Valero Energy Corp.

4Q23 earnings recap: reliability viewed through a geopolitical lens

Reiterate Rating: NEUTRAL | PO: 156.00 USD | Price: 137.91 USD

29 January 2024

Equity

Key Changes

(US$)	Previous	Current
2024E DPS	4.20	4.28

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Reliability matters (but so do geopolitics)

VLO kicked off earnings season with a beat albeit versus lowered expectations. But strong utilization is a potent reminder that the greatest attribute of any refining business is to ensure when things are good, system reliability gives you the opportunity to take advantage. In our view, 4Q23 earnings underlines VLO reliability advantage. While the fundamental margin outlook had tilted lower as seasonal distillate strength subsides, we see the offset by paper market positioning eyeing an increasingly volatile geopolitical landscape leaves us neither inclined to chase refiners higher nor to press any short position until there is certainty in either direction. With that said, if screened through portfolio resilience and 'pure play' operating leverage, modest upside positions VLO as a lower risk placeholder to trade the options. Neutral, PO unchanged at $156 /sh.

4Q23 beat driven by wide Syncrude differentials

Valero's adj. EPS of $3.55 beat consensus of $2.94, noting Street expectations had fallen from ~$3.90 in mid-Dec after a tough late quarter tape. Cashflow (ex w/c) of $1.86bn was within sight of consensus ($1.8bn), easily covering capex ($560mm). Underlying FcF of $1.2bn was before a working capital draw of $631mm. VLO returned $1.34bn to shareholders ($966mm buyback), lifting its FY payout to 60% of underlying FcF vs a target of 40%-50% albeit leaning slightly its b/sheet to maintain its commitment to shareholder returns. Still, with net debt / cap of 18% vs a target of 20% - 30%, management has headroom to this sustain cash returns above its target range.

Strong execution and a model of consistency

Valero continues to be a model of consistency – strong operational reliability, tightly defined capex and a continued willingness to exceed its cash returns framework (40-50% cash flow). We update our estimates for latest guidance. In 2024, we see VLO generating $8.0bn of cash flow and $6.0bn of free cash flow (13% FCF yield), while maintaining a strong b/sheet. Overall, we expect another year of exceeding cash priorities, noting that returning 100% of FCF would imply a ~75% payout. While we see 2024 above mid-cycle, our analysis suggests VLO can generate sustainable mid-cycle cashflow of $6.4bn at a normalized $11.50 / bbl GC321 Brent crack spread, supports normalized FCF of ~$4.4bn and a normalized FcF yield of 10%. This remains the basis of our $156/sh DCF based price objective.

Estimates (Dec) (US$)	2022A	2023A	2024E	2025E	2026E
EPS	29.26	24.98	15.37	13.61	13.04
GAAP EPS	30.98	25.93	16.67	15.30	15.01
EPS Change (YoY)	NM	-14.6%	-38.5%	-11.5%	-4.2%
Consensus EPS (Bloomberg)			14.37	12.50	9.98
DPS	3.92	4.08	4.28	4.41	4.54
Valuation (Dec)					
P/E	4.7x	5.5x	9.0x	10.1x	10.6x
GAAP P/E	4.5x	5.3x	8.3x	9.0x	9.2x
Dividend Yield	2.8%	3.0%	3.1%	3.2%	3.3%
EV / EBITDA*	3.9x	4.9x	7.0x	7.7x	8.0x
Free Cash Flow Yield*	17.6%	13.1%	10.9%	9.7%	10.0%

* For full definitions of *iQmethod*SM measures, see page 7.

Stock Data

Price	137.91 USD
Price Objective	156.00 USD
Date Established	5-Jan-2024
Investment Opinion	C-2-7
52-Week Range	104.18 USD - 152.20 USD
Mrkt Val (mn) / Shares Out (mn)	56,129 USD / 407.0
Free Float	99.5%
Average Daily Value (mn)	451.37 USD
BofA Ticker / Exchange	VLO / NYS
Bloomberg / Reuters	VLO US / VLO.N
ROE (2024E)	19.2%
Net Dbt to Eqty (Dec-2023A)	22.3%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

GC – Gulf Coast
RVP – Reid Vapor Pressure
LCFS – Low Carbon Fuel Standard
DGD – Diamond Green Diesel
RIN – Renewable Identification Number

