

# **HF Sinclair Corporation (DINO) Q1 2024 Earnings Call Transcript**

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HF Sinclair Corporation (DINO)

Q1 2024 Earnings Call Transcript

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Company Participants

Craig Biery - VP, IR

Tim Go - CEO

Atanas Atanasov - CFO

Steve Ledbetter - EVP of Commercial

Matt Joyce - SVP of Lubricants & Specialties

Conference Call Participants

Neil Mehta - Goldman Sachs

Ryan Todd - Piper Sandler

Manav Gupta - UBS

Paul Cheng - Scotiabank

Matthew Blair - TPH

Theresa Chen - Barclays

Jason Gabelman - TD Cowen

Presentation

Operator

Welcome to the HF Sinclair Corporation's First Quarter 2024 Conference Call and Webcast. Hosting the call today is Tim Go, Chief Executive Officer of HF Sinclair. He's joined by Atanas Atanasov, Chief Financial Officer; Steve Ledbetter, EVP of Commercial; Valerie Pompa, EVP of Operations; and Matt Joyce, SVP of Lubricants and Specialties.

At this time all participants have been placed in a listen-only mode and the floor will be open for your questions following the presentation. [Operator Instructions] Please note, that this conference is being recorded.

It is now my pleasure to turn the floor over to Craig Biery, Vice President, Investor Relations. Craig, you may begin.

Craig Biery

Thank you, Kathleen. Good morning, everyone, and welcome to HF Sinclair Corporation's first quarter 2024 earnings call. This morning, we issued a press release announcing results for the quarter ending March 31st, 2024. If you would like a copy of the earnings press release, you may find one on our website at hfsinclair.com.

Before we proceed with remarks, please note the Safe Harbor Disclosure Statement in today's press release. In summary, it says statements made regarding management expectations, judgments, or predictions are forward-looking statements. These statements are intended to be covered under the Safe Harbor provisions of Federal Security Laws. There are many factors that could cause results to differ from expectations, including those noted in our SEC filings. The call also may include discussion of non-GAAP measures. Please see the earnings press release for reconciliation to GAAP financial measures. Also, please note any time sensitive information provided on today's call may no longer be accurate at the time of any webcast replay or rereading of the transcript.

And with that, I'll turn the call over to Tim.

Tim Go

Good morning, everyone. We are pleased to report our first quarter 2024 results with you today. We continue to advance our corporate strategy focused on improving reliability, optimizing and integrating our portfolio, and generating strong cash flow to support our cash return strategy.

During the quarter, our business maintained safe and reliable operations, representing another quarter of successful turnaround and maintenance execution. We also returned $269 million in cash to shareholders during the quarter and today announced a new $1 billion share repurchase authorization, demonstrating our commitment to shareholder returns.

Now, let me cover our segment highlights before turning over to Atanas. In refining for the first quarter of 2024, we generated solid financials despite experiencing seasonal demand weakness for transportation fuels. We continue to focus on the operations excellence of our assets, resulting in improved reliability during the winter months, and successful execution of our planned maintenance. The scheduled turnaround at our Puget Sound refinery in the first quarter that continued into April was completed on time and on budget.

On the commercial side, we optimized our crude slate in order to capture the favorable differentials for heavy Canadian and [thin] (ph) crude oil. The year-over-year improvements in our throughput rates, increased heavy sour crude oil runs, and lower OpEx per barrel illustrate the progress we've made towards our reliability and optimization priorities.

In renewables for the first quarter of 2024, weakened RINs and LCFS credit prices resulted in a 16% decline in our renewable diesel indicator compared with the fourth quarter of 2023. Despite the economic headwinds in the quarter, we continue to focus on feedstock optimization by increasing low CI feedstocks and reducing our high cost feedstock inventory. In addition, we continue to improve our renewable diesel operations by improving reliability and decreasing operating costs.

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In the marketing segment in the first quarter of 2024, we saw strong value in our Sinclair branded sites as the marketing business continued to provide a consistent sales channel with margin uplift for our branded fuels. We continue to target 5% or more annual growth in the number of branded sites and are encouraged by what we are seeing in our store growth pipeline for 2024.

In lubricants and specialties, our focus on the sales mix optimization across our finished products portfolio resulted in another strong quarter, despite weakened base oil prices in the period. Our integrated business model continues to deliver stable margins in a volatile market, resulting in a consistently strong EBITDA run rate over the past three years.

In midstream, we are pleased with the progress of integrating the HEP assets into our consolidated portfolio, and will continue to look for opportunities to optimize our logistics business.

In the first quarter, we returned $269 million to shareholders through share repurchases and dividends. As of April 30, 2024, we have repurchased an additional $296 million from REH Co. in the second quarter, reducing our share count by over 7.9 million shares year to date. Since March 2022, we have repurchased over 53 million shares, or roughly 89% of the shares issued for our Sinclair transaction. This morning, we announced a new $1 billion share repurchase authorization, replacing our previous $1 billion authorization, of which, approximately $214 million remained, demonstrating our commitment to our long-term cash return strategy and long-term payout ratio, while maintaining a strong balance sheet and investment grade rating.

