

Neste

Company report

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This report is a summary translation of the report “Öljytuotteiden marginaalit ennätystasolla” published on 06/21/2022 at 08:05 am

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Margins in Oil Products at record levels

We have increased our short-term earnings estimates particularly for the Oil Products segment, reflecting the favorable market situation. However, we haven't made any changes to our longer-term forecasts, as we don't expect the sharp rise in the refining margin to be sustainable in the long run. Reflecting this, we also retain our target price of EUR 44.0. However, due to the risk/return ratio being rebalanced following the rise in the share price, we lower our recommendation to Reduce (was Accumulate).

Margins in Oil Products have risen to dizzying levels

A week ago, Neste revised its outlook upwards for the current quarter. In the updated outlook, the company expects the total refining margin in Q2'22 for Oil Products to be more than double the level of Q1'22. Previously, the total refining margin of Q2 for Oil Products was expected to be approximately at the same level as in Q1 (\$10.3/bbl.). According to the company, the increase in the total refining margin is expected to significantly improve the comparable EBITDA margin for Oil Products in Q2 compared to Q1. The rise in Oil Products' outlook has in practice been driven by the upward trend in gasoline and diesel margins, especially since the beginning of the war, which have remained at a high level in Q2. The margins have been very volatile for a long time, reflecting changes in demand and supply conditions and changes in production costs. Recently, however, product margins have more than doubled to the peak levels seen in recent years, roughly at just over \$20/bbl.

We have raised our short-term estimates, particularly for Oil Products

Reflecting developments in the product margins of Oil Products, we have revised our total refining margin forecasts significantly upwards, particularly for Q2, which elevated our adjusted EBITDA forecast for the current year by 16%. However, we made no changes to our total refining margin forecasts for H2, although in the short-term margins have remained high. Even if short-term forecasts remain under upward pressure, we have strong reservations about the sustainability of exceptionally high and volatile margin levels. We made much more moderate positive revisions to our Renewable Products' forecasts in the short term and the segment's long-term earnings growth estimates remain unchanged. In our view, the high short-term refining margin of Oil Products is of limited relevance to Neste's long-term investment story, even though it has a relatively tangible impact on earnings in the short term.

Risen share price has reduced return potential

In our view, the short-term valuation multiples of the share are high (2022e adj. P/E 21x and EV/EBIT 17x). Moreover, we don't find the 2024e valuation multiples (2024e P/E 16x and EV/EBIT 13x), which consider capacity and earnings growth from investments, particularly attractive. Due to the very different long-term outlooks of the business operations, we also look at the valuation through a sum of parts calculation. In this way, Renewable Products is valued at a high level (2022e EV/EBIT 23x). The longer-term earnings growth that we forecast weighs on the valuation multiples of Renewable Products, but we believe that a good expected return at the current share price would require relying on the sustainability of the high valuation of Renewable Products too far into the future.

Recommendation

Reduce

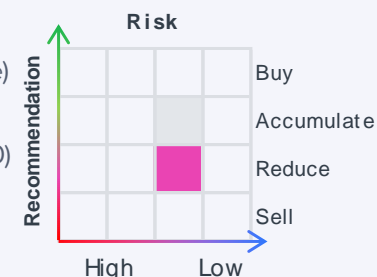
(previous Accumulate)

44.00 EUR

(previous EUR 44.00)

Share price:

43.06



Key figures

	2021	2022e	2023e	2024e
Revenue	15148	23801	19100	21818
growth-%	29%	57%	-20%	14%
EBIT adj.	1342	2003	1841	2505
EBIT-% adj.	8.9 %	8.4 %	9.6 %	11.5 %
Net Income	1771	1940	1503	2035
EPS (adj.)	1.43	2.10	1.96	2.65
P/E (adj.)	30.3	20.5	22.0	16.3
P/B	4.8	4.0	3.6	3.2
Dividend yield-%	1.9 %	2.0 %	2.4 %	3.0 %
EV/EBIT (adj.)	25.0	16.9	18.1	13.0
EV/EBITDA	12.8	11.4	13.1	10.0
EV/S	2.2	1.4	1.7	1.5

Source: Inderes

Guidance

(Improved)

