

# **Par Pacific Holdings, Inc. (PARR) Q1 2024 Earnings Call Transcript**

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**Body**

Par Pacific Holdings, Inc. (PARR)

Q1 2024 Earnings Conference Call

May 07, 2024, 10:00 AM ET

Company Participants

Ashimi Patel - Vice President, Investor Relations

Will Monteleone - President & Chief Executive Officer

Richard Creamer - Executive Vice President, Refining & Logistics

Shawn Flores - Senior Vice President & Chief Financial Officer

Conference Call Participants

Ryan Todd - Piper Sandler

Matthew Blair - Tudor, Pickering, Holt

Neil Mehta - Goldman Sachs

John Royall - JPMorgan

Jason Gabelman - TD Cowen

Manav Gupta - UBS

Presentation

Operator

Good day, and welcome to the Par Pacific First Quarter 2024 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Ashimi Patel, Vice President of Investor Relations. Please go ahead.

Ashimi Patel

Thank you, Danielle. Welcome to Par Pacific's first quarter earnings conference call.

Joining me today are Will Monteleone, President and Chief Executive Officer; Richard Creamer, EVP of Refining and Logistics; and Shawn Flores, SVP and Chief Financial Officer.

Before we begin, note that our comments today may include forward-looking statements. Any forward-looking statements are subject to change and are not guarantees of future performance or events. They are subject to risks and uncertainties, and actual results may differ materially from these forward-looking statements. Accordingly, investors should not place undue reliance on forward-looking statements, and we disclaim any obligation to update or revise them. I refer you to our investor presentation on our website and to our filings with the SEC for non-GAAP reconciliations and additional information.

I'll now turn the call over to our President and Chief Executive Officer, Will Monteleone.

Will Monteleone

Thank you, Ashimi, and good morning, everyone.

Before discussing quarterly results, I want to thank Bill Pate for his many contributions to Par Pacific's success over the last 10 years. Bill has been a terrific partner and a guiding force in the company's formation and strategic direction. I'm grateful for his leadership and honored to build upon our strong foundation as a leading conventional and renewable fuel provider to the Western United States.

Moving on to quarterly results. Our first quarter adjusted EBITDA was $95 million, and adjusted net income was $0.69 per share. Our Retail and Logistics business units delivered stable earnings contributions while strong operational execution in the Refining segment positions us to increase production during the profitable summer driving season. Our Billings refinery is in the process of restarting, further improving our summer operating position. Richard will provide more details.

Global product inventories are presently low to well-balanced, supply side support appears limited, incremental Chinese exports are expected to be flat to down year-over-year, and national policies remain focused on adequate local market supply for both transportation fuels and petrochemicals. In addition, we see refined product freight costs remaining elevated, inflating the cost arbitrage between markets and highlighting the benefits of local manufacturing. This is likely to become a larger factor as we enter the summer driving season, and marginal supply will need to stretch further to solve for marginal demand.

Our retail brands continue to build momentum with same-store fuel and merchandise sales growth of 6% and 5%, respectively. The retail team is focused on growing food service gross margin, rolling out core systems to better manage in-store costs, and building a pipeline of remodel and new to industry sites. Our relatively young brands continue to be well received in the local markets we serve as demonstrated by the above-trend growth rates.

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Progress continues on our renewable fuel initiatives. In Hawaii, the $90 million renewable hydrotreater project is tracking on time and on budget, and the renewable fuel cogeneration project with Hawaiian Electric is progressing towards a potential power purchase agreement. In Tacoma, we are pivoting from the larger SAF and green hydrogen project to assess lower-capital high-return opportunities.

Our balance sheet remains well-positioned. Thus far this year, we further reduced our cost of debt capital and repurchased more than $70 million of our stock at attractive prices. With more than $575 million of liquidity, our balance sheet remains strong, allowing us to both opportunistically repurchase our stock and pursue our strategic objectives.