Refer to important disclosures on page 8 to 10. Analyst Certification on page 6. Price Objective Basis/Risk on page 6.
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Timestamp: 29 January 2024 09:31AM EST

iQprofile[SM] Valero Energy Corp.

iQ**method* [SM] **– Bus Performance

(US$ Millions)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Return on Capital Employed	28.4%	20.4%	12.6%	11.0%	10.2%
Return on Equity	55.1%	35.7%	19.2%	16.0%	14.5%
Operating Margin	9.0%	8.2%	4.8%	4.7%	4.6%
Free Cash Flow	9,863	7,357	6,141	5,422	5,603

iQ**method* [SM] **– Quality of Earnings

(US$ Millions)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Cash Realization Ratio	1.1x	1.0x	1.6x	1.8x	1.8x
Asset Replacement Ratio	1.1x	0.7x	0.7x	0.7x	0.6x
Tax Rate	21.8%	22.2%	23.0%	22.9%	22.9%
Net Debt-to-Equity Ratio	26.6%	22.3%	16.8%	11.3%	5.0%
Interest Cover	28.1x	20.1x	13.8x	12.2x	11.5x

Income Statement Data (Dec)

(US$ Millions)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Sales	176,383	144,766	157,665	143,412	137,224
% Change	54.8%	-17.9%	8.9%	-9.0%	-4.3%
Gross Profit	25,613	21,679	10,315	9,382	8,977
% Change	127.4%	-15.4%	-52.4%	-9.0%	-4.3%
EBITDA	18,239	14,580	10,315	9,382	8,977
% Change	302.2%	-20.1%	-29.3%	-9.0%	-4.3%
Net Interest & Other Income	(383)	(125)	(549)	(549)	(549)
Net Income (Adjusted)	**11,579**	**8,835**	**5,010**	**4,220**	**3,863**
% Change	**NM**	**-23.7%**	**-43.3%**	**-15.8%**	**-8.5%**

Free Cash Flow Data (Dec)

(US$ Millions)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Net Income from Cont Operations (GAAP)	12,613	9,508	5,862	5,265	5,034
Depreciation & Amortization	2,451	2,701	2,705	2,679	2,655
Change in Working Capital	(2,805)	(2,880)	0	0	0
Deferred Taxation Charge	0	54	0	0	0
Other Adjustments, Net	315	(163)	(426)	(522)	(586)
Capital Expenditure	(2,711)	(1,864)	(2,000)	(2,000)	(1,500)
Free Cash Flow	**9,863**	**7,357**	**6,141**	**5,422**	**5,603**
% Change	**135.9%**	**-25.4%**	**-16.5%**	**-11.7%**	**3.3%**
Share / Issue Repurchase	(4,577)	(4,824)	(2,678)	(2,043)	0
Cost of Dividends Paid	(1,562)	(1,467)	(1,416)	(1,383)	(1,361)
Change in Debt	(75)	(276)	0	0	0

Balance Sheet Data (Dec)

(US$ Millions)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
Cash & Equivalents	4,862	5,424	6,853	8,359	10,168
Trade Receivables	11,919	12,566	12,566	12,566	12,566
Other Current Assets	7,352	8,231	8,231	8,231	8,231
Property, Plant & Equipment	30,978	30,096	29,391	28,711	27,556
Other Non-Current Assets	5,871	6,345	6,345	6,345	6,345
Total Assets	**60,982**	**62,662**	**63,386**	**64,212**	**64,866**
Short-Term Debt	1,109	167	167	167	167
Other Current Liabilities	16,352	16,635	16,635	16,635	16,635
Long-Term Debt	10,526	11,524	11,524	11,524	11,524
Other Non-Current Liabilities	7,527	6,279	6,279	6,279	6,279
Total Liabilities	**35,514**	**34,605**	**34,605**	**34,605**	**34,605**
Total Equity	**25,468**	**28,057**	**28,781**	**29,607**	**30,261**
Total Equity & Liabilities	**60,982**	**62,662**	**63,386**	**64,212**	**64,866**

* For full definitions of *iQmethod*[SM] measures, see page 7.

