

Valero Energy Corp. (VLO): First Take: Refining Results Offset By Softer Renewable Diesel; Focus on Capital Returns and Macro Outlook

Valero Energy (VLO) reported adjusted 1Q25 EPS of \$0.89 versus GS/FactSet Consensus of \$0.45/\$0.41. Adjusted cash flow during the quarter was slightly better than our expectations, at ~\$862 mn versus GS at ~\$835 mn, excluding changes in working capital and JV member's share of DGD. On a segment basis, Refining was broadly in-line with GS estimates (~\$605 mn of operating income vs GS expectations at ~\$617 mn for 1Q25), Ethanol was in-line with our forecasts and Renewable Diesel came in below vs the GS model. On the earnings call, we expect key areas of focus to include (a) Refining margins in the near and medium term, (b) capital allocation priorities, with a focus on shareholder returns given the softer macro backdrop, (c) the outlook for renewable diesel margins given recent regulatory changes, and (d) broader commentary around SAF demand and economics at DGD in Port Arthur. Please see within for further details.

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Analysis

What were the key drivers of the quarterly variance? Adjusted operating income came in above our expectations at the West Coast and the Atlantic/East Coast, in-line at Mid-Continent, and below at the Gulf Coast. Total refining throughput volumes were below GS estimates, with weaker reported volumes at Gulf Coast, partially offset by stronger throughput at the West Coast Mid-Continent, and Atlantic/East Coast. On gross margins, the company was in-line with GS estimates at the Gulf Coast and Atlantic/East Coast, while above at the West Coast and slightly below at the Mid-Continent. Operating expenses were above at the West Coast, and in-line vs GS at Gulf Coast and the Mid-Con, and slightly lower at the Atlantic/East Coast. The Ethanol segment was in-line vs our operating income expectations. The Renewable Diesel segment reported adjusted operating income of ~(\$141 mn), which was below our expectations of ~(\$60 mn).

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Exhibit 1: VLO reported better than expected results on the West Coast and Atlantic/East Coast in Refining, offset by a miss at Renewable Diesel
VLO Variance Analysis

Valero Energy (VLO)			
	GS	Actual	Variance vs. GS
Adjusted EPS	\$0.45	\$0.89	\$0.44
Refining			
Gulf Coast			
Throughput (Total)	1,767,150	1,671,000	(96,150)
Gross Margin (\$/bbl)	\$9.65	\$9.56	(\$0.09)
OpX (\$/bbl)	\$4.60	\$4.79	\$0.19
Adjusted Operating Income (\$ mn)	\$435	\$341	(\$94)
Mid-Continent			
Throughput (Total)	431,650	453,000	21,350
Gross Margin (\$/bbl)	\$8.38	\$7.87	(\$0.51)
OpX (\$/bbl)	\$4.90	\$4.77	(\$0.13)
Adjusted Operating Income (\$ mn)	\$51	\$50	(\$1)
Atlantic/East Coast			
Throughput (Total)	474,700	492,000	17,300
Gross Margin (\$/bbl)	\$10.43	\$10.32	(\$0.11)
OpX (\$/bbl)	\$4.55	\$3.89	(\$0.66)
Adjusted Operating Income (\$ mn)	\$181	\$216	\$35
West Coast			
Throughput (Total)	207,400	212,000	4,600
Gross Margin (\$/bbl)	\$9.90	\$14.43	\$4.53
OpX (\$/bbl)	\$9.05	\$10.72	\$1.67
Adjusted Operating Income (\$ mn)	(\$49)	(\$2)	\$47
Total			
Throughput (Total)	2,880,900	2,828,000	(52,900)
Gross Margin (\$/bbl)	\$9.57	\$9.78	\$0.21
OpX (\$/bbl)	\$4.95	\$5.07	\$0.12
Adjusted Refining Operating Income	\$617	\$605	(\$12)
Ethanol			
Production (mn gallons/d)	4.44	4.47	0.03
Gross Margin (\$/gallon)	\$0.42	\$0.48	\$0.06
OpX (\$/gallon)	\$0.33	\$0.38	\$0.05
Adjusted Operating Income (\$ mn)	\$18	\$20	\$2
Renewable Diesel			
Adjusted Operating Income (\$ mn)	(\$60)	(\$141)	(\$81)

Source: Company data, Goldman Sachs Global Investment Research

What are key questions for the conference call?

1. For the quarter, VLO returned \$633 mn to shareholders comprised of buybacks and dividends. How should we be thinking about the cadence and magnitude of capital returns given the current margin environment coupled with the 40-50% cash flow payout commitment?
2. How should we think about the outlook for Refining margins through the remainder of 2025? What supply/demand dynamics are you seeing across operating regions?
3. Renewable Diesel came in lower than expected vs GS estimates for the quarter. How should we be thinking about RD profitability from here? What are the earnings implications following recently policy changes?

Valuation & Key Risks

We are Sell rated on VLO, and our 6-month, P/E (12.5x normalized EPS) and SOTP-based

price target is \$115. Key risks relate to refining margins, operational execution, and capital returns.

VLO	6m Price Target: \$115.00	Price: \$114.50	Upside: 0.4%		
Sell	GS Forecast				
Market cap: \$34.7bn Enterprise value: \$43.3bn 3m ADTV: \$464.0mn United States Americas Integrated Oil and Refiners M&A Rank: 3	Revenue (\$ mn)	12/24 129,881.0	12/25E 111,228.3	12/26E 115,394.6	12/27E 122,388.2
	EBITDA (\$ mn)	6,582.6	5,966.4	6,533.4	6,702.6
	EBIT (\$ mn)	3,804.6	3,100.7	3,755.9	3,907.3
	EPS (\$)	8.35	6.42	8.71	9.55
	P/E (X)	17.5	17.8	13.1	12.0
	EV/EBITDA (X)	8.3	7.4	6.3	5.9
	FCF yield (%)	9.7	4.9	9.2	10.1
	Dividend yield (%)	2.9	3.9	4.1	4.3
	Net debt/EBITDA (X)	0.7	0.9	0.9	0.8
	EPS (\$)	12/24 0.67	3/25E 0.45	6/25E 2.15	9/25E 2.38

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 23 Apr 2025 close.

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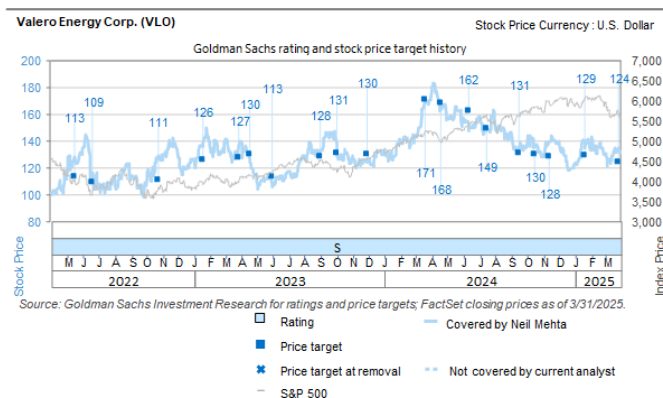
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