

CREDIT OPINION

30 September 2024

Update

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RATINGS

Neste Oyj

Domicile	ESPOO, Finland
Long Term Rating	A3
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Neste Oyj

Update to credit analysis

Summary

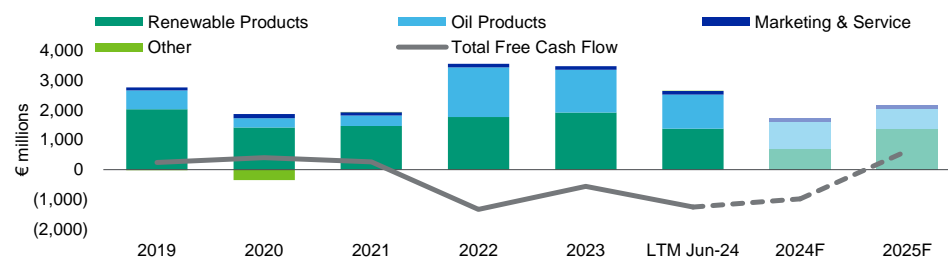
Neste Oyj's (Neste) A3 issuer rating incorporates its baa1 baseline credit assessment (bca) and a one notch uplift because of moderate support from and low dependency on the Government of Finland (Aa1 stable), which owns 44.22% of the company.

The baa1 bca reflects Neste's strong business profile with industry leading profitability mainly driven by its competitive advantage of sourcing waste and residuals as main feedstock (89% in the first half of 2024). It is globally the largest player in a growing end market for renewable fuels supported by both mandated demand from governments and some voluntary demand. The company grew its renewable nameplate capacity from about 200 thousands tonnes in 2007 and targeting to reach 5.5 million at year end 2024, while maintaining a conservative financial policy with a low leverage of 1.9x Moody's Adjusted Debt/EBITDA as of LTM June 2024.

Nevertheless, volatile feedstock and end market prices in combination with swiftly increasing competition by many very solvent oil & gas players constrain the bca and caused renewable fuel prices and volumes to decline in 2024. Neste aims to almost double its renewable product capacity towards 6.8 million tonnes by the end of 2026, exposing it to execution risk. Lower earnings from renewable fuel and a normalization of oil refining margins are likely to increase its leverage to about 2.6x adj. debt/EBITDA in 2024 and to recover in 2025. The presence of the Government of Finland as the main shareholder (owing 44.2% of stock) with a strategic interest in the company provides stability when executing its long term strategy, as well as the potential to reduce shareholder returns in downturns.

Exhibit 1

Renewables EBITDA has been growing and was historically less volatile than oil products
Comparable EBITDA split per segment and Free Cash Flow (FCF) 2019 - 2025F



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Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Credit strengths

- » Early mover in renewable fuels resulted in leading market position and competitive advantage
- » Structurally growing end markets for renewable fuel driven by regulation & voluntary demand
- » Track record of conservative capital structure management
- » Presence of Finnish state as anchor shareholder with strategic interest

Credit challenges

- » Volatile feedstock end market prices in combination with strongly increasing competition
- » Moderately rising debt levels, driven by high growth investments, which also create execution risk
- » Meaningful renewable refining capacity add-ons exceeding demand growth, pressures renewable fuel profitability in the next 6 -12 months
- » Potential for quicker than anticipated decline of traditional fuel demand in Finland and lower demand for renewable fuels over time creates challenges in managing transition and asset base

Rating outlook

The stable outlook reflects Moody's expectation that Neste will continue to benefit from demand growth for renewable products in the medium term and maintain renewable refining margins at around \$400 per tonne to limit negative free cash flow due to high growth investments. For 2025 we expect a gradual improvement in renewable product margins and a return to positive free cash flow generation. Additionally, we expect Neste to maintain a conservative financial policy and to reduce dividends and investments to remain within Moody's expectations for the A3 long term issuer rating throughout economic cycles.

Factors that could lead to an upgrade

An upgrade of the Finish government's rating or an increase in the likelihood of extraordinary support could result in an upgrade of Neste's rating.

