



Nasdaq: NESTE OYJ

MSCI ESG: AAA

- **Long NESTE**
- Total 24 months ROI: 22.25%
- Current Price: **€18.04**
- Target Price: **€22.06**
- Stop Loss: €14.60



Commodities Team Members:

Aran Titus, Santos Ledesma, Kieren Rush, Sam Dunn

Company Overview

"To create a healthier planet for our children"; renewable-focused products, diversified income streams, a robust economic MOAT and upturn in 2025Q3 share price

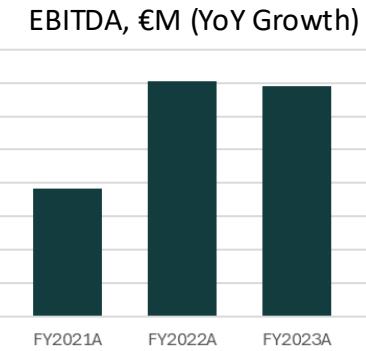
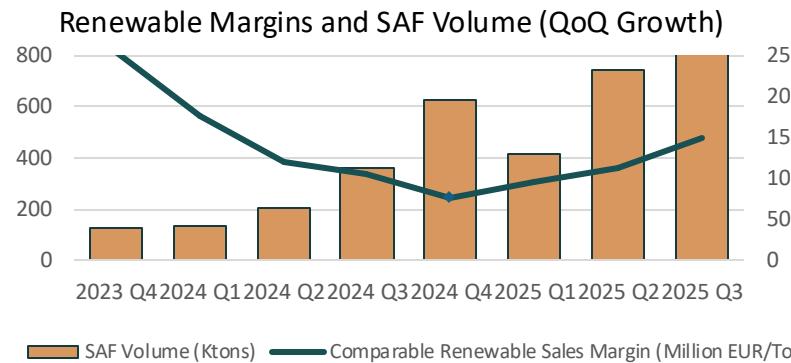
1. Business Model Overview

- **Neste**, founded in 1948 to secure Finland's oil supply.
- From a legacy cash cow in oil to the world's leading producer of the growing sustainable aviation fuel (SAF) and renewable diesel markets.
- Amid a radical transformation period, using oil profits to transition into high growth renewables using patented cutting-edge NEXBTL technology.
- In the last 12 months, Neste generated €19.630bn in revenue with an adj. EBITDA €1208m (6.2% adj. EBITDA margin).

Revenue Segments:

- **Renewable Products:** Offering **NEXBTL** technology-based products of **Renewable Diesel**, **Sustainable Aviation Fuel (SAF)**, **Sustainable Plastics** (Neste RE).
- **Oil Products:** Traditional, fossil and marine fuel products for **transport**, **machinery**, and **petrochemical** industries.
- **Services:** Fossil and renewable fuels, electric vehicle (EV) charging at the pump in approximately **1000 service stations** in the Baltics.

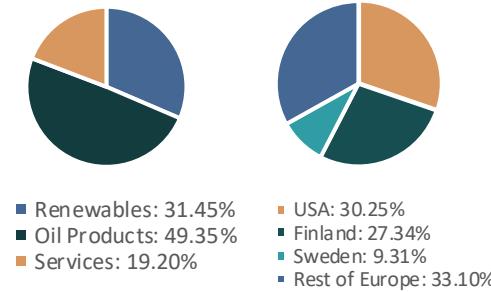
2. Financials



Share Price Analysis



FY24 Revenue



3. MOATs

First Mover Advantages in Infrastructure

Expansion: 1) Singapore expansion: allow supply of SAF to US airports, locking in a partnership with United Airlines, and 3 major US airports; and 2) Rotterdam expansion: largest in Europe to dominate European SAF market mandated by the EU.

Vertical Integration: Protected against feedstock price volatility through acquisitions of Mahoney Environmental (US) and IH Demeter (Europe); Neste captures the margin when used cooking oil (UCO) and animal fat prices surge, where all competitors suffer margin compression.

