

# Crude Moves – DoE Data Flash

## Crude and Products Both Draw

Energy | Economics and Strategy

- **Crude stocks *drew* by a 9.4 MMBbbls, vs. consensus expectations of a 2.1 MMBbbls *draw* and 5-year average of a 1.5 MMBbbl *draw*.** Crude stocks *drew* by 9.4 MMBbbls WoW to 498.4 MMBbbls, bullish vs. API's estimate of a 6.4 MMBbbls *draw* and vs. consensus of a 2.1 MMBbbls *draw*. Lower 48 production was down 1.2 MMBbbl WoW (hurricane impact) and down 2.8 MMBbbl YoY. Cushing inventories built by 0.1 MMBbbls WoW to 52.5 MMBbbls. Crude imports were down 1.0 MMBbbl WoW (-17.2%) while exports were down 0.4 MMBbbl WoW (-10.7%). Both gasoline and diesel demand continue to normalize, this would prevent excessive product inventory built into year-end.
- **Gasoline stocks *drew* by 4.3 MMBbbls, vs. consensus expectations of a 3.0 MMBbbls *draw* and 5-year average of a 0.3 MMBbbls *draw*.** Gasoline stocks *drew* by 4.3 MMBbbls WoW to 234.9 MMBbbls, below API estimates of a 5.8 MMBbbls *draw* but bullish vs. consensus of a 3.0 MMBbbls *draw*. Production decreased 413 MBbbl WoW while net exports *decreased* 89 MBbbl WoW. Implied gasoline demand was down 7.2% YoY and down 8.5% vs. the 5-year average. US gasoline inventory is up 2.3% vs. last year's levels and up 12.3% YoY on days of supply. With some key Gulf Coast capacity down, we expect gasoline inventory will continue to draw in the near-term.
- **Distillate stocks *drew* by 1.7 MMBbbls, vs. consensus expectations of a 1.0 MMBbbls *draw* and 5-year average of a 0.6 MMBbbls *build*.** Distillate stocks *drew* by 1.7 MMBbbls WoW to 177.5 MMBbbls, bullish vs. API estimate of a 1.4 MMBbbls *draw* and vs. consensus of a 1.0 MMBbbls *draw*. Production was down 343 MBbbl WoW while net exports *increased* 135 MBbbl WoW (positive). Implied distillate demand was down 5.2% YoY and down 1.7% vs. the 5-year average. Distillate inventory is up 33.0% YoY and up 40.1% YoY on days of supply.
- **Refining utilization was down 530bps WoW.** Both Gasoline and diesel draws came in ahead of expectations making this release a positive for refiners. PADD 1 gasoline *drew* by 0.5 MMBbbls while distillate *drew* by 0.2 MMBbbls, positive for PBF and PSX. PADD 2 gasoline *drew* by 0.6 MMBbbls and distillate *drew* by 0.2 MMBbbls, positive for all Mid-Con refiners HFC, CVI and PSX. PADD 3 gasoline *drew* by 2.9 MMBbbls and distillate *drew* by 0.4 MMBbbls, positive for VLO and PSX. PADD 5 distillate *drew* by 0.9 MMBbbls and gasoline *drew* by 0.2 MMBbbls, positive for PBF.
- **Oil-Weighted E&Ps are discounting \$45/Bbl long-term WTI prices.** Our top E&P picks are XEC, CXO, FANG, PE, VNOM, VII and CNQ.

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Figure 1: Data from the EIA's weekly data release

MMBbld	Current	Last Week	Delta (MBbld)	Delta (MBbld)	Delta (MBbld)
	8/21/2020	8/14/2020	WoW	YoY	5 yr Avg.
<b>Crude</b>					
Lower 48 Production	10.40	10.30	100	-1,700	670
Refinery runs	14.71	14.49	220	-2,700	-2,440
Imports	5.92	5.73	190	-10	-1,690
Exports	3.36	2.14	1,220	340	1,980
Inventories (mmbbls)	507.76	512.45	-4.69	80.0	66.0
<b>Gasoline</b>					
Production	8.66	8.47	190	-650	-740
Demand	9.16	8.63	530	-740	-500
Imports	0.54	0.56	-20	-430	-220
Exports	0.62	0.81	-190	-80	50
Inventories (mmbbls)	239.18	243.76	-4.58	7.2	10.8
<b>Distillate</b>					
Production	5.12	4.74	380	-70	80
Demand	3.96	3.25	710	-90	-30
Imports	0.13	0.05	80	0	-50
Exports	1.09	1.52	-430	-480	-180
Inventories (mmbbls)	179.20	177.81	1.39	43	35.7

Source: EIA

Figure 2: Data from the EIA's weekly data release vs. API / Consensus

(MMBbls)	WoW Change in Inventories				Delta vs.		
	DOE	API	Consensus	5-Yr Avg	API	Consensus	5-Yr Avg
<b>Crude</b>	-4.69	-4.5	-2.6	-3.78	-0.17	-2.09	-0.91
<b>Gasoline</b>	-4.58	-6.4	-1.7	-0.63	1.81	-2.88	-3.95
<b>Distillate</b>	1.39	2.3	-0.2	-0.27	-0.87	1.59	1.66

Source: EIA, API and Bloomberg

## Key Tables Summarizing DOE Release By PADD

**Figure 3: Crude Inventory Summary (MMBbls)**

Inventory				
Crude	Current	Δ WoW	Δ YoY	Δ 5 yr
PADD 1	12,019	4.2%	9.5%	-20.3%
PADD 2	139,908	-1.0%	12.1%	6.9%
Cushing	52,513	0.2%	30.9%	7.9%
PADD 3	268,661	-2.9%	21.9%	19.9%
PADD 4	24,587	-2.7%	22.7%	17.2%
PADD 5	53,226	0.6%	13.8%	8.2%
<b>Total</b>	<b>498,401</b>	<b>-1.8%</b>	<b>17.8%</b>	<b>13.2%</b>

Source: EIA data

**Figure 4: Crude Imports / Exports**

Crude Imports	Current	Δ WoW	Δ YoY	Δ 5 yr
PADD 1	662	49.4%	-23.5%	-29.0%
PADD 2	2,418	-3.6%	-12.4%	-6.7%
PADD 3	781	-39.1%	-45.8%	-69.2%
PADD 4	329	-8.6%	-32.4%	-9.7%
PADD 5	710	-46.3%	-47.4%	-50.4%
<b>Total Imports</b>	<b>4,900</b>	<b>-17.2%</b>	<b>-29.0%</b>	<b>-37.7%</b>
<b>Total Exports</b>	<b>3,002</b>	<b>-10.7%</b>	<b>-1.9%</b>	<b>125.9%</b>

Source: EIA data

**Figure 5: Gasoline Inventory Summary (MMBbls)**

Inventory				
Gasoline	Current	Δ WoW	Δ YoY	Δ 5 yr
PADD 1	63,224	-0.8%	-2.7%	-1.5%
PADD 2	49,060	-1.2%	-4.7%	-3.4%
PADD 3	87,164	-3.2%	12.9%	11.1%
PADD 4	7,021	-1.8%	-6.8%	4.3%
PADD 5	28,389	-0.7%	0.0%	1.8%
<b>Total</b>	<b>234,858</b>	<b>-1.8%</b>	<b>2.3%</b>	<b>3.0%</b>

Source: EIA data

**Figure 6: Distillate Inventory Summary (MMBbls)**

Inventory				
Distillate	Current	Δ WoW	Δ YoY	Δ 5 yr
PADD 1	64,773	-0.3%	45.3%	24.1%
PADD 2	34,189	-0.6%	1.6%	6.8%
PADD 3	61,988	-0.7%	61.5%	43.3%
PADD 4	4,018	0.1%	-7.9%	9.5%
PADD 5	12,551	-6.6%	0.0%	-3.3%
<b>Total</b>	<b>177,519</b>	<b>-0.9%</b>	<b>33.0%</b>	<b>23.2%</b>