The BCA could be upgraded if the company:

- » executes on its investment strategy and continues to meaningfully grow its renewable asset base successfully, while maintaining industry leading margins amid growing competition
- » maintains leverage at around 1.0x debt/EBITDA or lower and RCF/debt above 40% through cycles
- » maintains a conservative financial policy and strong backstop liquidity at all times

Factors that could lead to a downgrade

A downgrade of the Finish government's rating or a decrease in the likelihood of extraordinary support could result in a downgrade of Neste's rating.

The BCA could be downgraded if the company:

- » experiences a structural decline of its refining margins, due to increased competition for renewable products or a quicker than anticipated decline of oil products
- » its leverage increases to above 2.5x and its RCF/debt drops below 30% on a sustained basis
- » financial policy weakens

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

Neste Oyj

	2019	2020	2021	2022	2023	LTM Jun-24	2024F	2025F
Crude Distillation Capacity (mbbls/day)	271.0	271.0	271.0	271.0	304.0	304.0	304.0	304.0
EBIT / Total Throughput Barrels (€/bbl)	23.0	12.5	14.5	27.1	22.9	15.5	10.4	13.1
EBIT / Average Book Capitalization	28.6%	16.3%	17.1%	26.1%	20.9%	13.7%	6.2%	9.1%
EBIT / Interest Expense	37.0x	26.6x	27.8x	41.3x	17.4x	10.4x	5.1x	8.7x
Debt / EBITDA	0.6x	0.8x	0.9x	0.8x	1.2x	1.9x	2.6x	1.8x
RCF / Debt	108.1%	67.0%	64.6%	81.2%	45.1%	22.2%	11.5%	41.3%
Debt / Book Capitalization	18.8%	18.7%	20.8%	24.0%	32.2%	38.4%	34.2%	30.0%

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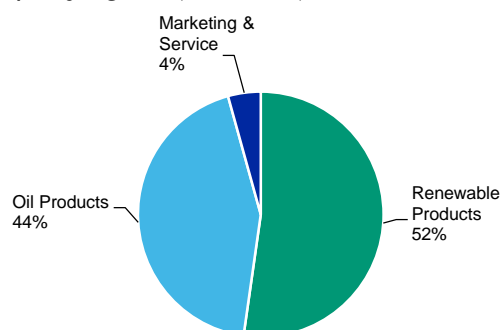
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Profile

Neste is a Finnish refining company with about €22.9 billion sales in 2023 that operates three renewable refineries in Porvoo, Rotterdam and Singapore as well as holding a 50% stake in the Martinez renewable refinery in California with a combined capacity of about 5.5Mt annually (about 111k boe/d) by end of 2024, making it the globally largest renewable refiner. Neste started the production of renewable diesel in 2007 in Porvoo, Finland. Furthermore, Neste operates in Porvoo, Finland a very complex 206k boe/d oil refinery and a retail network with 942 gas stations in Finland and the Baltics.

Exhibit 3

EBITDA split by segment (LTM Jun-24)

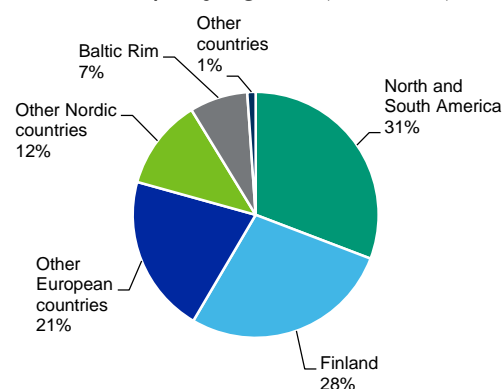


LTM = Last 12 months.

Source: Company filings

Exhibit 4

Geographical revenue split by segments (LTM Jun-24)



LTM = Last 12 months.