Looking forward, we are focused on safe and reliable operations, crisp project execution, and thoughtful capital allocation. We are committed to managing risks and also positioning our enterprise to generate strong returns through the cycle.

I'll now turn the call over to Richard to discuss our Refining and Logistics operational performance.

Richard Creamer

Thank you, Will.

Turning to the Refining segment, first quarter combined throughput was 181,000 barrels per day, reflecting winter seasonality and maintenance activities. In Hawaii, throughput was 79,000 barrels per day and production costs were $4.89 per barrel. The crude rate was reduced for 10 days in March as we resolved a fouling issue in our crude vacuum tower. We have restored operations and demonstrated a return to full crude capability.

For Billings, first quarter throughput was 53,000 barrels per day. Despite seasonality, crude rates were elevated as we built inventory ahead of the second quarter turnaround. First quarter production costs were $12.44 per barrel, elevated by approximately $5 million due to increased electricity costs and pre-turnaround related OpEx. Billings crude and reformer blocks have been in turnaround since early April. The turnaround has progressed to plan and is on schedule and on budget. We are currently in the beginning stages of startup operations.

Shifting to Wyoming, refinery availability has been excellent. Throughput was a first quarter record of 17,000 barrels per day and production costs were $7.86 per barrel.

Finally, in Washington, first quarter throughput was 31,000 barrels per day and production costs were $6.07 per barrel, elevated by approximately $1 million due to a 15-day planned March maintenance event. The refinery is back to full rates and operating well in the second quarter.

Looking ahead, each of our assets are positioned to optimize throughput heading into the summer season. For the second quarter, we expect Hawaii throughput between 81,000 and 84,000 barrels per day, Wyoming between 18,000 and 20,000 barrels per day, Washington between 39,000 and 41,000 barrels per day, and Billings between 34,000 and 38,000 barrels per day, reflecting the second quarter turnaround activities.

I'll now turn the call over to Shawn to cover our financial results.

Shawn Flores

Thank you, Richard.

First quarter adjusted EBITDA and adjusted earnings were $95 million and $42 million, or $0.69 per share. The Refining segment reported adjusted EBITDA of $81 million compared to $107 million in the fourth quarter of last year.

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In Hawaii, the Singapore Index averaged $18.67 per barrel, and our land accrued differential was $6.60, resulting in a combined index of approximately $12 per barrel. Hawaii margin capture was 116%, reflecting the benefits of elevated clean product freight and strong commercial execution. Looking ahead to the second quarter, we expect our Hawaii crude differential to land between $5 and $5.50 per barrel, and we have continued our product crack hedging framework with approximately 26% of our second quarter sales hedged at $20 per barrel.

In Billings, our Gulf Coast Index averaged $21.34 per barrel. Margin capture was 65%, reflecting seasonally soft market conditions. Upper Rockies gasoline and diesel cracks relative to the Gulf Coast have rebounded quarter-to-date, improving by approximately $9 and $16 per barrel, respectively. The second quarter Billings turnaround is expected to impact gross margin by $4 to $5 per barrel, and we expect operating costs to remain flat relative to the first quarter.

In Wyoming, capture to the Gulf Coast Index was 70%, reflecting similar seasonal dynamics as Billings. Lower Rockies markets were particularly weak during the first quarter, reflecting strong refinery utilization and softer demand in January. Rapid City gasoline spreads to the Gulf Coast have improved $10 per barrel quarter-to-date and we are well positioned ahead of the peak summer season.

Lastly, in Washington, the P&W Index averaged $20.48 per barrel during the first quarter. Margin capture was 30%, including an approximate $2 per barrel impact from the planned refinery outage. Looking to Q2, our P&W Index has improved $7.50 per barrel quarter-to-date, driven by expanding gasoline margins in the region.

The Logistics segment reported adjusted EBITDA of $28 million in the first quarter compared to $24 million in the fourth quarter, reflecting strong system utilization and lower operating costs. Our Retail segment reported adjusted EBITDA of $14 million in the first quarter compared to $17 million in the fourth quarter. Same-store sales growth was partially offset by softer retail fuel margins due to rising wholesale prices.