Competitive Advantage: Renewable products based on proprietary NEXBTL™ Technology that allows 100% of waste and residues to be turned into premium renewable fuels and feedstock for chemical production which are cheaper; Neste have feedstock flexibility over renewable oil competitors.

Industry Overview

NESTE

Neste Operates Across 3 Key Different Sectors: Renewable Fuels, Renewable Polymers, & Traditional Oil

Neste's strong renewable fuel market position from first-mover advantage

Sustainable Aviation Fuel (SAF) – Biofuel

- #1 Global Market Leader in SAF, ≈ 41% market share (FY2024)
- Key Market Drivers: SAF mandates, increased demand for air travel
- Main Competitors: TotalEnergies SE

Renewable Diesel (RD)

- #1 Producer of Renewable Diesel, ≈ 15% market share (FY2024). Crowded Market.
- Key Market Drivers: EU RED ad US RFS Mandates, Corporate “net-zero” targets
- Main Competitors: Renewable Energy Group (Chevron), Valero-Darling, Marathon

Renewable Plastic & Chemicals (RPC)

- Negligible Sales volume relative to market: Neste sells bio-based hydrocarbon feedstock to large polymer & petrochemical manufacturers.
- Key Market Drivers: Voluntary corporate goals & agreements, technological innovations in polymer performance, Expansion of bioplastics production capacity
- Main Competitors Braskem, BASF

Marketing and Services (fuel service stations)

- #1 Market leader in Finland (25% market share), Top 5 in Baltics (12% market share) providing renewable fuel for ≈ 900 fuel stations
- Key Market Drivers: Transition to EV from fuel pumps
- Main Competitors: St1, Circle K

Neste begins transition away from oil product cash cow arm

- Neste has zero pricing power: small player compared to global supermajors such as Shell and Exxon, primarily serves as an exporter to Baltics, Europe, and NA.
- Neste operates the Porvoo refinery (main oil refinery in Finland, 65% of wholesale oil production); being transformed to a 100% renewable and circular economy hub for its sustainable productions: currently using revenue to fund its renewables capex.
- Key Market Drivers: Cyclicality, refinery margins, geopolitical tensions

Porter's 5 Forces indicates positive outlook for Neste's renewables position

Barriers to Entry

High: Significant capex required to ramp up production or to transition traditional oil refineries.

Threat of Substitutes

Low: No viable substitutes for jet fuel
Medium: Hydrogen and Electric Vehicle transition in road fuel market & virgin fossil plastics compete with Neste RE

Buyer Negotiating Power

Low: Mandates reduce power in SAF and RD
Medium: Higher price sensitivity in markets with absent mandates

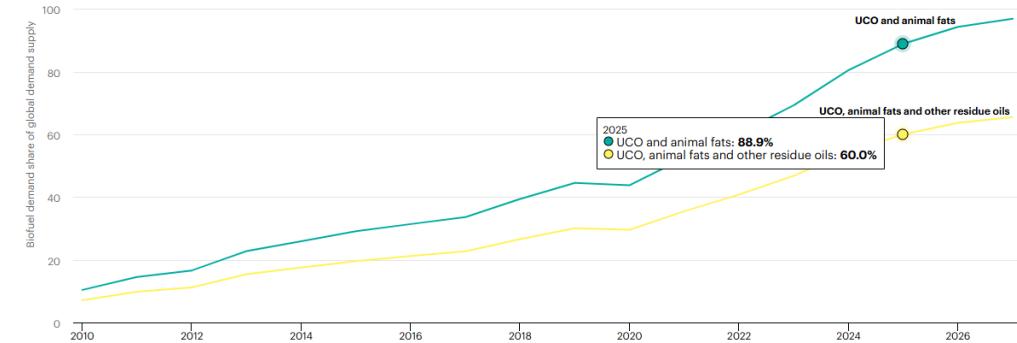
Supplier Negotiating Power

High: Bottleneck in RD and polymers, scarcity of waste and residues for fuels

Intensity of Competition

Low: Lack of other major global players in SAF
High: Crowded out by chemical giants e.g., BASF in polymers and oil giants now converting to renewable diesel