Source: Company filings

Detailed credit considerations

Early move in renewable fuels resulted in leading market position and competitive advantage

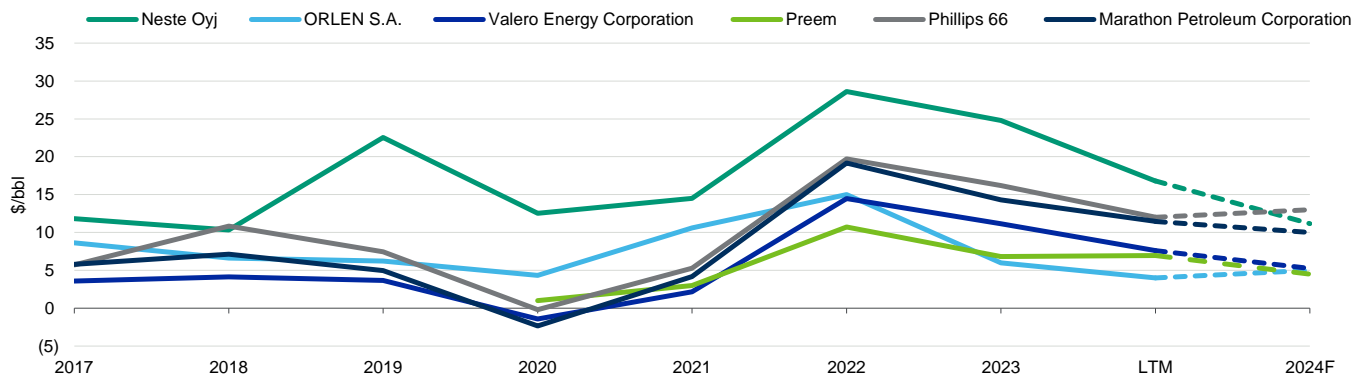
Moody's estimates that Neste is the largest global producer of renewable fuels followed by US based Diamond Green Diesel (a joint venture of [Valero Energy Corp \(Baa2 stable\)](#) and [Darling Ingredients inc \(Ba1 stable\)](#)), [Chevron Corp \(Aa2 stable\)](#), [TotalEnergies SE \(A1 positive\)](#), [ENI S.p.A. \(Baa1 stable\)](#), [Repsol S.A. \(Baa1 stable\)](#) and other integrated oil & gas companies and refiners. Already in 2007 Neste implemented renewable fuel production in its Porvoo refinery and started up larger renewable product refineries in Singapore and Rotterdam in 2010 and 2011 well ahead of most of its competitors. By end of 2024, Neste is targeting to reach 5.5 million tonnes of renewable product capacity (about 110k boe/d) annually, which accounted for about 55% of its comparable EBITDA (adjusted for inventory revaluation effects) in 2023. With the conversion of the Martinez refinery in California (a 50/50 joint venture of Neste and [Marathon Petroleum Corp \(Baa2 stable\)](#)), Neste owns renewable refineries on 3 continents.

The early move into renewable refining provided the company with some competitive advantages, including Neste's global network of waste oil, animal fat and protein sourcing through organic growth and several acquisitions, which many of its peers lack. Furthermore,

the company is increasing its ability to recycle a growing number of waste materials and continues to invest into new recycling technologies. Neste used waste and residuals for 89% of its renewable feedstock in H1 2024, compared to competitors' typical target to achieve a 70%-80% waste and residuals share of their feedstock by 2030. The combination of access to a globally vertically integrated sourcing network and the ability to arbitrage a wide variety of different renewable feedstocks (used cooking oils, animal fat waste, other waste and residues, vegetable oils and other sources) allowed Neste to secure more than sufficient feedstock to support its meaningful growth and to report industry leading profitability over the past years as shown in Exhibit 5.

Exhibit 5

Neste has a track record of industry leading profitability throughout the cycle EBIT / Throughput barrels evolution 2017 - 2024F



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Attractive market growth for renewable fuels but growing competition stress margins

We expect continued growth in demand for renewable fuel, and despite rising investment from competitors, Moody's expects Neste to remain the largest renewable refiner (renewable nameplate capacity of about 6.8 Mt/a (136k boe/d) expected by the end of 2026) over at least the next few years. However, the expansion brings execution risk, and the escalating competitive environment with a time lag between capacity additions and demand growth is materially weakening margins in 2024.