Corporate expenses and adjusted EBITDA were $29 million in the first quarter compared to $26 million in the fourth quarter. First quarter expenses include $5 million related to advancing our renewable development activities. With our pivot from the larger SAF and green hydrogen project in Tacoma, we expect our renewable spending to reduce to $2 million to $3 million per quarter for the remainder of the year.

Cash provided by operations in the first quarter totaled $83 million, excluding a $44 million working capital outflow related to an increase in trade receivables and $13 million in turnaround expenditures. Cash used in investing activities totaled $23 million, primarily related to CapEx.

Total liquidity as of March 31st was $575 million, made up of $228 million in cash and $347 million in availability.

We further reduced our cost of debt capital with recent refinancing activities. In April, we repriced our $545 million term loan, reducing annual interest expense by $3 million. In March, we expanded the capacity of our asset-based loan from $900 million to $1.4 billion, as we plan to refinance our existing Hawaii intermediation with a combination of borrowings under the ABL and a smaller crude-only intermediation. The shift towards ABL financing in Hawaii is expected to reduce working capital costs by $10 million annually, with Hawaii gross margin improving by approximately $20 million per year, partially offset by a $10 million increase in annual interest costs.

Lastly, we've continued our opportunistic approach to share repurchases with $32 million during the first quarter and $73 million year-to-date at an average price of $34 per share. With a strong balance sheet heading into the summer driving season, we're well-positioned to pursue our strategic growth objectives while opportunistically repurchasing our common stock at attractive prices.

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This concludes our prepared remarks. Operator, we'll turn it to you for Q&A.

Question-and-Answer Session

Operator

We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Ryan Todd from Piper Sandler. Please go ahead.

Ryan Todd

Good. Thanks. Maybe if I could start, I mean, congratulations on the continued strong performance in Hawaii. Can you talk about what you're seeing in Asian markets, including the impact of clean tanker rates on Hawaii margins, and any outlook from here in terms of how you see things progressing over the course of the year?

Will Monteleone

Sure, Ryan. Thanks for your comments. It's Will. So, I think the key things that we're watching on the Singapore margins and we continue to see it trade really in sympathy with Northwest Europe, and ultimately barrels need to clear or arbitrage from Asia into Europe. And so, I think at the current time, that's the biggest factor. Ultimately, inventories are still on the lower side, and I think as we approach the summer driving season, you're going to see large refining incentives to produce gasoline, which is going to ultimately compete with diesel.

And on the freight side, again, I think the biggest factor is ultimately the disruption in trade flows, both of Russian refined product exports as well as the need for refined product that is produced in the Middle East and India that needs to -- as typically cleared through the Red Sea, needs to take much longer routes to get to Europe. So I think ultimately, this comes down to geopolitics. Don't see anything readily on the horizon that suggests a change here. And so ultimately, I think we're in for a period of elevated refined product freight rates until we see stability. So again, I think that gives us some optimism on overall refined product cracks, both in Northwest Europe as well as in Singapore.

Ryan Todd

Great. Thanks. And then maybe on -- as we think about use of cash, I mean, you bought back quite a few shares in the quarter, probably more than we expected. Can you talk about how drivers of that pace, how are you thinking about shareholder returns going forward, and maybe just high-level strategic priorities about how you think about use of cash over the medium term?

Will Monteleone

Sure. So, I think, ultimately, the share price cadence or the share repurchase cadence is really driven by an opportunistic approach of our forward outlook, liquidity, the share price, and our view of fundamental value. And I think you'll see us continue to be opportunistic in that approach. And so in periods where you see share price weakness and our outlook is strong, you're going to see us be more aggressive. And in periods of improving conditions or improving price, we'll probably buy less stock. So again, I think we'll continue to be opportunistic and we're share price sensitive.