“Feedstock Crunch”: Biofuel demand share



Sources: Bloomberg, Neste, IEA

Thesis: Neste's Strategic Inflection Point

Neste's attractive long position due to its first-mover advantage in the sustainable aviation fuel market allowing it to capture the long-term growing renewable fuel market share and global demand driven by mandates and internal strategic decisions

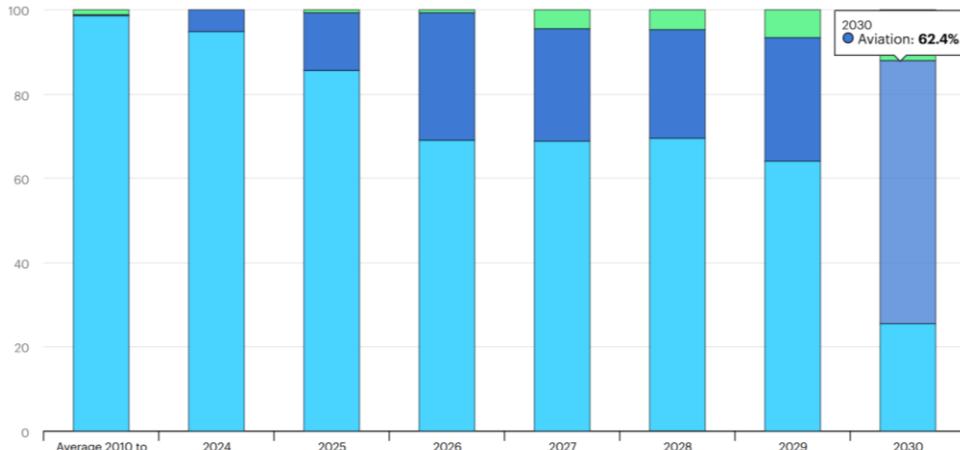
Buying Neste at its Trough Price

Long position in Neste near its trough price, allowing us to capitalise on a fundamental shift in the European renewable fuel market.

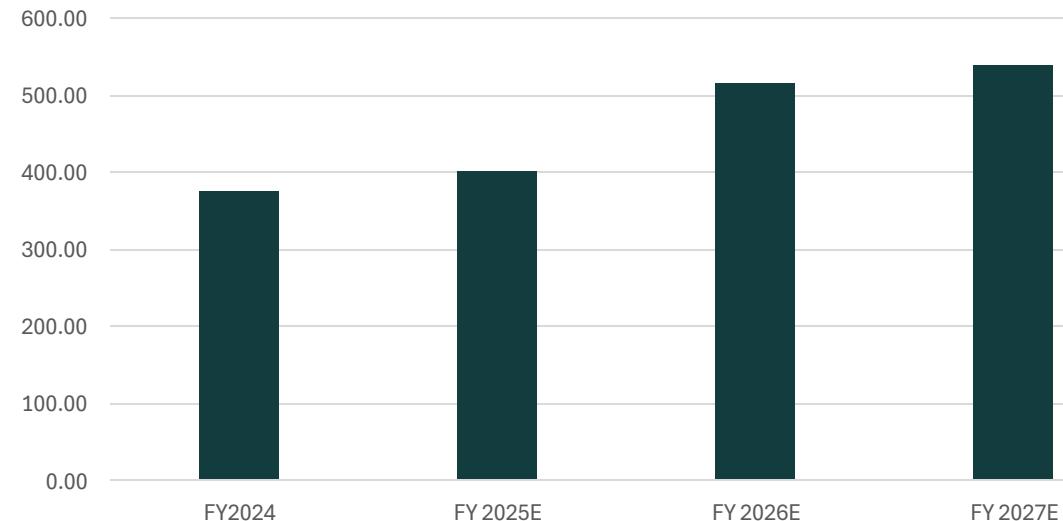


Driver	Headwind	Fix	Financial Impacts
Competition	Influx of Chinese dumped biodiesel into the EU	Imposed EU Anti-Dumping Duties & US 45Z Tax Credit	Reduction in unfair competition, allowing higher margins
Volume	Margins compressed in renewable diesel	A transfer to SAF: Mandates & Rotterdam Expansion	Increased margins and volume accelerates
Feedstocks	Competitors heavily reliant on vegetable & palm oil	MOAT: Vertical Integration: Neste focus 95% on waste and residue	Leads to higher more stable long-term margins