A combination of mandatory requirements to blend conventional diesel with biodiesel from regulators in mainly Europe and North America to reach CO2 reduction targets and voluntary demand from corporate and municipal customers to reduce their carbon footprint drive growth. The International Energy Agency (IEA) expects under all of its scenarios for energy transition annual growth rates exceeding 10% until 2030, with sharply growing demand for sustainable aviation fuel (SAF) and renewable diesel to reduce emission for air & land transportation driving the rise. Satisfaction of demand will require renewable fuels (produced from waste & residuals) to grow quicker than bio fuels because of limited availability of farm land to increase production of ethanol and oil seeds and the global need to boost food production.

To capture the growth and maintain its leading market position, Neste plans to invest meaningfully over the next years, with only about €1.2 billion of it for maintenance of existing refineries. New projects comprise the extension of the Rotterdam refinery for about €1.9 billion to expand production capacity (by 1.3Mton/a to 2.7Mton/a by end of 2026). Additional investments include the strategic study on transformation of the Porvoo refinery into a renewable circular site over the next 10-15 years, among other initiatives. Furthermore, the company expects to fully ramp up the €1.65 billion expansion of its refinery in Singapore by about 1.3Mton in Q4 2024 (currently operates at around 70%).

At same time nameplate refining capacity for renewable fuels has the potential to double by 2026 as most of the North American and European integrated oil and gas companies / refineries are undertaking or planning to transform gradually their existing refinery footprint. While the strongly growing end market will absorb a large portion of additional renewable fuel supply, Moody's believes that renewable product margins will likely reduce from more than €800 per ton towards €400 - €600 per ton as new capacity comes online coupled with declining demand from Sweden, where mandated blending requirements have been lowered to reduce inflation.

Profitable and well managed Porvoo refinery faces structural decline

In its home market Finland, Neste operates the very complex (Nelson complexity index at 12.1) 206k boe/d Porvoo oil refinery as well as a retail network with 942 gas stations in Finland and the Baltics. The refinery benefitted from attractive Ural/Brent differentials and its position as being the only refinery in Finland and was over the past years one of the most profitable refineries in Europe (average comparable EBITDA of approximately €600 million over the past 5 years). Generally the refinery experienced earnings volatility similar to the broad refining sector, but benefitted from record refining margins of about \$18.40 per barrel in H1 24 and remains in the top quartile of most profitable refiners in Europe. For the remainder of 2024 we expect oil refining margins continue to normalize, considering the cooling economic environment in the EU, and the opening of new large scale refineries in Middle East and Africa.

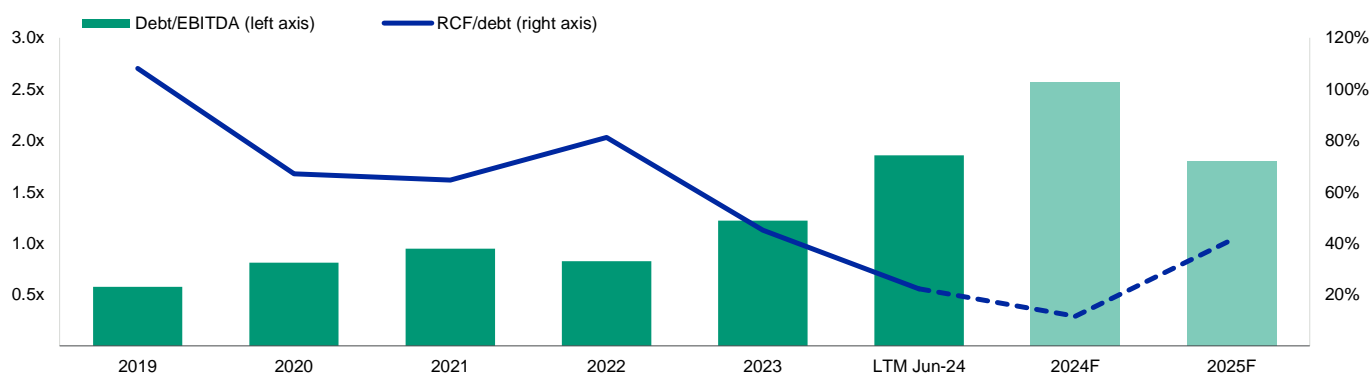
The refinery will be particularly exposed to the energy transitions as Finland and other Scandinavian markets are the most advanced markets in terms of electric vehicle adaption and regulation on fuel blending. Hence, Neste forecasts fossil fuel consumption in its home market to decline by about 50%-60% by 2035. In response the company plans to fully transform the refinery into a refinery for renewable fuel and other circular products gradually, becoming a carbon neutral company by the mid 2030s. We expect the marketing network to provide stable comparable EBITDA of about €100 million annually over the next 5 years, considering its leading position in the Finnish market. Over time, growing renewable fuel sales due to increased blending requirements will only partially compensate declining sales of traditional fuel.

