

## HollyFrontier Corp. (HFC)

**\$26.12** (As of 08/10/20)

Price Target (6-12 Months): **\$28.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 05/28/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: C

### Summary

One of the largest oil refiners in the United States, HollyFrontier's capability to process a wide mix of crude and its access to some of the fastest growing domestic markets is a real strength. The company's exposure to the more stable cash flows from logistics segment diversifies earnings stream and offers a buffer against the volatile refining business. Ample cash, an undrawn \$1.35 billion revolving credit facility and an attractive debt maturity profile are other positives in the HollyFrontier story. However, the company has been bogged down by the coronavirus-induced oil products demand destruction, especially that of gasoline. Moreover, HollyFrontier's lubricating oils business is facing headwinds due to industrial and automotive end market demand weakness. Hence, investors are advised to wait for a better entry point.

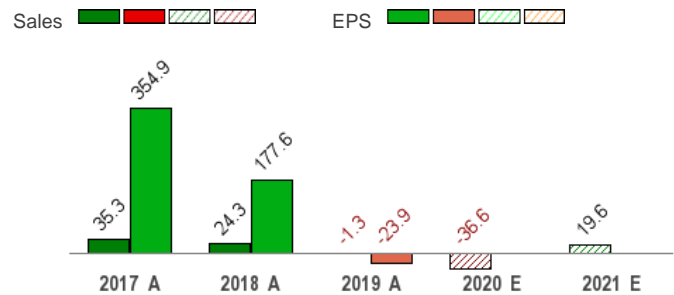
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$58.88 - \$18.48
20 Day Average Volume (sh)	2,307,571
Market Cap	\$4.2 B
YTD Price Change	-48.5%
Beta	1.66
Dividend / Div Yld	\$1.40 / 5.4%
Industry	<a href="#">Oil and Gas - Refining and Marketing</a>
Zacks Industry Rank	Bottom 30% (176 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	55.4%
Last Sales Surprise	-10.6%
EPS F1 Est- 4 week change	-23.6%
Expected Report Date	10/29/2020
Earnings ESP	0.0%
P/E TTM	10.7
P/E F1	NA
PEG F1	NA
P/S TTM	0.3

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,650 E	3,285 E	3,518 E	3,438 E	13,259 E
2020	3,401 A	2,063 A	2,587 E	2,806 E	11,090 E
2019	3,897 A	4,783 A	4,425 A	4,382 A	17,487 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.08 E	\$0.54 E	\$0.71 E	\$0.34 E	\$1.01 E
2020	\$0.53 A	-\$0.25 A	-\$0.26 E	-\$0.15 E	-\$0.52 E
2019	\$0.54 A	\$2.18 A	\$1.68 A	\$0.48 A	\$4.90 A

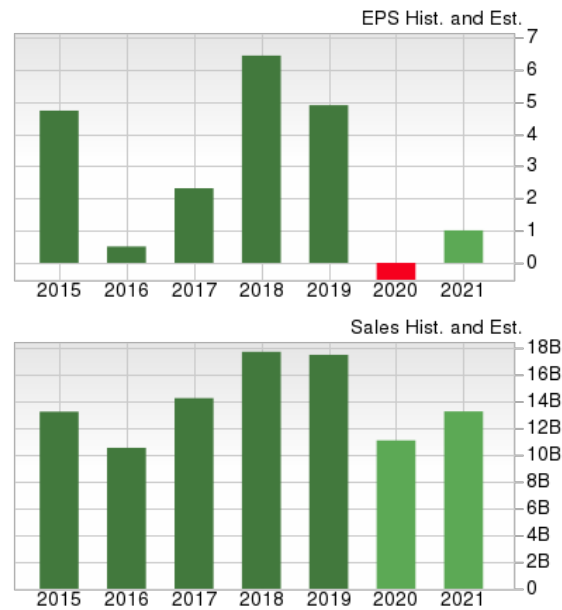
\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/10/2020. The reports text is as of 08/11/2020.

## Overview

Dallas, TX-based HollyFrontier Corp. is one of the largest independent refiners and marketers of petroleum products in the United States. The company reached its current form following the 2011 merger between Holly Corp. and Frontier Oil. HollyFrontier's operations are organized into three reportable segments: Refining (accounts for the major portion of its earnings), Lubricants and Specialty Products, and Holly Energy Partners.