Company Sector

Oil Refining & Marketing

Company Description

Valero Energy Corp (VLO) is one of the largest independent petroleum refining and marketing companies in the United States. The company is based out of San Antonio, Texas, owns 13 refineries in the United States, Canada, and Europe, and has total throughput capacity of around 2.5 million barrels per day.

Investment Rationale

The basis of our Neutral Rating is limited upside to fair value under our current crack spread assumptions.

Stock Data

Average Daily Volume	3,272,904

Quarterly Earnings Estimates

	2023	2024
Q1	8.30A	2.72E
Q2	5.43A	4.92E
Q3	7.51A	5.01E
Q4	3.56A	2.73E

4Q23 Earnings review

Reliability matters (but so do geopolitics)

Earnings of the US refiners are notoriously volatile, a function of changing fuel specifications and seasonal supply / demand. Earnings also follow margin fluctuations especially during periods of greater macro volatility. With VLO kicking off earnings season with a strong beat albeit versus lowered expectations, it is a potent reminder that perhaps the greatest attribute of any refining business is to ensure that when things are good, system reliability makes sure you have the opportunity to take advantage. Conversely, when things are bad, maintaining low costs and balance sheet liquidity are critical to navigate downturns, especially when you are a 'pure play' refiner.

In our view, 4Q23 earnings underlines VLO optimum positioning within this framework – exploiting inevitable volatility, in this case the blow-out of Syncrude differentials versus benchmark margins in Canada, as production intended for Trans Mountain line-fill led instead to regional oversupply at the expense of price. Earnings also benefited from strong refinery throughput across its system, lifting volumes to the upper half of guidance. Looking forward, management has signaled 1Q24 as one of the highest planned maintenance periods in recent years. However, any focus that might have been on potential negative EPS revisions – or for that matter from softer late winter distillate margins – the outlook has arguably shifted to ongoing tensions in the Middle East and news late last week of potential Russian fuel disruptions, following the apparent Ukranian drone attack on its 240,000bpd Tuapse refinery on the Black Sea coast that is primarily for exports.

For now, we see the fundamental outlook for the US refining sector anchored on improved mid-cycle margins that we characterized as a 'Regional Golden Age', in reference to what we believe is an extended period of elevated earnings for the broader sector. On this basis, we continue to view sustainable mid cycle earnings of much greater consequence for absolute valuations defined on sustainable free cashflow, than periodic spikes in margins that have an imprecise magnitude, duration and physical risk to supply. With that said, a US refining system that has seen almost 10% of capacity shuttered or converted over the past four years means the new normal for the magnitude of seasonal volatility is still playing out.

Near term, a fundamental margin outlook that might ordinarily be tilted lower as seasonal distillate strength subsides may remain supported by paper market positioning eyeing the international geopolitical landscape. This leaves us neither inclined to chase refiners higher nor to press any short position until there is some investible certainty in either direction. With that said, if screened through portfolio resilience, and 'pure play' operational leverage, modest upside for VLO positions the shares as a relatively low risk placeholder to trade the options. Our rating is unchanged at Neutral, with our PO unchanged at $156 per share.

4Q23 Earnings highlights

Valero's adjusted EPS of $3.55 beat BofAe and consensus of $2.92 & $2.94 respectively, noting Street expectations had fallen from ~$3.90 in mid-Dec ahead of management's preliminary review after a tough December tape. Cashflow (ex w/c) was $1.86bn, within sight of consensus ($1.8bn) and easily covering capex ($560mm). Underlying free cash flow of $1.2bn was before a working capital draw of $631mm.

VLO returned $1.34bn to shareholders ($966mm buyback), lifting its FY payout to 60% of underlying free cashflow versus a target of 40%-50%. After the seasonal working capital build of free cashflow of $516mn means management used its balance sheet to maintain its strong commitment to shareholder returns. Still, with net debt / capitalization of 18% versus an official corporate target of 20% - 30%, management retains additional headroom to this sustain cash returns above its target range.

The table below compares actual 4Q23 results with our estimate and prior periods.