Liquid biofuel demand (YoY) growth shares by sector (%) (2023-30)



Renewable Products Sales Margin (EUR/ton)



Thesis: Neste's Financial Inflection Point

Neste set to dominate the rapidly emerging fastest-growing segment in renewable fuels

Neste's mispriced renewable growth stock poised for a financial rebound

Valuation as a Growth Stock



Trading at a EV over EBITDA of 15.36x compared to the industry average of approximately 8%

Key to Recovery



Recovering from the inefficiency of the US and the Martinez refinery shutdown

Past the Trough



Investments such as the Rotterdam expansion

Regulatory Support



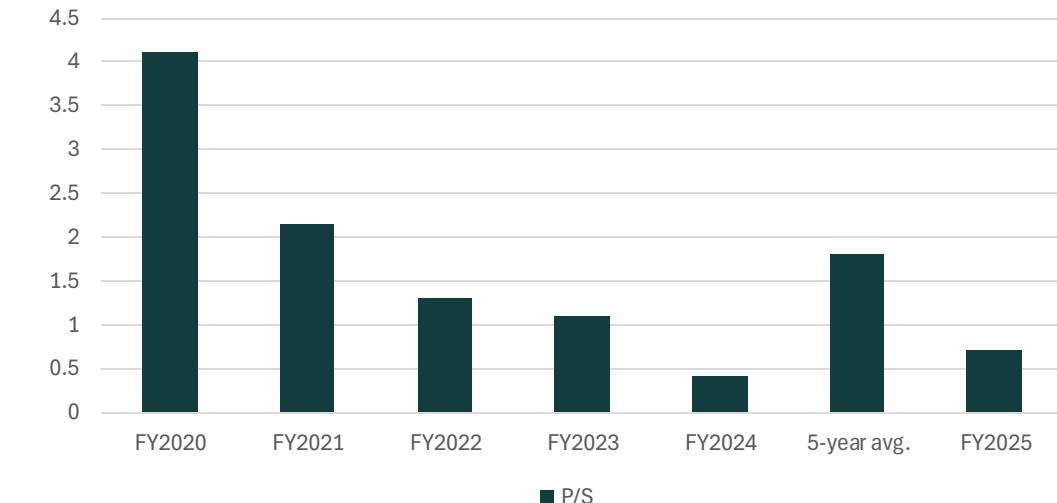
Anti-dumping Law on China providing a favourable market

Opportunity to Invest

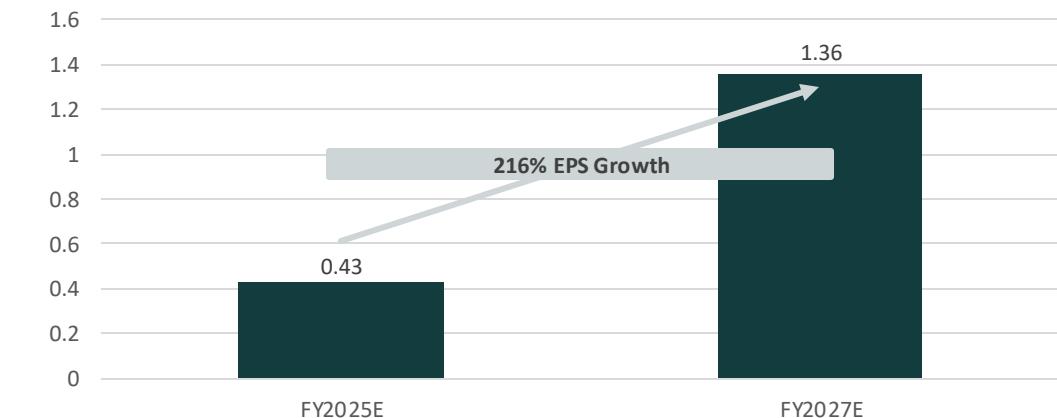


Presents us with a perfect opportunity to Buy

Trading below P/S 5-year average



Comparable EPS Consensus



Sources:

Valuation (1)

DCF Model: Base Case

Our sensible business case assumptions factor in the current market headwinds before a realistic recovery in FY2027E revenue growth and CapEx upon completion of the Rotterdam Refinery Expansion and 100% operational Martinez Refinery.

