

Neste

Company report

05/02/2023



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

This report is a summary translation of the report “Tuloskasvun hintalappu on kohtuullinen” published on 05/01/2023 at 11:45 am.

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The price tag for earnings growth is reasonable

Neste's Q1 figures were almost in line with our expectations, while the outlook for the Renewable Products' sales margin in particular for Q2 turned the overall picture of the report to the positive side. We made minor revisions to our short-term estimates, while we made no changes to our longer-term volume-driven earnings growth estimates for Renewable Products. Reflecting this overall picture, we reiterate our target price of EUR 48.0 and our Accumulate recommendation.

Renewable Products' sales margin above and sales volumes below expectations

Neste achieved a comparable EBITDA of EUR 830 million in Q1, which fell between our expectations and those of the consensus. Despite a record high sales margin for Renewable Products, the unit's performance was below our expectations, driven by a larger-than-expected decline in sales volumes. This was again due in particular to the fire at the Rotterdam refinery, which cut production volumes during the winter. Thus, there is a quite natural reason behind the sales volumes, and we don't think that there is any reason to draw any conclusions. At group level, however, the result was supported by Oil Products beating our expectations, driven by the overall refining margin, which remained at a relatively high level. The reported result was significantly impacted by changes in the fair value of inventories and derivatives, but comparable EPS adjusted for these were close to our expectations at EUR 0.72 per share, in line with the operating result.

We fine-tuned our estimates for the coming years, with long-term estimates unchanged

In Q2, Neste expects Renewable Products' sales volumes to increase by 30-50% from Q1 levels, but growth will depend on the pace of new capacity ramp-up in Singapore and Martinez. The company expects the segment's sales margin to remain at a high level of \$800-900/ton. Similarly, sales volumes of Oil Products are expected to remain high and the refining margin in Q2 is expected to be significantly lower than in Q1. The outlook is for Renewables sales volumes to start to creep upwards along a trajectory broadly in line with our expectations, while guidance on the near-term sales margin was stronger than our expectations. For Oil Products, the outlook was also in line with our estimates. Against this background, the changes we made to our short-term estimates were not major and our estimates for the current year's comparable result increased by 2-3% and our estimates for 2024 decreased by 1-2% after the report. We made no changes to our long-term earnings growth estimates and, driven by the volume growth of Renewable Products, we expect earnings to grow at an average double-digit annual rate between 2023 and 2027.

The price tag for earnings growth is at a reasonable level

With our updated estimates, 2023 (adj.) P/E and EV/EBIT ratios are 15x and 13x, which we find quite reasonable in absolute terms. 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 at a 17x EV/EBIT ratio with our 2023 estimates. However, with our projected longer-term earnings growth, the high valuation already falls well below our moderate level and its slight downside combined with expected double-digit earnings growth translates into an expected return that in our papers is higher than the required rate of return.

Recommendation

Accumulate
(previous Accumulate)

EUR 48.00
(previous EUR 48.00)

Share price:
43.94



Key figures

	2022	2023e	2024e	2025e
Revenue	25707	25290	24050	23775
growth-%	70%	-2%	-5%	-1%
EBIT adj.	2898	2660	2807	2880
EBIT-% adj.	11.3 %	10.5 %	11.7 %	12.1 %
Net Income	1887	1881	2236	2332
EPS (adj.)	3.02	2.86	2.91	3.04

P/E (adj.)	14.3	15.4	15.1	14.5
P/B	4.0	3.7	3.3	3.0
Dividend yield-%	3.5 %	3.3 %	3.4 %	3.5 %
EV/EBIT (adj.)	11.9	13.4	12.4	11.7
EV/EBITDA	11.3	11.9	9.7	9.1
EV/S	1.3	1.4	1.5	1.4

Source: Inderes

Guidance

(New guidance)

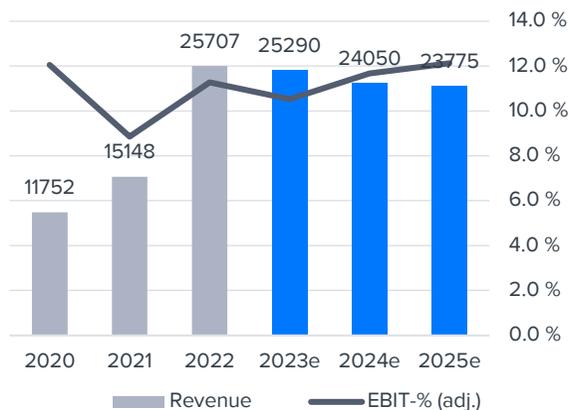
Sales volumes of Renewable Products in Q2'23 are expected to be 30-50% higher than in Q1'23 and sales margins are expected to be \$800-900/ton. Sales volumes of Oil Products are expected to remain high in Q1'23 and the overall refining margin is expected to be significantly lower than in Q1'23.