Today we also announced that our board of directors declared a regular quarterly dividend of $0.50 per share payable on June 5th, 2024 to holders of record on May 22nd, 2024. Looking forward, as we head into the summer driving season, we expect a favorable market environment. And combined with further progress against our corporate priorities, we believe we are well positioned to generate strong earnings and cash flow.

With that, let me turn the call over to Atanas.

Atanas Atanasov

Thank you, Tim, and good morning, everyone. Let's begin by reviewing HF Sinclair's financial highlights. Today we reported first quarter net income attributable to HS Sinclair shareholders of $315 million or $1.57 per diluted share. These results reflect special items that collectively increase net income by $172 million. Excluding these items, adjusted net income for the first quarter was $142 million or $0.71 per diluted share compared to adjusted net income of $394 million or $2 per diluted share for the same period in 2023.

Adjusted EBITDA for the first quarter was $399 million compared to $705 million in the first quarter of 2023. In our refining segment, first quarter adjusted EBITDA was $209 million compared to $537 million of refining segment EBITDA for the first quarter of 2023. This decrease was primarily driven by lower refinery gross margins in both the West and Mid-Con regions as a result of seasonal demand weakness for transportation fuels, partially offset by high refined product sales volumes.

Crude oil charge averaged 605,000 barrels per day for the first quarter compared to 499,000 barrels per day for the first quarter of 2023. This increase was primarily a result of decreased turnaround activities and improved reliability at our refineries compared to the same period last year.

In our renewable segment, we reported adjusted EBITDA of negative $19 million for the first quarter compared to $3 million for the first quarter of 2023, principally due to weakened RINs and LCFS credit prices in the first quarter of 2024. Total sales volumes were 61 million gallons for the first quarter, as compared to 46 million gallons for the first quarter of 2023. Our marketing segment reported EBITDA of $16 million for the first quarter compared to $6 million for the first quarter of 2023, driven primarily by stronger branded wholesale margins.

Total branded fuel sales volumes were at 321 million gallons for the first quarter, as compared to 328 million gallons for the first quarter of 2023. Our Lubricants and specialty segments reported EBITDA of $87 million for the first quarter, compared to EBITDA of $98 million for the first quarter of 2023. This decrease was largely driven by lower base oil prices in the first quarter of 2024. Our midstream segment reported EBITDA of $111 million in the first quarter compared to $93 million in the same period last year, primarily due to high revenues of tariff increase in the first quarter of 2024.

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Net cash provided by operations totaled $317 million, which included $70 million of turnaround spend in the quarter. HS Sinclair's capital expenditures totaled $89 million for the first quarter. As of March 31, 2024, HS Sinclair's total liquidity stood at approximately $3.7 billion, which includes cash balance of $1.2 billion, our undrawn $1.65 billion unsecured credit facility, and $806 million availability on the HEP credit facility.

During the quarter, we reduced our debt by approximately $62 million by paying down a portion of the debt outstanding under the HEP revolver. As of March 31, we had $2.7 billion of debt outstanding with a debt to cap ratio of 21% and net debt to cap ratio of 11%.

Let's go through some guidance items. With respect to capital spending for full year 2024, we still expect to spend approximately $800 million in sustaining capital, including turnaround and catalysts. In addition, we expect to spend $75 million in growth capital investments across our business segments. For the second quarter of 2024, we expect to run between 620,000 and 650,000 barrels per day of crude oil in our refining segment, which reflects plant turnarounds at our Puget Sound and Parco refineries during the period and improve reliability in operations across our fleet.

We're now ready to take questions from the audience. Operator?

Question-and-Answer Session

Operator

The floor is now open for questions. [Operator Instructions] Your first question comes from the line of Neil Mehta of Goldman Sachs. Please go ahead.

Neil Mehta

Yes, good morning, team. I had a couple non-refining questions, actually. The first one was on lubricants, really good quarter at the lube's business. I just love your perspective on whether that you think this represents a new normal. And then Tim, I think you've talked about the potential monetization of this business, but maybe more as a 2025 event. Just any latest thinking around that as well.

Tim Go

Yes, good morning, Neil. Thanks for the question. So, let me start and then I'll ask Matt to provide some more color on the lube's business, because we are very pleased and happy with how it's performing. It's a good example of our lube's business of our improved capability that we have to execute and deliver value to our shareholders.

Our lube's team has done a great job integrating and optimizing our lubricant's business over the past three years. And as you can see, it's delivering strong financial results, regardless of the base oil cracks, which, by the way, are near bottom of cycle levels that we saw back in 2019. But as I've stated previously, optimizing this asset portfolio and continued simplification of our lubricant's business is a strategic priority. We believe in the significant value of our lubricants business and we review and evaluate all of our assets on an ongoing basis with an eye for maximizing shareholder value. So Neil, at this time, we don't have any announcements or updates to provide.