Key Assumptions for Base Case Scenario (FY-2025E → FY-2029E)

Model

Revenue Growth (FY2025 → FY2027):
-6.8% → 10%

COGS Margin (FY2025 → FY2027):
88% → 86%

Capex % of PP&E (FY2025 → FY2028):
8% → 5%

DIO (FY2025 → FY2029): 59-58 days

Revenue Growth (FY2027 → FY2029):
10% → 4%

D&A % of PP&E (FY2025 → FY2029):
6.76% → 8%

Consensus

Aligns with Market consensus →
Rotterdam Expansion & 100% Capacity
Utilisation

Neste's 2026 Efficiency Target

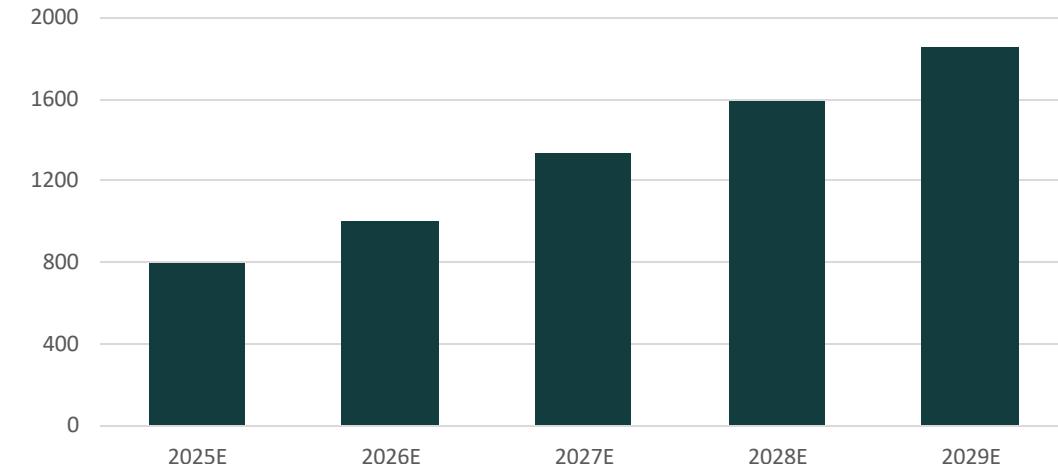
More optimistic than market that
Neste's capital discipline transition will
be immediate

Optimism over Neste remaining
inventory efficiency

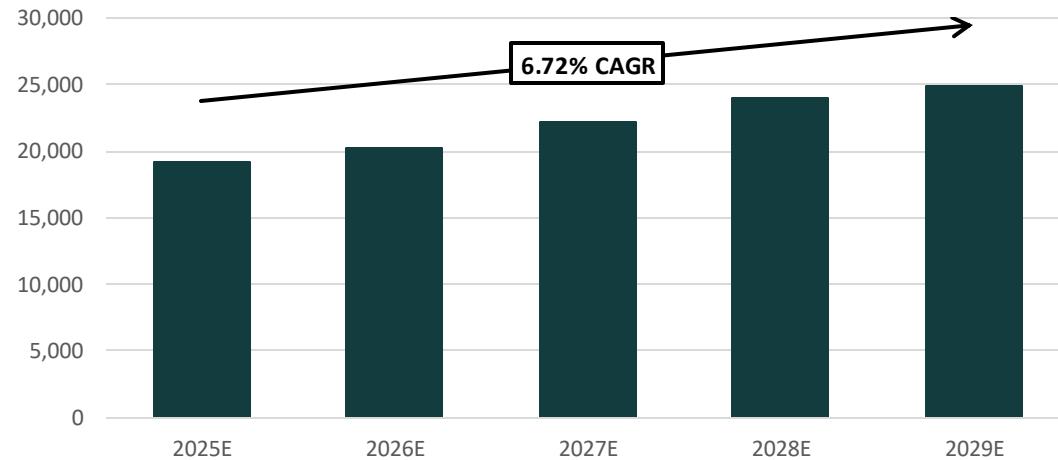
Traditional oil competitors will
eventually catch up