I think broadly, as we think about capital allocation, we've strengthened our balance sheet to the point we've got a lot of flexibility looking ahead. And so the question really is how do we want to invest in growth? And we look at share purchases as really just another opportunity to invest in our own company, and we approach it dynamically, as I suggested. In addition, and I think we continue to want to pursue our strategic growth objectives, which include everything from C-store development to investing in our refineries to improve reliability, investing in renewables, and then strategic acquisitions to the extent that they fit and are attractively priced. And I'd say all that to say, we know from the past M&A experiences that carrying some excess liquidity allows us to be less reliant on capital markets, and it ultimately drives enhanced shareholder returns. So again, we weigh all those things against ultimately the opportunity to repurchase our stock at attractive prices, and that's really how we think about our capital allocation framework.

Ryan Todd

Thanks.

Operator

The next question comes from Matthew Blair from Tudor, Pickering, Holt. Please go ahead.

Matthew Blair

Great. Good morning. Thanks for taking my question. So, your same-store retail, both volumes as well as merchandise revenue were quite impressive. How much would you attribute this to your exposure to some unique markets, say, in Hawaii versus how much would you attribute to your individual efforts in retail?

Will Monteleone

Sure, Matthew. It's Will. It's a good question. I think really this comes down to, I think, a mix of both our positioning in Hawaii, but also I think some strength we're seeing in our nomnom brand that's again all things considered, relatively new. So, it's a balanced contribution across the board. And I think the in-store piece, I think we're really just scratching the surface. We've got a relatively new leadership team on the retail side that's really driving some impressive in-store trends. And so, again, I would attribute some of this to [lower base] (ph). And, again, I think in the past, we've really been strong on the fuel side, and I think you're seeing us focus on the store. And I think that's beginning to yield results.

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Matthew Blair

Sounds good. And then, the follow-up is on M&A. Could you talk about the current landscape and your overall interest in acquiring either additional refineries or more retail stations? And then, I guess, on the flip side, is Par open to being acquired? And if so, what does that mean for your considerable NOL position? Thanks.

Will Monteleone

Sure, Matthew. So, I think, as we said in the past, our strategic focus really remains on PADD IV and the upper reaches of PADD V, as we think about refining logistics. Again, for a transaction to compete with our alternatives, it really needs to be an exceptional opportunity and it needs to present strong synergies with our existing operations. And so, I think our strategic focus remains consistent on that front.

And again, I think as it relates to opportunities for our NOL, I think we're down to about roughly $900 million of gross NOL value. It's still a very valuable asset for us. That shields our taxable income for the next several years. And ultimately, I think any future M&A activity whether we're acquiring or we're the target, I think we're ultimately focused on maximizing shareholder value. And at the end of the day, we think about that NOL as an asset and we think about our future opportunities on the fundamental value of our business. So, it wouldn't be appropriate to specifically comment on whether we would be a target, but I think at the end of the day, we're focused on shareholder value.

Matthew Blair

Sounds good. Thanks for your comments.

Operator

The next question comes from Neil Mehta from Goldman Sachs. Please go ahead.

Neil Mehta

[Technical Difficulty].

Ashimi Patel

Hey, Neil, your line's not coming through.

Neil Mehta

Ashimi, is that better?

Ashimi Patel

Yeah.

Will Monteleone

Yeah, much better.

Neil Mehta

Okay, great. So, the first question is just on Asia. Margins have certainly softened up out there and a lot of that seems like we're towards run-cut levels in the region. We'd just love your perspective on how you see the Asia market pan out? And then, how do you see Hawaii basis trading -- trending relative to Asia as we get our way into the summer?

Will Monteleone

Sure. Thanks, Neil. I tend to agree with your assessment that as we're kind of approaching a Singapore Crack or 3-1-2 of $12, you look at the secondary products out there like naphtha and fuel, that the simpler refiners in Asia are approaching negative gross margin levels. So again, I think from that perspective, again I think that supply side support exists.

