

HollyFrontier Corp. (HFC)

\$46.84 (As of 01/21/20)

Price Target (6-12 Months): **\$50.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/04/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: F

Summary

HollyFrontier has surpassed the third quarter earnings estimates owing to robust performance stemmed from stronger throughput volumes. Following the incentive distribution rights 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. However, HollyFrontier's lubricating oils business is facing headwinds on the back of oversupply. It is also bearing the brunt of increasing operating costs and expenses, which might put a dent in its earnings. The headwinds are reflected in the company's dismal stock movement, which is down 11.2% in the past year period, underperforming the Zacks Oil & Gas Field Services industry's loss of 5.5%. Hence, investors are advised to wait for a better entry point.

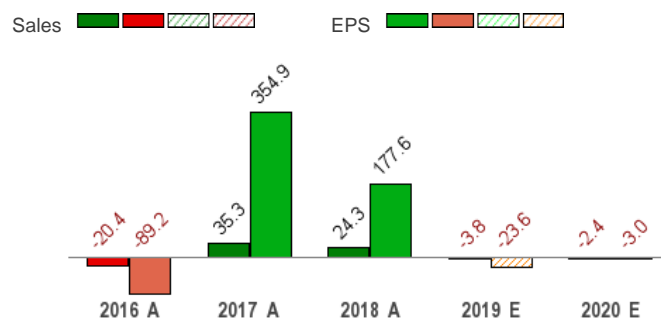
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$58.88 - \$37.73
20 Day Average Volume (sh)	1,229,853
Market Cap	\$7.6 B
YTD Price Change	-7.6%
Beta	1.41
Dividend / Div Yld	\$1.40 / 3.0%
Industry	Oil and Gas - Refining and Marketing
Zacks Industry Rank	Top 39% (100 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	17.5%
Last Sales Surprise	2.1%
EPS F1 Est- 4 week change	-8.4%
Expected Report Date	02/20/2020
Earnings ESP	0.3%
P/E TTM	7.0
P/E F1	9.8
PEG F1	1.0
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	3,901 E	4,378 E	4,595 E	4,057 E	16,626 E
2019	3,897 A	4,783 A	4,425 A	3,818 E	17,035 E
2018	4,128 A	4,471 A	4,771 A	4,344 A	17,715 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.67 E	\$1.52 E	\$1.69 E	\$0.93 E	\$4.77 E
2019	\$0.54 A	\$2.18 A	\$1.68 A	\$0.50 E	\$4.92 E
2018	\$0.77 A	\$1.45 A	\$1.98 A	\$2.25 A	\$6.44 A

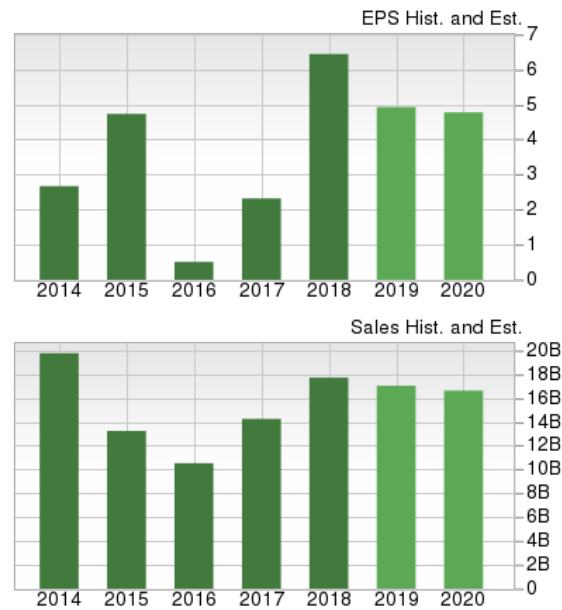
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/21/2020. The reports text is as of 01/22/2020.

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 rose to \$17.71 per barrel in 2018, from \$11.56 in the previous year. This segment contributed around 80% of the company's 2018 earnings.
- 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 5% of the company's 2018 earnings.
- 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 15% of the company's 2018 earnings.



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 six refineries. Moreover, crack spreads (a measure of refining profitability) have widened significantly from the first-quarter lows. The improving crack spread is likely to drive both revenues and earnings of HollyFrontier as evident from its second-quarter results.
- ▲ 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 recent 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.
- ▲ The downstream operator also pays a competitive dividend with a healthy yield. Further the company possesses a robust balance sheet, which provides it with ample financial flexibility. As a show of confidence in its cash flow generating abilities going forward, HollyFrontier recently initiated a new \$1-billion stock repurchase program. This Texas-based refiner also approved a 6% hike in its regular quarterly dividend to 35 cents per share.