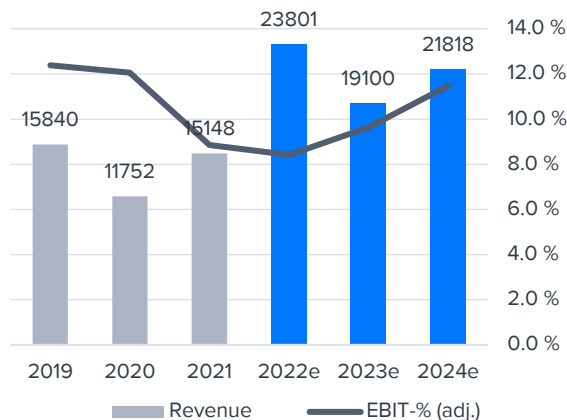
Renewable Products' second-quarter sales volumes are expected to be slightly higher than in the previous quarter and Q2 margin is expected to be within the range USD 675-750/ton. Oil Products' second-quarter total refining margin is expected to more than double from the level of Q1'2022.

Share price



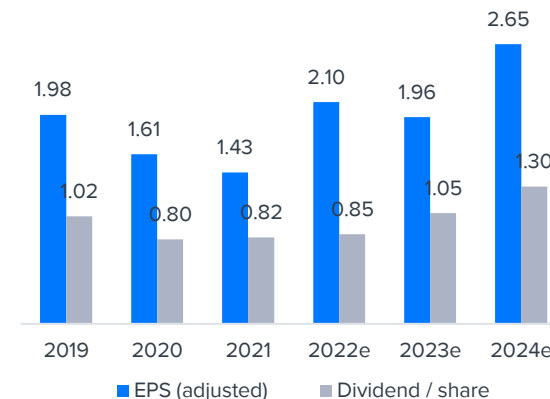
Source: Thomson Reuters

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
- Increase in raw material prices for Renewable Products and decrease in sales margins
- Weak long-term demand picture for oil-based fuels
- Regulatory risks (+/-)
- Short-term risks associated with the COVID pandemic

Valuation	2022e	2023e	2024e
Share price	43.06	43.06	43.06
Number of shares, millions	768.0	768.0	768.0
Market cap	33069	33069	33069
EV	33850	33247	32529
P/E (adj.)	20.5	22.0	16.3
P/E	17.0	22.0	16.3
P/FCF	>100	25.1	21.1
P/B	4.0	3.6	3.2
P/S	1.4	1.7	1.5
EV/Sales	1.4	1.7	1.5
EV/EBITDA	11.4	13.1	10.0
EV/EBIT (adj.)	16.9	18.1	13.0
Payout ratio (%)	33.6 %	53.6 %	49.1 %
Dividend yield-%	2.0 %	2.4 %	3.0 %

Source: Inderes

We raised our short-term estimates

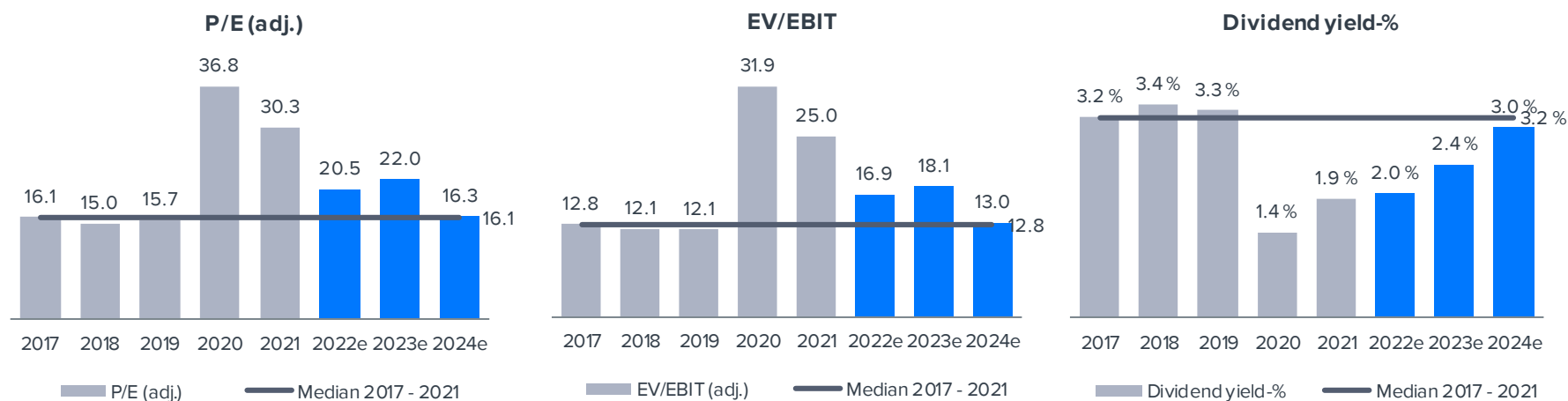
Estimate revisions MEUR / EUR	2022e			2023e			2024e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
Revenue	22616	23801	5%	19100	19100	0%	21818	21818	0%
EBITDA	2604	2965	14%	2547	2547	0%	3240	3240	0%
EBIT (exc. NRIs)	1641	2003	22%	1841	1841	0%	2505	2505	0%
EBIT	1969	2331	18%	1841	1841	0%	2505	2505	0%
PTP	1908	2269	19%	1767	1771	0%	2447	2454	0%
EPS (excl. NRIs)	1.70	2.10	24%	1.95	1.96	0%	2.64	2.65	0%
DPS	0.85	0.85	0%	1.05	1.05	0%	1.30	1.30	0%