Exhibit 1: VLO Earnings Variance
Q/Q and Y/Y Comparison (all figures in $ millions, except per share)

	4Q23	4Q23	3Q23	Q/Q	4Q22	Y/Y
Refining	1,577	1,474	3,451	-57%	4,355	-66%
Ethanol	190	198	197	1%	69	187%
Renewable Diesel	81	76	123	-38%	261	-71%
Total Segment EBT	**1,848**	**1,749**	**3,771**	**-54%**	**4,685**	**-63%**
Items not allocated to segments						
Corporate & other unallocated items	(295)	(255)	(250)	-2%	(303)	16%
Income from Operations	**1,553**	**1,494**	**3,521**	**-58%**	**4,382**	**-66%**
Net Interest Expense	(149)	(145)	(149)	3%	(137)	-6%
Earnings Before Tax	**1,404**	**1,349**	**3,372**	**-60%**	**4,245**	**-68%**
Income Tax Expense	(331)	(313)	(813)	62%	(1,018)	69%
Tax rate	24%	23%	24%	-4%	24%	-3%
Income (loss) from continuing ops.	1,218	1,036	2,663	-61%	3,339	-69%
Add Income (loss) from disc' ops.	-	-	-		-	
Net Income (loss)	1,218	1,036	2,663	-61%	3,339	-69%
Less income attributable to NCI	16	28	41	-31%	119	-76%
Adjusted Net Income to VLO	**1,202**	**1,008**	**2,622**	**-62%**	**3,220**	**-69%**
Adjusted EPS	$3.56	$2.92	$7.51	-61%	$8.45	-65%

Source: BofA Global Research estimates, Company Reports

BofA GLOBAL RESEARCH

Looking forward, management highlighted that there is no compelling incentive to store summer gasoline today – implying that currently, plentiful gasoline storage is predominantly winter grade. Accordingly, management sees potential for the US refining industry to rebalance low RVP supplies ahead of peak demand – setting up a favorable backdrop for summer grade gasoline components that we believe remains structurally tight. For now, our Neutral view on the US Refiners continues to recognize the nearer term outlook for diesel, which is likely to collapse seasonally in February / March.

Additional observations from 4Q23 earnings include:

- **Strong operational reliability** is a hallmark of VLO and is on display again in 4Q23. Average company wide margins of $12.89 / bbl beat BofAe / consensus of $12.18 / $11.91). Throughput was in the upper half of guidance (2,995 vs 2,930-3,040 mmbd) from implied refinery utilization of 95%, driving a strong overall refining quarter ($1.6bn vs $1.47bn BofAe).

- Versus our estimate, the beat was almost entirely from stronger Atlantic Basin margins - $20.36 / bbl (versus our est. of $15.05 / bbl). By our assessment, this was entirely from wider Syncrude pricing, which represents most of VLO's Quebec refinery runs and ~50% of its Atlantic basin segment. For two out of the three months in 4Q23, syncrude traded at a $10 - $20 discount to Brent versus a more normal 'premium'. This lifted VLO's Atlantic Basin margin capture of 127% of its benchmark margin compared with a long-term average of 103%. Recall that egress in Canada tightened with volumes growing ahead of the startup of TMX, which secured its route variation earlier in January with expected end of quarter start.

- Other regions look in line, with the US Gulf Coast at 60% of earnings ($11.69 / bbl vs $11.61 / bbl expected) albeit with sequential margin capture improvement (83% vs 74% q/q) on seasonal tailwinds from butane blending. All regions with the exception of the Atlantic Basin were at the top of throughput guidance (noting the Atlantic region was at 452,000 bpd vs 470,000 – 490,000 bpd).

- Throughput guidance for 1Q24 suggests heavy planned maintenance. VLO is guiding to a range of 2,605mm b/d - 2.715mm b/d, the lowest since 1Q15 (outside of COVID in 2020/21). Similarly, VLO's largest refining region on the US GC is guided to 1,520mm b/d - 1,570mm b/d, which would be the lowest since 1Q15.

Note VLO's guidance supports comments made by Delek EVP of Operations at a recent 3rd party conference earlier in the week, suggesting that Spring Turnarounds could be one of the heaviest on record. Looking at third party data, we also see some consistency in expectations noting that in absolute terms, 2024 planned maintenance across the US looks similar to 2019. However, a critical difference is that since then, some 1.3mm b/d of refining capacity has been shut-in, so that in percentage terms, implied capacity offline is higher.