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

Reasons To Sell:

- ▼ HollyFrontier is bearing the brunt of increasing operating costs and expenses, which might put a dent in its earnings. In 2018, the company's total costs rose 21% year-over-year while the first three quarters of 2019 saw HollyFrontier incur 8.2% more.
- ▼ HollyFrontier's lubricating oils business is facing headwinds on the back of oversupply. The market – a high-margin, low-volume one – is 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.
- ▼ Increased turnaround activities in certain projects might also hamper the company's revenues in the coming quarters. For the full-year of 2019, HollyFrontier has raised its capital spending guidance on account of higher turnaround scope and cost.
- ▼ Future prospects of HollyFrontier's midstream unit - Holly Energy Partners also look tepid as it does not boast of a wide array of significant projects. With the parent company dropping down all its pipeline and logistics assets to Holly Energy Partners, the latter has got to rely only on the organic growth opportunities in future.

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

Last Earnings Report

HollyFrontier Q3 Earnings Beat, Throughput Volumes Rise

HollyFrontier Corp. reported third-quarter 2019 net income per share (excluding special items) of \$1.68, beating the Zacks Consensus Estimate of \$1.43. This robust performance stemmed from stronger throughput volumes.

However, the figure is 15.15% lower than the year-ago adjusted earnings of \$1.98 due to weak gross margins.

Meanwhile, revenues of \$4.42 billion surpassed the Zacks Consensus Estimate of \$4.33 billion but declined 7.3% from the third-quarter 2018 sales of \$4.77 billion.

Quarter Ending 09/2019

Report Date	Oct 31, 2019
Sales Surprise	2.09%
EPS Surprise	17.48%
Quarterly EPS	1.68
Annual EPS (TTM)	6.65

Segmental Information

Refining: Adjusted EBITDA — the main contributor to HollyFrontier's earnings — was \$424.6 million. This reflected a 16.28% decrease from the year-ago quarterly income of \$507.2 million due to lower product margins, which was down 11% to \$17.23 per barrel.

Total refined product sales volumes averaged 485,500 barrels per day (bpd), up 8.4% from 447,770 bpd in the year-ago quarter. Moreover, throughput increased from 470,560 bpd in the year-ago quarter to 506,800 bpd. The same even surpassed the Zacks Consensus Estimate of 484,000 bpd. Meanwhile, capacity utilization was 104.2%, up from 96.7% in third-quarter 2018.

Lubricants and Specialty Products: The segmental EBITDA totalled \$38 million, down 10.3% from \$42.4 million reported in the year-ago quarter, thanks to the impact of macroeconomic issues on end markets. Product sales averaged 36,160 bpd, increasing from the prior-year level of 31,970 bpd. Further, throughput rose 8.3% year over year to 23,190 bpd in the reported quarter.

HEP: This unit includes HollyFrontier's 57% interest in Holly Energy Partners L.P. (HEP), a publicly-traded master limited partnership that owns, operates, develops and acquires pipelines and other midstream assets. Segmental EBITDA was \$123.1 million, up 41.65% from \$86.9 million in third-quarter 2018. Earnings were boosted by strong revenues from its crude oil pipeline systems located in Wyoming and Utah.

Balance Sheet

U.S. refiner HollyFrontier's total capital expenditure was \$74.5 million in the third quarter. As of Sep 30, the company had approximately \$981.9 million in cash and cash equivalents and \$2.4 billion in long-term debt, representing a debt-to-capitalization ratio of 27.04%.

The company paid out \$54.5 million in dividends during the quarter and bought back shares worth \$205 million.

Valuation

HollyFrontier shares are down 11.2% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are down 5.5% and 2.6%, respectively.

The S&P 500 index is up 27.7% in the past year.

The stock is currently trading at 4.32X trailing 12-month EV/EBITDA, which compares to 7.02X for the Zacks sub-industry, 5.03X for the Zacks sector and 12.38X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.66X and as low as 3.31X, with a 5-year median of 6.03X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$50 price target reflects 10.19X 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	4.32	7.02	5.03	12.38
	5-Year High	13.66	16.37	10.19	12.86
	5-Year Low	3.31	4.44	4.56	8.48
	5-Year Median	6.03	7.4	6.5	10.67
P/E F12M	Current	9.55	9.61	14.13	19.13
	5-Year High	46.05	15.83	32.45	19.34
	5-Year Low	6.45	8.59	11.28	15.17
	5-Year Median	11.09	11.09	18.69	17.44
P/S F12M	Current	0.45	0.28	0.89	3.57
	5-Year High	0.86	0.37	1.44	3.57
	5-Year Low	0.31	0.24	0.67	2.54
	5-Year Median	0.49	0.29	0.99	3

