

HollyFrontier Corp. (HFC)

\$32.36 (As of 02/27/20)

Price Target (6-12 Months): **\$27.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/17/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: C

Summary

HollyFrontier Corporation's shares continue to struggle, reflecting lingering issues pertaining to the company. The stock is down 35.9% over the trailing 12-month period, underperforming the Zacks Oil Refining & Marketing industry's loss of 23.7%. HollyFrontier have been bogged down by cost escalation associated with maintenance downtime and unplanned refinery shutdowns. Moreover, the downstream operator'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 various sources. As it is, the U.S. refiner is impacted by the lack of significant projects for its midstream segment – Holly Energy Partners. Given these headwinds, HollyFrontier is seen as a risky bet that ordinary investors should exit.

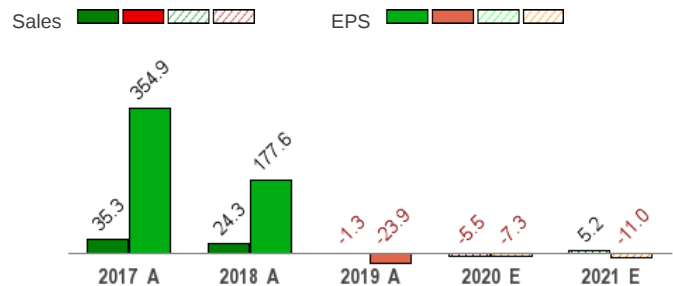
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$58.88 - \$31.49
20 Day Average Volume (sh)	2,156,312
Market Cap	\$5.2 B
YTD Price Change	-36.2%
Beta	1.43
Dividend / Div Yld	\$1.40 / 4.3%
Industry	Oil and Gas - Refining and Marketing
Zacks Industry Rank	Bottom 25% (191 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-4.0%
Last Sales Surprise	14.8%
EPS F1 Est- 4 week change	-3.6%
Expected Report Date	05/07/2020
Earnings ESP	2.5%
P/E TTM	6.6
P/E F1	7.1
PEG F1	0.7
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,401 E	4,813 E	4,911 E	4,539 E	17,383 E
2020	3,850 E	4,325 E	4,477 E	4,093 E	16,530 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	\$0.50 E	\$1.66 E	\$1.82 E	\$0.94 E	\$4.04 E
2020	\$0.62 E	\$1.50 E	\$1.60 E	\$0.86 E	\$4.54 E
2019	\$0.54 A	\$2.18 A	\$1.68 A	\$0.48 A	\$4.90 A

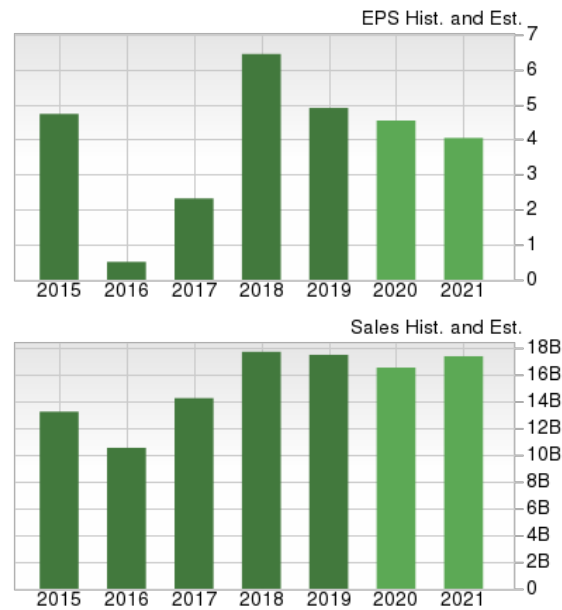
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/27/2020. The reports text is as of 02/28/2020.

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 Sell:

- ▼ HollyFrontier is bearing the brunt of increasing expenses, which might put a dent in its earnings. In 2019, the company's total operating costs rose 8% year-over-year to \$1.4 billion.
 - ▼ 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.
 - ▼ Moreover, planned refinery maintenance activities across HollyFrontier's refining system might also hamper the company's revenues in the near term. In fact, the company expects some lingering maintenance from last year's turnaround season, which might squeeze throughput.
 - ▼ 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.
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HollyFrontier's lubricating oils business is facing headwinds on the back of oversupply.