What I would like to do, though, is ask Matt to give a little bit more color on how our lube's business is able to perform despite the macro market environment.

Matt Joyce

Thanks, Tim, and good morning, Neil. Thanks for the question. This is all about a continued focus on our execution of our strategy. First and foremost though, it also begins with safety and it was a perfect safety quarter for us, which is always a catalyst for great performance in the business. We've got some outstanding teammates who are working hard to stay safe, execute well, and improve this business every day. But really, we're building on our strengths of development, in-house development, integration of our base oils and our finished lubricants business together and our ability to recognize and respond to market needs.

We're utilizing these assets that we have more effectively to execute on the strategy and we're being operationally excellent in delivering that growth that we need to build the business for the future. Let me give you a couple examples specifically of some synergies that we captured this quarter that really enable that efficiency and growth. One in particular is our Joshua, Texas facility, which had historically been a red giant oil lubricants plant. We're now moving that into supporting the whole of our finished lubes portfolio. And over the past quarter, we've invested in a low cost, quick hit project that's enabled us to increase our capacity by nearly 50% over the course of the coming year. And this is significant given Joshua, Texas strategic location to the markets where we are winning and we're wanting to continue to grow and leverage our formulations and developments.

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On the processed oil side of our business, I give the team a lot of credit. They found and discovered some market needs to better serve the tire industry. And we approved a capital-light investment in the fourth quarter of last year, and then we're instituting that, kicking it off in the first quarter this year at our Tulsa facility. And testing is underway with some large tire industry OEMs. And we've also found that we can use this technology to go into the construction material markets as well, and we're doing that. So this investment will enable new technology introduction for first sales to come through in the fourth quarter of this year, and then more in 2025.

And then if I look at it, base oil integration, we since have that as a common theme where we're leveraging that base oil integration. We've introduced and developed a new base oil cut in our Mississauga facility that's giving us a more advantaged total formulated cost to meet the needs of the PCMO markets in the US and abroad and that's satisfying General Motors specifications. This is a big deal both for our base oil business, as well as for our own captive finished lubricants business. So if you can tell there's a number of these pieces that add up together to drive operational excellence, core regional growth, and hopefully in the next coming quarters we'll be able to share a little bit more about the transformational work that we have underway.

Tim Go

So, Neil, that was probably more detail and more examples than probably you were expecting, but we do want you and others to know that, our lube's business is performing well and it's not by accident. This is not something that has just happened. We've demonstrated over the last three plus years that the earnings power of our lubricants business has been increased and it's running in the $300 million to $350 million range right now despite the base oil indicators being at near bottom of cycle conditions.

Neil Mehta

Yes. No, that showed up this quarter, so thank you, Tim and team, for that. On the other side of performance, probably renewable diesel, there was another tough quarter here. And just would love your thought on the path to profitability. And Tim, where are you? You've been very frank about not being happy with the performance from a profitability perspective at this point. So where do you think we are in terms of the transformation of that business.

Tim Go

Yes, we are not happy with the results, Neil, as you point out. We are pleased with the progress that we're making, though. And I'll let Steve talk about some of the initiatives that we've got going on.

Steve Ledbetter

Hey, Neil, this is Steve Ledbetter. As Tim mentioned, challenging Q1 financial performance. Some of the things we're focusing on in terms of improving our low-CI feedstock across the fleet were more than masked by difficult macro margin pressures. The feedstock lag really is an issue, and we saw that aggressively take place in Q1. We do have some operational improvements that we're seeing, we're very happy with. We had zero downtime related to hydrogen issues. February, March were good performance months. Again, we're trying to run economic utilization. But this is a story that really, in terms of driving the profitability, is all about accelerating our low CI feedstock runs where we think we have some real opportunities to do that. A couple of big milestones.

We're moving one of the trains at Artesia to full 100% low CI feedstock. We think that's going to be an advantage. We're moving some small cap projects to allow some logistical synergies and truck unloading on some of the low CI feedstock. We're continuously driving our pathways and then placing our barrels into the most favorable markets. Happy to note that we injected our first delivery to the previously announced Rio Tinto mine of RD this month. And our feedstock inventories have gotten quite low on purpose, given the accelerated backwardation in the market, which that allows us to buy prompt barrels and minimize this exposure on a very steep backward market.

We'll continue to drive our catalyst optimization and OpEx efficiencies, and then again, we will look to run at the optimal economic rates to maximize our fleet profitability. And we think these are the best things to focus on and give us the highest chance of success to deliver the most profitable outcomes.

Tim Go

Yes, thanks, Steve. I will point out that in the first quarter, we were not hydrogen limited in our renewable diesel operations. And I think that's a big accomplishment for the team in terms of optimizing our operations.