Source: Inderes

Valuation table

Valuation	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Share price	17.8	22.5	31.02	59.16	43.36	43.06	43.06	43.06	43.06
Number of shares, millions	769	767	768	768	768	768	768	768	768
Market cap	13679	17233	23814	45425	33299	33069	33069	33069	33069
EV	14091	17244	23651	45212	33494	33850	33247	32529	31511
P/E (adj.)	16.1	15.0	15.7	36.8	30.3	20.5	22.0	16.3	16.7
P/E	15.0	22.1	13.3	63.8	18.8	17.0	22.0	16.3	16.7
P/FCF	20.6	20.3	61.2	37.7	93.5	>100	25.1	21.1	16.1
P/B	3.2	3.7	4.0	7.7	4.8	4.0	3.6	3.2	2.9
P/S	1.0	1.2	1.5	3.9	2.2	1.4	1.7	1.5	1.5
EV/Sales	1.1	1.2	1.5	3.8	2.2	1.4	1.7	1.5	1.4
EV/EBITDA	9.1	10.5	8.7	30.0	12.8	11.4	13.1	10.0	9.9
EV/EBIT (adj.)	12.8	12.1	12.1	31.9	25.0	16.9	18.1	13.0	13.0
Payout ratio (%)	48%	75%	44%	86%	36%	34%	54%	49%	52%
Dividend yield-%	3.2 %	3.4 %	3.3 %	1.4 %	1.9 %	2.0 %	2.4 %	3.0 %	3.1 %

Source: Inderes



Peer group valuation

Peer group valuation	Share price	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company		MEUR	MEUR	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e
TOTAL SA	50.37	129830	157914	3.4	3.8	2.7	2.9	0.5	0.5	4.3	5.0	5.9	6.1	1.0
ENI SPA	12.13	43094	58721	3.3	3.7	2.3	2.5	0.5	0.6	4.1	5.9	7.3	7.1	0.9
KOC HOLDING AS	38.54	5381	13557							4.2	3.5	3.7	4.5	1.1
TURKIYE PETROL RAFINERILERI AS	257.80	3701	4540	3.4	5.2	3.2	4.7	0.2	0.2	6.0	8.3		9.1	2.3
MOL PLC	2874.00	5979	8351	3.9	4.6	2.1	2.5	0.4	0.4	3.0	4.4	6.9	7.2	0.7
EQUINOR ASA	354.80	109568	99651	1.6	2.3	1.3	1.9	0.7	0.8	6.1	8.5	4.1	3.7	2.2
VALERO ENERGY CORP	112.44	43710	55247	6.4	8.5	4.5	5.5	0.3	0.4	6	9.0	3.5	3.7	2.0
SARAS SPA	1.24	1200	1611	2.8	5.7	2.0	3.0	0.1	0.1	4.8	8.7		6.1	1.1
HELLENIC PETROLEUM SA	6.55	1984	4577	8.3	9.0	5.3	5.6	0.3	0.3	6.1	7.1	6.6	7.4	0.8
POLSKI KONCERN NAFTOWY ORLEN SA	66.48	6156	10498	3.2	8.8	2.3	4.6	0.2	0.4	4.4	6.0	5.2	5.2	0.5
MOTOR OIL HELLAS CORINTH REFINERIES S	17.10	1974	3741	5.6	5.6	3.3	4.0	0.2	0.2	6.5	6.1	6.5	6.5	1.4
GRUPA LOTOS SA	69.96	2790	3141	2.5	2.3	2.1	1.7	0.4	0.2		6.2	1.4	3.6	0.5
Neste (Inderes)	43.06	33069	33850	16.9	18.1	11.4	13.1	1.4	1.7	20.5	22.0	2.0	2.4	4.0
Average				4.0	5.4	2.8	3.5	0.4	0.4	5.0	6.6	5.1	5.9	1.2
Median				3.4	5.2	2.3	3.0	0.3	0.4	4.8	6.2	5.6	6.1	1.1
Diff-% to median				402%	246%	395%	336%	316%	388%	324%	257%	-64%	-60%	273%