Source: EIA data

**Figure 7: Refinery Utilization (%)**

Utilization	Current	Δ WoW (bps)	Δ YoY (bps)	Δ 5 yr (bps)
PADD 1	68.3%	-140	-80	-1655
PADD 2	88.1%	0	-1140	-1095
PADD 3	73.6%	-1010	-2200	-2122
PADD 4	85.2%	-20	-1690	-900
PADD 5	71.8%	140	-2270	-2218
<b>Total</b>	<b>76.7%</b>	<b>-530</b>	<b>-1810</b>	<b>-1802</b>

Source: EIA data

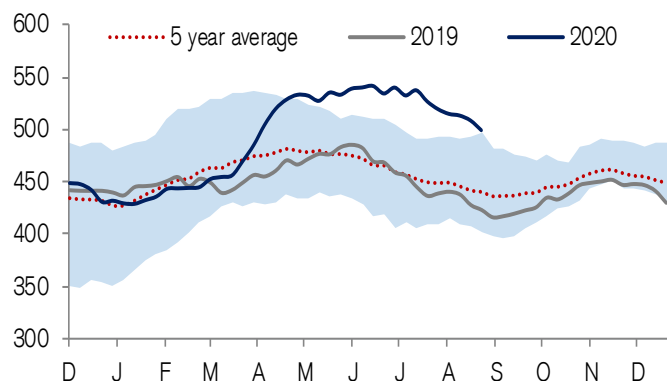
**Figure 8: Days of Supply**

Days of Supply	Current	Δ WoW	Δ YoY	Δ 5 yr
Crude	34.5	-0.5%	42.5%	35.0%
Gasoline	26.5	-2.3%	12.3%	12.1%
Distillate	47.4	-2.4%	40.1%	29.5%
Jet-Kero	39.1	1.0%	75.7%	68.8%

Source: EIA data

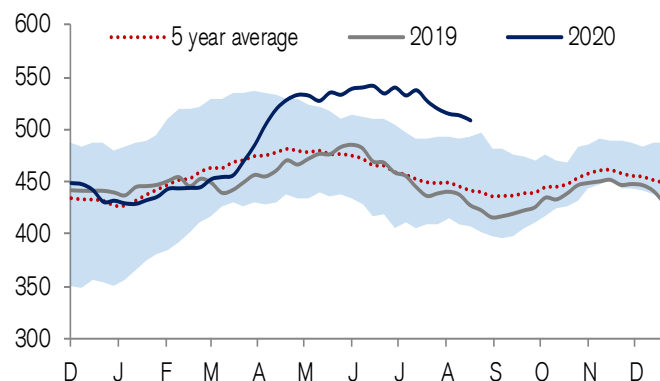
## Key Inventory Charts

**Figure 9: US crude inventories, MMBbbls**



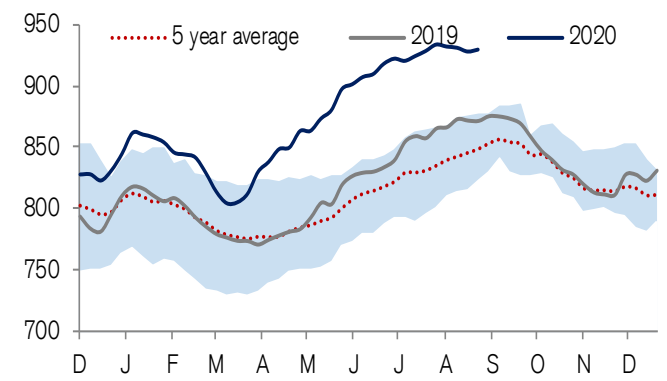
Source: Credit Suisse research, EIA

**Figure 10: US crude forward cover, days**



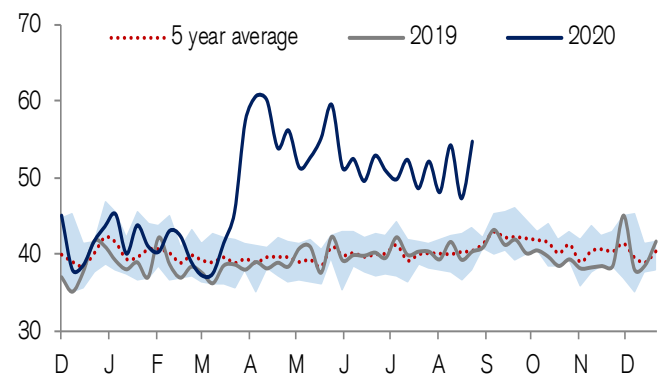
Source: Credit Suisse research, EIA

**Figure 11: US product inventories, MMBbbls**



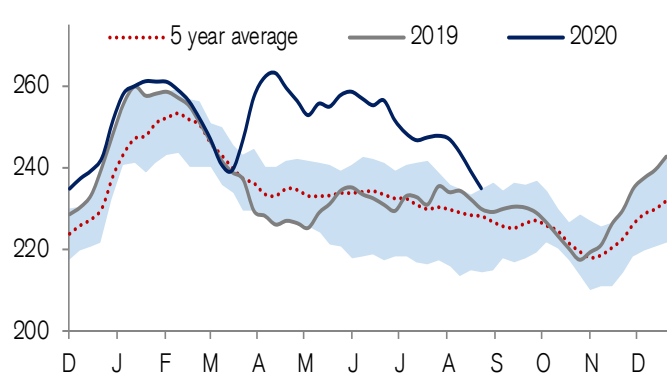
Source: Credit Suisse research, EIA

**Figure 12: US product demand cover, days**



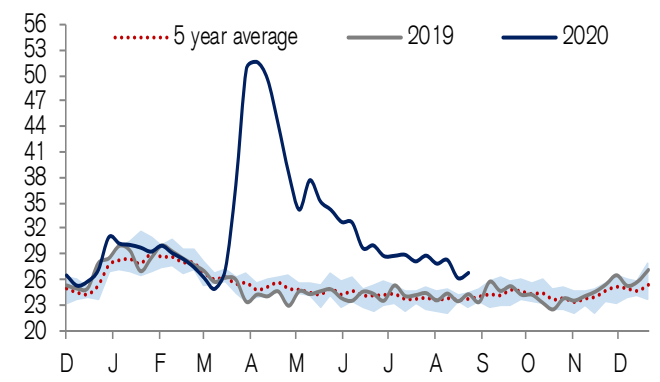
Source: Credit Suisse research, EIA

**Figure 13: US gasoline inventories, MMBbbls**



Source: Credit Suisse research, EIA

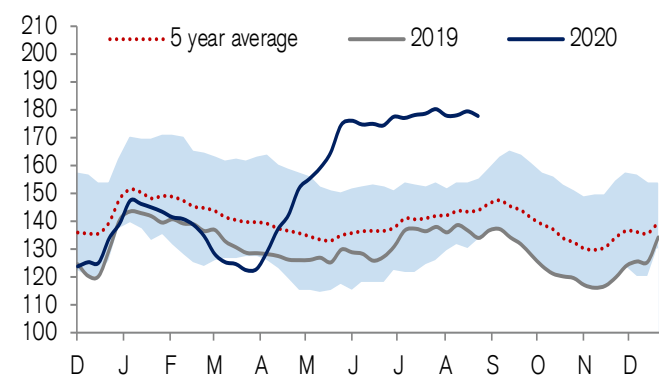
**Figure 14: US gasoline demand cover, days**



