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COMMODITIES

Refiner Stocks Rise as Harvey Disrupts Fuel Production

Historic storm has taken more than 2 million barrels a day offline, raising concerns about tight supplies

A factor adding to investors' optimism is that there have been few reports so far that plants in the storm's path have been damaged. Above, a worker walks in front of a refinery in Texas City, Texas, on Friday, ahead of Harvey. **PHOTO:** F. CARTER SMITH/BLOOMBERG NEWS

By Alison Sider

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Shares of companies that churn crude into fuel rallied Monday, as Tropical Storm Harvey inundated the Texas Gulf Coast with punishing rains.

Refining capacity totaling more than 2 million barrels a day has been taken offline, causing prices of gasoline and diesel fuel to jump on concerns that supplies will be tight with fewer refineries able to churn out fuel. Meanwhile, that reduced demand weighed on oil prices.

As a result, companies with plants that are still up and running—especially those with plants nowhere near the storm—stand to benefit from surging refining margins.

Shares of PBF Energy Inc., PBF **0.76%** ▲ which has refineries in Delaware, New Jersey, Ohio, California and Louisiana, climbed 8.3% to $22.71 on Monday. HollyFrontier Corp. HFC **0.14%** ▲ , largely concentrated in the Midwest, gained 6.5% to $31.47. Andeavor, with refineries in California, Utah, and Washington, added 3.2%.

Even companies that have been affected by Harvey rose, including Valero Energy Corp. VLO -0.34% ▼ , Marathon Petroleum Corp. MPC 1.06% ▲ and Phillips 66. PSX 0.21% ▲

Refiners tend to benefit from disruptions that lift fuel margins. In prior Gulf Coast hurricanes, refining shares have outperformed major indexes by as much as 19% in the days following landfall, according to Wells Fargo analyst Roger Read.

"Overall, each refining company will tend to benefit (at least from a margins, earnings, and stock price perspective) from periods of disruption like this, even if they have assets affected," Raymond James analysts wrote in research note Monday.

A factor adding to investors' optimism is that there have been few reports so far that plants in the storm's path have been damaged. Several refiners in Texas have stopped making fuel or slowed down, but many reported that the move was a precautionary measure, or a necessary response to logistical issues with pipelines and ports.

Valero has said its Corpus Christi-area refineries are relatively unscathed, and that it's looking at ways to restart them. Citgo Petroleum Corp. said Monday that it is "assessing the refinery" but didn't provide a restart date.

"At this stage, most of the refining outages are reported as preventive, with only a few comments on minor flooding. However, the slow moving nature of the storm will likely lead to these shutdowns continuing in coming days," analysts at Goldman Sachs wrote in a research note Monday. The analysts said another 850,000 barrels a day of refining capacity could be hobbled if the storm moves further east.

And the worst may not be over for plants in Houston, where the storm is expected to make landfall again on Wednesday, and flooding is expected to worsen. Flooding can ruin the electric pumps that send crude through a refinery's complex network of piping, and an influx of brackish water can lead to corrosion. Repairs for serious issues can take weeks or even months.

And the storm could move further east where it will encounter another large concentration of big refineries in places like Port Arthur, Texas, where the largest U.S. refinery is located.

"The extent of the devastation will not be realized for several more days," said Michael Tran, director of energy strategy at RBC Capital Markets.

That could mean that some plants are facing a significant amount of downtime.

“While it remains unclear for how long refining capacity will remain shuttered, we believe that some refineries, especially in the Houston area could take more than a month to return,” analysts at ESAI Energy Inc. said.

—Dan Molinski contributed to this article.

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