

Why We Own Neste

At Chicago O'Hare and Amsterdam Schiphol, part of aviation's fuel transition is happening without a new aircraft or a redesigned airport. United Airlines has extended agreements with Neste for sustainable aviation fuel, with deliveries at Amsterdam from June to August 2026 and at Chicago from July 2026 to June 2027. The fuel can enter existing airport supply systems after blending. That matters because aviation cannot wait for an entirely new fleet before it starts reducing the carbon intensity of flying.

For investors, however, a useful product is only the beginning. The harder question is whether Neste can turn regulation, scarce feedstocks and complex refining into durable cash returns after an extraordinary period for margins. That is the ownership test.

Aviation needs a fuel transition

Long-distance aviation is difficult to electrify. Aircraft need energy-dense fuel, fleets turn over slowly, and the infrastructure around airports is built for liquid fuels. Sustainable aviation fuel, or SAF, offers a practical bridge because certified fuel can be blended with conventional jet fuel and used in today's aircraft and fuelling systems.

Policy is creating a minimum level of demand. The European Union's ReFuelEU Aviation rules require SAF to account for 2% of fuel supplied at EU airports from 2025, rising over time to 70% in 2050. The International Civil Aviation Organization also regards sustainable aviation fuel as one of aviation's largest decarbonisation opportunities. Regulation does not guarantee attractive economics, but it changes SAF from a voluntary experiment into part of the operating environment.

What Neste actually does

Neste converts renewable raw materials, including used cooking oil and animal-fat waste, into renewable diesel and aviation fuel. Its competitive position rests on sourcing, pretreatment, refining know-how, product certification and the ability to deliver into customers' existing supply chains.

The company says its current annual SAF production capability is about 1.5 million tonnes and is expected to reach 2.2 million tonnes in 2027 after the Rotterdam expansion. That project is designed to add 1.3 million tonnes of renewable-products capacity and lift Rotterdam's total capacity to 2.7 million tonnes. The current estimated cost is about €2.5 billion and completion is expected in 2027. Those figures are important because an earlier project announcement gave a lower cost and earlier timetable. Capacity growth is real only when it is delivered safely, on time and at acceptable returns.

Where it fits

Neste sits primarily in Delta Outcomes' Nature Innovation theme. Its business tries to turn waste and residue streams into higher-value fuels, reducing the need for new fossil carbon while making better use of material already in the economy.

There is also a Climate Action case: lower-lifecycle-emission fuels can help customers reduce emissions in sectors where direct electrification is difficult. And there is a Human Advancement dimension because aviation connects families, trade and opportunity. The primary case remains Nature Innovation. The company must prove that the feedstock system is genuinely sustainable, traceable and scalable rather than relying on a good label.

Theme membership explains a source of structural demand. It does not make Neste's shares attractive at any price - and it is not, on its own, why we trust the company with client capital. That trust has to be earned separately, through the numbers and the people running the business.

How the advantage becomes earnings

The causal chain is straightforward, even if execution is not. Aviation and road-fuel mandates create demand. Customers need certified product in the right location. Neste sources qualifying feedstocks, processes them in a flexible refinery network and uses logistics and customer relationships to place the fuel. If supply is constrained and the product is trusted, the company can earn a margin above its feedstock, energy and operating costs. Those earnings must then fund maintenance and growth capital while still producing an acceptable return on the money invested.

This is not a software-like model. It is capital intensive, exposed to commodity prices and shaped by public policy. Its durability therefore depends on operational reliability, feedstock access, regulatory credibility and capital allocation. A strong quarter does not settle the question.

What the latest results tell us

Neste's second quarter of 2026 showed the earnings power of the system. Comparable EBITDA - operating profit before depreciation, excluding inventory and hedging effects - was €1.203 billion, compared with €341 million a year earlier and the highest quarterly figure in the company's history. Renewable Products contributed €859 million, and its comparable sales margin rose to \$1,223 per tonne from \$361, on sales volumes of just over one million tonnes.

But those margins were helped by exceptional conditions, including conflict in the Middle East and disruption in the Strait of Hormuz, very strong diesel cracks, record US renewable-fuel credit prices and supportive regulation. At the same time, renewable-production utilisation was 75% in the quarter, down from 81%, while SAF production fell to 126,000 tonnes from 290,000 tonnes after a delayed equipment replacement in Singapore. Planned turnarounds at

Porvoo, Rotterdam and Singapore add execution risk in the second half, and the company now expects 2026 capital expenditure of about €1.2 billion, the top of its earlier range.

The more durable signal is regulatory. Germany's final adoption of the EU's revised renewable energy rules during the quarter is expected to add around 1.5 million tonnes a year of renewable diesel demand, and higher US biofuel mandates have lifted domestic demand there. The investment case therefore rests less on preserving one extraordinary margin and more on converting a stronger policy floor and the current recovery into normalised cash returns.