Again, I think our view is the marginal barrel still needs to clear from Asia to Europe as you approach the summer. And I think that you'll ultimately see that trend reemerge. And when you think about that, given where the freight market is, it's quite expensive. And so, you're going to see I think ultimately products continue to flow in that direction.

As that relates to Hawaii, again, I think the marginal barrel to Hawaii is still imported and freight is a major factor. So again as we think about the Hawaii basis and our local capture rates, refined product freight and the trends there remain elevated. I think we've continued to see refined product freight cost trade in the -- between $8 and $10 per barrel range, which is consistent to where they've been over the last several quarters.

Neil Mehta

Yeah. Thanks, Will. And the follow-up is just, if you could spend a little bit more time on the Rockies? I think you did allude to the fact it was a softer start to the quarter, but things seem to be moving in the right direction in the region. So, just your perspective on how much of that was transient and what we should carry into 2Q? Thank you.

Will Monteleone

Sure. Yeah. I think Shawn referenced this, and again we saw some strong utilization rates for the PADD IV refining complex in the first quarter. It's really the first time in a while that's been the case. And I think on top of that, we saw, I'd say, steady improvement with really being a pretty substantial trough in January, with steady improvement as we move through the first quarter. So again, I think that signals a little bit of rebalancing that was happening. And again, the steady upward trends continued, Neil, as we've moved into April and into May. So again, I'd really point to some of the weaknesses being a January-specific event.

Neil Mehta

Thank you, Will.

Operator

The next question comes from John Royall from JPMorgan. Please go ahead.

John Royall

Hi. Good morning. Thanks for taking my question. Could you go into some detail on the pivot you called out at Tacoma on the renewable side? What's the new scope of the work? And is the green hydrogen project effectively off the table here?

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Will Monteleone

Hey, John, it's Will. So, I think at a high level, we've spent significant effort scoping this project. And given the policy backdrop and also really where the renewables environment sits, we think a larger capital kind of higher risk project is more difficult to fund today, and more difficult and doesn't generate the types of returns that we think are necessary for a project in this area.

And so again, I think I've talked about renewables in the past and our view on investing there. And again, ultimately, we think the returns there need to be at or above the way we think about investing in our conventional fuel business. And so, I think that's really the backdrop for the change. And the green hydrogen project pairs with the SAF project. So again, I think that's currently been deferred.

And then, as we think about the scope of work, again, I think we're looking at the advantages we have in Tacoma logistically. Again, we've got great rail access, significant tankage, deepwater capabilities, and ultimately, thinking about the right way to utilize our logistics assets so that we are prepared to either distribute and/or produce lower carbon fuels in the future.

John Royall

That's helpful. Thank you. And then, on the intermediation facility in Hawaii, just so we understand, is the savings there just from less inventories being encompassed under the new deal, given it's crude only? And does that come at the cost of carrying more inventories on your balance sheet? And should we think of this as a step towards eventually going to no intermediation agreement and reducing your finance costs even further? Or should we think of this as kind of more of a necessity for your Hawaii business longer term?

Shawn Flores

Hey, John. It's Shawn. I think the drivers of the savings that we called out of $10 million a year is really the actual cost of the facility vis-a-vis the ABL, not necessarily the fact that we're equity funding more inventory. In fact, I would signal a big shift in the amount of inventory that we're equity funding. But I think the right way to think about it is about 200 basis points to 300 basis points of savings shifting from intermediations to ABLs.

I think on the question of whether this is just a step in direction of funding our Hawaii business exclusively with ABLs, I think at this time, we see some benefits in intermediation financing as it relates to our crude. Obviously, we have a complex supply chain with cargoes on the water, and we think that the intermediation facility provides a good solution there. But ultimately, we'll evaluate that as our liquidity position improves over the years and whether it makes sense to shift completely towards ABL.

John Royall

Okay. Thank you.

Operator

The next question comes from Jason Gabelman from TD Cowen. Please go ahead.