Share price



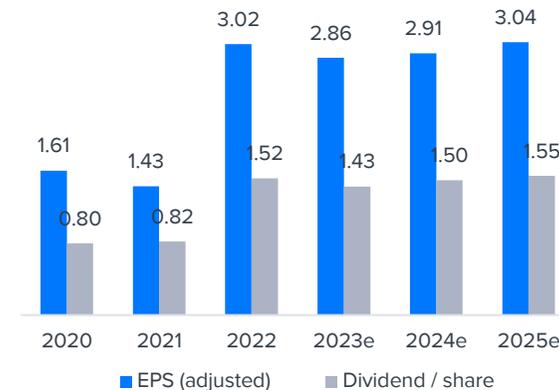
Source: Millstream Market Data AB

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	43.94	43.94	43.94
Number of shares, millions	768.1	768.1	768.1
Market cap	33750	33750	33750
EV	35640	34892	33792
P/E (adj.)	15.4	15.1	14.5
P/E	17.9	15.1	14.5
P/B	3.7	3.3	3.0
P/S	1.3	1.4	1.4
EV/Sales	1.4	1.5	1.4
EV/EBITDA	11.9	9.7	9.1
EV/EBIT (adj.)	13.4	12.4	11.7
Payout ratio (%)	58.4 %	51.5 %	51.1 %
Dividend yield-%	3.3 %	3.4 %	3.5 %

Source: Inderes

Renewables volumes underperformed, but sales margin exceeded expectations

Renewable Products' sales margin above and sales volumes below expectations

Sales volumes of Renewable Products in Q1 were only 638 thousand tons, which was significantly lower than we expected. Sales were affected by the fire at the Rotterdam refinery in December and the subsequent maintenance shutdown, as well as by lost production. Therefore, the reason for the fall in sales volumes is quite natural and not a cause for concern.

Renewable Products' sales margins in Q1 reached a whopping \$945/ton, exceeding our estimate of \$900/ton. Thus, the sales margin also exceeded the company's guidance of \$825-925/ton. In line with volumes missing expectations and slightly higher-than-expected fixed costs, the comparable EBITDA margin for Renewable Products was below our estimate of EUR 473 million at EUR 415 million.

Results beat in Oil Products compensates

Sales volumes of around 3 million tons of Oil Products were in line with our expectations, while its total refining margin of \$21.8/bbl was slightly higher than our estimate of \$21/bbl. Together combined with a slightly lower-than-expected fixed cost structure this raised the EBIT for Oil Products to EUR 393 million and above our forecast of EUR 343 million. This also compensated for the slightly lower-than-expected performance of Renewable Products at group level, as there were no surprises in M&S or Other.

The reported result was clearly weighed down by negative revaluations of inventory and derivative positions, but adjusted for these, comparable EPS reached EUR 0.72. In line with the operational result, this was below our estimate.

Cash flow held back by working capital, balance sheet in good shape despite large investments

Cash flow from operating activities in Q1 amounted to EUR 377 million, curbed by the commitment of working capital due to higher raw material prices. The free cash flow reflecting this and organic investments thus decreased to EUR 3 million and the free cash flow reflecting the CRE acquisition decreased to EUR -102 million.

In line with the negative cash flow, Neste's net debt increased to EUR 1.7 billion, but overall, the company's financial position and balance sheet remain quite strong. At the end of Q1, the company's net debt/LTM EBITDA was at a level of 0.7x and thus the financial position still allows for continued high investments together with profit distribution.