Track record of conservative capital structure despite increasing debt going forward

Neste has a track record of managing its balance sheet conservatively as shown in Exhibit 6. The company's leverage remained about 1.0x Moody's adjusted debt/EBITDA and its RCF/debt at a very strong 75% since 2018, despite the company's relatively generous dividend policy, with a payout of at least 50% of net profit. Moody's forecasts Neste's debt / EBITDA to increase towards 2.6x in 2024 due to low renewable product margins. We forecast its RCF/debt to decrease towards 10% in 2024 considering sizeable growth investments and the high dividend payout of €922 million, driven by the very strong fiscal 2023. For 2025, we expect an improvement to well above 30% as the new Singapore refinery extension and the Martinez joint venture with Marathon ramp up.

Exhibit 6

Growth investments in combination with a cyclical downturn increases Neste's leverage ratio's but recovery in sight
Debt / EBITDA and RCF / Debt development 2019 - 2025F



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Neste has a defined gearing target of 40% (interest bearing net debt / (interest bearing net debt + total equity)). The company managed its gearing well below the target since 2014. At end of Q2 2024 Neste's company defined gearing rose to 34.5% (up from 24.3% at the end of June 23) due to working capital built up (mainly driven by ramping up the new refineries) and meaningful growth investments. We expect Neste to take action if necessary, to not max out with its board agreed debt capacity and to maintain some headroom to the 40% limit.

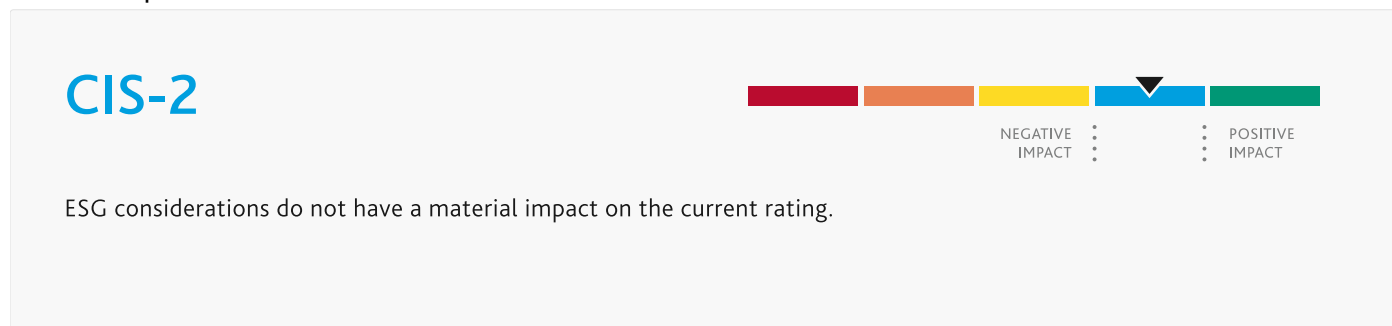
Our rating favorably takes into account the strategic long term interest of Neste's main shareholder the Republic of Finland, which supported a period of moderate dividend payouts to facilitate the company's reduction of gross debt following the construction of the Singapore and Rotterdam refineries. Neste has not bought back shares during the last decade and does not plan to do so in future.

ESG considerations

Neste Oyj's ESG credit impact score is CIS-2

Exhibit 7

ESG credit impact score



Source: Moody's Ratings

Neste's ESG Credit Impact Score reflects the limited impact of environmental and social exposure on the rating which is mitigated by a conservative financial policy and good and long-standing management track record of addressing E and S exposure. Furthermore it incorporates Neste's strategic importance for its main shareholder (44%) the Government of Finland (Aa1 stable) and assume a moderate likelihood of government support.

