

## Valero Energy Corp. (VLO)

**\$83.23** (As of 02/19/20)

Price Target (6-12 Months): **\$89.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 01/01/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: F

### Summary

Among all independent refiners, Valero offers the most diversified refinery base with a capacity of 3.1 million barrels per day in its 15 refineries located across the United States, Canada and the Caribbean. Importantly, the company is strongly committed on returning capital to shareholders through both dividend payments and share repurchases. The company recently reported better-than-expected results in the fourth quarter, thanks to lower cost of sales and processing of a record number of Canadian low-cost heavy crude. This was, however, partially offset by lower refining margin and higher corn prices. Notably, rising corn prices have been hurting the company's Ethanol segment. Also, the business scenario for refiners has been challenging. In fact, the company's profit from refining segment declined 22% in 2019.

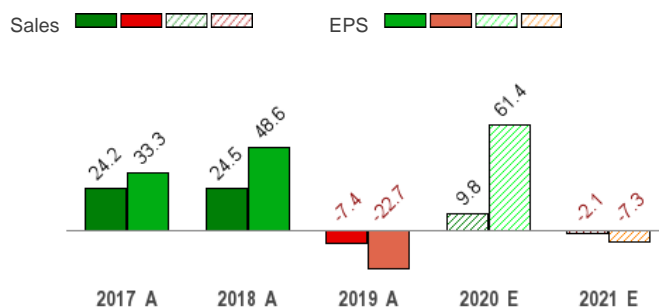
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$101.99 - \$69.44
20 Day Average Volume (sh)	3,086,670
Market Cap	\$34.2 B
YTD Price Change	-11.1%
Beta	1.54
Dividend / Div Yld	\$3.92 / 4.7%
Industry	<a href="#">Oil and Gas - Refining and Marketing</a>
Zacks Industry Rank	Bottom 27% (186 out of 255)

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



Last EPS Surprise	33.1%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	-2.7%
Expected Report Date	04/23/2020
Earnings ESP	-19.7%
P/E TTM	15.2
P/E F1	9.1
PEG F1	1.1
P/S TTM	0.3

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	30,791 E	31,862 E	32,383 E	30,215 E	116,512 E
2020	25,644 E	28,723 E	30,947 E	32,382 E	118,983 E
2019	24,263 A	28,933 A	27,249 A	27,879 A	108,324 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.65 E	\$2.68 E	\$2.66 E	\$1.38 E	\$8.53 E
2020	\$1.13 E	\$2.87 E	\$2.84 E	\$2.01 E	\$9.20 E
2019	\$0.34 A	\$1.51 A	\$1.48 A	\$2.13 A	\$5.70 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 02/19/2020. The reports text is as of 02/20/2020.

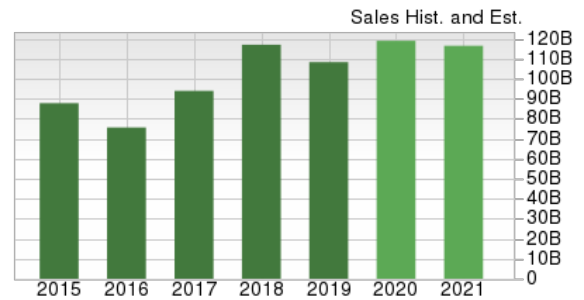
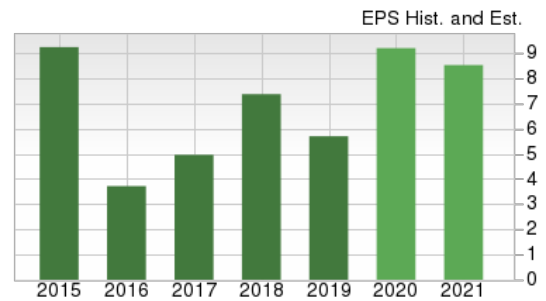
## Overview

San Antonio, TX-based Valero Energy Corporation is the largest independent refiner and marketer of petroleum products in the United States. The company was founded in 1980. It has a refining capacity of 3.1 million barrels per day across 15 refineries located throughout the United States, Canada and the United Kingdom.

Moreover, Valero is a leading ethanol producer with 14 ethanol plants in the Midwest that have a combined capacity of 1.73 billion gallons per year. The products of the company are sold in the markets of the United States, Canada, the United Kingdom, Ireland and Latin America. The company's brand names are carried by around 7,000 outlets.

The company organizes its business through three reportable segments, namely, Refining, Ethanol and Renewable Diesel.