- Across VLO's other divisions, Diamond Green Diesel earnings dropped to $84mn, the lowest quarterly rate since 1Q19, with margins of just $0.65 / gal as indicator margins collapsed along with LCFS credit prices, which now stand at $69. Looking towards 1Q24, benchmark margins don't look much better with LCFS prices at $60 – although lower feedstock prices could help stabilize earnings.

- Lastly, Valero set capex for 2024 consistent with long-standing guidance of ~$2.0bn, with $1.6bn allocated to sustaining capital including turnaround and 50% of the balance allocated to its Sustainable Aviation Fuels, partial conversion at DGD. Note this is the 5th year that management has held spending at around these levels.

Valero continues to be a model of consistency – strong operational reliability, tightly defined capex and a continued willingness to exceed its cash returns framework (40-50% cash flow). In 2024, we see VLO generating $8.0bn of cash flow and $6.0bn of free cash flow (13% FCF yield), while maintaining a strong b/sheet. Overall, we expect another year of exceeding cash priorities, noting that returning 100% of FCF would imply a ~75% payout. While we see 2024 above mid-cycle, our analysis suggests VLO can generate sustainable mid-cycle cashflow of $6.4bn at a normalized $11.50 / bbl GC321 Brent crack spread, supports normalized FCF of ~$4.4bn and a normalized FcF yield of 10%. This remains the basis of our $156 DCF-based price objective.

The table below shows our updated EPS estimates reflecting latest management guidance for 1Q24 with throughput guided to 2,605 to 3,015 mbd – implying the lowest levels since 1Q15 outside of COVID. With heavy maintenance in 1Q24, we expect less Gulf Coast maintenance later in the year, and take up 4Q24E EPS modestly. Note that for now we have held 1Q24 margins unchanged at $12.50/bbl ex RIN. However, note that if current margins held along with the current strip, both 1Q24 and 2024 FY margins are risked higher vs our current assumptions.

Exhibit 2: VLO Earnings Estimates

1Q24 lowered on throughput guidance / 4Q24 raised on higher expected tput guidance

	Q1	Q2	Q3	Q4	FY	BBG Consensus
2022A	2.31	11.41	7.19	8.45	29.26	28.17
2023E	8.30	5.43	7.51	3.56	24.98	24.16
Previous	8.30	5.43	7.51	2.92	24.31	n/a
2024E	2.72	4.92	5.01	2.73	15.37	14.37
Previous	3.11	4.98	5.07	2.61	15.77	n/a
2025E	1.91	4.26	5.09	2.39	13.62	12.50
Previous	1.94	4.23	5.04	2.41	13.59	n/a

Source: BofA Global Research estimates, Bloomberg

BofA GLOBAL RESEARCH

Price objective basis & risk

Valero Energy Corp. (VLO)

Our price objective of $156/share is based on an assessed DCF value by treating the assets as annuities after deducting maintenance capital. We use a long term Gulf Coast 321 crack spread in our benchmark assumptions of $11.50/bbl, a long-term crude differential of $3.5 and a WACC of 9.25%, a zero terminal growth rate, and a 22% corporate tax rate.

Downside risks to our price objective are: (1) the company is heavily weighted toward sour crude. As light-heavy crude differentials narrow, the benefits of a more complex refinery will diminish, which may delay return on investment, (2) the company is vulnerable to refining margin correction. If demand for refined products is weaker than expected, or if oil prices remain robust, this could pressure margins, (3) the inability to capture the price environment due to cost pressures (opex, capex, and taxation), (4) tax reform is not passed.

Upside risks to our price objective are: (1) higher-than-expected crack spreads, and (2) stronger-than-expected gasoline demand.