Source: Credit Suisse research, EIA

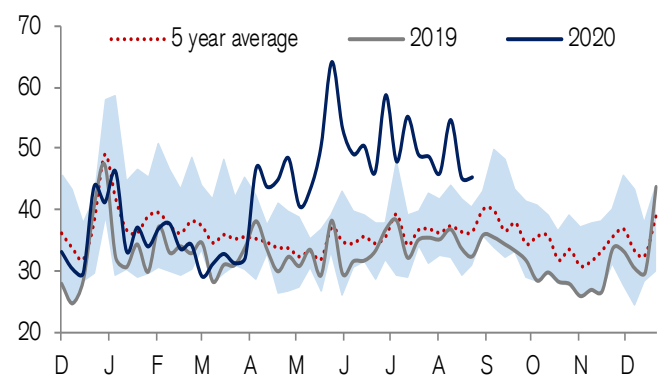
## Key Inventory Charts (Continued)

**Figure 15: US middle distillate inventories, MMBbls**



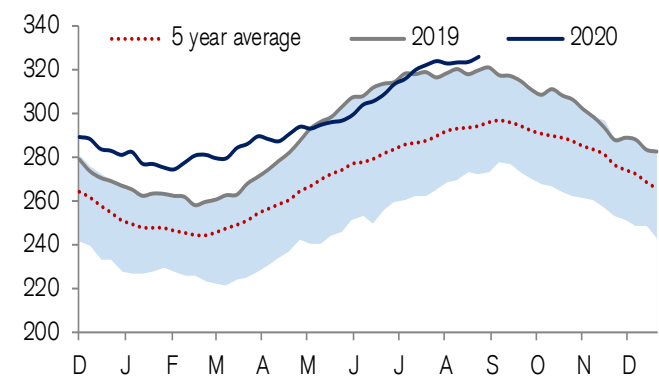
Source: Credit Suisse research, EIA

**Figure 16: US middle distillate demand cover, days**



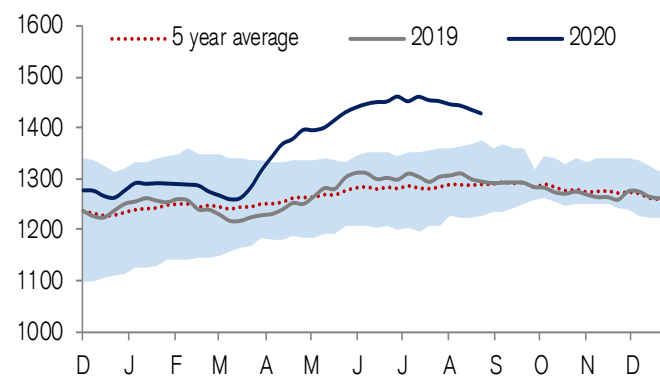
Source: Credit Suisse research, EIA

**Figure 17: US other product inventories, MMBbls**



Source: Credit Suisse research, EIA

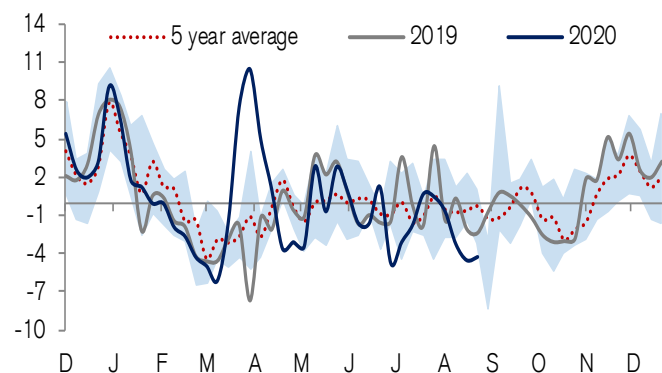
**Figure 18: Total US commercial inventories, MMBbls**