Steve Ledbetter

And look, Neil, it's impossible to know what the mid-cycle conditions are going to be for renewable diesel right now with the RIMs and with the LCFS numbers of volatility there. But we are focused on the things that we can control. So utilization, advantage feedstocks, product netbacks, lower operating costs. And at the current RINs and LCFS levels, we believe our business can be breakeven and slightly positive, and that's what the team is working towards.

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Neil Mehta

Thanks, Tim. Thanks, Steve.

Operator

Your next question comes from the line of Ryan Todd of Piper Sandler. Please go ahead.

Ryan Todd

Great. Thanks. Maybe I will switch to the refining side and ask if you could maybe just provide updates on a couple of your markets. Talk about what you're seeing in the Rockies market. It was -- I think it was fairly weak during a good chunk of the first quarter, but it seems to be strengthening up late. And then maybe on the West Coast, post- [Indiscernible] closure, what you're seeing there in terms of general market dynamics in pad 5.

Steve Ledbetter

Yes, Ryan, this is Steve, I'll take that one. Yes, as you mentioned the Rockies market started off a bit weaker in terms of the crack environment. Demand also was impacted by some pretty significant weather events. As you saw towards the end of the quarter and positioning for driving season, we started to see some support in terms of the crack environment. Our ability to go move barrels into the group or to the front range allowed us to be flexible and take advantage of that. And we continued to look to optimize across the value chain.

On the West Coast, I think what you see in terms of the total distillate supply picture with the RD volumes coming on, the distillate picture is challenged across the West Coast. Gasoline looked better and we look to take advantage of our capabilities in the market in the Pacific Northwest to place local market barrels for gasoline, but also look for distillate movements and export volume where we have capability to go do that. So nothing structurally, and we see some seasonal demand things coming off. We're seeing margin structure come back, both in the Rockies and the group and in the Pacific Northwest. And we look to take advantage of that moving into Q2.

Tim Go

Yes, Ryan, this is Tim. I'll just chime in. I don't know if it's as much of our Rockies and Mid-Con regions being weaker as opposed to just the Gulf Coast being so strong. There was a lot of maintenance, both planned and unplanned, in the first quarter in the Gulf Coast that created some strength in that region. As you know, we don't have any assets in the Gulf Coast. So of course, our regions look weak in comparison to that. When we look at the data and the historical trends, we see the same seasonal historical trends that we always see in our regions. We're not concerned and in fact we are seeing demand pick up significantly right now.

As planting season begins, diesel demand is picking up, gasoline demand has been picking up as a result of the [RVP] (ph) transition that just took place. And so we're pretty bullish. If you look at the April cracks that we just published, the last month's cracks were $5 above what we had realized in the first quarter. And that bodes well in terms of what we typically see seasonally and what we're expecting here for the second quarter.

Ryan Todd

Perfect. Thank you. And then maybe a follow-up on shareholder returns. I mean, really strong buyback in the first quarter. New authorization out there to continue doing that. Can you maybe frame up how you're thinking about whether there are any other things competing for that excess cash flows you look at over the remainder of 2024? Should we expect to see you continue to lean pretty heavily into the buyback? And then maybe any comments on -- the market got a little spooked earlier this year when some of the Sinclair family shares made it to the open market. How are you approaching -- how is your approach to continue to repurchase shares there and how much potential overhang is left there on the family side?

Tim Go

Yes, Ryan, thanks for your question. Let me ask Atanas to chime in.

Atanas Atanasov

Ryan, good morning. With respect to your questions on capital returns, what we did in the first quarter clearly demonstrates our continued commitment to shareholder returns. As you have seen, we also repurchased an additional $296 million worth of shares in early April, which puts us at $565 million in total shareholder return through early April. To the extent that we are continuing to see an above mid-cycle environment, which we are, we'll continue to lean very heavily into share repurchases and continue to exceed our payout ratio.

With respect to the family, what you saw early in the year, obviously, we don't control how they sell shares in the market, but generally you've seen one open transaction per year. We'll continue to buy shares back from them. That's our preferred method of buybacks. And with respect to overhang, as you may have noticed, they're no longer our largest shareholder as of right now. And at 9%, currently, I think that you'll see probably this continuing to go down. Now they also indicated their intent of keeping one board seat, which would point to 5% or better but we just don't view their current ownership as an overhang as of right now.

Tim Go

Yes. And Ryan, this is Tim. I'll chime in too. You mentioned the market got spooked a little bit, and we absolutely saw that. But I will point out, in addition to what Atanas just talked about, if you look at the open market purchases that we have made since the Sinclair transaction, we have actually bought more in the open market than REH Co. has sold in the open market. And I think it's just important for people to put that into context as well as the point that Atanas made that, with this latest transaction that they dropped to 9% and are no longer our largest shareholder.

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Our commitment to capital returns is clear in addition to the share buybacks that Atanas mentioned. Remember, we raised the dividend in February by 11% and, of course, our $1 billion reauthorization that we just announced this morning is just our commitment to continuing our shareholder returns strategy.