Analyst Certification

I, Doug Leggate, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Large Cap Oils Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	APA Corporation	APA	APA US	Doug Leggate
	Canadian Natural Resources	YCNQ	CNQ CN	Doug Leggate
	Canadian Natural Resources	CNQ	CNQ US	Doug Leggate
	Chesapeake Energy	CHK	CHK US	Doug Leggate
	Chevron Corp.	CVX	CVX US	Doug Leggate
	ConocoPhillips	COP	COP US	Doug Leggate
	Coterra Energy Inc	CTRA	CTRA US	Doug Leggate
	EQT Corporation	EQT	EQT US	John H. Abbott
	ExxonMobil Corp.	XOM	XOM US	Doug Leggate
	Granite Ridge Resources, Inc	GRNT	GRNT US	John H. Abbott
	Imperial Oil	IMO	IMO US	Doug Leggate
	Imperial Oil	YIMO	IMO CN	Doug Leggate
	Kimbell Royalty Partners	KRP	KRP US	John H. Abbott
	Occidental Petroleum Corp.	OXY	OXY US	Doug Leggate
	Ovintiv Inc	YOVV	OVV CN	Doug Leggate
	Ovintiv Inc	OVV	OVV US	Doug Leggate
	Range Resources Corp	RRC	RRC US	Doug Leggate
	Suncor	YSU	SU CN	Doug Leggate
	Suncor	SU	SU US	Doug Leggate
NEUTRAL				
	California Resources Corporation	CRC	CRC US	Kalei Akamine
	CNX Resources	CNX	CNX US	John H. Abbott
	Delek US Holdings, Inc.	DK	DK US	Doug Leggate
	Devon Energy Corp.	DVN	DVN US	Doug Leggate
	EOG Resources	EOG	EOG US	Doug Leggate
	Gulfport Energy Corporation	GPOR	GPOR US	Doug Leggate
	HF Sinclair Corporation	DINO	DINO US	Doug Leggate
	Marathon Petroleum Company	MPC	MPC US	Doug Leggate
	PBF Energy	PBF	PBF US	Doug Leggate
	Permian Resources Corporation	PR	PR US	Doug Leggate
	Phillips 66	PSX	PSX US	Doug Leggate

US - Large Cap Oils Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Valero Energy Corp.	VLO	VLO US	Doug Leggate
UNDERPERFORM				
	Chord Energy Corporation	CHRD	CHRD US	John H. Abbott
	Crescent Energy Company	CRGY	CRGY US	John H. Abbott
	Diamondback Energy Inc.	FANG	FANG US	Doug Leggate
	Marathon Oil Corp.	MRO	MRO US	Doug Leggate
	National Fuel Gas Company	NFG	NFG US	John H. Abbott
	Northern Oil and Gas	NOG	NOG US	John H. Abbott
	Vital Energy Inc	VTLE	VTLE US	John H. Abbott
RSTR				
	Pioneer Natural Resources	PXD	PXD US	Doug Leggate

*iQ*method^{SM} Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

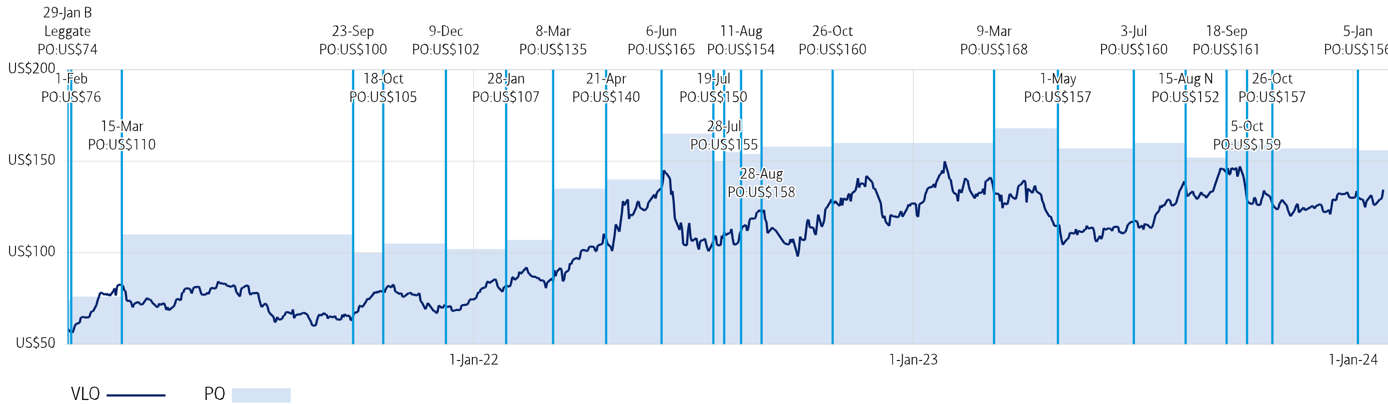
iQmethod ^{SM} is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

Disclosures

Important Disclosures

Valero (VLO) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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