

HF Sinclair Corporation

4Q23 First Look: EPS beat on HEP tax: Trend towards better ops on track

Maintain Rating: NEUTRAL | PO: 62.00 USD | Price: 58.05 USD

Headline beat, helped by tax post HEP

Adjusted EPS of \$0.87/sh beat BofAe and Consensus of \$0.75. Versus our estimates the beat looks to be below the operating line on lower effective tax (14.7% vs 22.5% est.) associated with bonus depreciation on the buy in of HEP and lower net interest expense. At the operating level Refining was light (\$146mm vs \$155mm) with strong refining margins in the West (\$16.95/bbl vs \$14.66/bbl est) offset by higher systemwide opex (\$8.80/bbl vs \$7.70/bbl est.). Renewables reported a loss of \$(22mm) vs our b/even expectations of (~\$3mm) mainly on lower LCFS prices. Cash flow (after w/c) of \$231mm compared to BofA and Street at \$248mm / \$255mm, but is after a larger working capital build (not called out in the release). Net debt increased from \$1.39bn (vs \$955mm) mainly on the \$270mm buy in of Holly Energy Partners (HEP). Overall, solid operating results but with headline EPS helped by tax.

Refining turnaround in progress; less maint. In 2024

DINO's refining system operated fairly well with runs at the high end of guidance (614 vs 590-620mbd). Systemwide gross refining margin of \$13.88 / bbl beat our est. of \$13.23 / bbl, led by the West Coast, but weaker in the Mid-Con lagged (\$9.97/bbl vs \$11.08/bbl). Higher opex than expected looks driven by the West Coast (\$10.19/bbl vs \$8.32/bbl). Looking forward, we expect DINO's operating results to improve after a heavy year of maintenance in 2023 (all plants): 2024 features planned work at just 3 locations (Puget Sound WA, 1Q, Parco WY, 2Q / 3Q, and El Dorado KS, 4Q) so that 2024 may still be a step behind progress towards 'mid-cycle' targeted crude runs of 640,000 b/d (567,000 in 2023, 634,000 2Q22-4Q22). For renewables RD's lagging performance looks mainly a function of a weak macro led by low LCFS prices - RD posted negative pre-tax earnings of \$22mm, which stepped back into the red after two positive quarters. Lubes earnings of \$38mm was in line with our estimate.

Remain Neutral; watch capital allocation

Share repurchases continue to trend at an accelerated if uneven cadence, with \$170mm in 4Q, bringing FY23 to \$1.0bn (note \$1.4bn 2Q22- 4Q22), as large negotiated transactions with REH Co. are lumpy by nature. Since closing the acquisition of Sinclair in 2Q22, DINO has repurchased approximately 60% of REH shares through similar deals – and with one of the two Sinclair board seats set to retire we believe we may be closer to a normal capital allocation plan. At strip we see DINO generating \$1.3bn of net income, of which DINO aims to pay out 50% suggesting ~\$750mm of cash returns implying a \$400mm buyback; but with cash flow and free cash flow of \$2.1bn and \$1.2bn respectively we see room for share buy backs to remain above FcF (note our estimates suggest DINO's prospective FCF yield is ~10% in 2024), particularly given DINO's cash balance (\$1.3bn) and HEP consolidation out of the way. On balance we see DINO as a derivative play on a potential step change in West Coast margin trends, while avoiding direct exposure to any unfavorable regulatory changes. However, we retain a Neutral rating, in line with our broader sector view on near term margin risks associated with end of winter distillate trends.

21 February 2024

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Stock Data

Price	58.05 USD
Price Objective	62.00 USD
Date Established	5-Jan-2024
Investment Opinion	C-2-7
52-Week Range	37.12 USD - 62.20 USD
Mrkt Val (mn) / Shares Out (mn)	10,014 USD / 172.5
Free Float	79.6%
Average Daily Value (mn)	104.47 USD
BofA Ticker / Exchange	DINO / NYS
Bloomberg / Reuters	DINO US / DINO.N
ROE (2023E)	19.7%
Net Dbt to Eqty (Dec-2022A)	17.2%
ESGMeter™	High

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HEP – HollyEnergy Partners
RD – Renewable Diesel
LCFS – Low Carbon Fuel Standard

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Timestamp: 21 February 2024 10:27AM EST