Source: Credit Suisse research, EIA

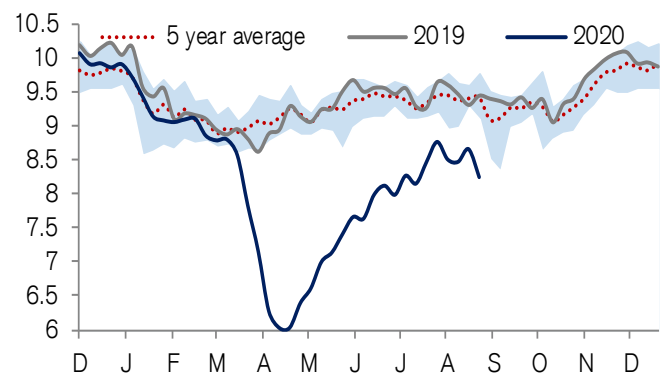
## US Gasoline Balance

**Figure 19: US gasoline stock change, MMBbls**



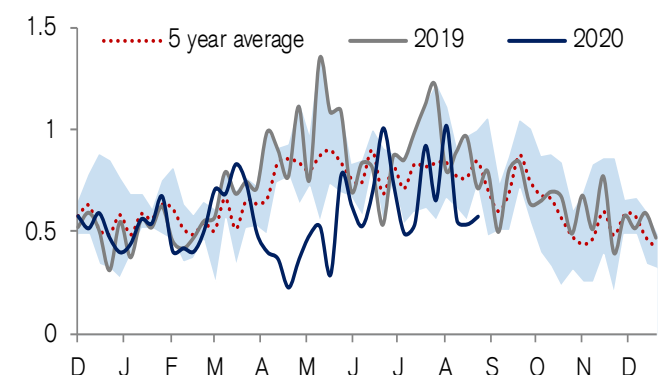
Source: Credit Suisse research, EIA

**Figure 20: US gasoline production, MMBbld**



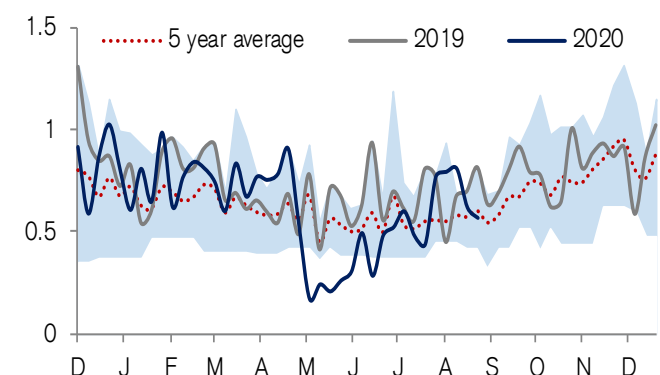
Source: Credit Suisse research, EIA

**Figure 21: Total US gasoline imports, MMBbld**



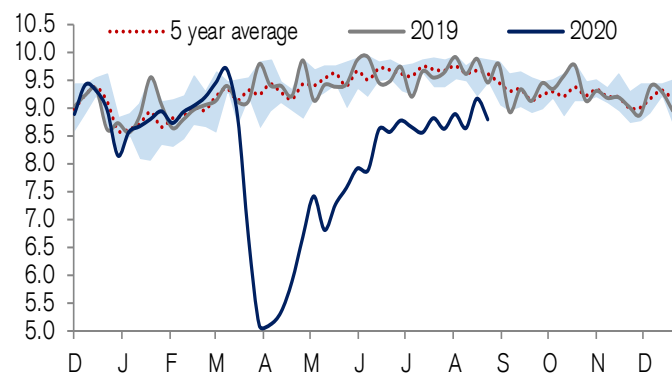
Source: Credit Suisse research, EIA

**Figure 22: Finished US gasoline exports, MMBbld**



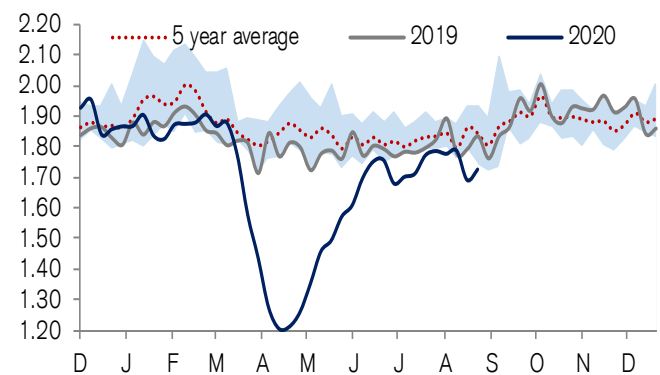
Source: Credit Suisse research, EIA

**Figure 23: Implied US gasoline demand, MMBbld**



Source: Credit Suisse research, EIA

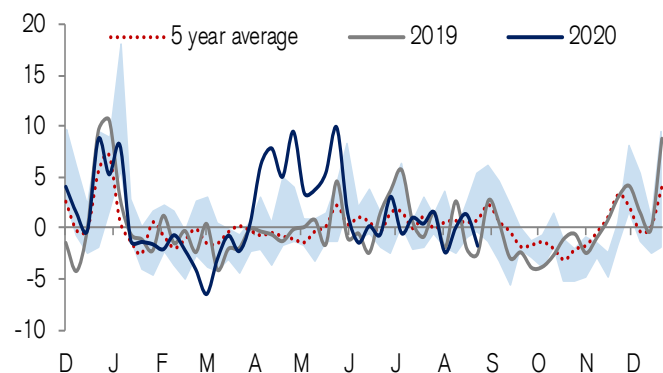
**Figure 24: US gasoline-to-distillate production ratio**



Source: Credit Suisse research, EIA

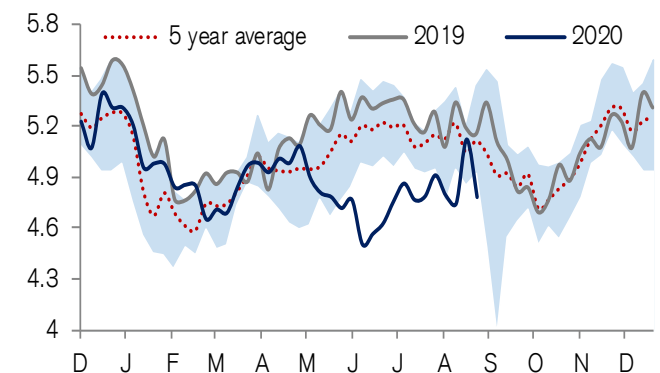
## US Distillate Balance

**Figure 25: US distillate stock change, MMBbbls**



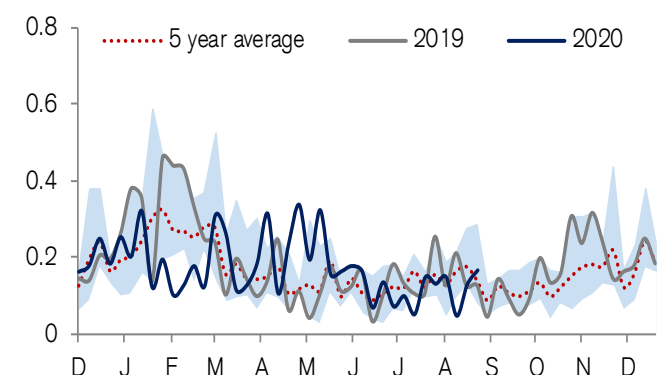
Source: Credit Suisse research, EIA

**Figure 26: US distillate production, MMBbbl**



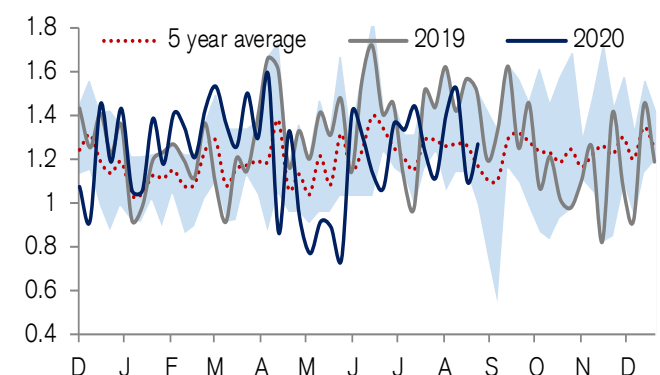
Source: Credit Suisse research, EIA

**Figure 27: US distillate imports, MMBbbl**



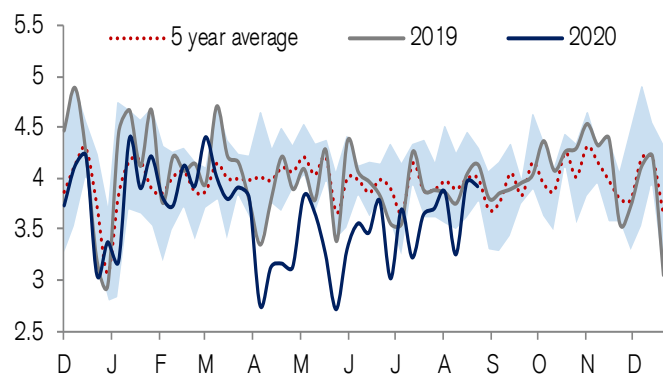
Source: Credit Suisse research, EIA

**Figure 28: US distillate exports, MMBbbl**



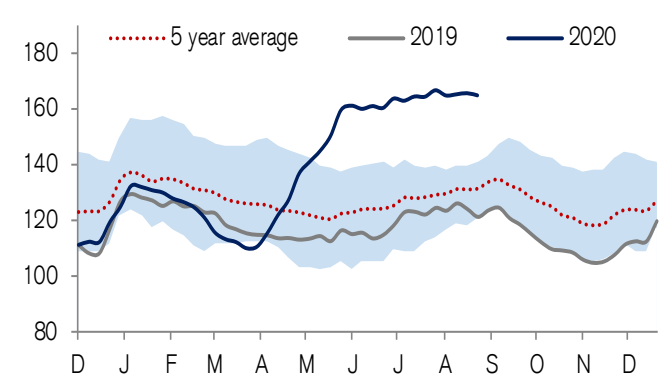
Source: Credit Suisse research, EIA

**Figure 29: Implied distillate demand, MMBbbl**



Source: Credit Suisse research, EIA

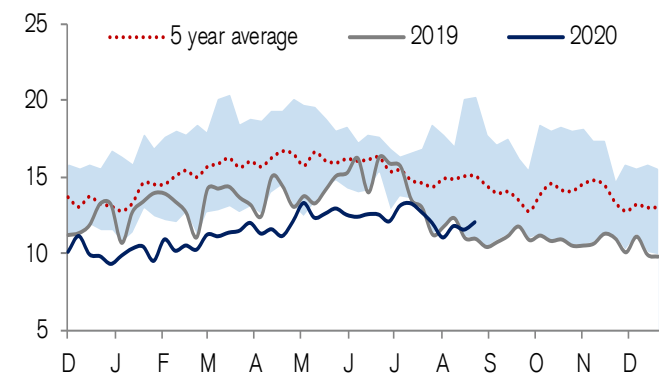
**Figure 30: US distillate inventories, MMBbbls**