MEUR / EUR	Q1'22	Q1'23	Q1'23e	Q1'23e	Consensus		Difference (%)	2023e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	5523	5298	6276	5864	4167	- 8833	-16%	25290
EBITDA (adj.)	578	830	858	783	673	- 961	-3%	3357
EBIT	762	285	695	-	-	-	-59%	2293
PTP	735	553	670	-	-	-	-17%	2209
EPS (adj.)	0.39	0.72	0.74	0.68	0.55	- 0.86	-3%	2.86
Revenue growth-%	76.3 %	-4.1 %	13.6 %	6.2 %	-24.5 %	- 59.9 %	-17.7 pp	-1.6 %
EBITDA-% (adj.)	10.5 %	15.7 %	13.7 %	13.3 %	16.2 %	- 10.9 %	2 pp	13.3 %

Source: Inderes & Vara Research (consensus, 14 forecasts)

Fine-tuning in the near term

Short-term outlook

Neste expects Renewable Products' sales volumes to increase by 30-50% in Q2 compared to Q1'23, driven of course significantly by the ramp-up of the new capacity in Singapore and the Martinez joint venture in California. In contrast, Neste expects Renewable Products' sales margins to be \$800-900/tonne, which was surprisingly strong given the significant volumes coming from new capacity in Q2, which often operates under lower margins in the ramp-up phase.

The company expects sales volumes of Oil Products to remain at a high level and the overall refining margin is expected to be significantly lower than in Q1.

Short-term estimate changes

The near-term outlook was broadly in line with our expectations, as the guidance for volume growth in Renewable Products was broadly in line with our estimates. However, the sales margin outlook for Renewable Products was well above our expectations and as a result we raised our near-term estimates for Renewable Products. For Oil Products, we made only relatively minor revisions to our fixed cost estimates and for M&S we slightly scaled back our estimates for the current and coming years.

We expect the growth in Renewable Products' sales volumes to put the segment on a clear profit growth path for the next 12 months starting in Q2. At the same time, however, the normalizing refining margin for Oil Products puts a significant brake on group-level earnings growth in our estimates and keeps it negative. This is due to exceptionally high product

margins in the comparison period, which are now at a much lower level. However, the quality of the result will improve significantly at the same time, as the growth of Renewable Products will be much more valuable.

We did not make any changes to our medium-term estimates

We did not make any changes to our medium- and long-term estimates beyond fine-tuning. We expect the 2023 volumes of Renewable Products to grow to around 3.9 million tons and to continue to grow to 5.3 million tons in 2025. In our 2027 estimates, we expect the volumes from the increased capacity of the Rotterdam expansion to raise volumes further to 6.3 million tons. Our average medium term sales margin estimate is \$715/ton and thus our average operating result growth estimate for the corresponding period is 12% (CAGR-% 2023-2027e).

Estimate revisions MEUR / EUR	2023e	2023e	Change %	2024e	2024e	Change %	2025e	2025e	Change %
	Old	New		Old	New		Old	New	
Revenue	26345	25290	-4%	24158	24050	0%	23883	23775	0%
EBIT (exc. NRIs)	2620	2660	2%	2843	2807	-1%	2894	2880	0%
EBIT	2620	2293	-12%	2843	2807	-1%	2894	2880	0%
PTP	2505	2209	-12%	2745	2696	-2%	2834	2812	-1%
EPS (excl. NRIs)	2.77	2.86	3%	2.96	2.91	-2%	3.06	3.04	-1%
DPS	1.39	1.43	3%	1.50	1.50	0%	1.55	1.55	0%

Source: Inderes

The price tag for earnings growth is at a reasonable level

Short-term valuation multiples

With our estimates Neste's adjusted P/E ratios for 2023 and 2024 are 15x and corresponding EV/EBIT ratios are 13x and 12x. 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. Therefore, we feel the Group level earnings-based valuation does not provide the best overall view of the share's valuation. 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 and cash flow model as our main valuation indicators.

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 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 17x EV/EBIT ratio with 2023 estimates, representing good 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. We feel that the current valuation level of the segment remains high, but with the long-term earnings growth we forecast, it will fall to a fairly reasonable level. In our view, the earnings growth-boosted expected return is above the required return, although we believe that the downside valuation margin slightly hurts the expected return. Thus, we estimate that the total expected return from the combination of these and dividends reaches a low double-digit level, which is an attractive level.

DCF model

The share value indicated by our DCF model is EUR 50.7, which offers a hefty upside. In the DCF model, 59% of the value consists of the terminal value, which we consider a rather 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.

Expected return rises to a good level

We consider the valuation of the stock as a whole to be attractive and see the earnings expectation supported by the long-term earnings growth of Renewable Products rising above the required return to a good level, justifying an Accumulate recommendation.

