

HollyFrontier Corp. (HFC)

\$29.58 (As of 06/24/20)

Price Target (6-12 Months): **\$31.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/28/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: B

Momentum: F

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 on the back of influx of supplies from various sources. Hence, investors are advised to wait for a better entry point.

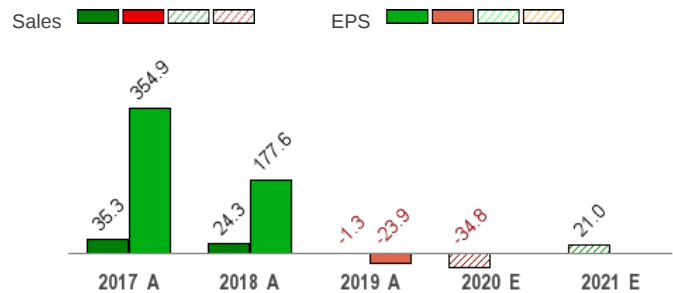
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$58.88 - \$18.48
20 Day Average Volume (sh)	2,218,535
Market Cap	\$4.8 B
YTD Price Change	-41.7%
Beta	1.72
Dividend / Div Yld	\$1.40 / 4.7%
Industry	Oil and Gas - Refining and Marketing
Zacks Industry Rank	Top 30% (77 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	20.5%
Last Sales Surprise	-10.3%
EPS F1 Est- 4 week change	-630.0%
Expected Report Date	08/06/2020
Earnings ESP	-4.9%
P/E TTM	6.1
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	3,381 E	3,634 E	3,508 E	13,781 E
2020	3,401 A	2,190 E	2,737 E	2,851 E	11,393 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	\$0.11 E	\$0.69 E	\$0.97 E	\$0.45 E	\$1.50 E
2020	\$0.53 A	-\$0.56 E	-\$0.02 E	-\$0.07 E	-\$0.37 E
2019	\$0.54 A	\$2.18 A	\$1.68 A	\$0.48 A	\$4.90 A

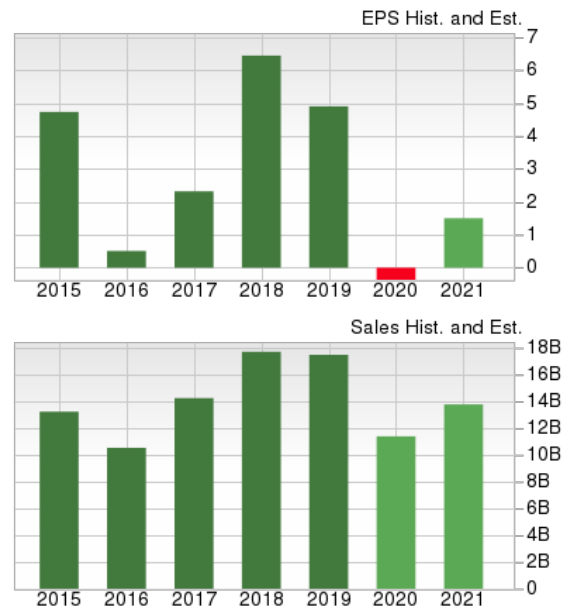
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/24/2020. The reports text is as of 06/25/2020.

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.



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 28, 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

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 lockdown 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 countrywide lockdown 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 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.

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

Last Earnings Report

HollyFrontier Q1 Earnings Top on Robust Product Sales

HollyFrontier Corp. reported first-quarter 2020 net income per share (excluding special items) of 53 cents per share, beating the Zacks Consensus Estimate of 44 cents. This outperformance stemmed from improved product sales at the Lubricants and Specialty Products segment and higher-than-expected refinery throughput.

However, the bottom fell marginally from the year-ago adjusted earnings of 54 cents due to weaker refinery gross margins.

Revenues of \$3.4 billion fell shy of the Zacks Consensus Estimate of \$3.79 billion and also dropped 12.8% from the first-quarter 2019 sales of \$3.9 billion.