Source: Credit Suisse research, EIA

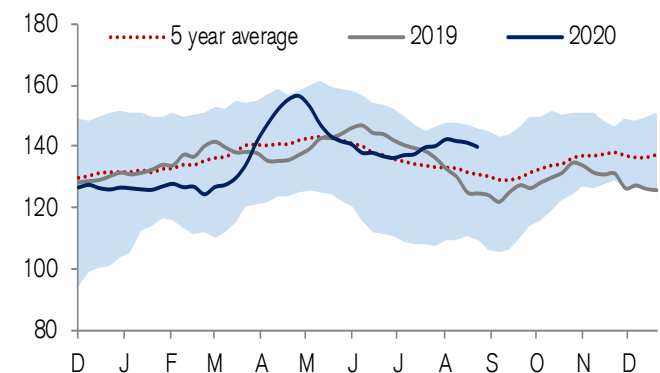
## US Crude Inventories Breakdown

**Figure 31: PADD I crude inventories, MMBbbls**



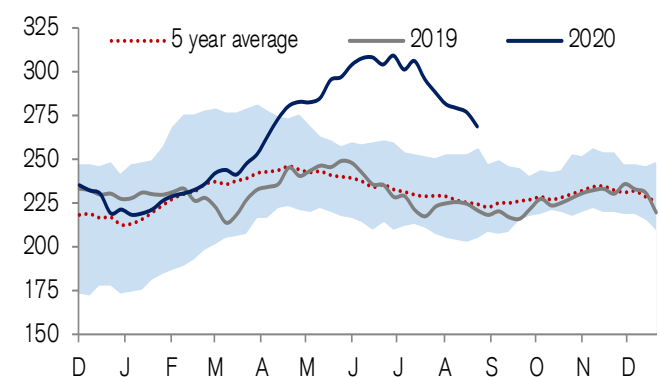
Source: Credit Suisse research, EIA

**Figure 32: PADD II crude inventories, MMBbbls**



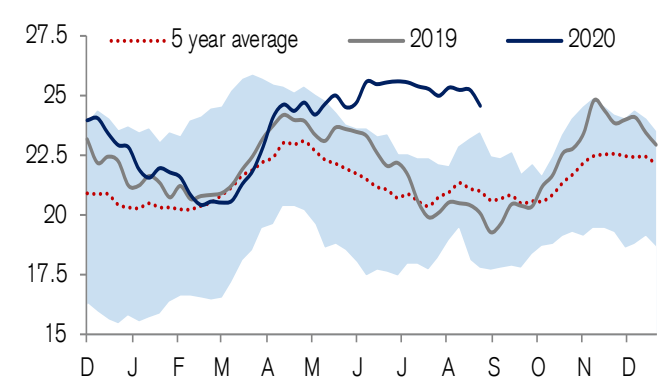
Source: Credit Suisse research, EIA

**Figure 33: PADD III crude inventories, MMBbbls**



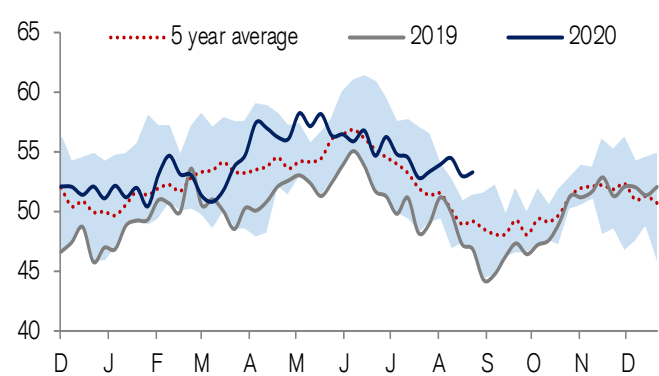
Source: Credit Suisse research, EIA

**Figure 34: PADD IV crude inventories, MMBbbls**



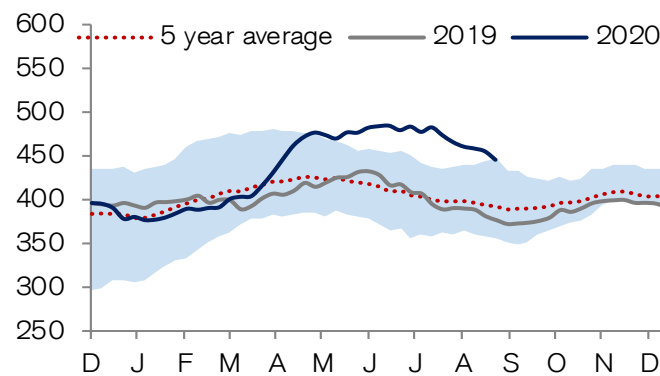
Source: Credit Suisse research, EIA

**Figure 35: PADD V crude inventories, MMBbbls**



Source: Credit Suisse research, EIA

**Figure 36: PADD I-IV crude inventories, MMBbbls**

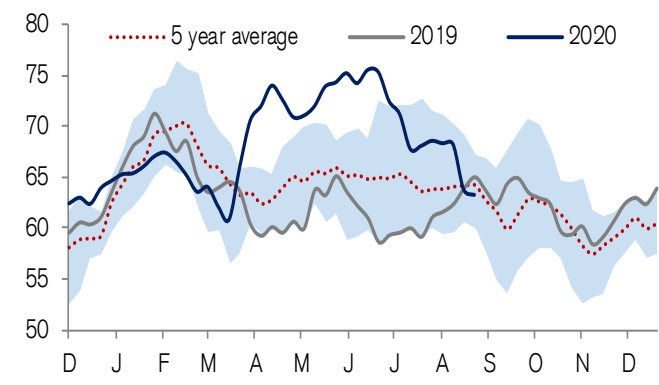


Source: Credit Suisse research, EIA



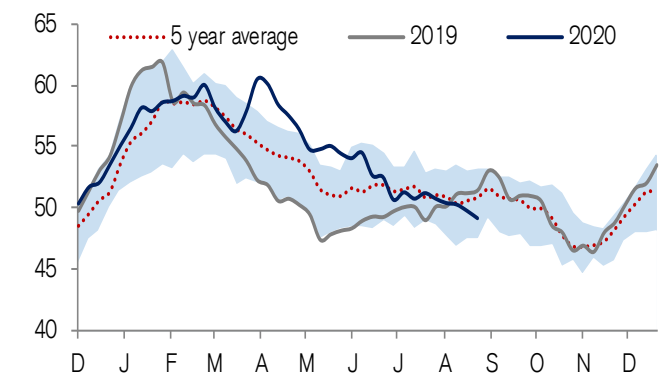
## US Gasoline Inventories Breakdown

**Figure 37: PADD I gasoline inventories, MMBbbls**



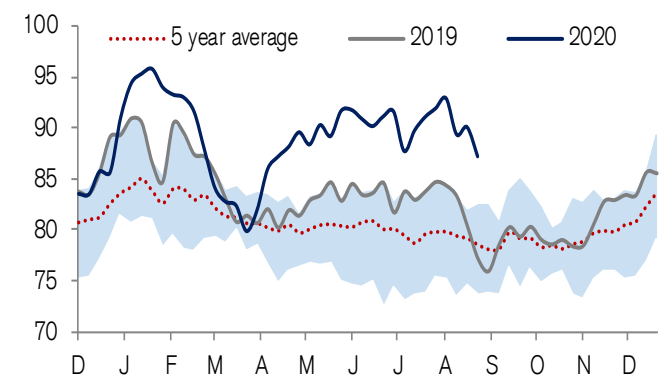
Source: Credit Suisse research, EIA

**Figure 38: PADD II gasoline inventories, MMBbbls**



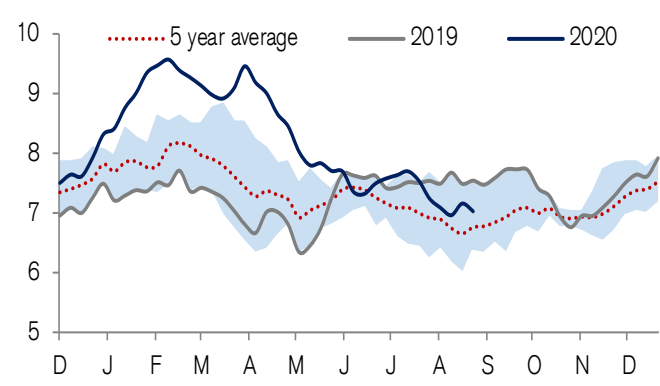
Source: Credit Suisse research, EIA

**Figure 39: PADD III gasoline inventories, MMBbbls**



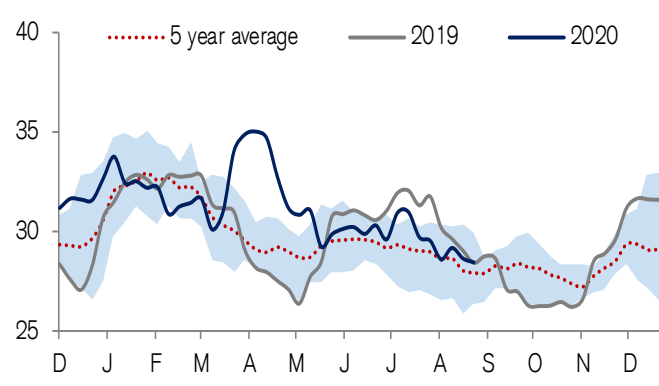
Source: Credit Suisse research, EIA

**Figure 40: PADD IV gasoline inventories, MMBbbls**



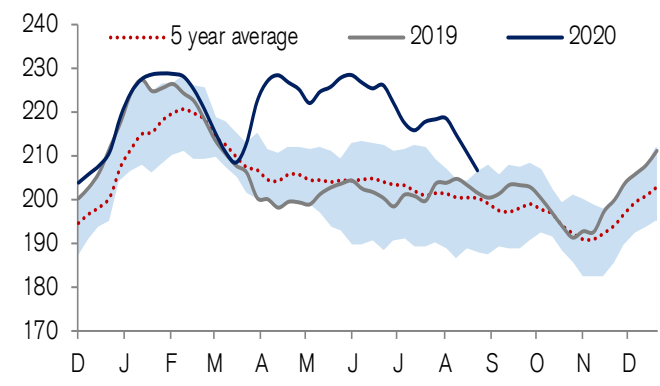
Source: Credit Suisse research, EIA

**Figure 41: PADD V gasoline inventories, MMBbbls**



Source: Credit Suisse research, EIA

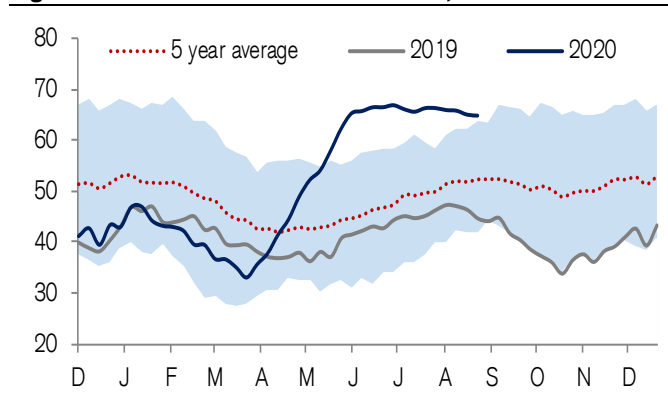
**Figure 42: PADD I-IV gasoline inventories, MMBbbls**



