

Delek US Holdings, Inc.

4Q23 First look: miss on margin capture, but improved tputs a continued theme

Maintain Rating: NEUTRAL | PO: 30.00 USD | Price: 27.48 USD

Earnings miss Street on lower margin capture

Adjusted LPS of \$(1.48) missed consensus but came in on top of BofA's Street low - \$(1.28) / \$(1.59). Adjusted EBITDA of \$61mm beat our estimate of \$49mm, with the delta on better refining, \$(10mm) vs. \$(35mm) and logistics, \$99mm vs \$90mm, but partially offset by greater corporate expense, \$(38mm) vs \$(10mm). Reported cash flow of \$91mm includes a \$223mm benefit from working capital, leaving clean cash flow at negative \$(132mm). After cash for investing (\$69mm), capital returns (\$35mm), and debt repayment (\$38mm), Delek ended the quarter with \$818mm of cash, and \$78mm of net debt; compared to \$1.0mm net cash q/q.

Operations highlighted by record runs

Refining lost \$10mm of EBITDA, down from positive \$285mm q/q, highlighting the exposure Delek has to seasonal swings in refining cracks. At \$6.50/bbl, margins were within earshot of our \$6.86 est. At the refinery level, Tyler is the only plant that generated positive EBITDA, while the balance of the fleet was breakeven or in the red. Putting margins aside, Delek continued to turn-in improved operations, building on 3Q's record crude runs (306.4 mbd vs 305.9 mbd) that was the driver of the segment beat versus our estimate.

\$330mm capital budget affirms competitive '24 FCF yield

If sustaining capital is any indicator, DK should have a normal level of operational downtime this year, as its implied sustaining capital budget in refining converges with our long-term estimate of \$200mm. Of note, the only major turnaround scheduled in 2024 is Krotz Spring in 4Q. 2024 capital guidance is \$330mm, including \$220mm in refining, of which \$205mm is classified as 'sustaining capital.' Including the other business segments, capex is split \$255mm for sustaining and \$75mm for growth. On our forecast, we see DK generating \$540mm of operating cash flow, and \$214mm of free cash flow (12% yield), which screens competitive within the refining peer group.

Remain Neutral

Notable by its absence is an update on the 'value unlock strategy,' though with the pick up in deal flow in the energy sector, we imagine progress is being made behind the scenes. We continue to see a likely outcome where DKL expands through M&A, but it likely requires a retail sale at DK, and a sale of refinery gate assets back to DK, to find the necessary cash funding. Value should ultimately be a function of price, but we see the layered set-up with some complexity that could skew recognition. Beyond the idiosyncrasies of M&A, we view DK as a high beta call on refining. With the next move in margins lower due to post-winter diesel, we remain Neutral on DK shares.

27 February 2024

Equity

Doug Leggate
Research Analyst
BofA
+1 713 247 6013
doug.leggate@bofa.com

Kalei Akamine
Research Analyst
BofA
+1 713 247 7880
kalei.akamine@bofa.com

John H. Abbott
Research Analyst
BofA
+1 713 247 7144
john.h.abbott@bofa.com

Carlos Escalante
Research Analyst
BofA
+1 281 467 3361
carlos.escalante@bofa.com

Noah Hungness
Research Analyst
BofA
+1 832 341 5807
noah.hungness@bofa.com

Stock Data

Price	27.48 USD
Price Objective	30.00 USD
Date Established	5-Jan-2024
Investment Opinion	C-2-9
52-Week Range	19.39 USD - 31.22 USD
Mrkt Val (mn) / Shares Out (mn)	2,061 USD / 75.0
Free Float	97.4%
Average Daily Value (mn)	24.03 USD
BofA Ticker / Exchange	DK / NYS
Bloomberg / Reuters	DK US / DK.N
ROE (2023E)	21.0%
Net Dbt to Eqty (Dec-2022A)	206.9%
ESGMeter™	High

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Timestamp: 27 February 2024 10:47AM EST

Earnings variance

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

Exhibit 1: DK 4Q23 Earnings Estimates (\$ in Millions, except in per share data)

DK adjusted EPS of \$(1.48) missed consensus of \$(1.28) / BofA \$(1.48)

Segment Earnings	4Q23A	4Q23E	4Q22A	YOY	3Q23A	QOQ
Gross Margin	61	118	(22)	-378%	345	-82%
SG&A	(111)	(70)	(111)	0%	(2)	5162%
DD&A	(88)	(90)	(78)	12%	(91)	-4%
Income Tax Expense	17	28	(11)	NM	(31)	-155%
Other Income / Expenses	(44)	(91)	(5)	882%	(92)	-52%
Net Income (Adjusted)	(106)	(106)	(226)	NM	129	-183%
Special Items	72	-	180	NM	3	-
Net Income (Reported)	(88)	(88)	(46)	NM	132	-167%
Earnings (Adjusted)	(\$1.45)	(1.59)	(0.66)	NM	2.01	-172%
Earnings (Reported)	(\$2.57)	(1.59)	(3.24)	NM	1.97	-231%
Dividend	\$0.20	0.20	-		0.20	0%

Source: BofA Global Research

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Price objective basis & risk

Delek US Holdings, Inc. (DK)

Our price objective of \$30/share is based on an assessed 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/bbl, a long-term crude differential of \$4, a WACC of 10.0%, a zero terminal growth rate, and a 21% corporate tax rate.

The downside (upside) risks to our PO are as follows: (1) Revenue commitments for agreements with DKL 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) The inability to capture the price environment due to cost pressures (opex, capex, and taxation).

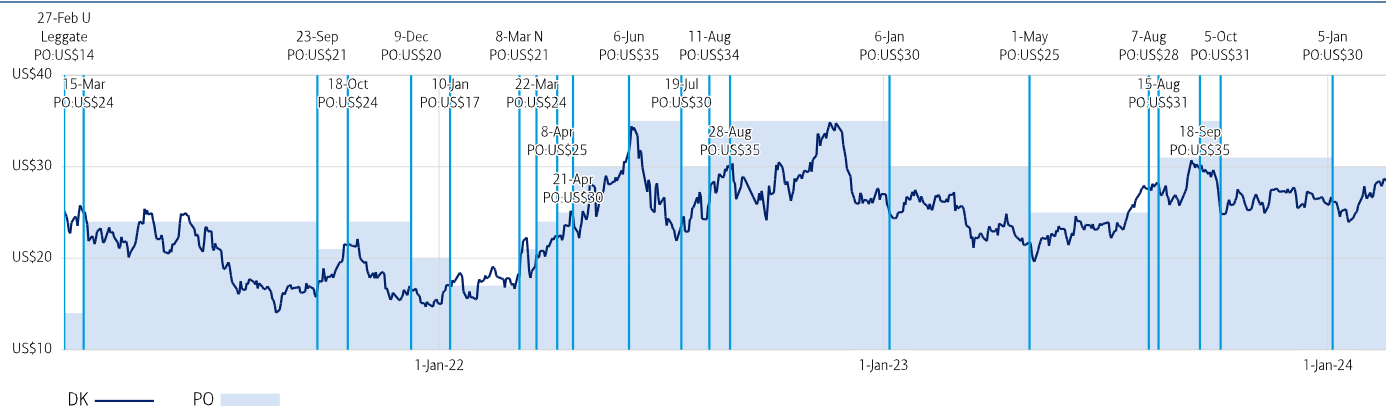
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Delek (DK) Price Chart



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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