Exhibit 8

ESG issuer profile scores



Source: Moody's Ratings

Environmental

Neste is exposed to environmental risk, namely its exposure to waste and pollution risk and exposure to carbon transition risk. Exposure to carbon transition from Neste's Porvoo oil refinery is largely mitigated by its long-standing, fast growing and very profitable renewable fuels business which generated more than 70% of group's normalized earnings in 2023. Neste has a plan to transition its Porvoo refinery into a renewable and circular site, hereby ceasing crude oil refining and reaching carbon neutral production in the mid-2030s. Waste and pollution exposure reflects the company's refineries and gas station network being exposed to accidents, oil spills and contaminations partially balanced by Neste using 95% of residuals and waste as feedstock for its renewable fuel production.

Social

Neste has exposure to social risk mainly driven by pressures in managing its supply chain and the potential health and safety risks inherent to refinery operations. Both exposures are partially offset by favourable demographic & societal trends that underpin the double-digit market growth of renewable fuels and Neste's earnings over the past years. We expect this trend to continue over the next decade as the regulators aim to increase blending requirement and sustainable aviation fuel is currently the only available solution to decarbonize existing airline fleets.

Governance

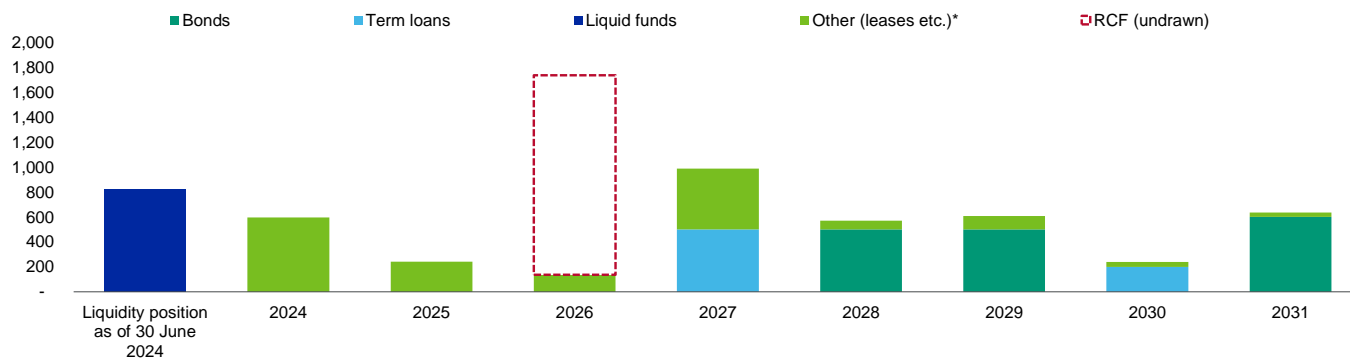
Governance considerations reflect the successful track record in building the renewable refinery business. The company moderated dividends and reduced growth investments in the past to repay gross debt. Moody's also incorporates in its analysis the Government of Finland's strategic long-term interest in Neste, willingness to accept a moderation of dividend payments if necessary, and moderate likelihood to support Neste if necessary. The Government of Finland owns 44.22% of the company's shares. Neste's board is composed of 9 members, of which all are independent.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

Neste's liquidity is adequate. The company has €823 million cash on balance sheet by the end of June 2024 and access to a fully undrawn €1.200 billion revolving credit facility (RCF) maturing December 2026, a fully undrawn €150 million overdraft facility and three bilateral revolving credit facilities totaling €550 million. Furthermore, the company has a €400 million commercial paper program in place. Liquidity sources in combination with Moody's expected operating cash flow of about €1.3 billion should easily cover potential working capital swings, committed CAPEX of about €1.6 billion and relatively high dividend payments of about €922 million expected in 2024.