Source: Credit Suisse research, EIA

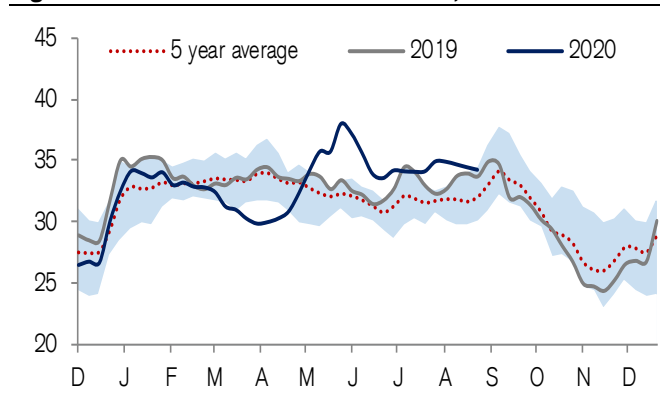
## US Distillate Inventories Breakdown

**Figure 43: PADD I distillate inventories, MMBbbls**



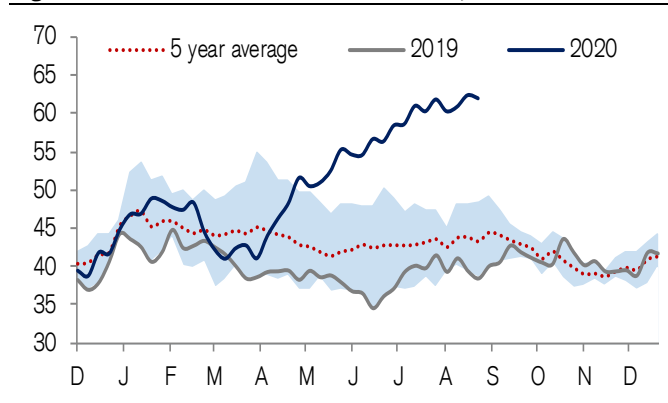
Source: Credit Suisse research, EIA

**Figure 44: PADD II distillate inventories, MMBbbls**



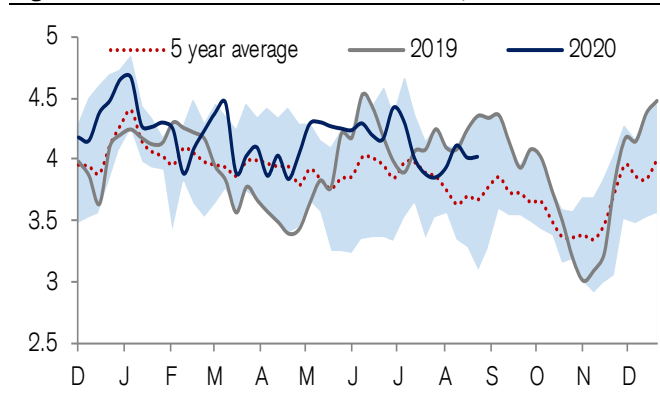
Source: Credit Suisse research, EIA

**Figure 45: PADD III distillate inventories, MMBbbls**



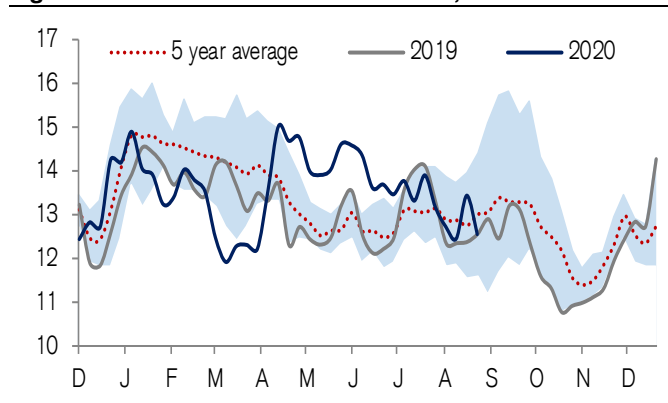
Source: Credit Suisse research, EIA

**Figure 46: PADD IV distillate inventories, MMBbbls**



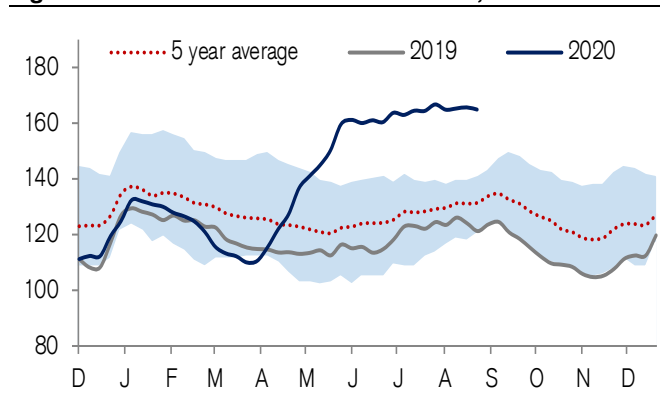
Source: Credit Suisse research, EIA

**Figure 47: PADD V distillate inventories, MMBbbls**



Source: Credit Suisse research, EIA

**Figure 48: PADD I-IV distillate inventories, MMBbbls**



Source: Credit Suisse research, EIA

Figure 49: Overview of crude and product deltas

	this week 8/28/2020	last week 8/21/2020	WoW delta		52 weeks 8/28/2020	5 yr avg 8/28/2020	delta	
			volume	%			52 weeks	5 yr avg
<b>Crude</b>								
Estimated production	9.2	10.4	-1200	-11.5%	12.00	9.72	-2800	-520
Refinery runs	13.87	14.7	-840	-5.7%	17.4	17.2	-3510	-3280
Utilization rate	76.7%	82.0%	-5.30%	-6.5%	94.80%	94.72%	-18.1%	-18.0%
4 week average	14.4	14.6	-192	-1.3%	17.4	17.2	-3015	-2808
Stocks (Mbs)	498.40	507.76	-9.4	-1.8%	423.0	440.2	75.4	58.2
PADD I	12.0	11.5	0.5	4.2%	11.0	15.1	1.0	-3.1
PADD II	139.9	141.3	-1.4	-1.0%	124.8	130.9	15.1	9.0
PADD III	268.7	276.7	-8.1	-2.9%	220.4	224.1	48.3	44.6
PADD IV	24.6	25.3	-0.7	-2.7%	20.1	21.0	4.5	3.6
PADDs II + IV	164.5	166.6	-2.1	-1.3%	144.9	151.9	19.6	12.6
PADD V	53.2	52.9	0.3	0.6%	46.8	49.2	6.5	4.0
Refinery run cover	35.9	34.5	1.4	4.1%	24.3	25.7	11.6	10.2
Imports	4.9	5.92	-1020	-17.2%	6.9	7.9	-2000	-2960
Exports	3	3.36	-360	-10.7%	3.06	1.33	-60	1670
<b>Gasoline</b>								
Production	8.25	8.66	-410	-4.7%	9.44	9.41	-1190	-1160
Implied demand	8.79	9.2	-370	-4.0%	9.5	9.6	-680	-810
4 week average	8.9	8.8	43	0.5%	9.7	9.7	-868	-788
Stocks	234.9	239.2	-4.3	-1.8%	229.6	228.1	5.3	6.8
Demand cover	26.7	26.1	0.6	2.3%	24.2	23.8	2.5	3.0
Imports	0.58	0.54	40	7.4%	0.7	0.8	-140	-260
Exports	0.57	0.62	-50	-8.1%	0.82	0.60	-250	-30
<b>Distillate</b>								
Production	4.78	5.12	-340	-6.6%	5.15	5.11	-370	-330
Implied demand	3.9	4.0	-40	-1.0%	4.1	4.0	-210	-70
4 week average	3.7	3.7	55	1.5%	4.0	4.0	-203	-210
Stocks	177.5	179.2	-1.7	-0.9%	133.5	144.1	44.0	33.4
Demand cover	45.3	45.3	0.0	0.1%	32.3	36.1	13.0	9.2
Imports	0.17	0.13	40	30.8%	0.1	0.1	40	30
Exports	1.27	1.09	180	16.5%	1.51	1.18	-240	90
<b>Jet/Kero</b>								
Implied demand	0.94	1.14	-200	-17.5%	1.88	1.81	-940	-870
4 week average	1.0	1.0	-18	-1.7%	1.9	1.8	-903	-785
Stocks	39.6	39.9	-0.3	-0.8%	42.6	41.5	-3.0	-1.9
Demand cover	42.1	35.0	7.1	20.3%	22.7	22.9	19.5	19.2
<b>Residual Fuel Oil</b>								
Implied demand	0.14	0.26	-120	-46.2%	0.53	0.34	-390	-200
4 week average	0.3	0.3	-30	-10.4%	0.4	0.3	-138	-40
Stocks	36.2	35.6	0.7	1.9%	30.1	34.7	6.2	1.6
Demand cover	258.9	136.8	122.0	89.2%	56.7	102.0	202.1	156.8
<b>Total Products</b>								
Total Products Supplied	17.0	19.6	-2640	-13.5%	21.63	21.02	-4650	-4040