- Refining:** The Refining segment manufactures and sells gasoline, diesel fuel, jet fuel and other specialty products. The company owns and operates five refineries in the Mid Continent, Southwest and Rockies regions, with a combined crude oil processing capacity of 457,000 barrels per day (Bbl/d). The facilities are located in El Dorado (accounting for approximately 30% of the company's total refining capacity), Tulsa (27%), Navajo (22%), Cheyenne (11%) and Woods Cross (10%). HollyFrontier's overall gross refining margins fell to \$15.96 per barrel in 2019, from \$17.71 in the previous year. This segment contributed more than 85% of the company's 2019 revenues.
- Lubricants and Specialty Products:** In 2017, HollyFrontier bought the Petro-Canada lubricants business from Canadian oil and gas giant Suncor Energy Inc. for C\$1.13 billion. Apart from global distribution and marketing properties, plus an exclusive license to use the Petro-Canada trademark with lubricants, the segment's assets include a production and manufacturing facility in Mississauga, Ontario that produces 15,600 barrels per day of base oils and other specialized lubricant products. This segment accounted for about 12% of the company's 2019 revenues.
- Holly Energy Partners L.P. (HEP):** Holly Energy Partners L.P. (HEP) – in which HollyFrontier holds a 59% interest (including the general partner interest) – is engaged in the ownership, operation, development and acquisition of crude oil and refined products logistics assets that support the refining operations of HollyFrontier and other downstream operators. This segment contributed around 3% of the company's 2019 revenues.



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## Reasons To Buy:

- ▲ HollyFrontier is one of the largest independent oil refiners in the U.S. with a combined crude oil processing capacity of approximately 457,000 barrels per day. A major advantage for the company is the high complexity index – or the capability to process a wide mix of crude – and access to some of the fastest growing domestic markets afforded by its portfolio of five refineries.
- ▲ HollyFrontier has ample liquidity with cash and cash equivalents of more than \$900 million and an undrawn \$1.35 billion revolving credit facility. Further, the company's debt maturity profile is in good shape with the earliest debt maturity in 2026. HollyFrontier is also paying its shareholders an attractive 5% dividend. With a robust balance sheet and a payout ratio of just 57, the dividend looks secure.
- ▲ The Petro-Canada Lubricants acquisition of 2017 has helped HollyFrontier expand into the high-margin, less competitive business of producing specialty lubricants. While being immediately accretive to the company's earnings and cash flows, the deal was a smart one as it allowed HollyFrontier to inherit a strong brand portfolio with growing market demand. HollyFrontier's acquisition of privately held specialty products producer and marketer Sonneborn should further augment the unit's outlook.
- ▲ Following the incentive distribution rights (IDR) deal with its partnership in 2017, the company is better positioned to manage operations efficiently, tap acquisition opportunities and improve payout for both HollyFrontier and Holly Energy. Holly Energy Partners helps the company achieve fee-based revenues with limited commodity price exposure.

HollyFrontier's around 57% interest in Holly Energy Partners L.P. helps the company achieve fee-based revenues with limited commodity price exposure

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## Reasons To Sell:

- ▼ The economic disruption caused by the coronavirus outbreak and the associated demand destruction for refined products and transportation fuels on account of widespread disruption is set to hurt earnings and cash flows of downstream operators like HollyFrontier over the next few quarters. As it is, the company has drastically reduced processing capacity to cope with the demand erosion caused by efforts to stem the spread of the coronavirus.
- ▼ The travel restrictions induced by the coronavirus have severely hit oil product demand, particularly that of gasoline. With gasoline comprising more than half of HollyFrontier's overall refined product sales, the company's cash flows are likely to be negatively impacted. Moreover, with the demand weakness forcing HollyFrontier to cut refinery runs, volumes are set to go down. This will result in declining sales revenue. Further, the demand destruction will likely push margins and utilization down.
- ▼ The company's Lubricants and Specialty Products segment dismissed 2020 outlook for Rack Forward - business associated with the sale of gasoline and diesel to wholesale and retail customers - due to deteriorating global market demand. Further, HollyFrontier's Refining unit limited its running capacity at 70%.
- ▼ HollyFrontier's lubricating oils business is facing headwinds on the back of industrial and automotive end market demand weakness. The market – a high-margin, low-volume one – is also suffering due to the influx of supplies from China, plus the ramp-up of ExxonMobil's plant in Rotterdam. With the weak fundamentals likely to continue for sometime, HollyFrontier is expected to witness a dip in segment profits.