Ryan Todd

Great. Thank you.

Operator

Your next question comes from the line of Manav Gupta of UBS. Please go ahead.

Manav Gupta

Hi guys, my question here is more on the midstream side. HEP is now integrated and I'm trying to understand is there -- what's the progress over there in terms of integration and also synergy upside? And then how do you look at this business? Is this business going to stay relatively flat or grow through organic projects or probably grow through some bolt on acquisitions? How should we look at your overall midstream portfolio going ahead, now that it's fully part of HF Sinclair.

Steve Ledbetter

Manav, hey. This is Steve. Thanks for the question. As of December, I'm now fortunate enough to be back in the midstream mix. As you know, that's my path. As far as the integration goes, we are pretty much complete with the integration. We have moved through the entire process of replacing and moving some of the refining processing units back to the refinery. We have some opportunities that we're beginning, we're just kind of on the infancy stage of looking where the synergies are. We're not looking to commit to a number at this point, but we do see some things where we can take the best practices of either side and make sure that we're doing things consistently across the entire operating environment, both refining and midstream.

So we think there's some real value there, and we'll continue to drive that. I think, as we look at this business, we see it as a very important integral business to our value chain, which was the reason that we thought it made sense for us to go bring it back into the fold. And we're beginning to look at opportunities on how we unlock that. Where we have assets that are utilized, where we can do more with them or take advantage of helping get the molecule to the right markets at the right time, we see that as a real, yet untapped opportunity and we'll have to continue to go drive that. But it's a critical piece of our business that we look to continue to grow.

Manav Gupta

Perfect. My follow up here is that, Tim, you have in the past said, every company looks at it different ways. And you said you would like to be one of the highest gross margin per barrel refiner out there in terms of giving them -- I mean, that would make you like the higher -- putting you towards the top end of the capture. And I'm just trying to understand where is that process going? How far are you thinking in the process? And what more needs to be done to put you on top of that table?

Tim Go

Yes, Manav. We believe that our regional advantages of our portfolio give us significant competitive advantages, and we're going to continue to exploit that. We've been working, as we talked about, reliability, number one, optimization, integration, number two. And Steve, you want to talk about some of the things we're doing on the optimization and integration side?

Steve Ledbetter

Yes, absolutely. So I'm looking to go take advantage of, as we mentioned before, the integrated value chain. And that is getting the right cost of acquisition of feedstock, processing it the most efficient way and having the right mix, and then getting into the right markets that make the most sense, leveraging our assets. So the things that we'll continue to take advantage of are some of our pipeline placements and the light to heavy differential that we see and enjoy, and our value chain on the heavy oil value chain with our asphalt business and upgrading that. But we see the value chain being more than just one element. So as an example, we're going to prioritize and capture increased demand on things like jet over diesel on balance, increasing our premium sales, we believe that we have an opportunity to go really drive that and that allows us to integrate right through the wholesale marketing value chain. And then, again, our kits are very well placed and connected to many different crude hubs. And so, we think optimizing our crude slate gives us flexibility there.

And all of these things and components really allow us to go truly optimize the right decision to put the best molecule in the best market. And that's what we're going to continue to focus on.

Tim Go

And, Manav, what I would just add on to what Steve just said is, we've talked about our $75 million of growth CapEx that we have put in the plans for this year. And I can tell you we continue to execute on those projects. These are small, quick hit projects. A lot of them, of what Steve was just covering, are covered in this $75 million of growth CapEx. They improve yields, they lower op costs. We target typically around a 25% or higher IRR for these projects and we expect those to continue to help us improve our gross market per barrel.

Manav Gupta

Thank you.

Operator

Your next question comes from the line of Paul Cheng of Scotiabank. Please go ahead.

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Paul Cheng

Thank you. Hey guys, good morning.

Tim Go

Good morning.

Paul Cheng

Tim, with TMX is going to ramp up very soon or maybe start up or should be starting up. How that will change your Puget Sound crude slate or product yield if any? I mean, right now, I think Puget Sound is running mostly ANS. So do you think that it will have any impact on your physical barrels you're going to run and how your product yield is going to look like, or that it really is going to be benefiting from a defensive standpoint.

Tim Go

Yes, Paul, this is Tim. TMX started up May 1st. And we think it will have an impact both at Puget Sound and in our Mid-Con. I'll ask Steve to comment on that.

Steve Ledbetter

Yes. So Paul, it's Steve. Thanks for the question. So as far as running ANS, we have the capability to run a variety of crudes with some heavy and some sour. And we typically get advantage of crudes out of Canada and we blend them up to an ANS like crude spec. The ability for Puget to go take advantage of what's happening is really in the fact that we're connected via pipe and we were successful placing and nominating pipe barrels on this first go-round and our ability to go take water borne barrels in our dock capacity. We also believe that longer term, as things continue to fill up on TMX and get out over the water, that's going to -- our proximity to the dock is an advantage, because there will be more barrels looking for a home and the location that we have and our ability on pipe as well as the dock gives us the ability to go compete very well for those barrels.