4 week average	18.3	18.5	-232	-1.3%	21.7	21.0	-3448	-2753
Stocks	929.9	928.3	1.6	0.2%	872.0	848.5	57.9	81.4
Demand cover	54.8	47.3	7.5	15.7%	40.3	40.4	14.5	14.4

Source: Credit Suisse research, EIA

## Valuation, Methodology and Risks

### Target Price and Rating

#### Valuation Methodology and Risks: (12 months) for 7G (VII.TO)

**Method:** Our Outperform rating and \$6.5 PT is based on: 3.75x EBIDAX multiple on our \$1.08Bn FY21 earnings, less corporate expenses + debt => \$6.5/share.

**Risk:** Risks to our Outperform rating and C\$6.5 PT for VII include, but are not limited to: (1) operations risk - financial performance is dependent on oil and gas production, which is dependent on operations execution; (2) exploration risk - there is no guarantee of exploration success should the company decide to conduct step-out drilling or appraise new discoveries; and (3) commodity pricing risk - underlying asset values are dependent on commodity prices, which can be volatile.

### Target Price and Rating

#### Valuation Methodology and Risks: (12 months) for Canadian Natural (CNQ.TO)

**Method:** Our C\$32 target price for Canadian Natural, which helps drive our Outperform rating, is based on sum-of-the-parts analysis: We value Oil Sands at 8.00x our CY21 EBIDAX of C\$3.7Bn, E&P at 7.5x EBIDAX of C\$4.0Bn, and Midstream at 10.0x EBIDAX of C\$140M, less corporate expenses + debt, which equates to C\$32/share.

**Risk:** Risks to our Outperform rating and 12-month target price of C\$32 for Canadian Natural are lower crude prices, wider WTI-Syncrude spread as well as production cuts coming off too soon that could lead to re-widening of differentials. Natural gas is 24% of CNQ's production and lower gas prices are a risk to earnings.

### Target Price and Rating

#### Valuation Methodology and Risks: (12 months) for Cimarex Energy Co. (XEC.N)

**Method:** Our \$40 per share target price and Outperform rating for XEC are based on a blended ~5.5x 2021E EV/EBITDX and ~0.70x 2P NAV. Our Outperform rating is a function of total shareholder return over the next 12 months and the relative risk/reward versus our coverage universe.

**Risk:** Risks to achievement of our \$40/share target price and Outperform rating for XEC include: (1) a protracted downturn in oil and gas prices, (2) higher-than-expected decline rates in producing wells, (3) rising well costs, and (4) infrastructure constraints that would impact XEC from getting its production to market.

### Target Price and Rating

#### Valuation Methodology and Risks: (12 months) for Concho Resources Inc. (CXO.N)

**Method:** Our \$70 target price is based on a blended average of 6.0x 2021E EV/EBITDX and 0.9x NAV. Our Outperform rating is a function of total shareholder return over the next 12 months and the relative risk/reward versus our coverage universe.

**Risk:** Risks to achievement of our \$70 target price and Outperform rating for CXO are: (1) a protracted downturn in oil and gas prices could impact the company's ability to grow within cash flow and deliver the current long-term growth plan, (2) higher-than-expected decline rates in producing wells, (3) rising well costs.