HollyFrontier's lubricating oils business is facing headwinds on the back of oversupply.

## Last Earnings Report

### HollyFrontier Q2 Loss Narrower Than Expected

HollyFrontier Corp. reported second-quarter 2020 net loss per share (excluding special items) of 25 cents, narrower than the Zacks Consensus Estimate of a loss of 56 cents. The outperformance reflects stronger-than-expected refining margins and throughput.

However, the bottom line compared unfavorably with the year-ago adjusted profit of \$2.18. The underperformance mainly stemmed from the coronavirus-induced collapse in demand for transportation fuels and lubricants.

Revenues of \$2.1 billion missed the Zacks Consensus Estimate of \$2.3 billion and slumped 56.9% from the second-quarter 2019 sales of \$4.8 billion.

Quarter Ending 06/2020

Report Date	Aug 06, 2020
Sales Surprise	-10.58%
EPS Surprise	55.36%
Quarterly EPS	-0.25
Annual EPS (TTM)	2.44

### Segmental Information

**Refining:** Adjusted EBITDA from the Refining segment, which is the main contributor to HollyFrontier's earnings, was \$25 million. This reflected a massive from the year-ago quarter's income of \$556.1 million, primarily due to sharply narrower gross margins, which was down 57% to \$8.44 per barrel as coronavirus destroyed product demand. Nevertheless, margins outpaced the Zacks Consensus Estimate of \$8.08 per barrel.

Total refined product sales volumes averaged 382,910 barrels per day (bpd), down 18.4% from 469,100 bpd in the year-ago quarter. Moreover, throughput decreased from 484,890 bpd in the year-ago quarter to 377,500 bpd but outpaced the Zacks Consensus Estimate of 354,000 bpd. Meanwhile, capacity utilization was 76.5%, down from 99.1% in second-quarter 2019.

**Lubricants and Specialty Products:** The segment EBITDA totaled \$15.2 million, 47.3% lower than \$28.9 million reported in the year-ago quarter on industrial and automotive end market demand weakness. Product sales averaged 26,990 bpd, decreasing from the prior-year level of 34,660 bpd. Further, throughput fell 3.6% year over year to 16,370 bpd in the reported quarter.

**HEP:** This unit includes HollyFrontier's majority interest in Holly Energy Partners L.P., a publicly-traded master limited partnership that owns, operates, develops and acquires pipelines and other midstream assets.

Segment EBITDA was \$112.5 million, up from \$88.6 million in second-quarter 2019. Earnings were buoyed by a \$33.8 million gain on sales-type leases.

### Balance Sheet

As of Jun 30, HollyFrontier had approximately \$902.5 million in cash and cash equivalents, and \$2.5 billion in long-term debt, representing a debt-to-capitalization of 29.5%.

During the quarter, the company paid \$57.2 million in dividends.

## Valuation

HollyFrontier shares are down 48.5% in the year-to-date period and 44% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 42.8% and 34.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 32.8% and 29.8%, respectively.

The S&P 500 index is up 3.9% in the year-to-date and 16.4% in the past year, respectively.

The stock is currently trading at 4.48X trailing 12-month EV/EBITDA, which compares to 10.14X for the Zacks sub-industry, 4.73X for the Zacks sector and 12.62X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.66X and as low as 2.62X, with a 5-year median of 5.25X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$28 price target reflects 63.64X F12M earnings.

The table below shows summary valuation data for HFC

Valuation Multiples - HFC					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	4.48	10.14	4.73	12.62
	5-Year High	13.66	16.51	10.47	12.84
	5-Year Low	2.62	4.15	3.04	8.24
	5-Year Median	5.25	7.34	6.49	10.9
P/E F12M	Current	58.7	47.22	30.06	22.75
	5-Year High	69.4	105.37	61.21	22.75
	5-Year Low	4.81	8.02	11.32	15.25
	5-Year Median	11.18	12.65	18.71	17.58
P/S F12M	Current	0.33	0.25	0.71	3.66
	5-Year High	0.86	0.37	1.46	3.66
	5-Year Low	0.18	0.17	0.59	2.53
	5-Year Median	0.47	0.29	0.99	3.05