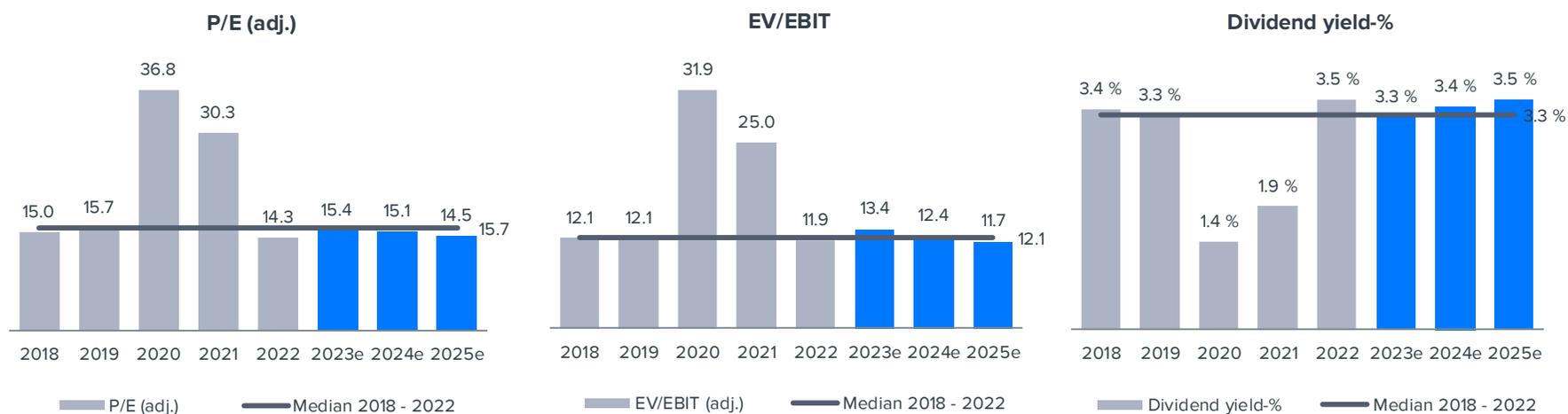
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Market cap	33750	33750	33750
EV	35640	34892	33792
P/E (adj.)	15.4	15.1	14.5
P/E	17.9	15.1	14.5
P/B	3.7	3.3	3.0
P/S	1.3	1.4	1.4
EV/Sales	1.4	1.5	1.4
EV/EBITDA	11.9	9.7	9.1
EV/EBIT (adj.)	13.4	12.4	11.7
Payout ratio (%)	58.4 %	51.5 %	51.1 %
Dividend yield-%	3.3 %	3.4 %	3.5 %

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	43.94	43.94	43.94	43.94
Number of shares, millions	767	768	768	768	768	768	768	768	768
Market cap	17233	23814	45425	33299	33043	33750	33750	33750	33750
EV	17244	23651	45212	33494	34407	35640	34892	33792	32277
P/E (adj.)	15.0	15.7	36.8	30.3	14.3	15.4	15.1	14.5	12.6
P/E	22.1	13.3	63.8	18.8	17.5	17.9	15.1	14.5	12.6
P/B	3.7	4.0	7.7	4.8	4.0	3.7	3.3	3.0	2.6
P/S	1.2	1.5	3.9	2.2	1.3	1.3	1.4	1.4	1.3
EV/Sales	1.2	1.5	3.8	2.2	1.3	1.4	1.5	1.4	1.3
EV/EBITDA	10.5	8.7	30.0	12.8	11.3	11.9	9.7	9.1	7.9
EV/EBIT (adj.)	12.1	12.1	31.9	25.0	11.9	13.4	12.4	11.7	9.9
Payout ratio (%)	75%	44%	86%	36%	62%	58%	52%	51%	50%
Dividend yield-%	3.4 %	3.3 %	1.4 %	1.9 %	3.5 %	3.3 %	3.4 %	3.5 %	4.0 %