Risks

- 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. Moreover, crack spreads (a measure of refining profitability) have widened across the Southwest and the Rockies regions. The improving crack spread is likely to drive both revenues and earnings of HollyFrontier.
 - 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.
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Last Earnings Report

HollyFrontier Q4 Earnings Miss on Weak Refining Margins

HollyFrontier Corp. reported fourth-quarter 2019 net income per share (excluding special items) of 48 cents per share, missing the Zacks Consensus Estimate of 50 cents. This weak performance stemmed from lower contribution from the Refining segment. Moreover, the bottom line is 78.6% lower than the year-ago adjusted earnings of \$2.25.

However, revenues of \$4.38 billion surpassed the Zacks Consensus Estimate of \$3.81 billion and also inched up 0.85% from the fourth-quarter 2018 sales of \$4.34 billion owing to improved product sales at the Lubricants and Specialty Products segment.

Quarter Ending **12/2019**

Report Date	Feb 20, 2020
Sales Surprise	14.77%
EPS Surprise	-4.00%
Quarterly EPS	0.48
Annual EPS (TTM)	4.88

Segmental Information

Refining: Adjusted EBITDA from the Refining segment — the main contributor to HollyFrontier's earnings — was \$171.56 million, plunging 71% from the year-ago quarterly income of \$583.4 million due to lower product margins, which declined 39% to \$13.58 per barrel.

Total refined product sales volumes averaged 418,800 barrels per day (bpd), down 5.6% from 443,670 bpd in the year-ago quarter. Moreover, throughput decreased from 440,550 bpd in the year-ago quarter to 408,730 bpd. The same also missed the Zacks Consensus Estimate of 413,000 bpd. Further, capacity utilization was 83.3%, down from 88.7% in fourth-quarter 2018.

Lubricants and Specialty Products: The segment recorded an EBITDA of \$34.6 million in the quarter under review against a negative EBITDA of \$3.5 million in the year-ago period, courtesy of the contributions from the company's Sonneborn finished lubricants business. Moreover, product sales averaged 34,392 bpd, up from the prior-year level of 27,550 bpd. Further, throughput rose 26.4% year over year to 21,229 bpd in the reported quarter from 16,790 in the prior year.

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 \$87.8 million, down 2.33% from \$89.9 million in fourth-quarter 2018.

Balance Sheet

U.S. refiner HollyFrontier's total capital expenditure was \$98.7 million in the fourth quarter. As of Dec 31, 2019, the company had approximately \$885.2 million in cash and cash equivalents and \$2.4 billion in long-term debt, representing a debt-to-capitalization ratio of 27.4%.

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

Recent News

HollyFrontier Declares Dividend

On **Feb 12**, HollyFrontier declared quarterly dividend of 35 cents per share, payable on Mar 5, to the shareholders of record as of Feb 24.

Valuation

HollyFrontier shares are down 25.8% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and sector are down 18% and 19.2%, respectively.

The S&P 500 index is up 14.6% in the past year.

The stock is currently trading at 4.51X trailing 12-month EV/EBITDA, which compares to 6.65X for the Zacks sub-industry, 4.67X for the Zacks sector and 12X 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 5.82X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$27 price target reflects 5.91X 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	4.51	6.65	4.67	12
	5-Year High	13.66	16.39	10.26	12.87
	5-Year Low	3.31	4.44	4.59	8.48
	5-Year Median	5.82	7.45	6.52	10.78
P/E F12M	Current	7.08	8.27	11.97	17.81
	5-Year High	46.05	15.83	32.4	19.34
	5-Year Low	6.45	8.27	11.27	15.18
	5-Year Median	10.85	11.01	18.56	17.47
P/S F12M	Current	0.31	0.24	0.73	3.28
	5-Year High	0.86	0.37	1.45	3.43
	5-Year Low	0.31	0.24	0.67	2.54
	5-Year Median	0.49	0.29	0.99	3