A financially strong business? The honest starting point

A compelling transition story only matters if the company behind it can pay for the transition. For Neste that test is unusually concrete: the Rotterdam expansion alone is budgeted at around €2.5 billion, and renewable fuels are a capital-intensive, policy-shaped business in which margins can swing sharply. The honest starting point is that Neste's recent record is not the steady compounding we look for. Returns on capital, earnings and shareholder returns all fell heavily over 2024 and 2025 before the sharp recovery of 2026. We say that plainly, and then set out why we think the forward case is credible - and where it is not yet proven.

Profitability - the case ahead. Neste's comparable return on average capital employed after tax - essentially, how much profit the business earns on all the money tied up in it, whether provided by shareholders or lenders - was 30.1% in 2022 and 23.9% in 2023, before falling to 2.5% in 2024 and 5.3% in 2025, both well below our roughly 9% cost-of-equity hurdle. Return on shareholders' equity - how much profit it generates for every euro shareholders have invested - was just 2.0% in 2025. The comparable EBITDA margin told the same story, falling to around 6% of sales in 2024 and 9% in 2025 as new competitors and capacity crowded the renewable diesel market. The recovery since has been dramatic: over the twelve months to June 2026, return on capital employed recovered to 18.0% and the comparable EBITDA margin to around 15.5%, while return on equity reached 20.0% at the half year. Part of that reflects exceptional market conditions, but part is self-help: the performance improvement programme had delivered €594 million of annualised EBITDA improvement against its 2024 baseline by June, well ahead of the €350 million targeted for the end of 2026.

Earnings growth - the case ahead. The historical earnings record does not support the case on its own. Comparable earnings per share fell from €3.04 in 2022 and €2.88 in 2023 to just €0.17 in 2024, and reported earnings per share were negative in 2024 and only €0.19 in 2025 - profit shrinking far faster than revenue, the opposite of the pattern we look for. The turn has been abrupt: reported earnings per share reached €1.69 in the first half of 2026 alone, against a loss a year earlier. Analyst consensus expects full-year 2026 earnings per share of around €3.14, easing to around €2.47 in 2027 and €2.63 in 2028. That profile peaks this year as exceptional margins fade, but if realised it would leave earnings broadly back in the 2022-23 range rather than at the 2024-25 trough. The drivers analysts point to are volume and cost rather than price: renewable sales volumes are expected to rise from about 4.1 million tonnes

in 2026 to around 5.5 million tonnes in 2028 as Rotterdam comes on stream, even as the expected renewable sales margin falls from around \$1,000 per tonne towards \$740. That is a forecast, not a result, and it depends on Rotterdam being delivered and on policy holding.

Shareholder returns - the case ahead. Neste's shares have not delivered a record we would call strong. Over the five years to the end of 2025 they lost around two-thirds of their value, and the total shareholder return - share price growth plus dividends - was worse than minus 15% a year. Over the past year the picture has reversed: the shares roughly doubled, closing at €34.28 on 22 September 2026. That recovery leaves less obvious upside. The median analyst price target of around €35.50 implies only a low-single-digit return over the next twelve months, and individual targets range from roughly half the current share price to more than 50% above it - a spread that reflects genuine disagreement about what normal margins look like. The forward case is more persuasive on cash: with capital spending expected to roughly halve after 2026 once Rotterdam is complete, consensus points to substantially stronger free cash flow from 2027, which, if realised, would give the company room both to keep reducing debt and to rebuild cash returns to shareholders.

Taken together, this gives us a credible, evidenced path to the returns this thesis needs - restored returns on capital, a strengthened balance sheet, a cost programme that has over-delivered and a capacity step-up that is largely paid for - though one that is not yet proven through a normal margin environment. Neste has shown what its system can earn in a strong market; it has not yet shown what it earns in an ordinary one, and that is the test we will apply.

Leadership we can trust, with clear engagement priorities

A good business also needs to be well led, and Neste's board has the structural protections we look for. The roles of Chair and Chief Executive are held by separate people, and the Chair is an independent non-executive. Every director is non-executive and independent on our stricter tenure-and-affiliation test, and the Audit Committee is wholly independent. All directors stand for election each year, and there is a single class of shares carrying one vote each; the Finnish State is the largest shareholder, with just over 44% of shares, but holds no enhanced voting rights. The board brings directly relevant experience across refining, chemicals, industrial operations, finance and new energy. Executive pay has proved genuinely performance-sensitive rather than a formality: annual incentives are tied to segment earnings, group free cash flow and safety, and the long-term share plan paid nothing for the 2023-2025 cycle as shareholder returns lagged. The 2026 long-term plan has been redesigned around renewable fuel volumes and return on capital employed - the two measures that matter most to this thesis.

Capital allocation is where the record has been tested. Returns on capital were comfortably above our hurdle through 2022 and 2023 and then fell below it for two consecutive years. Leadership responded with a cost and margin programme that has run well ahead of target, cut the leverage ratio from 36.1% at the end of 2024 to 29.9% in June 2026 against a 40% ceiling, repurchased €500 million of bonds, and made earning returns on existing investments

- chiefly Rotterdam and the expanded Singapore site - the priority ahead of any new capacity commitments. Our engagement priorities are forward-looking: fuller public disclosure of the board's annual effectiveness review and its findings, and a succession approach that builds continuity of experience as a recently refreshed board carries Rotterdam through to completion. Taken together, this gives us confidence that Neste is overseen by an independent, accountable board and a management team that has met a difficult period with financial discipline, acting in the long-term interests of shareholders and other stakeholders.