- **Refining:** The Refining segment was responsible for 84% of the total margin in 2019. It includes refining operations, wholesale marketing, product supply and distribution, and transportation operations. This segment is segregated geographically into the Gulf Coast, mid-continent, West Coast and Northeast regions.
- **Ethanol:** The Ethanol segment includes sales of internally produced ethanol and distillers grains. Operations of this segment are geographically located in the Central Plains region of the United States. This segment was responsible for less than 1% of the total margin in 2019.
- **Renewable Diesel:** In the first quarter of 2019, the company created this segment. The Renewable Diesel segment incorporates the operations of a consolidated joint venture, Diamond Green Diesel. Notably, the renewable diesel plant is North America's largest biomass-based diesel plant and it is located in Norco, LA. The segment provided 15% of the total margin in 2019, which was supported by the expansion of the Diamond Green Diesel plant.



---

## Reasons To Buy:

- ▲ Among all the independent refiners, Valero offers the most diversified refinery base with a capacity of 3.1 million barrels per day in its 15 refineries located throughout the United States, Canada and the Caribbean. More importantly, Valero is best placed to reap profits from solid refining margins, mainly owing to its strategic refinery structure that enables it to use cheaper oil for more than half of its needs.
- ▲ Valero has been returning funds to its shareholders on a regular basis. Through fourth-quarter 2019, the company returned \$591 million to its shareholders, of which \$222 million was used to repurchase around 2.3 million shares of common stock and \$369 million was paid as dividends to its shareholders. It recently increased quarterly dividend from 90 cents per share to 98 cents. Notably, Valero reiterated its capital expenditure view for 2020 at \$2.5 billion. Around 40% of the budget will be used for growth projects, while the rest will be directed toward sustaining the business.
- ▲ Majority of the company's refining plants are located at the Gulf coast area from where there is an easy access to the export facilities. This Gulf coast presence helped Valero expand its export volumes over the last few years and gain from high distillate margins. Moreover, Valero is poised to benefit from the new standard set by International Maritime Organization (IMO). Per the standard, effective since January 2020, the proportion of sulfur in marine fuel will decline to 0.5% from the current 3.5%, thereby boosting demand for distillate fuel. Valero, being a producer of a significant amount of distillate fuel, is expected to capitalize on this.
- ▲ The company is projected to benefit from the rising export volumes of refined petroleum products. This is because Valero has majority of its refining facilities in the U.S. Gulf Coast region. Notably, the company entered into long-term accords to utilize three new refined product terminals in Mexico. The leading refining player will be able to expand its product supply chain once the Guadalajara, Monterrey and Altamira terminals commence operations in 2021.

Among all the independent refiners, Valero offers the most diversified refinery base.

---

### Reasons To Sell:

- ▼ In a bid to lower greenhouse gas emissions, Energy Information Administration (EPA) set a Renewable Fuel Standard. Per the new mandate, refiners need to add year-over-year higher volumes of advanced biofuels to gasoline through 2019. Following this, Valero will be compelled to divert cash to ensure regulatory compliance, which can limit profitability. This is also likely to lead to the refiner incurring higher biofuel blending costs this year.
- ▼ With the phase-one trade agreement solving a few concerns for the United States, there are many more to be addressed, which raise the possibility of an escalation of the trade war. The threat to economic growth might hurt the company's refining businesses.
- ▼ Being one of the largest refiners in North America with refining contributing the most among all operating segments, weak refined petroleum products' demand is anticipated to drain the company's profit and contract total throughput volumes.
- ▼ The business scenario for refiners has been challenging. Notably, the company's profit from refining segment declined 22% in 2019. Moreover, rising corn prices have been hurting the company's Ethanol segment.

The rising corn prices are a concern for the company.

## Last Earnings Report

### Valero Energy Earnings and Revenues Beat Estimates in Q4

Valero Energy posted fourth-quarter 2019 income of \$2.13 per share, significantly beating the Zacks Consensus Estimate of \$1.60. However, quarterly earnings decreased from the year-ago figure of \$2.19 per share.

Total revenues fell from \$28,730 million in the prior-year period to \$27,879 million in the quarter under review. However, the top line surpassed the Zacks Consensus Estimate of \$27,586 million.

The better-than-expected results can be attributed to lower cost of sales and processing of a record number of Canadian low-cost heavy crude. Higher ethanol prices also supported the results. This was partially offset by lower refining margin and higher corn prices.

Full-year 2019 revenues amounted to \$108.3 billion, down from the 2018 figure of \$117 billion.