Exhibit 9
Maturity profile for Neste
 As of June 2024



Periods are financial year-end unless indicated.
 Source: Company filings

Rating methodology and scorecard factors

We use our Refining & Marketing rating methodology, and our Government-Related Issuers rating methodology, for Neste. The scorecard-indicated rating outcome of Baa3 is three notches below the senior unsecured rating of A3 and two notches below the baa1 BCA. The final rating of A3 is mainly supported by Neste's strong competitive position in the market for renewable fuels, strong end market growth prospects and solid credit metrics and industry leading profitability, as well as the one notch uplift from the BCA.

Exhibit 10

Rating factors

Neste Oyj

Energy, Oil & Gas - Refining & Marketing Industry Scorecard			Current LTM Jun-24		Moody's 12-18 month forward view	
Factor 1 : Scale (25%)	Measure	Score	Measure	Score		
a) Crude Distillation Capacity (mbbls/day)	304	Ba	304	Ba		
b) Number of Large-Scale Refineries	Ba	Ba	Ba	Ba		
Factor 2 : Business Profile (20%)						
a) Business Profile	Baa	Baa	Baa	Baa		
Factor 3 : Profitability and Efficiency (15%)						
a) EBIT / Total Throughput Barrels (\$/Bbl)	16.8	A	10 - 15	A		
b) EBIT / Average Capitalization	13.7%	Baa	5% - 10%	Ba		
Factor 4 : Financial Policy (20%)						
a) Financial Policy	Baa	Baa	Baa	Baa		
Factor 5 : Leverage and Coverage (20%)						
a) EBIT / Interest Expense	10.4x	A	6x - 9x	Baa		
b) Debt / EBITDA	1.9x	A	2x - 3x	Baa		
c) RCF / Debt	22.2%	Ba	25% - 40%	Baa		
d) Debt / Capitalization	38.4%	Ba	30% - 35%	Baa		
Rating:						
a) Scorecard-Indicated Outcome		Baa3				Baa3
b) Actual Rating Assigned						A3
Government-Related Issuer			Factor			
a) Baseline Credit Assessment			baa1			
b) Government Local Currency Rating			Aa1			
c) Default Dependence			Low			
d) Support			Moderate			
e) Actual Rating Assigned			A3			

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Appendix

Exhibit 11

Peer comparison

Neste Oyj

(in \$ millions)	Neste Oyj			ORLEN S.A.			Phillips 66			Valero Energy Corporation			Marathon Petroleum Corporation		
	A3 Stable			A3 Stable			A3 Stable			Baa2 Stable			Baa2 Stable		
	FY Dec-22	FY Dec-23	LTM Jun-24	FY Dec-22	FY Dec-23	LTM Jun-24	FY Dec-22	FY Dec-23	LTM Jun-24	FY Dec-22	FY Dec-23	LTM Jun-24	FY Dec-22	FY Dec-23	LTM Jun-24
Revenue	27,093	24,792	23,495	63,613	88,840	81,348	169,990	147,399	151,853	176,383	144,766	140,067	178,236	150,090	149,759
Crude Distillation Capacity (mbbls/day)	271	304	304	918	904	904	1,961	1,910	1,841	2,615	2,615	2,615	2,898	2,950	2,950
EBIT / Total Throughput Barrels	29	25	16	142	171	110	20	16	12	14	11	8	19	14	11
EBIT / Average Book Capitalization	26.1%	20.9%	13.7%	28.7%	25.1%	16.8%	22.7%	16.2%	12.2%	34.4%	25.5%	17.0%	26.0%	19.1%	15.6%
EBIT / Interest Expense	41.3x	17.4x	10.4x	34.4x	35.8x	20.2x	17.7x	10.7x	8.1x	22.6x	18.2x	12.5x	15.2x	11.3x	8.8x
Debt / EBITDA	0.8x	1.2x	1.9x	0.9x	0.5x	0.6x	1.3x	1.7x	2.1x	0.8x	0.9x	1.2x	1.2x	1.5x	1.9x
RCF / Debt	81.2%	45.1%	22.2%	112.1%	217.5%	156.9%	46.8%	33.3%	23.8%	89.9%	75.0%	53.5%	56.1%	42.6%	31.8%
Total Debt / Capital	24.0%	32.2%	38.4%	21.0%	14.6%	14.1%	30.1%	33.5%	34.4%	28.4%	26.7%	25.9%	41.0%	43.8%	47.4%

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LTM = Last 12 months.