So for Puget, we don't see a major impact. And we also believe that we're going to have the ability to compete. And then the market will clear the additional costs associated with that project. Thinking about it from the larger footprint, when we think about our Parco and our other Mid-Con assets, we'll probably see a temporarily tighter differential and we've already seen that coming out of the end of the quarter. But as we mentioned before, we don't think that's long-term. We think as production eclipses egress in one to two years that we think that those differentials will widen back out. And in the interim, as I mentioned earlier, we're connected to multiple trading hubs, and we will take advantage of the flexibility of the crude slate. So we've shown our ability to navigate these situations carefully, and we'll continue to do that with this one. But we don't see it as a major problem.

Tim Go

Yes. And Paul, this is Tim. As you know and as others have commented this quarter, the WCS, WTI spread has narrowed. But some of that is associated with just normal spring maintenance that we see seasonally at this time. And of course, some of that's directly related to the line fill that took place ahead of the May 1st startup. If you look further out, we believe, as Steve mentioned, that the WCS, WTI spread will widen. And we even see that in the strip now. I think others have a similar view and kind of stabilize and really arrange that if you look at the last five years of averages, we'll be right in the middle of the five year WCS, WTI spread.

Paul Cheng

Thank you, Tim. But Steve, can I just go back into my question? I'm just curious that if that means that you will be able to run more WCS and then mix it with other grade to make it more ANS type or that that's not really going to be the case. And if you do one more WCS, will that impact on your product slate in Puget Sound. I think that really is what I'm trying to figure out.

Tim Go

Yes. Paul, let me try to take a shot at that. This is Tim. Having more crude around our refinery in Washington is always a good thing. And so, having the TMX start up and having more barrels available to us both via the pipeline, as well as via the water is going to be an advantage for Puget Sound. So Puget Sound was designed to run 100% ANS and so what we do, as you may know is, we blend up the Canadian barrels, both the heavy and [indiscernible] and the MSW, to basically fit the ANS profile. And we can run 100% of that from the Canadian side.

So the real advantage we have is because we have a unique configuration with both a [cat] (ph) unit and a cocker in that refinery, we're able to basically pick and choose whatever the right crudes are of the month in order to optimize our crude slate at Puget Sound. So we view this as a positive in terms of giving us flexibility and lowering our crude cost at Puget Sound.

Paul Cheng

Okay, thank you. And my second question is that, Tim, it's probably not a fair question because it's not under your watch when it was sanctioned. The RD project has been challenging whether it's during the development, it was course-over run and also that being delayed in terms of the startup and after the startup that also the economic has been challenging and operation has been challenging. So, as I look back, what lessons that the organization has learned in terms of the future project FID or devaluation? I mean, what have we learned? And how that is changing your devaluation process going forward?

Tim Go

Yes, Paul, we have been working on our renewable diesel business here for a couple of years, as you pointed out. And I think there's lots of lessons learned, and we talk about that amongst our management team. We talk about that amongst our board all the time. But the biggest change that has occurred has been the market dynamics around LCFS and the RINs. And we knew that was going to be out of our control, and we knew that was going to be something that was going to be subject to external interference, I guess, I would say, and it may not be the right word. But we still thought it was the right thing to do. We still think it's the right thing to do going forward. We have not given up on our renewable diesel business. I just want to make sure our investors know that.

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And we still believe that with the operational improvements that we've made, and as I mentioned, we were not limited by hydrogen in the first quarter. In fact, from an operation standpoint, we ran pretty smoothly. We were limited by the economics around RINs and LCFS. When you look at the backwardation in the feedstock market, that was also one of the reasons that our results were lower in the first quarter than they were in the fourth quarter.

So we know those will turn around. It will be cyclical. And so our plan is to continue to get ourselves in a position so that: A, if conditions don't change, we'll be breakeven to slightly positive; and B, when the market does change and we do think the LCFS and the RINs markets will improve. It may take a year or so to make that happen, but keep in mind the California board has signaled that they are going to be tightening the LCFS credits. You saw New Mexico has announced their own LCFS program that will significantly benefit our renewable diesel plant that's located in New Mexico.

And you look at the -- just the way the market is shaping up right now. We believe the biodiesel plants that are currently out in the market are competitively disadvantaged versus the renewable diesel plants that are out there. And so, we think there'll be some additional attrition. You saw some of that announced already here in the first quarter in the biodiesel world. And we think the renewable diesel market will recover and come back off its cyclical lows here. So lots of learnings, Paul, and we can talk about that sometime over a beer. But we do believe that we're going be set up here for success as the market continues to improve.

Paul Cheng

All right, thank you.

Operator

Your next question comes from the line of Matthew Blair of TPH. Please go ahead.