As of 02/27/2020

Industry Analysis Zacks Industry Rank: Bottom 25% (191 out of 254)



Top Peers

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

Industry Comparison Industry: Oil And Gas - Refining And Marketing				Industry Peers		
	HFC Underperform	X Industry	S&P 500	MPC Neutral	PSX Underperform	VLO Neutral
VGM Score	B	-	-	A	A	A
Market Cap	5.24 B	1.86 B	21.35 B	31.12 B	32.63 B	27.18 B
# of Analysts	8	5	13	10	9	9
Dividend Yield	4.33%	0.68%	2.02%	4.84%	4.85%	5.92%
Value Score	B	-	-	A	A	A
Cash/Price	0.13	0.09	0.04	0.04	0.06	0.06
EV/EBITDA	3.44	5.99	12.70	8.40	6.93	5.05
PEG Ratio	0.69	1.15	1.84	0.77	1.15	0.92
Price/Book (P/B)	0.80	1.21	2.92	0.74	1.21	1.21
Price/Cash Flow (P/CF)	3.52	5.37	11.89	4.50	6.57	5.89
P/E (F1)	7.05	8.46	16.90	7.18	7.70	7.37
Price/Sales (P/S)	0.30	0.25	2.39	0.25	0.30	0.25
Earnings Yield	14.03%	11.09%	5.90%	13.94%	12.99%	13.57%
Debt/Equity	0.38	0.60	0.70	0.71	0.41	0.41
Cash Flow (\$/share)	9.20	3.93	6.94	10.65	11.30	11.24
Growth Score	C	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	21.60%	9.16%	10.85%	4.56%	12.36%	-5.36%
Proj. EPS Growth (F1/F0)	-7.32%	18.55%	6.79%	35.16%	19.88%	57.60%
Curr. Cash Flow Growth	-5.96%	2.05%	5.92%	12.86%	-27.54%	-11.67%
Hist. Cash Flow Growth (3-5 yrs)	10.80%	11.06%	8.38%	12.28%	0.90%	-14.34%
Current Ratio	1.96	1.29	1.23	1.25	1.24	1.44
Debt/Capital	27.39%	38.31%	42.53%	42.25%	29.22%	28.94%
Net Margin	4.42%	1.93%	11.57%	2.11%	2.81%	2.24%
Return on Equity	12.55%	10.33%	16.80%	7.42%	13.51%	10.27%
Sales/Assets	1.44	1.63	0.54	1.29	1.88	2.07
Proj. Sales Growth (F1/F0)	-5.47%	4.30%	4.07%	6.31%	1.01%	8.33%
Momentum Score	C	-	-	B	C	D
Daily Price Chg	-10.06%	-4.74%	-3.99%	-8.30%	-7.56%	-7.71%
1 Week Price Chg	-0.67%	-1.05%	-0.94%	1.37%	-0.25%	0.31%
4 Week Price Chg	-28.39%	-21.23%	-9.83%	-11.81%	-22.98%	-24.95%
12 Week Price Chg	-36.24%	-29.67%	-6.79%	-19.92%	-34.02%	-28.82%
52 Week Price Chg	-36.80%	-22.82%	2.79%	-22.71%	-22.94%	-18.85%
20 Day Average Volume	2,156,312	518,114	2,169,477	7,121,866	3,293,803	3,352,949
(F1) EPS Est 1 week change	-2.26%	0.00%	0.00%	-0.71%	-0.28%	-0.82%
(F1) EPS Est 4 week change	-3.61%	-2.83%	-0.09%	-4.66%	-2.83%	-3.89%
(F1) EPS Est 12 week change	-13.25%	-7.27%	-0.24%	-10.22%	-9.34%	-7.27%
(Q1) EPS Est Mthly Chg	-7.92%	-8.33%	-0.72%	-23.60%	-19.61%	-26.88%

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
Growth Score	C
Momentum Score	C
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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