D&A jumps in 2027 once the
Rotterdam expansion is complete

EBIT Projections (€M)



Revenue Projections (€M)



Valuation (2)

DCF Model & Sensitivity Analysis

PV of FCF

Unlevered Free Cash Flow (mm)

Fiscal Year	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
Unlevered Free Cash Flow	2027.00	1330.00	-199.00	98.08	517.16	991.41	1548.39	1878.79

Projection Year

	1	2	3	4	5
Present Value of Free Cash Flow	91.54	450.50	806.05	1174.97	1330.63

Share Price: Sensitivity Analysis

WACC

5.14% 6.64% 7.14% 7.64% 8.14%

TGR	2%	32.13	19.39	16.78	14.67	12.89
	2.50%	39.17	22.34	19.14	16.59	14.48
	3%	49.50	26.11	22.06	18.92	16.38
	3.50%	66.14	31.07	25.78	21.82	18.70
	4%	97.36	37.92	30.69	25.52	21.57

Weighted Average Cost of Capital (WACC)

Equity (mm)	7417	Sum of PV of FCF	1348.09
Debt (mm)	5689	Growth Rate	3.0%
Cost of Debt	2.58%	WACC	7.14%
Tax Rate	21%	Terminal Value	24647.71
D/(D+E)	43.41%	PV of Terminal Value	20039.43
After Tax Cost of Debt	2.04%	Enterprise Value	21387.51
Risk Free Rate (10-Yr Treasury Yield)	4.10%	(+) Cash	1247.47
Expected Market Return	10.00%	(-) Debt	5689
Market Risk Premium	5.90%	(-) Minority Interest	0
Levered Beta	1.179	Equity Value	16945.98
E/(D+E)	56.59%	Diluted Shares Outstanding (mm)	768.20
Cost of Equity	11.06%	Implied Share Price (FY2027E)	22.06
WACC	7.14%	Current Share Price	18.045
		Expected ROI	22.25%

Catalysts, Risks and Mitigants

Strongest share price movers and potential risks with credible mitigants

Catalysts



ReFuelEU Aviation Mandate (01/01/2025)

- EU's mandatory blending target of 2% SAF at all Union airports was enforced, converting prospective demand into contracted revenue as airlines are forced to buy SAF.



Rotterdam Refinery Expansion (2027)

- In April 2025, Neste began SAF production of 500,000 tons. The Phase 2 expansion is now confirmed for completion in 2027, which will increase production capacity to 2.7Mt.



US 45Z Clean Fuel Production Credit (2025)

- US shifting policy from "Blender's Tax Credit" to paying based on Carbon Intensity (CI) scores.



Martinez Refinery Fix & Efficiency Program

- The Martinez Renewables Joint venture has become fully operational and Neste confirm €350mil EBITDA target for 2026.

Risks

Geopolitical Tensions: OPEC+

conflicts over crude oil overproduction.

China Trade War: China retaliates against anti-dumping duties (EU imposed in Nov 2025) which provokes a ban on UCO exports into the EU, blockading feedstock supply.

Fraudulent UCO Volumes: Influx volumes of "UCO" from China. That is, cheap, virgin palm oil labelled as renewable waste.

Mitigants

Mandated Demand: 2% mandate of SAF forces airlines to have contractual agreements regardless of the price of non-renewable fuels. The voluntary market can collapse but this would not diminish all Neste's sales volume.

Vertical Integration:

- Neste's acquisition of Mahoney Environmental and Agri Trading: own supply chain - renewable feedstock sourcing is protected.
- Neste capex on isotopic fingerprinting to prove their feedstock is genuine: confirms their rationale for charging a premium for their product.