Matthew Blair

Thank you and good morning. I know it's a small segment, but your wholesale marketing business posted positive EBITDA in a pretty tough environment. It's actually up quarter by quarter. Could you talk about the things that are going right here?

Steve Ledbetter

Yes, Matt, this is Steve. Thanks for the question. We are very excited about our marketing business and very excited about the performance in the quarter. Some of the improvement is associated with integration and bringing the full slate on quarter one 2024 versus quarter one 2023. But we have taken some opportunities to go improve the overall performance from a margin perspective. I think we're looking very strategically at how we're pricing in the market and making sure that we're capturing the value from the brand. We really believe that this is a tremendous value that is yet untapped as a strategic growth lever. And we're putting some things in place to make sure that we can go fully explore that and get that value and drop it to the bottom line. We're creating very much a clear picture on our retail network plan and we're expanding our branding partnerships to go really grow this. And we're allocating resources both of people and capital to make that happen.

And from a revenue replacement perspective, as we go put new sites on, we're seeing between 60% and 150% more volume than the fleet average. So, as we go continue to grow, of which we look to do more and more, we're seeing that the overall margin structure and volume picture continues to improve. This is something we look to take advantage of as we continue to move forward.

Tim Go

And Matt, I'll just chime in. Again, thanks for noticing the marketing segment. I think it's something that often gets overlooked, but it's absolutely part of our core strategy. So remember, refining, midstream, marketing, those three segments together combine to be really our core value chain that we offer here at HF Sinclair. And you'll see, it was brought up earlier in the call, our midstream performance is strong. You just mentioned our marketing performance is strong. And when you combine that with our refining business, you get a better picture of what the earnings potential is of our core business.

Some other of our peers kind of include marketing in their refining, or they include midstream in their refining, we break ours out. But you've got to be able to look at the three together to understand really what we're trying to offer to the market in terms of our portfolio.

Matthew Blair

Sounds good. And then I wanted to ask about the outlet markets for diesel for your Puget Sound refinery. I think there was a comment earlier that the West Coast has been impacted by increasing RD penetration. Does this refinery typically send barrels -- diesel barrels down to California? And if so, is that still occurring or do you have to look for new markets, sending those barrels to Canada or to Mexico or possibly Asia instead?

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Steve Ledbetter

Yes, Matt, this is Steve. I think I made the comment, so I'll follow up on it. As we look at the diesel supply demand balance on the West Coast with the RD penetration and growth, we look to make sure that we have placement where we have local logistics, and we're going to do that. But there are also some opportunities to go move that into Latin America. As you know, moving barrels over the water with the Jones Act impact makes that more difficult into the United States and into California, but we see an opportunity and we think we compete well to Latin America barrels, and that's where some of our cargos are going.

Tim Go

Yes. And Matt, I would just point out that when we brought the Puget Sound refinery into our portfolio, we acknowledged at the time that diesel was probably going to get a little long, given the fact that the renewable diesel push and the LCFS credits, but the Puget Sound refinery was more of a gasoline producing refinery than it was a diesel producing refinery with the cat unit that we had there. And it's playing out like we expected, and I think the Puget Sound refinery is competitively advantaged. It's able to make carb gasoline, and so while we're not moving diesel to California, we are moving gasoline to California. And we think that's going to continue to take advantage of the [ARBs] (ph) that are opening up there.

We also think with the recent conversions in California and the shortages of gasoline, that that's also a tailwind for our Pad 4 markets, Phoenix and Las Vegas in particular, which we have access to through our Rockies refineries and our New Mexico refineries that are also benefiting as we move gasoline barrels west to take advantage of that shortage.

Matthew Blair

Great. Thank you very much.

Operator

Your next question comes from the line of Theresa Chen of Barclays. Please go ahead.

Theresa Chen

Good morning. Thank you for taking my questions. First on the capture front, I wanted to follow up on the comment earlier about leaning more into your premium sales. Just given the octane spread that we're observing, can you give us a sense of how much octane enhancement or production capability you have in your system and that you're with a backdrop of the overall gasoline margin outlook for the summer.

Steve Ledbetter

Hey, Theresa, this is Steve. Good to speak with you again. Yes, so on our premium, we believe that we are underrepresented in terms of the overall premium make in our markets. And so, we also believe that our locations and our logistic advantages allow us to go compete better. And all of that improvement in terms of more premium percentage over and above subgrade is improvement to capture and it's something that we're going to focus on that's really from a competitive perspective and we see our ability to go compete against some of the other through our branded wholesale channel is really the place where the integrated value chain comes on. And it's something that quite honestly we need to focus more on and we will continue to do that here into the next few quarters.

Tim Go

Yes. And Theresa, this is Tim. It is good to hear your voice and glad you're back on. One of the side benefits, I would say, unintended consequences of our focus on hydrogen and making it available for our renewable diesel plants, both in Artesia and in Parco is that, we've been running our reformers better. And our reformers that are making hydrogen are also making octane. And that's what's giving us a little bit more octane than what we've had in the past. And so that's been benefiting our fuel side as we continue to improve those operations as well.