3Q23 earnings summary

Exhibit 1: Earnings Variance: Actuals vs Estimate, quarter-over-quarter and year-over-year

Adjusted EPS of \$0.87 beat consensus and BofA of \$0.75

	4Q23E	4Q23E	3Q23E	Q/Q	4Q22E	Y/Y
Refining	146	155	890	-84%	762	-81%
HEP	75	65	67	12%	71	5%
Petro Canada	37	38	71	-48%	44	-16%
Other	2	12	15	-87%	17	-88%
Corporate	(15)	(20)	(12)	-23%	(21)	28%
Total Segment Operating Income	223	253	1,034	-78%	839	-73%
Total Corporate & Other	5	(38)	(11)	144%	(14)	136%
Pretax Income	228	214	1,023	-78%	825	-72%
Income Tax (Normalized)	(33)	(48)	(226)	85%	(191)	83%
Income from Continuing Operations (Adjusted)	195	166	797	-76%	634	-69%
Net Income to HFC (Adjusted)	195	166	797	-76%	634	-69%
Less: Noncontrolling Interest in Net Income	(30)	(24)	(36)	17%	(36)	18%
Net Income to HFC (Adjusted)	165	142	760	-78%	598	-72%
Reported EPS	0.87	0.75	4.26	-80%	2.92	-70%
Adjusted EPS	0.87	0.75	4.10	-79%	2.97	-71%
Shares	188	190	185	2%	201	-6%

Source: BofA Global Research

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Price objective basis & risk

HF Sinclair Corporation (DINO)

Our price objective of \$62/share is based on an assessed discounted cash flow (DCF) value, 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/barrel, a long-term crude differential of \$3.50, a weighted-average cost of capital (WACC) of 9.75%, a zero terminal growth rate, and a 22% corporate tax rate

The downside (upside) risks to our PO: (1) Revenue commitments for agreements with HEP could pose a risk in the event of downtime at refineries. (2) It is vulnerable to refining margin correction. If demand for refined products is weaker (stronger) than expected, or if oil prices remain robust (weak), this could pressure (lift) margins. (3) It could be unable to capture the price environment due to cost pressures (opex, capex, and taxation).

Upside risks are better margins than anticipated and outperformance at Holly Energy Partners (HEP), of which HFC owns 60%.

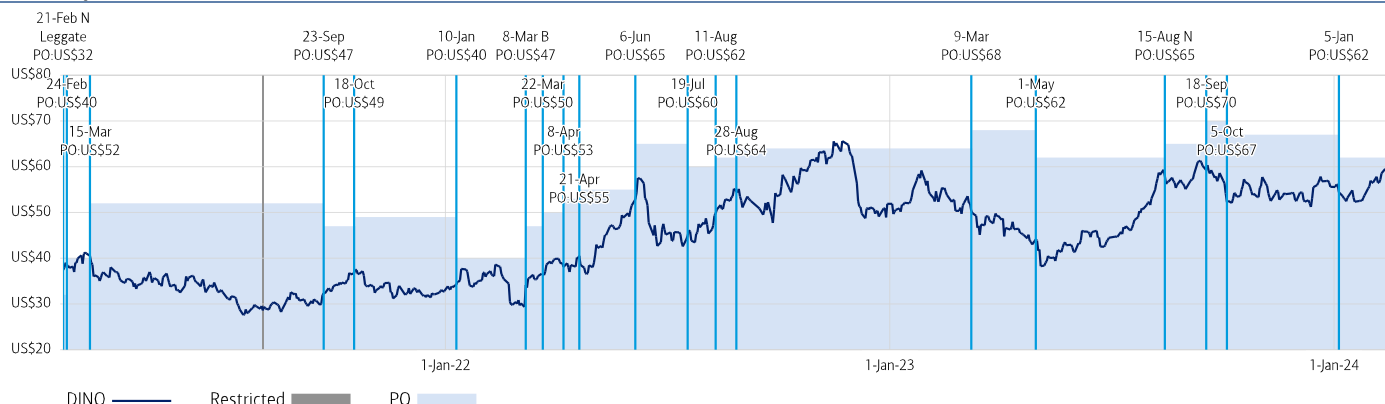
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HF Sinclair Corp. (DINO) Price Chart



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

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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)

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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