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	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e
Total SA	144286	170251	4.7	5.2	3.5	3.9	0.7	0.7	6.0	6.7	4.9	5.3	1.3
ENI SPA	49094	51951	3.6	3.9	2.4	2.5	0.5	0.6	5.2	5.7	6.7	6.9	0.8
Koc Holding AS	8935	16737	3.3	3.1	2.8	2.4	0.4	0.3	3.9	3.2	3.9	4.1	1.0
TURKIYE PETROL RAFINERILERI AS	5950	5025	2.9	4.1	2.7	3.6	0.2	0.2	4.6	6.9	17.8	11.8	1.8
MOL PLC	6022	7875	3.6	4.5	2.3	2.5	0.4	0.4	3.9	3.9	9.1	8.4	0.7
EQUINOR ASA	82057	67675	1.6	1.8	1.3	1.5	0.6	0.7	6.1	6.5	10.2	6.8	1.6
VALERO ENERGY CORP	37550	44679	4.2	6.4	3.4	4.9	0.3	0.4	5	7.6	3.6	3.7	1.5
SARAS SPA	1116	776	1.8	5.4	1.3	2.2	0.1	0.1	3.5	9.2	11.5	6.2	0.8
HELLENIC PETROLEUM SA	2201	4413	5.5	9.8	3.8	5.5	0.3	0.4	4.4	6.9	10.8	6.8	0.7
POLSKI KONCERN NAFTOWY ORLEN SA	16072	15245	1.9	2.6	1.4	1.8	0.2	0.2	3.1	4.1	6.4	6.6	0.5
MOTOR OIL HELLAS CORINTH REFINERIES SA	2393	4242	4.9	7.9	3.8	5.2	0.3	0.3	3.8	5.4	7.3	6.8	1.0
Neste (Inderes)	33750	35640	13.4	12.4	11.9	9.7	1.4	1.5	15.4	15.1	3.3	3.4	3.7
Average			3.4	5.0	2.6	3.3	0.4	0.4	4.5	6.0	8.4	6.7	1.1
Median			3.6	4.5	2.7	2.5	0.3	0.4	4.4	6.5	7.3	6.8	1.0
Diff-% to median			277%	176%	350%	289%	314%	303%	252%	134%	-56%	-50%	270%

Source: Refinitiv / Inderes

Income statement

Income statement	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue	15148	5523	7039	6583	6562	25707	5298	6391	6824	6777	25290	24050	23775	25677
Oil Products	7810	3019	4043	3877	3657	14596	3174	3383	3000	3113	12669	9720	9720	9720
Renewable Products	5895	2176	2729	2403	2597	9905	1842	2624	3339	3279	11084	12540	12540	14362
Marketing & Services	3803	1229	1481	1604	1562	5876	1290	1350	1450	1350	5440	4250	3995	4000
Other	170	35	38	37	37	147	31	35	35	35	136	140	145	145
Eliminations	-2530	-937	-1251	-1338	-1290	-4816	-1039	-1000	-1000	-1000	-4039	-2600	-2625	-2550
EBITDA	2607	915	927	456	749	3047	463	911	816	800	2990	3585	3702	4097
Depreciation	-584	-153	-158	-167	-161	-638	-178	-173	-173	-173	-697	-777	-822	-832
EBIT (excl. NRI)	1342	424	927	813	734	2898	652	738	643	627	2660	2807	2880	3265
EBIT	2023	762	769	289	589	2409	285	738	643	627	2293	2807	2880	3265
Oil Products	71	64	456	475	377	1372	304	207	133	111	755	399	378	417
Renewable Products	1238	358	472	303	347	1480	344	513	494	511	1862	2359	2448	2787
Marketing & Services	74	25	18	41	13	97	16	28	25	16	85	85	85	90
Other	-35	-13	-22	-7	-8	-50	-10	-10	-10	-10	-40	-35	-30	-30
Eliminations	-6	0	-6	1	4	-1	-3	0	0	0	-3	0	0	0
Fair value changes	681	328	-148	-524	-145	-489	-367	0	0	0	-367	0	0	0
Net financial items	-61	-27	-20	-59	-26	-131	-9	-25	-25	-25	-84	-111	-69	-40
PTP	1962	735	750	231	563	2278	276	713	618	602	2209	2696	2812	3225
Taxes	-188	-96	-151	-92	-49	-388	-38	-107	-93	-90	-328	-458	-478	-548
Minority interest	-2	-1	1	-3	0	-3	0	0	0	0	0	-2	-2	-2
Net earnings	1771	638	599	136	514	1887	238	606	525	512	1881	2236	2332	2675
EPS (adj.)	1.43	0.39	0.97	0.79	0.86	3.02	0.72	0.79	0.68	0.67	2.86	2.91	3.04	3.48
EPS (rep.)	2.31	0.83	0.78	0.18	0.67	2.46	0.31	0.79	0.68	0.67	2.45	2.91	3.04	3.48