### Segmental Performance

Operating income from the Refining segment declined to \$1,419 million from \$1,468 million in the year-ago quarter. However, the figure beat the Zacks Consensus Estimate of \$1,263 million due to wider sour crude oil differentials. Moreover, weakness in high-sulfur residual feedstocks fuelled its performance. Notably, the company processed record 180,000 barrels per day (BPD) of Canadian heavy crude oil through 2019. Also, it exported 343,000 BPD of gasoline and distillate on an average, in 2019.

In the Ethanol segment, the company reported operating income of \$36 million against a loss of \$27 million in the year-ago quarter. Moreover, the reported figure beat the Zacks Consensus Estimate of a profit of \$14.9 million. The upside can be attributed to higher ethanol prices, partially offset by increased corn prices.

Valero created a new segment during the first quarter, namely Renewable Diesel, which incorporated the operations of a consolidated joint venture, Diamond Green Diesel. Gross operating income from the segment was \$541 million compared with \$101 million in the year-ago period. The figure surpassed the Zacks Consensus Estimate of \$83 million. The increase was attributed to rise in renewable diesel sales volumes.

### Expenses & Operating Income

General and administrative expenses in the Corporate and other segment totaled \$243 million compared with the prior-year level of \$230 million. Total cost of sales fell to \$25,876 million in the quarter from the year-ago period's \$27,184 million.

Quarterly operating income in the quarter rose to \$1,739 million from \$1,299 million in the year-ago period. However, full-year 2019 operating income fell to \$3,836 million from year-ago level of \$4,572 million.

### Throughput Volumes

During the quarter, refining throughput volumes were 3,018 thousand barrels per day (MBPD), marginally up from the prior-year quarter's 3,013 MBPD. Refinery throughput capacity utilization in the reported quarter was 96%.

In terms of feedstock composition, sweet crude, medium/light sour crude and heavy sour crude accounted for 55.5%, 8% and 10.9%, respectively, of its total volume. The remaining volumes came from residuals, other feedstock blendstocks and others. The Gulf Coast contributed approximately 58.4% to total throughput volume. Mid-Continent, North Atlantic and West Coast regions accounted for 15.3%, 16.9% and 9.4%, respectively, of the total throughput volume.

### Throughput Margins

Refining margin per barrel of throughput decreased to \$10.90 from the year-ago level of \$11.03. Refining operating expense per barrel was \$3.93 compared with \$3.96 in the year-ago quarter. Depreciation and amortization expenses increased to \$1.89 a barrel from \$1.76 in the prior-year quarter.

### Share Repurchase

Valero returned \$591 million to its shareholders, of which \$222 million was used to repurchase around 2.3 million shares of common stock and \$369 million was paid as dividends to its shareholders.

### Capital Expenditure & Balance Sheet

Fourth-quarter capital expenditure totaled \$722 million, of which \$445 million was allotted for sustaining the business.

At the end of the quarter, the company had cash and cash equivalents of \$2.6 billion, and a total debt of \$9.7 billion. Its debt-to-capitalization ratio was 26%.

### Outlook

Valero reiterated its capital expenditure view for 2020 at \$2.5 billion. Around 40% of the budget will be used for growth projects, while the rest will be directed toward sustaining the business. The Pasadena terminal, and St. Charles alkylation and Pembroke cogeneration units are expected to come online in 2020. Moreover, the company's Diamond Green Diesel expansion and Port Arthur Coker projects are scheduled to be completed in 2021 and 2022, respectively.

Quarter Ending **12/2019**

Report Date	Jan 30, 2020
Sales Surprise	1.06%
EPS Surprise	33.13%
Quarterly EPS	2.13
Annual EPS (TTM)	5.46

## Valuation

Valero shares are up 2.8% in the trailing 12-month period. Over the past year, the Zacks sub-industry and the Zacks Oils-Energy sector are down 15.9% and 14.5%, respectively.

The S&P 500 index is up 23.8% in the past year.

The stock is currently trading at 9.14X forward 12-month Price/Earnings (P/E), which compares to 9.23X for the Zacks sub-industry, 13.43X for the Zacks sector and 19.39X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.12X and as low as 7.08X, with a 5-year median of 10.52X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$89 price target reflects 9.78X F12M earnings.

The table below shows summary valuation data for VLO.