As of 01/22/2020

Industry Analysis Zacks Industry Rank: Top 39% (100 out of 255)



Top Peers

Chevron Corporation (CVX)	Neutral
Marathon Petroleum Corporation (MPC)	Neutral
PBF Energy Inc. (PBF)	Neutral
Phillips 66 (PSX)	Neutral
Royal Dutch Shell PLC (RDS.A)	Neutral
Valero Energy Corporation (VLO)	Neutral
Exxon Mobil Corporation (XOM)	Neutral
Delek US Holdings, Inc. (DK)	Underperform

Industry Comparison Industry: Oil And Gas - Refining And Marketing				Industry Peers		
	HFC Neutral	X Industry	S&P 500	MPC Neutral	PSX Neutral	VLO Neutral
VGM Score	A	-	-	A	A	B
Market Cap	7.56 B	2.65 B	24.43 B	36.48 B	45.48 B	37.06 B
# of Analysts	8	4	13	9	9	7
Dividend Yield	2.99%	0.49%	1.75%	3.77%	3.52%	3.99%
Value Score	A	-	-	A	A	A
Cash/Price	0.13	0.08	0.04	0.04	0.05	0.06
EV/EBITDA	4.47	6.80	14.00	9.15	5.82	6.51
PEG Ratio	0.95	1.56	2.06	0.70	1.57	1.19
Price/Book (P/B)	1.16	1.68	3.39	0.87	1.68	1.72
Price/Cash Flow (P/CF)	5.14	7.64	13.69	6.33	6.81	7.21
P/E (F1)	9.77	11.03	19.00	7.88	10.21	9.54
Price/Sales (P/S)	0.43	0.34	2.68	0.29	0.41	0.34
Earnings Yield	10.18%	9.04%	5.26%	12.69%	9.79%	10.48%
Debt/Equity	0.43	0.60	0.72	0.71	0.41	0.42
Cash Flow (\$/share)	9.11	3.93	6.94	8.87	15.03	12.51
Growth Score	A	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	17.90%	7.18%	10.60%	3.48%	9.90%	-5.51%
Proj. EPS Growth (F1/F0)	-3.05%	23.10%	7.57%	71.73%	23.10%	91.07%
Curr. Cash Flow Growth	89.45%	14.29%	14.00%	48.56%	91.99%	24.76%
Hist. Cash Flow Growth (3-5 yrs)	8.42%	9.89%	9.00%	12.55%	8.47%	4.78%
Current Ratio	2.07	1.29	1.23	1.25	1.29	1.40
Debt/Capital	29.83%	38.51%	42.99%	42.25%	29.03%	29.81%
Net Margin	4.89%	1.93%	11.15%	2.50%	4.17%	2.12%
Return on Equity	17.42%	9.34%	17.16%	8.94%	19.31%	10.37%
Sales/Assets	1.47	1.68	0.55	1.31	1.92	2.13
Proj. Sales Growth (F1/F0)	-2.40%	7.73%	4.05%	9.14%	13.44%	12.39%
Momentum Score	F	-	-	F	F	F
Daily Price Chg	-0.17%	-0.94%	-0.27%	-1.25%	-0.94%	-1.06%
1 Week Price Chg	-3.64%	-3.23%	2.29%	-5.53%	-1.49%	-5.85%
4 Week Price Chg	-9.26%	-7.58%	2.13%	-7.86%	-9.59%	-5.10%
12 Week Price Chg	-19.24%	-8.53%	6.99%	-17.41%	-13.97%	-10.48%
52 Week Price Chg	-13.82%	-6.77%	21.25%	-13.33%	10.04%	10.05%
20 Day Average Volume	1,229,853	646,924	1,415,064	4,792,957	1,981,189	2,533,612
(F1) EPS Est 1 week change	-4.29%	0.00%	0.00%	-3.22%	-3.29%	-1.96%
(F1) EPS Est 4 week change	-8.42%	-2.80%	0.00%	-6.74%	-5.31%	-2.46%
(F1) EPS Est 12 week change	-9.11%	-4.18%	-0.34%	-2.07%	-4.18%	2.14%
(Q1) EPS Est Mthly Chg	-14.72%	-5.56%	0.00%	-14.59%	-9.19%	-11.82%

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.

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	A
Growth Score	A
Momentum Score	F
VGM Score	A

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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