Source: Thomson Reuters / Inderes. NB: The market cap Inderes uses does not consider own shares held by the company.

Income statement

Income statement	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22e	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue	11752	3132	3023	4026	4967	15148	5523	6515	5967	5796	23801	19100	21818	21793
Oil Products	6063	1559	1331	2148	2772	7810	3019	3555	3268	3424	13266	9855	9720	9720
Renewable Products	4270	1231	1332	1503	1829	5895	2176	2400	2189	1862	8627	7560	10450	10450
Marketing & Services	3055	814	886	999	1104	3803	1229	1350	1250	1200	5029	3990	4000	3995
Other	177	47	48	33	42	170	35	60	60	60	215	245	248	253
Eliminations	-1813	-519	-574	-657	-780	-2530	-937	-850	-800	-750	-3337	-2550	-2600	-2625
EBITDA	1508	585	600	734	689	2607	915	925	558	567	2965	2547	3240	3193
Depreciation	-680	-127	-137	-155	-165	-584	-153	-159	-161	-161	-634	-706	-735	-772
EBIT (excl. NRI)	1416	302	241	368	432	1342	434	766	397	406	2003	1841	2505	2421
EBIT	828	458	463	579	524	2023	762	766	397	406	2331	1841	2505	2421
Oil Products	50	-8	-58	47	90	71	64	360	66	75	565	344	362	342
Renewable Products	1334	294	286	300	358	1238	358	388	310	321	1376	1442	2088	2028
Marketing & Services	68	16	19	25	14	74	25	23	26	15	89	75	75	73
Other	-37	-1	-7	-1	-26	-35	-13	-5	-5	-5	-28	-20	-20	-22
Eliminations	1	0	0	-2	-4	-6	0	0	0	0	0	0	0	0
Changes in fair value	-588	156	222	211	92	681	328	0	0	0	328	0	0	0
One-off items	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net financial items	-41	-43	3	4	-24	-61	-27	-10	-10	-15	-62	-70	-51	-38
PTP	787	415	465	582	500	1962	735	756	387	391	2269	1771	2454	2383
Taxes	-72	-40	-34	-70	-44	-188	-96	-113	-58	-59	-326	-266	-417	-405
Minority interest	-2	0	2	-5	1	-2	-1	-1	-1	-1	-3	-2	-2	-2
Net earnings	712	374	434	507	456	1771	638	642	328	332	1940	1503	2035	1976
EPS (adj.)	1.61	0.28	0.28	0.39	0.49	1.43	0.40	0.84	0.43	0.43	2.10	1.96	2.65	2.57
EPS (rep.)	0.93	0.49	0.56	0.66	0.59	2.31	0.83	0.84	0.43	0.43	2.53	1.96	2.65	2.57