Quarter Ending 03/2020

Report Date	May 07, 2020
Sales Surprise	-10.28%
EPS Surprise	20.45%
Quarterly EPS	0.53
Annual EPS (TTM)	4.87

Segmental Information

Refining: Adjusted EBITDA from the Refining segment, the main contributor to HollyFrontier's earnings, was \$175.9 million, down 9% from the year-ago quarterly income of \$193.4 million. This downside is due to lower product margins and increased laid-in crude costs resulting in a consolidated refinery gross margin of \$11.32 per produced barrel. The figure reflects an 11% decline from \$12.74 in the first quarter of 2019.

Total refined product sales volumes averaged 452,290 barrels per day (bpd), up 6.9% from 423,030 bpd in the year-ago quarter. Moreover, throughput rose from 433,720 bpd in the year-ago quarter to 471,560 bpd. The same also outpaced the Zacks Consensus Estimate of 464,000 bpd. Further, capacity utilization was 95.5%, up from 87.6% in first-quarter 2019.

Lubricants and Specialty Products: The segment recorded an EBITDA worth \$32.3 million in the quarter under review, skyrocketing 188% from \$11.2 million in the year-ago period. Moreover, product sales averaged 36,800 bpd, up from the prior-year level of 34,770 bpd. Further, throughput improved 9.8% year over year to 21,750 bpd in the reported quarter from 19,800 in the prior-year period.

HEP: This unit includes HollyFrontier's 57% interest in Holly Energy Partners L.P., a publicly-traded master limited partnership that owns, operates, develops and acquires pipelines and other midstream assets. Segmental EBITDA was \$64.4 million, down 31% from \$93.5 million in first-quarter 2019.

Balance Sheet

U.S. refiner HollyFrontier's total capital expenditure was \$83.7 million in the first quarter. As of Mar 31, 2020, the company had approximately \$909 million in cash and cash equivalents and \$2.5 billion in long-term debt, representing a debt-to-capitalization of 29%.

The company paid out \$57.2 million in dividends during the quarter and bought back shares worth \$61.1 million.

Recent News

HollyFrontier's Cheyenne Refinery to Adapt to Diesel Unit

On **Jun 1**, HollyFrontier announced that its Cheyenne Refinery will shift from refining petroleum to producing renewable diesel fuel processed from soybean oil. This conversion to renewable diesel production will induce termination of HollyFrontier's petroleum refining operation and a cutback in workforce at the Cheyenne refinery.

Further, the company plans to construct a pre-treatment unit (PTU) for both its Cheyenne and Artesia diesel refinery units. With this transition, the company hopes to produce more than 200 million gallons of renewable diesel every year with the Cheyenne refinery producing nearly half that amount.

HollyFrontier's decision follows the rise in demand for renewable diesel and other lower carbon fuels. The company is grabbing a decent market share on the back of changing consumer tastes and adequate aid obtained from federal and state government-sponsored stimulus packages. This paradigm shift will spawn a huge scope for HollyFrontier to infuse capital for organic growth, which in turn, will boost its profit margins as well as fortify its presence in helping environmentally-friendly projects.

The Cheyenne facility, which has functioned as a petroleum refinery for 86 years, anticipates completing the transformation in the first quarter of 2022 and expects generating an internal rate of 20-30% return. The conversion process is expected to cost about \$125-\$175 million. Also, HollyFrontier plans to invest approximately \$650-\$750 million in its renewables business.

Valuation

HollyFrontier shares are down 40.5% in the year-to-date period and 22.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 39.1% and 35.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 31.4% and 37.4%, respectively.

The S&P 500 index is down 4.3% in the year-to-date but up 6.9% in the past year, respectively.

The stock is currently trading at 4.08X trailing 12-month EV/EBITDA, which compares to 7.04X for the Zacks sub-industry, 3.98X for the Zacks sector and 11.3X 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 5.34X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$31 price target reflects 44.27X 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	4.08	7.04	3.98	11.3
	5-Year High	13.66	16.48	10.45	12.85
	5-Year Low	2.62	4.31	3.03	8.25
	5-Year Median	5.34	7.37	6.5	10.83
P/E F12M	Current	44.23	41.05	49.38	21.88
	5-Year High	57.89	105.37	71.1	22.11
	5-Year Low	4.81	8.02	11.27	15.23
	5-Year Median	11.07	11.32	18.52	17.49
P/S F12M	Current	0.36	0.25	0.73	3.42
	5-Year High	0.86	0.37	1.46	3.44
	5-Year Low	0.18	0.17	0.58	2.53
	5-Year Median	0.48	0.29	0.99	3.02