### Target Price and Rating

#### Valuation Methodology and Risks: (12 months) for Delek US Holdings (DK.N)

**Method:** Our \$20 Price Target, which helps drive our Neutral rating, is based on a sum-of-the-parts methodology: 3.75x EBITDA multiple on our \$439m CY21 refining est. + 9.0x EBITDA multiple on our \$48m of CY20 Retail EBITDA + 8x on our \$137m (net) CY21 DKL EBITDA est. + 8x on our \$38m CY20 DKL IDR est + 3.0x uplift on \$40m of droppable EBITDA, then subtracting out corp expenses + debt => \$20/share.

**Risk:** Upside risks to our Neutral rating and \$20 TP: Midland starts to trade at a discount to Cushing. Downside: Midland trading at \$2-\$3/bbl premium to Cushing, overpaying for M&A, weaker base cracks, and downtime.

### Target Price and Rating

#### Valuation Methodology and Risks: (12 months) for Devon Energy Corporation (DVN.N)

**Method:** Our \$15 target price is based on a blended average of ~5.5x 2021E EV/EBITDX and ~0.85x NAV. Our Outperform rating is a function of total shareholder return over the next twelve months and the relative risk/reward versus our coverage universe.

**Risk:** DVN faces a number of risks that could prevent the stock from reaching our \$15 target price and Outperform rating including: In general, DVN and oil and gas companies are subject to changes in global commodity supply/demand, accidents, equipment malfunctions, as well as a number of geological-related issues that could adversely affect the company's ability to conduct its operations as planned.

**Target Price and Rating****Valuation Methodology and Risks: (12 months) for Diamondback Energy, Inc. (FANG.OQ)**

**Method:** Our \$57 target price is based on a blended average of 5.5x 2021E EBITDX and 0.7x NAV. Our Outperform rating is a function of total shareholder return over the next twelve months and the relative risk/reward versus our coverage universe.

**Risk:** Risks to achievement of our \$57 target price and Outperform rating for FANG are (1) a protracted downturn in oil and gas prices, (2) higher than expected decline rates in producing wells, (3) rising well costs, and (4) infrastructure constraints that would impede FANG from getting its production to market.

**Target Price and Rating****Valuation Methodology and Risks: (12 months) for HollyFrontier Corporation (HFC.N)**

**Method:** Our \$35 Price Target, which helps drive our Neutral rating, is based on a sum-of-the-parts methodology: 5.75x EBITDA multiple on our \$0.94b CY21 refining est., 9.0x on our \$63m CY20 PCLI (lubes) est., 9x on our \$207m (net) CY21 HEP EBITDA est, less corp expenses + debt => brings us to \$35/share.

**Risk:** Risks to our Neutral rating and \$35 target price for HollyFrontier Corporation (HFC) are Upside: Wider Brent-WTI spreads, reasonably-priced Mid-Con refining M&A, and downtime at Mid-Con competitors. Downside: Narrow Brent-WTI diffs, execution risk on the lubes strategy, and declines in Rockies performance.

**Target Price and Rating****Valuation Methodology and Risks: (12 months) for Parsley Energy, Inc. (PE.N)**

**Method:** Our 12-month target price of \$14 is based on a blended ~6.0x 2021E EV/EBITDX and ~0.75x 2P NAV. Our Outperform rating is a function of total shareholder return over the next twelve months and the relative risk/reward versus our coverage universe.

**Risk:** Risks to achievement of our \$14 target price and Outperform rating for PE are (1) a protracted downturn in oil and gas prices, (2) higher than expected decline rates in producing wells, (3) rising well costs, and (4) infrastructure constraints that would impede PE from getting its production to market.

**Target Price and Rating****Valuation Methodology and Risks: (12 months) for Phillips 66 (PSX.N)**

**Method:** Our \$82 target price, which helps drive our Outperform rating, is based on a SOTP methodology: 6.25x EBITDA multiple on our \$3.2b CY21 refining est., 9.0x on our \$1.2Bn CY21 marketing est., 5.75x on our \$1.4b CY21 chemicals EBITDA and total midstream (PSX midstream, PSXP and DCP) valued at \$16Bn, less corp exp / debt, and all of this together gives us \$82/share.

**Risk:** Risks to our \$82 target price and Outperform rating for Phillips 66 (PSX) are: Upside: Higher global cracks, wider Brent-WTI, wider LPG export arbs, higher polyethylene demand. Downside: Delays on the start-up of the new cracker, lower global cracks, narrower Brent-WTI, unplanned downtime.

**Target Price and Rating****Valuation Methodology and Risks: (12 months) for Pioneer Natural Resources Company (PXD.N)**

**Method:** Our \$120 price target is based on a blended average of ~7.0x 2021E EBITDX and ~0.65x NAV. We rate PXD Outperform as we expect its total return to exceed its peers.

**Risk:** Risks our \$120 target price and Outperform rating for PXD are (1) a protracted downturn in oil and gas prices, (2) delays and lower recovery factors than projected in PXD's shale development projects, (3) higher than expected decline rates in producing wells, (4) rising well costs, and (5) infrastructure constraints that would impede PXD from getting its production to market.

**Target Price and Rating****Valuation Methodology and Risks: (12 months) for Valero Energy Corporation (VLO.N)**

**Method:** Our \$70 price target, which helps drive our Outperform rating, is based on a sum-of-the-parts methodology: 6.0x EBITDA multiple on our \$5.7Bn CY21 refining est., 5.25x on our \$173m CY21Bn Ethanol segment EBITDA, 10.0x on our \$558m CY21E Renewable Diesel segment EBITDA, less corp expenses + debt => gives us \$70/share.

**Risk:** Risks to our \$70 target price and Outperform rating are: weaker base cracks, narrower diffs, and lower exports. We view global recession as a major risk to refiners in general. Unplanned downtime at VLO refineries would be a risk to VLO earnings.

**Target Price and Rating****Valuation Methodology and Risks: (12 months) for Viper Energy Partners (VNOM.OQ)**

**Method:** Our \$15 target price is based on a blended average of 10% 2021E cash flow yield and ~0.8x NAV. Our Outperform rating and target price are a function of total shareholder value over the next 12 months.

**Risk:** Risks to our \$15 target price and Outperform rating include: a protracted downturn in commodity prices, decreased drilling activity on VNOM's assets, royalty revenue dependent on two operators, any changes to the tax treatment of MLPs, and longer-term access to capital markets to fund growth.

**Target Price and Rating**

**Valuation Methodology and Risks: (12 months) for WPX Energy Inc. (WPX.N)**

**Method:** Our \$8 target price for WPX is based on a blended ~5.0x 2021E EBITDX and ~0.70x 2P NAV. Our Outperform rating is a function of total shareholder return over the next twelve months and the relative risk/reward versus our coverage universe.

**Risk:** Risks to our \$8 target price and Outperform rating for WPX are (1) a protracted downturn in oil and gas prices, (2) higher than expected decline rates in producing wells, (3) rising well costs, and (4) infrastructure constraints that would impact WPX from getting its production to market.

**Companies Mentioned** (Price as of 02-Sep-2020)

**7G** (VII.TO, C\$4.16)  
**Canadian Natural** (CNQ.TO, C\$26.1)  
**Cimarex Energy Co.** (XEC.N, \$28.9)  
**Concho Resources Inc.** (CXO.N, \$51.14)  
**Delek US Holdings** (DK.N, \$15.18)  
**Devon Energy Corporation** (DVN.N, \$10.91)  
**Diamondback Energy, Inc.** (FANG.OQ, \$38.48)  
**HollyFrontier Corporation** (HFC.N, \$23.96)  
**Parsley Energy, Inc.** (PE.N, \$10.82)  
**Phillips 66** (PSX.N, \$58.79)  
**Pioneer Natural Resources Company** (PXD.N, \$102.98)  
**Valero Energy Corporation** (VLO.N, \$52.47)  
**Viper Energy Partners** (VNOM.OQ, \$10.14)  
**WPX Energy Inc.** (WPX.N, \$5.64)

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**Disclosure Appendix**


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This research report is authored by:

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