Source: Moody's Financial Metrics™

Exhibit 12

Moody's-adjusted debt reconciliation

Neste Oyj

(in € millions)	2019	2020	2021	2022	2023	LTM Jun-24
As reported debt	1,322.0	1,306.0	1,756.0	2,616.0	4,068.0	4,795.0
Pensions	111.0	111.0	146.0	119.0	93.0	93.0
Non-Standard Adjustments	-	-	10.0	-	-	-
Moody's-adjusted debt	1,433.0	1,417.0	1,912.0	2,735.0	4,161.0	4,888.0

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Source: Moody's Financial Metrics™

Exhibit 13

Moody's-adjusted EBITDA reconciliation

Neste Oyj

(in € millions)	2019	2020	2021	2022	2023	LTM Jun-24
As reported EBITDA	2,615.0	1,341.0	2,593.0	2,970.0	2,580.0	2,135.0
Pensions	1.0	1.0	-	1.0	3.0	3.0
Unusual Items	(121.0)	410.0	(573.0)	352.0	827.0	495.0
Moody's-adjusted EBITDA	2,495.0	1,752.0	2,020.0	3,323.0	3,410.0	2,633.0

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Source: Moody's Financial Metrics™

Exhibit 14

Overview on selected historical Moody's-adjusted financial data

Neste Oyj

(in € millions)	2019	2020	2021	2022	2023	LTM Jun-24
INCOME STATEMENT						
Revenue	15,840	11,751	15,148	25,707	22,926	21,720
EBITDA	2,495	1,752	2,020	3,323	3,410	2,633
EBIT	1,993	1,239	1,436	2,685	2,544	1,677
Interest Expense	54	47	52	65	146	161
BALANCE SHEET						
Cash & Cash Equivalents	1,493	1,552	1,831	1,271	1,575	823
Total Debt	1,433	1,417	1,912	2,735	4,161	4,888
Net Debt	(60)	(135)	81	1,464	2,586	4,065
CASH FLOW						
Funds from Operations (FFO)	2,132	1,733	1,850	2,853	3,048	2,134
Cash Flow From Operations (CFO)	1,458	2,065	1,997	1,201	2,275	1,461
Capital Expenditures	(632)	(877)	(1,121)	(1,897)	(1,662)	(1,663)
Dividends	(584)	(784)	(616)	(632)	(1,171)	(1,048)
Retained Cash Flow (RCF)	1,548	949	1,234	2,221	1,877	1,086
RCF / Debt	108.1%	67.0%	64.6%	81.2%	45.1%	22.2%
Free Cash Flow (FCF)	242	404	260	(1,328)	(558)	(1,250)
FCF / Debt	16.9%	28.5%	13.6%	-48.6%	-13.4%	-25.6%
PROFITABILITY						
% Change in Sales (YoY)	6.2%	-25.8%	28.9%	69.7%	-10.8%	-8.7%
EBIT margin %	12.6%	10.5%	9.5%	10.4%	11.1%	7.7%
EBITDA margin %	15.8%	14.9%	13.3%	12.9%	14.9%	12.1%
INTEREST COVERAGE						
(FFO + Interest Expense) / Interest Expense	40.5x	38.2x	36.8x	44.9x	21.9x	14.2x
EBIT / Interest Expense	37.0x	26.6x	27.8x	41.3x	17.4x	10.4x
EBITDA / Interest Expense	46.3x	37.6x	39.1x	51.1x	23.4x	16.3x
LEVERAGE						
Debt / EBITDA	0.6x	0.8x	0.9x	0.8x	1.2x	1.9x
Net Debt / EBITDA	0.0x	-0.1x	0.0x	0.4x	0.8x	1.5x

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

Periods are financial year-end unless indicated. LTM = Last 12 months.

Source: Moody's Financial Metrics™

Ratings

Exhibit 15

<u>Category</u>	<u>Moody's Rating</u>
NESTE OYJ	
Outlook	Stable
Issuer Rating -Dom Curr	A3
Senior Unsecured -Dom Curr	A3

Source: Moody's Ratings

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