Key figures	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22e	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue growth-%	-25.8 %	-4.2 %	17.5 %	39.7 %	64.0 %	28.9 %	76.3 %	115.5 %	48.2 %	16.7 %	57.1 %	-19.8 %	14.2 %	-0.1 %
Adjusted EBIT growth-%	-27.8 %	-26.2 %	-5.5 %	-1.6 %	13.9 %	-5.2 %	43.9 %	217.9 %	8.0 %	-6.0 %	49.2 %	-8.1 %	36.1 %	-3.4 %
EBITDA-%	12.8 %	18.7 %	19.8 %	18.2 %	13.9 %	17.2 %	16.6 %	14.2 %	9.3 %	9.8 %	12.5 %	13.3 %	14.9 %	14.7 %
Adjusted EBIT-%	12.0 %	9.6 %	8.0 %	9.1 %	8.7 %	8.9 %	7.9 %	11.8 %	6.6 %	7.0 %	8.4 %	9.6 %	11.5 %	11.1 %
Net earnings-%	6.1 %	12.0 %	14.3 %	12.6 %	9.2 %	11.7 %	11.6 %	9.9 %	5.5 %	5.7 %	8.2 %	7.9 %	9.3 %	9.1 %

Source: Inderes

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	4946	5893	7169	7898	8198
Goodwill	0	0	0	0	0
Intangible assets	264	516	526	536	546
Tangible assets	4477	5152	6417	7136	7426
Associated companies	56	60	60	60	60
Other investments	78	59	59	59	59
Other non-current assets	35	63	63	63	63
Deferred tax assets	35	45	45	45	45
Current assets	4869	6524	9613	7789	8778
Inventories	1829	2618	4118	3304	3709
Other current assets	280	648	378	378	378
Receivables	1208	1677	2642	2120	2422
Cash and equivalents	1552	1581	2475	1986	2269
Balance sheet total	9815	12417	16781	15687	16976

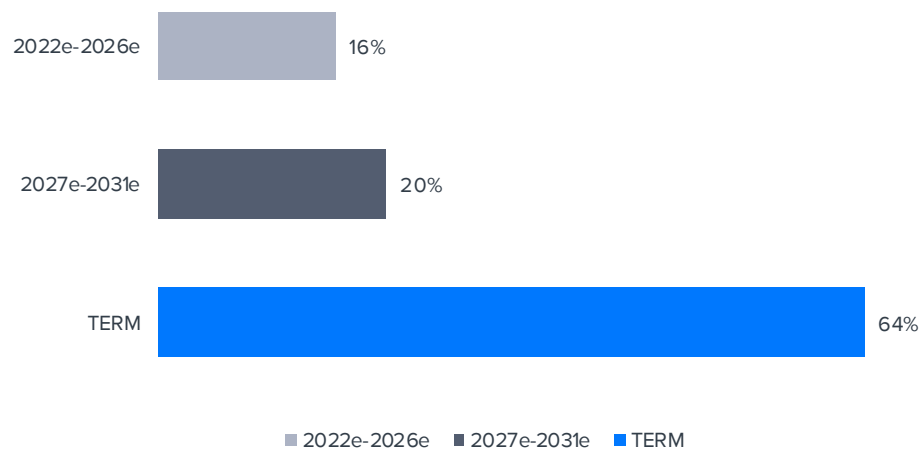
Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	5929	6985	8295	9146	10374
Share capital	40	40	40	40	40
Retained earnings	5885	6941	8251	9102	10330
Hybrid bonds	0	0	0	0	0
Revaluation reserve	0	0	0	0	0
Other equity	0	0	0	0	0
Minorities	4	4	4	4	4
Non-current liabilities	1638	2087	3549	2459	2125
Deferred tax liabilities	222	309	309	309	309
Provisions	232	210	210	210	210
Long term debt	1050	1378	2840	1750	1416
Convertibles	0	0	0	0	0
Other long term liabilities	133	190	190	190	190
Current liabilities	2248	3345	4937	4081	4476
Short term debt	257	379	400	400	300
Payables	1872	2761	4332	3476	3971
Other current liabilities	118	205	205	205	205
Balance sheet total	9815	12417	16781	15687	16976

DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
EBIT (operating profit)	2023	2331	1841	2505	2421	3232	3290	3302	3142	3221	3285	
+ Depreciation	584	634	706	735	772	775	747	729	651	646	641	
- Paid taxes	-111	-326	-266	-417	-405	-544	-554	-557	-530	-543	-652	
- Tax, financial expenses	-6	-9	-11	-9	-7	-6	-6	-6	-6	-6	-7	
+ Tax, financial income	0	0	0	0	0	1	1	1	1	2	2	
- Change in working capital	-650	-624	479	-212	2	-65	-56	-57	-58	-60	-49	
Operating cash flow	1840	2006	2750	2603	2784	3393	3422	3412	3201	3259	3221	
+ Change in other long-term liabilities	35	0	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	-1518	-1910	-1435	-1035	-735	-585	-585	-585	-600	-605	-643	
Free operating cash flow	356	96	1315	1568	2049	2808	2837	2827	2601	2654	2578	
+/- Other	0	0	0	0	0	0	0	0	0	0	0	
FCFF	356	96	1315	1568	2049	2808	2837	2827	2601	2654	2578	48692
Discounted FCFF		93	1179	1308	1593	2032	1911	1774	1519	1444	1305	24658
Sum of FCFF present value		38817	38724	37545	36237	34644	32612	30701	28927	27408	25964	24658
Enterprise value DCF		38817										
- Interesting bearing debt		-1757										
+ Cash and cash equivalents		1581										
-Minorities		-16										
-Dividend/capital return		-630										
Equity value DCF		37995										
Equity value DCF per share		49.5										

Cash flow distribution



Wacc	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	20.0 %
Cost of debt	3.0 %
Equity Beta	1.40
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.0 %
Cost of equity	8.7 %
Weighted average cost of capital (WACC)	7.4 %

Source: Inderes

Summary

Income statement	2019	2020	2021	2022e	2023e	Per share data	2019	2020	2021	2022e	2023e
Revenue	15840	11752	15148	23801	19100	EPS (reported)	2.33	0.93	2.31	2.53	1.96
EBITDA	2731	1508	2607	2965	2547	EPS (adj.)	1.98	1.61	1.43	2.10	1.96
EBIT	2229	828	2023	2331	1841	OCF / share	2.18	2.42	2.40	2.61	3.58
PTP	2067	787	1962	2269	1771	FCF / share	0.51	1.57	0.46	0.13	1.71
Net Income	1788	712	1771	1940	1503	Book value / share	7.71	7.72	9.09	10.80	11.90
Extraordinary items	268	-588	681	328	0	Dividend / share	1.02	0.80	0.82	0.85	1.05
Balance sheet	2019	2020	2021	2022e	2023e	Growth and profitability	2019	2020	2021	2022e	2023e
Balance sheet total	9793	9815	12417	16781	15687	Revenue growth-%	6%	-26%	29%	57%	-20%
Equity capital	5922	5929	6985	8295	9146	EBITDA growth-%	67%	-45%	73%	14%	-14%
Goodwill	0	0	0	0	0	EBIT (adj.) growth-%	38%	-28%	-5%	49%	-8%
Net debt	-171	-244	176	765	164	EPS (adj.) growth-%	33%	-19%	-11%	46%	-7%
Cash flow	2019	2020	2021	2022e	2023e	EBITDA-%	17.2 %	12.8 %	17.2 %	12.5 %	13.3 %
EBITDA	2731	1508	2607	2965	2547	EBIT (adj.)-%	12.4 %	12.0 %	8.9 %	8.4 %	9.6 %
Change in working capital	-744	453	-650	-624	479	EBIT-%	14.1 %	7.0 %	13.4 %	9.8 %	9.6 %
Operating cash flow	1677	1856	1840	2006	2750	ROE-%	33.9 %	12.0 %	27.5 %	25.4 %	17.2 %
CAPEX	-936	-1144	-1518	-1910	-1435	ROI-%	34.3 %	11.5 %	25.3 %	23.0 %	16.1 %
Free cash flow	389	1207	356	96	1315	Equity ratio	60.5 %	60.4 %	56.3 %	49.4 %	58.3 %
Valuation multiples	2019	2020	2021	2022e	2023e	Gearing	-2.9 %	-4.1 %	2.5 %	9.2 %	1.8 %
EV/S	1.5	3.8	2.2	1.4	1.7						
EV/EBITDA (adj.)	8.7	30.0	12.8	11.4	13.1						
EV/EBIT (adj.)	12.1	31.9	25.0	16.9	18.1						
P/E (adj.)	15.7	36.8	30.3	20.5	22.0						
P/E	4.0	7.7	4.8	4.0	3.6						
Dividend-%	3.3 %	1.4 %	1.9 %	2.0 %	2.4 %						

Source: Inderes

Disclaimer and recommendation history

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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 price	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 €



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