Appendix (1): FCF Model

NESTE

Base (Business) Case		Unlevered Free Cash Flow (mm)							
Fiscal Year		2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
Revenue		25707.00	22925.00	20635.00	19231.82	20193.41	22212.75	23989.77	24949.36
Revenue Growth		10559.00	-2782.00	-2290.00	-1403.18	961.59	2019.34	1777.02	959.59
Revenue Growth %		69.71%	-10.82%	-9.99%	-6.80%	5.00%	10.00%	8.00%	4.00%
COGS (Cost of Materials + Cost of Purchased Services)		22611.00	18818.00	17891.00	16924.00	17568.27	19102.97	20511.26	21206.96
COGS % of Revenue		87.96%	82.09%	86.70%	88.00%	87.00%	86.00%	85.50%	85.00%
Gross Profit		3096.00	4107.00	2744.00	2307.82	2625.14	3109.79	3478.52	3742.40
Research & Development		85.00	94.00	86.00	74.20	78.75	86.63	93.56	97.30
R&D % of Revenue		0.33%	0.41%	0.42%	0.39%	0.39%	0.39%	0.39%	0.39%
Other Expenses		522.00	693.00	705.00	542.98	605.80	666.38	719.69	748.48
Other Expenses % of Revenue		2.03%	3.02%	3.42%	2.82%	3.00%	3.00%	3.00%	3.00%
Total Operating Expenses		23218.00	19605.00	18682.00	17541.18	18252.82	19855.98	21324.51	22052.74
EBITDA		2489.00	3320.00	1953.00	1690.64	1940.59	2356.77	2665.26	2896.62
Depreciation & Amortization		638.00	866.00	980.00	895.72	939.38	1021.57	1073.33	1041.13
Operating Profit (EBIT)		1851.00	2454.00	973.00	794.92	1001.21	1335.20	1591.93	1855.49
Operating taxes		388.00	160.00	-18.00	151.03	200.24	280.39	334.31	389.65
Tax % of EBIT		20.96%	6.52%	-1.85%	19.00%	20.00%	21.00%	21.00%	21.00%
NOPAT (Net Operating Profit After Taxes)		1463.00	2294.00	991.00	643.88	800.97	1054.81	1257.63	1465.84
(+) Depreciation & Amortization		638.00	866.00	980.00	895.72	939.38	1021.57	1073.33	1041.13
(-) Capital Expenditures		929.00	1670.00	1403.00	1060.40	1140.67	817.26	670.83	650.71
(-) Change in NWC		-855.00	160.00	767.00	381.13	82.51	267.71	111.73	-22.53
NWC		2317.00	2157.00	1390.00	1771.13	1853.64	2121.36	2233.09	2210.56
Current Assets		7504.00	7125.00	5555.00	5686.15	5937.97	6585.03	7038.15	7316.23
Current Liabilities		3916.00	3388.00	3210.00	3049.59	3175.63	3464.10	3725.52	3858.20
Cash		1271.00	1580.00	955.00	865.43	908.70	999.57	1079.54	1247.47
Cash % of Revenue		4.94%	6.89%	4.63%	4.50%	4.50%	4.50%	4.50%	5.00%
Unlevered Free Cash Flow		2027.00	1330.00	-199.00	98.08	517.16	991.41	1548.39	1878.79