Outcomes are evidence, not exemption

Neste reported that its renewable products helped customers reduce greenhouse-gas emissions by 14.2 million tonnes in 2025, and by a further 6.0 million tonnes in the first half of 2026. It also reported an average lifecycle reduction of 80% for the renewable diesel it sold, compared with fossil diesel. These are company-calculated outcomes that depend on methodology, regulation and the raw-material mix. They should be treated as evidence to test, not as a licence to stop asking questions.

The company's own footprint remains material. Neste reported 51.6 million tonnes of Scope 3 emissions in 2025, equal to 94% of its disclosed footprint, alongside continued production of fossil products at Porvoo. It also revised its own-operations target from carbon neutrality by 2035 to an 80% absolute reduction in Scope 1 and 2 emissions by 2040 from a 2019 base. The change may be realistic, but it reduces ambition and requires explanation.

The feedstock system is also being tested in practice. The share of waste and residues in renewable inputs slipped to 91% in the second quarter of 2026 from 96% a year earlier, and Neste identified human and labour rights issues in part of its feedstock supply chain in India, suspended sourcing from those chains and is working with external experts to help suppliers address them. Acting decisively is the right response; the episode also shows that supply-chain integrity must be continuously evidenced rather than assumed. We hold this evidence to the same standard we apply to the financial and governance claims above.

Value, decision, and tension

We own Neste because three things line up: a structural, regulation-backed need for lower-carbon liquid fuels in aviation and heavy transport, met by one of the world's largest producers of renewable diesel and SAF from waste and residue feedstocks; a business whose financial quality has been severely tested but which has restored returns on capital, rebuilt its balance sheet and is expected by analysts to earn well above its trough through the cycle; and an independent, accountable board and management team that has responded to a difficult period with discipline.

We do not own it on the assumption that 2026's margins are permanent, that every mandate will survive political pressure on energy affordability, or that waste-based feedstocks can scale without limit. The central tension is that the shares have roughly doubled on earnings

lifted partly by a geopolitical shock that may fade. On consensus estimates the shares trade at around 11 times 2026 earnings but closer to 14 times 2027 earnings, when margins are expected to normalise, and the median analyst target sits close to today's price. Neste looks inexpensive only if its post-Rotterdam, post-shock margin settles well above the levels of 2024 and 2025. Valuation discipline - not enthusiasm for aviation's transition, and not the strength of one exceptional quarter - is what ultimately governs position sizing.

What could break the chain

A number of things could weaken this thesis, and we watch for all of them:

- Margins could normalise faster or further than expected. Consensus already assumes the renewable sales margin falls by around a quarter between 2026 and 2028; a quicker unwind of Middle East-driven diesel cracks, weaker US credit prices, or mandates diluted or redesigned to favour domestic producers could take it lower still, and SAF remains expensive relative to fossil jet fuel.
- Execution could disappoint. Three concurrent turnarounds at Porvoo, Rotterdam and Singapore in the second half of 2026 carry ramp-up risk after a period in which renewable utilisation fell to 75%, and the Rotterdam expansion, at around €2.5 billion and due in 2027, has already moved once on cost and timing.
- The financial recovery we describe above is recent, not a settled record. Returns on capital fell from 23.9% to 2.5% within a single year in 2024; the recovery must hold as the completed Rotterdam asset enlarges the capital base, and working capital absorbed €842 million in the second quarter alone.
- Feedstock and supply-chain integrity could weaken. Waste and residue inputs are finite, heavily competed for and vulnerable to fraud or changing eligibility rules, and the India suspension shows that human-rights risk in the chain is live, not theoretical.
- The impact case can also fail on its own terms. Lifecycle savings are company-calculated, Scope 3 emissions dominate the footprint, fossil refining continues at Porvoo, and the own-operations target has been scaled back. If claimed outcomes deteriorate as the business scales, the impact case deteriorates with it.

The thesis would weaken materially if renewable margins settled close to 2024-25 levels once the current shock fades, if Rotterdam slipped again or started up below plan, if returns on capital drifted back towards our hurdle as capital employed rose, or if independent scrutiny undermined the feedstock or lifecycle claims. It would also weaken if valuation left no margin of safety for those risks.

Neste is compelling because it gives today's aircraft and trucks a credible way to start using lower-lifecycle-emission fuel now, made from material the economy already discards - and because the company doing it has shown, through a severe downturn, the cost discipline and balance-sheet repair a capital-intensive transition business needs, under an independent board we trust. The extended United agreements show the product moving into real airport

operations, though their commercial volumes and terms were not disclosed. The investment case rests on the chain holding: mandates create demand, sourcing and refining capability win the business, reliable operations convert it into margin and cash, and returns justify the capital invested once exceptional margins fade. The next proof points are Rotterdam delivery, post-turnaround utilisation, feedstock integrity and returns on capital through an ordinary market - Neste's task is to turn regulatory and engineering necessity into durable cash flows, not to rely on the theme alone.

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