Valuation Multiples - VLO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.14	9.23	13.43	19.39
	5-Year High	19.12	15.83	32.4	19.39
	5-Year Low	7.08	8.59	11.27	15.18
	5-Year Median	10.52	11.01	18.56	17.47
EV/EBITDA TTM	Current	7.5	6.65	4.72	12.31
	5-Year High	15.45	16.37	10.26	12.85
	5-Year Low	3.49	4.44	4.59	8.47
	5-Year Median	6.98	7.43	6.54	10.7
P/B TTM	Current	1.58	1.04	1.13	4.68
	5-Year High	2.34	1.83	1.6	4.68
	5-Year Low	1.02	0.95	1.03	2.85
	5-Year Median	1.49	1.27	1.31	3.62

As of 02/19/2020

## Industry Analysis Zacks Industry Rank: Bottom 27% (186 out of 255)



## 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
BP p.l.c. (BP)	Underperform
HollyFrontier Corporation (HFC)	Underperform
Phillips 66 (PSX)	Underperform

Industry Comparison Industry: Oil And Gas - Refining And Marketing				Industry Peers		
	VLO Neutral	X Industry	S&P 500	MPC Neutral	PBF Neutral	PSX Underperform
<b>VGM Score</b>	<b>A</b>	-	-	<b>A</b>	<b>A</b>	<b>A</b>
Market Cap	34.18 B	2.21 B	24.59 B	37.46 B	3.28 B	39.26 B
# of Analysts	9	5	13	10	14	9
Dividend Yield	4.71%	0.52%	1.78%	4.02%	4.38%	4.07%
<b>Value Score</b>	<b>A</b>	-	-	<b>A</b>	<b>A</b>	<b>A</b>
Cash/Price	0.06	0.09	0.04	0.04	0.15	0.06
EV/EBITDA	6.09	7.14	14.21	9.28	6.68	8.01
PEG Ratio	1.14	1.40	2.09	0.79	0.84	1.40
Price/Book (P/B)	1.58	1.45	3.28	0.89	0.92	1.45
Price/Cash Flow (P/CF)	14.16	8.79	13.59	5.42	27.31	7.82
P/E (F1)	9.14	10.65	19.17	8.58	5.95	9.09
Price/Sales (P/S)	0.32	0.32	2.68	0.30	0.13	0.36
Earnings Yield	11.05%	9.33%	5.18%	11.65%	16.81%	11.00%
Debt/Equity	0.42	0.60	0.70	0.71	0.65	0.41
Cash Flow (\$/share)	5.88	3.34	6.93	10.65	1.00	11.30
<b>Growth Score</b>	<b>B</b>	-	-	<b>A</b>	<b>A</b>	<b>B</b>
Hist. EPS Growth (3-5 yrs)	-5.36%	7.46%	10.84%	4.56%	-11.97%	12.36%
Proj. EPS Growth (F1/F0)	61.36%	19.44%	7.00%	36.13%	411.27%	20.77%
Curr. Cash Flow Growth	-53.81%	2.05%	7.81%	12.86%	-84.31%	-27.54%
Hist. Cash Flow Growth (3-5 yrs)	-14.34%	5.73%	8.25%	12.28%	-28.06%	0.90%
Current Ratio	1.40	1.29	1.24	1.25	1.56	1.29
Debt/Capital	29.81%	38.51%	42.37%	42.25%	39.46%	29.03%
Net Margin	2.24%	1.93%	11.69%	2.11%	1.30%	2.81%
Return on Equity	10.36%	9.34%	16.86%	7.42%	3.19%	13.52%
Sales/Assets	2.09	1.64	0.55	1.29	2.74	1.88
Proj. Sales Growth (F1/F0)	9.84%	4.30%	4.05%	6.76%	10.37%	1.01%
<b>Momentum Score</b>	<b>F</b>	-	-	<b>C</b>	<b>A</b>	<b>A</b>
Daily Price Chg	0.86%	0.13%	0.38%	2.16%	0.40%	0.41%
1 Week Price Chg	-1.67%	0.08%	1.65%	6.66%	6.52%	-0.95%
4 Week Price Chg	-7.13%	-7.41%	0.86%	3.07%	-7.41%	-13.25%
12 Week Price Chg	-14.28%	-11.14%	4.56%	-6.15%	-14.12%	-22.96%
52 Week Price Chg	-2.58%	-9.33%	14.15%	-11.40%	-23.48%	-9.33%
20 Day Average Volume	3,086,670	413,597	1,989,235	6,091,837	2,115,454	2,880,251
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.37%	3.29%	0.00%
(F1) EPS Est 4 week change	-2.75%	-2.97%	-0.03%	-5.64%	6.47%	-2.97%
(F1) EPS Est 12 week change	-4.42%	-6.84%	-0.21%	-10.25%	1.91%	-8.57%
(Q1) EPS Est Mthly Chg	-21.79%	-7.69%	-0.40%	-23.88%	-18.97%	-18.14%

## 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>F</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.

## Disclosures

**This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page.** Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.