As of 08/10/2020

## Industry Analysis Zacks Industry Rank: Bottom 30% (176 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Chevron Corporation (CVX)	Outperform	3
Royal Dutch Shell PLC (RDSA)	Outperform	2
Delek US Holdings, Inc. (DK)	Neutral	4
Marathon Petroleum Corporation (MPC)	Neutral	3
PBF Energy Inc. (PBF)	Neutral	4
Phillips 66 (PSX)	Neutral	4
Valero Energy Corporation (VLO)	Neutral	3
Exxon Mobil Corporation (XOM)	Neutral	3

Industry Comparison Industry: Oil And Gas - Refining And Marketing				Industry Peers		
	HFC	X Industry	S&P 500	MPC	PSX	VLO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	4	3
VGM Score	A	-	-	B	B	B
Market Cap	4.23 B	1.33 B	23.56 B	24.16 B	28.33 B	21.84 B
# of Analysts	8	4	14	9	9	9
Dividend Yield	5.36%	0.00%	1.71%	6.25%	5.55%	7.32%
Value Score	A	-	-	A	A	A
Cash/Price	0.22	0.23	0.07	0.05	0.07	0.11
EV/EBITDA	3.10	4.50	13.39	6.92	6.52	5.10
PEG Ratio	NA	8.04	2.92	NA	10.92	NA
Price/Book (P/B)	0.71	1.00	3.18	0.78	1.22	1.06
Price/Cash Flow (P/CF)	2.84	3.99	12.69	3.47	5.74	4.75
P/E (F1)	NA	21.80	22.16	NA	56.79	NA
Price/Sales (P/S)	0.30	0.30	2.55	0.24	0.32	0.25
Earnings Yield	-1.99%	-5.00%	4.33%	-7.65%	1.76%	-3.66%
Debt/Equity	0.47	1.05	0.77	1.05	0.54	0.59
Cash Flow (\$/share)	9.20	4.65	6.94	10.70	11.30	11.28
Growth Score	B	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	26.59%	13.95%	10.41%	3.82%	14.62%	-6.80%
Proj. EPS Growth (F1/F0)	-110.69%	-85.99%	-6.51%	-157.56%	-85.81%	-134.44%
Curr. Cash Flow Growth	-5.96%	2.05%	5.26%	13.40%	-27.54%	-11.67%
Hist. Cash Flow Growth (3-5 yrs)	10.80%	6.45%	8.55%	12.38%	0.90%	-2.48%
Current Ratio	2.10	1.44	1.34	1.27	1.25	1.75
Debt/Capital	32.13%	51.89%	44.59%	51.89%	35.22%	36.94%
Net Margin	-1.11%	-1.32%	10.13%	-7.55%	-1.32%	1.22%
Return on Equity	6.41%	5.30%	14.59%	3.04%	8.76%	5.30%
Sales/Assets	1.22	1.26	0.51	1.11	1.59	1.74
Proj. Sales Growth (F1/F0)	-36.58%	-30.31%	-1.54%	-38.10%	-31.10%	-30.72%
Momentum Score	C	-	-	F	F	F
Daily Price Chg	2.43%	1.33%	0.91%	1.25%	3.18%	1.69%
1 Week Price Chg	-7.27%	2.43%	2.30%	-4.01%	1.37%	-6.35%
4 Week Price Chg	-3.19%	0.00%	8.54%	5.15%	7.63%	0.60%
12 Week Price Chg	-15.36%	-10.44%	13.68%	6.24%	-14.96%	-16.78%
52 Week Price Chg	-44.02%	-43.25%	3.71%	-20.00%	-34.02%	-30.59%
20 Day Average Volume	2,307,571	553,174	2,015,804	8,025,199	3,028,633	4,070,837
(F1) EPS Est 1 week change	3.46%	0.00%	0.00%	-4.71%	-7.70%	0.00%
(F1) EPS Est 4 week change	-23.60%	-18.61%	1.67%	-25.69%	-52.58%	-33.36%
(F1) EPS Est 12 week change	-3,092.86%	-21.03%	2.27%	-35.47%	-52.28%	-21.03%
(Q1) EPS Est Mthly Chg	-490.11%	-29.11%	0.67%	-94.61%	-53.67%	-174.29%

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	<b>A</b>
Growth Score	<b>B</b>
Momentum Score	<b>C</b>
VGM Score	<b>A</b>

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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