As of 06/24/2020

Industry Analysis Zacks Industry Rank: Top 30% (77 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Chevron Corporation (CVX)	Neutral	2
Delek US Holdings, Inc. (DK)	Neutral	3
Marathon Petroleum Corporation (MPC)	Neutral	3
PBF Energy Inc. (PBF)	Neutral	3
Phillips 66 (PSX)	Neutral	2
Royal Dutch Shell PLC (RDS.A)	Neutral	2
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)	3	-	-	3	2	3
VGM Score	B	-	-	C	B	C
Market Cap	4.79 B	1.28 B	21.05 B	23.56 B	30.56 B	23.65 B
# of Analysts	8	6	14	9	9	9
Dividend Yield	4.73%	0.00%	1.99%	6.40%	5.14%	6.76%
Value Score	A	-	-	D	B	C
Cash/Price	0.17	0.18	0.07	0.07	0.04	0.06
EV/EBITDA	3.39	4.68	12.43	6.71	6.68	5.28
PEG Ratio	NA	5.19	2.85	NA	5.19	NA
Price/Book (P/B)	0.78	1.11	2.87	0.75	1.29	1.20
Price/Cash Flow (P/CF)	3.22	4.26	11.32	3.38	6.19	5.14
P/E (F1)	NA	19.81	20.46	NA	27.12	NA
Price/Sales (P/S)	0.28	0.23	2.19	0.20	0.29	0.22
Earnings Yield	-1.25%	-1.25%	4.57%	-5.74%	3.69%	-2.74%
Debt/Equity	0.46	0.95	0.77	1.02	0.45	0.54
Cash Flow (\$/share)	9.20	4.65	7.01	10.70	11.30	11.28
Growth Score	B	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	26.05%	9.39%	10.84%	7.22%	15.26%	-4.81%
Proj. EPS Growth (F1/F0)	-107.45%	-68.33%	-10.79%	-142.19%	-67.94%	-127.84%
Curr. Cash Flow Growth	-5.96%	2.05%	5.46%	13.40%	-27.54%	-11.67%
Hist. Cash Flow Growth (3-5 yrs)	10.80%	10.33%	8.55%	12.38%	0.90%	-2.48%
Current Ratio	1.92	1.26	1.29	1.16	1.11	1.31
Debt/Capital	31.66%	51.24%	45.14%	51.24%	31.20%	34.94%
Net Margin	1.26%	0.35%	10.53%	-5.48%	0.35%	0.41%
Return on Equity	12.69%	9.54%	16.06%	7.88%	14.90%	10.51%
Sales/Assets	1.43	1.52	0.55	1.27	1.87	2.07
Proj. Sales Growth (F1/F0)	-34.84%	-20.47%	-2.70%	-28.60%	-29.48%	-32.42%
Momentum Score	F	-	-	A	B	F
Daily Price Chg	-6.04%	-6.17%	-3.07%	-6.62%	-6.31%	-7.39%
1 Week Price Chg	2.74%	2.37%	0.92%	4.29%	-3.31%	-0.99%
4 Week Price Chg	-10.53%	-8.13%	-3.03%	-0.96%	-14.36%	-17.33%
12 Week Price Chg	36.13%	36.13%	22.03%	73.60%	41.37%	41.51%
52 Week Price Chg	-33.41%	-33.17%	-8.53%	-33.17%	-24.55%	-31.69%
20 Day Average Volume	2,218,535	746,180	2,805,937	9,520,232	3,607,996	4,721,729
(F1) EPS Est 1 week change	-94.67%	0.00%	0.00%	0.05%	18.76%	4.29%
(F1) EPS Est 4 week change	-630.00%	0.00%	0.00%	7.99%	21.31%	-0.85%
(F1) EPS Est 12 week change	-117.94%	-56.34%	-12.33%	-203.25%	-50.49%	-140.57%
(Q1) EPS Est Mthly Chg	-35.95%	-0.65%	0.00%	-1.29%	1.99%	-22.26%

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	B
Momentum Score	F
VGM Score	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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