Appendix (2): DCF Model

NESTE

Net Working Capital									
Fiscal Year	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E	
Accounts Receivables	2,179.00	1,913.00	1,539.00	1,448.97	1,521.42	1,764.85	1,840.31	1,913.92	
Days Sales Outstanding (DSO)	30.94	30.46	27.22	27.50	27.50	29.00	28.00	28.00	
Inventories	3,648.00	3,366.00	2,898.00	3,108.71	3,236.48	3,529.70	3,812.07	3,964.56	
Days Inventory Outstanding (DIO)	58.89	65.29	59.12	59.00	58.50	58.00	58.00	58.00	
Other Current Assets	1,677.00	1,846.00	1,118.00	1,041.98	1,094.07	1,203.48	1,299.76	1,351.75	
% of Revenue	6.52%	8.05%	5.42%	5.42%	5.42%	5.42%	5.42%	5.42%	
Current Assets	7,593.83	7,220.75	5,641.35	5,686.15	5,937.97	6,585.03	7,038.15	7,316.23	
Accounts Payables	3,022.00	2,580.00	2,185.00	2,216.38	2,300.76	2,501.74	2,686.17	2,777.28	
Days Payable Outstanding (DPO)	48.78	50.04	44.58	47.80	47.80	47.80	47.80	47.80	
Other Current Liabilities	894.00	808.00	1,025.00	833.21	874.87	962.36	1,039.34	1,080.92	
% of Revenue	3.48%	3.90%	4.33%	4.33%	4.33%	4.33%	4.33%	4.33%	
Current Liabilities	3,916.00	3,388.00	3,210.00	3,049.59	3,175.63	3,464.10	3,725.52	3,858.20	
Fixed Assets Schedule									
Fiscal Year	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E	
Beginning PP&E	11737	12028	12832	13255	13419.68	13620.97	13416.66	13014.16	
D&A	638	866	980	895.72	939.35	1021.57	1073.33	1041.13	
% of Beginning PP&E	5.44%	7.20%	7.64%	6.76%	7.00%	7.50%	8.00%	8.00%	
CapEx	929	1670	1403	1060.4	1140.67	817.26	670.83	650.71	
% of Beginning PP&E	7.92%	13.88%	10.93%	8.00%	8.50%	6.00%	5.00%	5.00%	
Ending PP&E	12028	12832	13255	13419.68	13620.97	13416.66	13014.16	12623.73	

Appendix (3): Company Comparable Analysis



Company Name	Ticker	Market Cap (US\$Mil)	Revenue (LTM) (US\$Mil)	EBITDA (LTM) (US\$Mil)	P/E (LTM)	EV/EBITDA (LTM)	EV/S (LTM)
Shell Plc	Shell PLC	211,457.5	269,074.0	53,252.0	14.98	4.78	0.96
Braskem SA	NYSE:BAK	1,142.9	12,958.8	142.8	-	8.40	0.81
Exxon Mobil	NYSE:XOM	484,594.5	324,924.0	60,218.0	17.18	8.67	1.63
Chevron Corp.	NYSE:CVX	301,504.7	186,979.0	34,194.0	26.14	9.99	1.85
Valero Energy Corp.	NYSE:VLO	54,465.6	123,071.0	6,174.0	23.14	12.66	0.55
Total Energies SE	LSE:TTE	144,758.1	183,534.0	36,576.7	10.53	5.03	1.10
UPM	NASDAQ:UPM	12,259.3	9,976.0	2,077.0	102.15	11.85	1.61
Marathon Petroleum Corp.	NYSE:MPC	57,273.8	133,262.0	8,750.0	25.84	10.06	0.74
Average		158,432.1	155,472.4	25,173.1	31.42	8.93	1.16
Neste	NASDAQ:OYJ	16,393.6	19,630.0	1,404.8	-	15.36	0.97

- [Neste started producing sustainable aviation fuel \(SAF\) at its renewables refinery in Rotterdam, the Netherlands | Neste](#)
- [Singapore refinery expansion | Neste](#)
- [Annual Reports | Neste](#)
- [Neste: transforming porvoo refinery to lead in renewable & circular solutions | EU Chemicals Platform](#)
- [Neste to receive EU Innovation Fund support for developing a new co-processing technology | Neste](#)
- [Risk management | Neste](#)
- [Neste challenges unsubstantiated report on fraudulent UCO volumes | SAF Magazine](#)
- [Saudis Tighten Grip on OPEC+ by Pushing Through Oil Surge – Bloomberg](#)
- [Inside information: Neste starts a performance improvement program and updates its financial targets and capital allocation, including dividend for the year 2024](#)
- [Annual liquid biofuel demand growth shares by sector, main case, 2023-2030 – Charts – Data & Statistics - IEA](#)
- [Biofuel demand share of global wastes and residues, main case, 2010-2027 – Charts – Data & Statistics - IEA](#)