Theresa Chen

Thank you for that detailed answer and it's great to speak with all of you again as well. Second question related to the movement of product from Pad 4 to Pad 5, specifically following up on your comments related to the tightness in gasoline in California over time. [indiscernible] pipeline system, are you seeing higher utilization in that and if this is really going to be a structural move, is there a capability to expand that?

Tim Go

Yes. So, I think as far as movements go, things are still balancing out in terms of where products are going to come from in terms of the new demand patterns. We see our footprint from a midstream perspective very well positioned to carry our products out of the Salt Lake Valley into the market and compete well with products coming from the West Coast. And that's one advantage we see. And we will look to take advantage of continuing to do that through the integrated value chain, both on our production runs, as well as on our midstream assets.

And then the other thing is, Tim made a point earlier on being able to produce some carb gasoline and we will continue to look to do that. That actually looks to be like something that is getting shorter as some of these refineries convert on the west coast. So we will try to fill some of those gaps from our Puget refinery, and then we will also try to take advantage of the marketplace out of the Salt Lake Valley and the Rockies into those markets like Cedar City and Las Vegas.

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Theresa Chen

Thank you.

Operator

Your next question comes from the line of Jason Gabelman of TD Cowen. Please go ahead.

Jason Gabelman

Hey, good morning. Thanks for taking my questions. I wanted to ask about the updated mid-cycle refining EBITDA that you provided shortly after last earnings call. It included a higher OpEx per barrel and this is a decent amount of time after the acquisition. So wondering if that was just a delayed update or something else going on there? And then you had in the past broken out the mid-cycle margin between the Gulf Coast crack, the TI brent spread, and then the product transportation to HF Sinclair markets. And that mid-cycle margin moved higher on this update so just wondering what drove that. Thanks.

Tim Go

Yes, Jason, thanks for the question. At the last earnings call we told you that we have now had a couple years under our belt of running these new assets in our portfolio, Puget Sound and the Sinclair assets in particular. And we told you we were going to take a look at what we've seen and what we've learned from doing that. And that's what we did when we updated our mid-cycle guidance. We did increase our operating costs because we do see, at least in the near-term, higher than the $6 to $6.50 a barrel target. And we still have long-term, but we just don't think that's near term.

And so, we raise those op costs to reflect more of what we're seeing on the West portfolio. But at the same time, we're actually seeing higher earnings potential out of these assets as well. And so, that's why we raised the gross margin per barrel in the mid-cycle estimates as well. We believe and what we're seeing is that, the gross margin that these assets are bringing in is higher than what we saw. So net-net, the actual impact on our mid-cycle estimate for refining was actually up $250 million to reflect both increased synergies, as well as the increased earnings power that we see from the Puget Sound and from the Sinclair assets that more than offset the higher OpEx.

Jason Gabelman

Okay, got it. To be clear, the increase in the gross margin estimate was not a function of higher Gulf Coast index assumptions. Is that fair?

Tim Go

I think there's always a mix of all of that Jason, but I think you can think about it as synergies. You can think about it as competitive advantage that we think these assets have in those markets that are out there.

Theresa Chen

Okay, great, thanks. And then my final question is just a couple of clarifications I was hoping you can provide with the 1Q results. I'll just fire off a few of them. Was there any FIFO impact in the lubricants business? Was there any working capital impact on cash flow? And then can you remind us how much Syncrude you run through your system and if that's in the West region or the Mid-Con region? Thanks.

Atanas Atanasov

Good morning. This is Atanas. I'll take the first two. With respect to the FIFO impact on lubricants, it was minimal. It was just a little over $1 million, so practically none for this quarter. And with respect to overall working capital impact on cash flow, we saw a tailwind of approximately $70 million with respect to working capital this quarter. Which makes sense because prices rose in Q1 and generally that's conducive to working capital.

Tim Go

Yes, I'll answer on this end. So not given a specific number, but it was significantly discounted early in the quarter. And as we mentioned, we looked to optimize our crude slate flexibility, and we ran a significant amount, both at Puget, El Dorado, and Parco. And it was a record for our runs for the core.

Jason Gabelman

Okay, thanks.

Operator

There are no further questions at this time. I will turn the call back over to Tim for any closing remarks.

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Tim Go

Thank you, Kathleen. Before we close, I wanted to welcome our new board member, Jeanne Johns, who was appointed in February. Jeanne is an accomplished business leader and brings strong executive and industry experience and expertise to us, and we are proud to have her on our board. I know we covered a lot of ground this morning, including our bullish outlook for second quarter. But going forward, I want to remind you that our priorities remain the same. We are focused on executing our plan by: one, improving our reliability; two, integrating and optimizing our new portfolio of assets; and three, returning excess cash to our shareholders. Thank you for joining our call, and have a great day.

Operator

This concludes today's conference. Please disconnect your line at this time and have a wonderful day.

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