b>
Deferred tax liabilities	309	336	336	336	336
Provisions	210	200	200	200	200
Interest bearing debt	1378	1964	2455	2209	1142
Convertibles	0	0	0	0	0
Other long term liabilities	190	174	174	174	174
<b>Current liabilities</b>	<b>3345</b>	<b>3916</b>	<b>3431</b>	<b>3624</b>	<b>3686</b>
Interest bearing debt	379	651	600	600	600
Payables	2761	3022	2588	2781	2843
Other current liabilities	205	243	243	243	243
<b>Balance sheet total</b>	<b>12417</b>	<b>14917</b>	<b>15265</b>	<b>16000</b>	<b>16058</b>

# DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	69.7 %	-14.7 %	7.5 %	2.2 %	6.3 %	2.5 %	2.5 %	2.5 %	2.5 %	2.5 %	2.0 %	2.0 %
EBIT-%	9.4 %	8.5 %	8.9 %	10.1 %	11.2 %	12.0 %	12.5 %	12.5 %	12.0 %	12.0 %	12.0 %	12.0 %
<b>EBIT (operating profit)</b>	<b>2409</b>	<b>1856</b>	<b>2087</b>	<b>2437</b>	<b>2861</b>	<b>3149</b>	<b>3363</b>	<b>3447</b>	<b>3392</b>	<b>3476</b>	<b>3546</b>	
+ Depreciation	638	827	881	905	892	833	798	687	679	650	645	
- Paid taxes	-375	-238	-335	-399	-478	-528	-564	-579	-570	-584	-702	
- Tax, financial expenses	-23	-15	-20	-15	-9	-8	-8	-8	-8	-8	-10	
+ Tax, financial income	0	0	0	0	0	1	1	1	1	2	2	
- Change in working capital	-990	-91	19	57	-177	-75	-77	-79	-81	-83	-68	
<b>Operating cash flow</b>	<b>1660</b>	<b>2340</b>	<b>2633</b>	<b>2985</b>	<b>3089</b>	<b>3372</b>	<b>3512</b>	<b>3469</b>	<b>3413</b>	<b>3453</b>	<b>3414</b>	
+ Change in other long-term liabilities	-26	0	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	-2142	-1736	-1435	-935	-585	-585	-585	-600	-605	-605	-669	
<b>Free operating cash flow</b>	<b>-507.8</b>	<b>604</b>	<b>1198</b>	<b>2050</b>	<b>2504</b>	<b>2787</b>	<b>2927</b>	<b>2869</b>	<b>2808</b>	<b>2848</b>	<b>2745</b>	
+/- Other	0	0	0	0	0	0	0	0	0	0	0	
FCFF	-508	604	1198	2050	2504	2787	2927	2869	2808	2848	2745	43645
<b>Discounted FCFF</b>		<b>595</b>	<b>1089</b>	<b>1719</b>	<b>1937</b>	<b>1989</b>	<b>1926</b>	<b>1742</b>	<b>1572</b>	<b>1470</b>	<b>1307</b>	<b>20788</b>
Sum of FCFF present value		36134	35538	34449	32731	30794	28805	26879	25137	23566	22095	20788
<b>Enterprise value DCF</b>		<b>36134</b>										
- Interest bearing debt		-2615										
+ Cash and cash equivalents		1271										
-Minorities		-14										
-Dividend/capital return		-1167										
<b>Equity value DCF</b>		<b>33608</b>										
<b>Equity value DCF per share</b>		<b>43.8</b>										

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 %
<b>Cost of equity</b>	<b>9.2 %</b>
<b>Weighted average cost of capital (WACC)</b>	<b>8.4 %</b>

Source: Inderes

# Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	11752	15148	25707	21931	23570	EPS (reported)	0.93	2.31	2.46	1.96	2.13
EBITDA	1508	2607	3047	2683	2968	EPS (adj.)	1.61	1.43	3.02	2.90	2.13
EBIT	828	2023	2409	1856	2087	OCF / share	2.42	2.40	2.16	3.05	3.43
PTP	787	1962	2278	1750	1971	FCF / share	1.11	0.46	-0.66	0.79	1.56
Net Income	712	1771	1887	1509	1634	Book value / share	7.72	9.09	10.83	11.28	12.31
Extraordinary items	-588	681	-489	-785	0	Dividend / share	0.80	0.82	1.52	1.10	1.15
Balance sheet	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e
Balance sheet total	9815	12417	14917	15265	16000	Revenue growth-%	-26%	29%	70%	-15%	7%
Equity capital	5929	6985	8327	8669	9457	EBITDA growth-%	-45%	73%	17%	-12%	11%
Goodwill	0	0	0	0	0	EBIT (adj.) growth-%	-28%	-5%	116%	-9%	-21%
Net debt	-244	176	1344	2002	1748	EPS (adj.) growth-%	-19%	-11%	110%	-4%	-27%
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	12.8 %	17.2 %	11.9 %	12.2 %	12.6 %
EBITDA	1508	2607	3047	2683	2968	EBIT (adj.)-%	12.0 %	8.9 %	11.3 %	12.0 %	8.9 %
Change in working capital	453	-650	-990	-91	19	EBIT-%	7.0 %	13.4 %	9.4 %	8.5 %	8.9 %
Operating cash flow	1856	1840	1660	2340	2633	ROE-%	12.0 %	27.5 %	24.7 %	17.8 %	18.0 %
CAPEX	-1144	-1518	-2142	-1736	-1435	ROI-%	11.5 %	25.3 %	24.5 %	16.4 %	17.4 %
Free cash flow	852	356	-508	604	1198	Equity ratio	60.4 %	56.6 %	56.3 %	56.8 %	59.1 %
Valuation multiples	2020	2021	2022	2023e	2024e	Gearing	-4.1 %	2.5 %	16.1 %	23.1 %	18.5 %
EV/S	3.8	2.2	1.3	1.2	1.1						
EV/EBITDA (adj.)	30.0	12.8	11.3	9.9	8.8						
EV/EBIT (adj.)	31.9	25.0	11.9	10.0	12.6						
P/E (adj.)	36.8	30.3	14.3	11.0	15.0						
P/B	7.7	4.8	4.0	2.8	2.6						
Dividend-%	1.4 %	1.9 %	3.5 %	3.4 %	3.6 %						

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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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

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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 €



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