Jason Gabelman

Yeah. Thanks for taking my questions. I want to ask about the upcoming Montana maintenance. Can you just remind us what the scope of work is? And then, given it to your first maintenance event since acquiring the plant and you previously alluded to some eventual improvement in operations, should we expect to see any of that after you come out of turnaround relative to where it was performing prior to turnaround? Thanks.

Will Monteleone

Sure, Jason. It's Will. I assume when you mean the upcoming turnaround, you mean the April activity we've referenced?

Jason Gabelman

Sorry. Yes, the 2Q event.

Will Monteleone

Yeah. So, this was largely, as Richard pointed out, on the crude unit reformer and several of the hydrotreaters that we have, and again, as Richard referenced, again, moving towards restart activities there. Again, the intent of conducting this activity during the period was to position us to run at optimum and ultimately, the elevated rates during the summer season. So again, our plan is to, again, push rates as we come out of turnaround and into the third quarter. And obviously, the focus in Montana is to, again, drive reliability. And again, this really comes down to ensuring that, again, we limit the process safety risks that are in the plant and ultimately position us to optimize throughput and focus on reliability and process safety. And I think if we can do that, I think we've already demonstrated the mechanical availability to run the plant into the low 60%s. So again, I think that's our focus. And again, not easy to do, but again, I think we've got a really strong team and that's certainly the top priority.

Jason Gabelman

Got it. And then, can you just remind us on the balance sheet what the target cash level is for you guys and/or overall liquidity?

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Shawn Flores

Hey, Jason, it's Shawn. I think our minimum liquidity targets are really dynamic based on upcoming turnaround events and discretionary CapEx outlook and non-discretionary CapEx. And so, I think that will fluctuate over time depending on upcoming turnaround events. Historically, we signal pre Billings that our minimum liquidity was in the $200 million range. Safe to assume that, that is higher given the expanded business. But needless to say, we've strengthened the balance sheet to the point where we've got excess liquidity. And I think from this point, any additional liquidity will be allocated towards our strategic growth objectives and creating shareholder value with share repurchases.

Jason Gabelman

Okay. Thanks.

Operator

[Operator Instructions] The next question comes from Manav Gupta from UBS. Please go ahead.

Manav Gupta

Good morning. I think in your prepared remarks, you indicated that the Pacific Northwest crack has moved up, and that's primarily driven by the strength of gasoline. And I was just wondering if you could help us understand between the three regions where you're seeing -- in terms of relative product strength, where are you seeing gasoline the strongest, or jet fuel the strongest, and -- or diesel weak or strong? If you could just help us walk -- understand how the dynamics of the three key projects are looking in the three regions?

Will Monteleone

Sure, Manav. Yeah. So I think to start with Hawaii, I think, again, it's really going to be driven by waterborne dynamics. And again, I think we're seeing strength on the Asian gasoline market, and again particularly for octane, and that, I think is going to ripple through into refining production plants. So again, I think that's broadly speaking what I'd point out ahead of the summer season.

As you look at the Pacific Northwest, definitely seeing regional strength on the gasoline side. I think several of the California -- Northern California refineries that have converted to renewables production are bringing in significant amounts of imports. And that's, I think, impacting the overall clearing price for gasoline.

On the flip side, I think diesel on the West Coast is weaker relative to historical conditions, seeing more exports out of the West Coast to rebalance the market as renewables are coming in. As you shift inland into the Rockies again, I think it's going to remain a very hyper-seasonal business. Still see strong demand for diesel and seeing typical seasonal rebounds in gasoline demand.

So again, I think overall seeing good product demand across our system.

Manav Gupta

Thank you for taking my question.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Will Monteleone, President and Chief Executive Officer, for closing remarks.

Will Monteleone

Thank you all for joining us this morning. I believe the future of this enterprise is bright, and we are well-positioned to grow our earnings as we enhance and optimize the business we have built over the last 10 years. Have a great day.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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