Key figures	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue growth-%	28.9 %	76.3 %	132.9 %	63.5 %	32.1 %	69.7 %	-4.1 %	-9.2 %	3.7 %	3.3 %	-1.6 %	-4.9 %	-1.1 %	8.0 %
Adjusted EBIT growth-%	-5.2 %	40.6 %	285.0 %	121.2 %	69.8 %	115.9 %	53.8 %	-20.4 %	-21.0 %	-14.5 %	-8.2 %	5.5 %	2.6 %	13.3 %
EBITDA-%	17.2 %	16.6 %	13.2 %	6.9 %	11.4 %	11.9 %	8.7 %	14.3 %	12.0 %	11.8 %	11.8 %	14.9 %	15.6 %	16.0 %
Adjusted EBIT-%	8.9 %	7.7 %	13.2 %	12.3 %	11.2 %	11.3 %	12.3 %	11.6 %	9.4 %	9.3 %	10.5 %	11.7 %	12.1 %	12.7 %
Net earnings-%	11.7 %	11.6 %	8.5 %	2.1 %	7.8 %	7.3 %	4.5 %	9.5 %	7.7 %	7.6 %	7.4 %	9.3 %	9.8 %	10.4 %

Source: Inderes

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	5893	7414	8627	9085	9198
Goodwill	0	0	0	0	0
Intangible assets	516	570	580	590	600
Tangible assets	5152	6570	7773	8221	8324
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
Current assets	6524	7503	7234	6972	7318
Inventories	2618	3648	3667	3559	3519
Other current assets	648	406	406	406	406
Receivables	1677	2178	2150	2044	2021
Cash and equivalents	1581	1271	1012	962	1373
Balance sheet total	12417	14917	15861	16056	16516

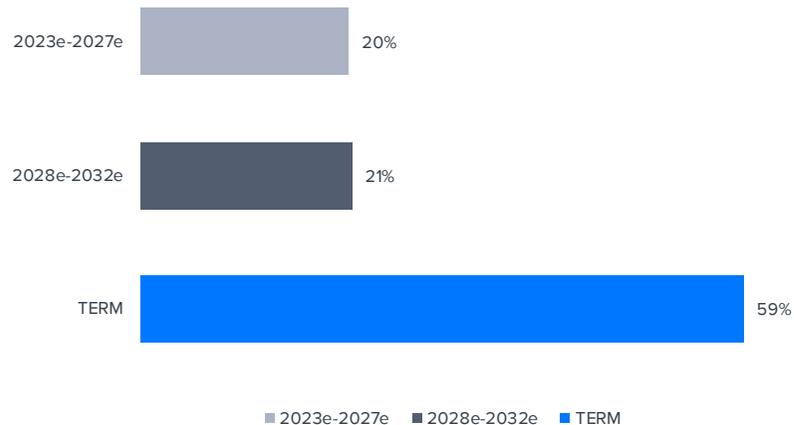
Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	6985	8327	9041	10178	11357
Share capital	40	40	40	40	40
Retained earnings	6941	8282	8996	10133	11312
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
Non-current liabilities	2087	2674	3193	2398	1710
Deferred tax liabilities	309	336	336	336	336
Provisions	210	200	200	200	200
Long term debt	1378	1964	2483	1688	1000
Convertibles	0	0	0	0	0
Other long term liabilities	190	174	174	174	174
Current liabilities	3345	3916	3627	3481	3448
Short term debt	379	651	400	400	400
Payables	2761	3022	2984	2838	2805
Other current liabilities	205	243	243	243	243
Balance sheet total	12417	14917	15861	16056	16516

DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	69.7 %	-1.6 %	-4.9 %	-1.1 %	8.0 %	2.5 %	2.5 %	2.5 %	2.5 %	2.5 %	2.0 %	2.0 %
EBIT-%	9.4 %	9.1 %	11.7 %	12.1 %	12.7 %	13.0 %	13.5 %	13.5 %	12.5 %	12.5 %	12.5 %	12.5 %
EBIT (operating profit)	2409	2293	2807	2880	3265	3421	3642	3733	3543	3631	3704	
+ Depreciation	638	697	777	822	832	807	783	724	712	665	659	
- Paid taxes	-375	-328	-458	-478	-548	-575	-613	-629	-597	-612	-735	
- Tax, financial expenses	-23	-13	-19	-12	-7	-7	-7	-7	-7	-7	-8	
+ Tax, financial income	0	0	0	0	0	1	1	1	1	2	2	
- Change in working capital	-990	-28	67	32	-219	-74	-76	-78	-79	-81	-67	
Operating cash flow	1660	2621	3174	3244	3323	3573	3731	3745	3573	3597	3555	
+ Change in other long-term liabilities	-26	0	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	-2142	-1910	-1235	-935	-585	-585	-585	-600	-605	-605	-665	
Free operating cash flow	-507.8	711	1939	2309	2738	2988	3146	3145	2968	2992	2890	
+/- Other	0	0	0	0	0	0	0	0	0	0	0	
FCFF	-507.8	711	1939	2309	2738	2988	3146	3145	2968	2992	2890	50655
Discounted FCFF		676	1710	1889	2078	2102	2053	1904	1666	1558	1396	24462
Sum of FCFF present value		41494	40818	39108	37218	35141	33039	30986	29082	27416	25858	24462
Enterprise value DCF		41494										
- Interesting bearing debt		-2615										
+ Cash and cash equivalents		1271										
-Minorities		-19										
-Dividend/capital return		-1167										
Equity value DCF		38964										
Equity value DCF per share		50.7										

Cash flow distribution



WACC

Tax-% (WACC)	15.0 %
Target debt ratio (D/(D+E))	15.0 %
Cost of debt	3.5 %
Equity Beta	1.30
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	8.7 %
Weighted average cost of capital (WACC)	7.8 %

Source: Inderes

Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	11752	15148	25707	25290	24050	EPS (reported)	0.93	2.31	2.46	2.45	2.91
EBITDA	1508	2607	3047	2990	3585	EPS (adj.)	1.61	1.43	3.02	2.86	2.91
EBIT	828	2023	2409	2293	2807	OCF / share	2.42	2.40	2.16	3.41	4.13
PTP	787	1962	2278	2209	2696	FCF / share	1.11	0.46	-0.66	0.93	2.52
Net Income	712	1771	1887	1881	2236	Book value / share	7.72	9.09	10.83	11.76	13.24
Extraordinary items	-588	681	-489	-367	0	Dividend / share	0.80	0.82	1.52	1.43	1.50
Balance sheet	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e
Balance sheet total	9815	12417	14917	15861	16056	Revenue growth-%	-26%	29%	70%	-2%	-5%
Equity capital	5929	6985	8327	9041	10178	EBITDA growth-%	-45%	73%	17%	-2%	20%
Goodwill	0	0	0	0	0	EBIT (adj.) growth-%	-28%	-5%	116%	-8%	6%
Net debt	-244	176	1344	1872	1126	EPS (adj.) growth-%	-19%	-11%	110%	-5%	2%
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	12.8 %	17.2 %	11.9 %	11.8 %	14.9 %
EBITDA	1508	2607	3047	2990	3585	EBIT (adj.)-%	12.0 %	8.9 %	11.3 %	10.5 %	11.7 %
Change in working capital	453	-650	-990	-28	67	EBIT-%	7.0 %	13.4 %	9.4 %	9.1 %	11.7 %
Operating cash flow	1856	1840	1660	2621	3174	ROE-%	12.0 %	27.5 %	24.7 %	21.7 %	23.3 %
CAPEX	-1144	-1518	-2142	-1910	-1235	ROI-%	11.5 %	25.3 %	24.5 %	20.1 %	23.2 %
Free cash flow	852	356	-508	711	1939	Equity ratio	60.4 %	56.6 %	56.3 %	57.0 %	63.4 %
						Gearing	-4.1 %	2.5 %	16.1 %	20.7 %	11.1 %
Valuation multiples	2020	2021	2022	2023e	2024e						
EV/S	3.8	2.2	1.3	1.4	1.5						
EV/EBITDA (adj.)	30.0	12.8	11.3	11.9	9.7						
EV/EBIT (adj.)	31.9	25.0	11.9	13.4	12.4						
P/E (adj.)	36.8	30.3	14.3	15.4	15.1						
P/B	7.7	4.8	4.0	3.7	3.3						
Dividend-%	1.4 %	1.9 %	3.5 %	3.3 %	3.4 %						

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
Net sales	-	3
OPEX	-	4
CAPEX	-	10

Taxonomy alignment	2021	2022
Net sales	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
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 €



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Inderes Oyj

Itämerentori 2

FI-00180 Helsinki, Finland

+358 10 219 4690

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