

Why It's Good to Be an Oil Refiner This Earnings Season

 zacks.com/stock/news/2077582/why-its-good-to-be-an-oil-refiner-this-earnings-season

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As the energy sector undergoes a significant shift toward renewable energy sources, it's important to keep a tab on the performance of traditional energy sources. According to Bank of America's recent outlook for the energy sector, the oil refining industry is in a "golden age", with analysts predicting the best Q1 results ever for U.S. oil refiners. This is excellent news for companies in the sector like **Marathon Petroleum** ([MPC](#) - [Free Report](#)) , **CVR Energy** ([CVI](#) - [Free Report](#)) , and **Valero Energy** ([VLO](#) - [Free Report](#)) . Before getting into the stocks, it's essential to understand what's driving this trend.

Key Factors Behind Refiners' Profit Surge

At first glance, it may seem counterintuitive that the oil refining industry is doing so well. After all, the world is moving toward renewable energy and oil is widely considered a non-renewable resource. However, there are several factors at play here that are driving the industry's growth.

One of the most significant factors driving the oil refining industry's growth is the current demand for gasoline. The pandemic led to a significant drop in gasoline demand in 2020, but this year, demand has rebounded significantly, thanks to the return of normal economic activity. This rebound in demand has led to higher prices for gasoline, which has helped boost oil refiners' profits.

Another factor driving the industry's growth is the current state of the global oil market. The Organization of the Petroleum Exporting Countries has been limiting oil production to help support prices. Additionally, the recent cold snap in Texas, which is a significant producer of oil, caused significant disruptions to the industry, further driving up prices.

The "Golden Age" of Refining

As mentioned in a Bank of America report, the refining industry is currently experiencing a "golden age." This can be attributed to several factors, including increased demand for refined petroleum products, low crude oil prices and improvements in refining technology.

According to the U.S. Energy Information Administration, the refining industry has seen steady growth over the past decade, with 2022 seeing record-high levels of petroleum product demand. This trend is expected to continue in 2023, with experts projecting a 3.5% increase in demand for gasoline alone.

Furthermore, advancements in refining technology have allowed companies to process heavier crude oils, resulting in higher yields of valuable products such as gasoline, diesel, and jet fuel. This has enabled refiners to maintain profitability despite low crude oil prices.

The Impact of Environmental Regulations

While the refining industry is experiencing a period of growth, it is not without its challenges. Environmental regulations are becoming increasingly stringent, particularly with regard to greenhouse gas emissions.

In response, refiners are investing heavily in technologies that reduce emissions, such as carbon capture and storage and hydrogen production. While these technologies are still in the early stages of development, they have shown promise in reducing the environmental impact of the industry.

The Role of Refiners in the Energy Sector

As the Bank of America report noted, oil refiners are leading the energy sector outlook for Q1 2023. This is due in part to the industry's resilience in the face of low crude oil prices as well as increased demand for refined petroleum products.

In addition, refiners are playing a key role in the transition to cleaner energy sources. Many companies are investing in renewable fuels such as biofuels and hydrogen as well as CCS technologies. By embracing these technologies, refiners are positioning themselves as key players in the energy transition.

Solid Industry Rank

The Zacks Oil and Gas – Refining and Marketing is a 16-stock group within the broader Zacks Oil - Energy sector. The industry currently carries a Zacks Industry Rank #37, which places it in the top 15% of more than 250 Zacks industries.

The group's Zacks Industry Rank, which is basically the average of the Zacks Rank of all the member stocks, indicates bullish near-term prospects. Our research shows that the top 50% of the Zacks-ranked industries outperform the bottom 50% by a factor of more than 2 to 1.

Which Companies Will Gain the Most?

A company that is enjoying the benefits of the robust refining environment is **CVR Energy**. CVR has been able to take advantage of the lower crude oil prices to achieve strong operational performance. In addition, the company has undertaken several initiatives aimed at reducing its cost of operations, such as increasing its focus on high-margin products, reducing its headcount and improving its energy efficiency. As a result, CVR is expected to report strong Q1 results, with its share price already reflecting the expected good news.

The current Zacks Consensus Estimate for the to-be-reported quarter is a profit of 98 cents per share. The estimated figure indicates an astounding 4,800% increase year over year. Currently, CVR Energy carries a Zacks Rank #1 (Strong Buy). You can see [the complete list of today's Zacks #1 Rank stocks here](#)

Marathon Petroleum is set to benefit from the strong refining environment. This downstream operator is focused on optimizing its portfolio and improving its operational performance. Marathon is also making strategic investments aimed at reducing its carbon footprint, in line with the industry's transition toward cleaner energy sources.

The current Zacks Consensus Estimate for the to-be-reported quarter is a profit of \$5.17 per share. The estimated figure indicates a 247% increase year over year. In other words, Marathon Petroleum is expected to report strong Q1 earnings. MPC carries a Zacks Rank #2 (Buy)

Valero Energy is among the companies that have leveraged the robust refining environment to great benefit. This is partly due to the company's focus on optimizing its portfolio and capacity utilization, which helped it to achieve strong operational performance.

The current Zacks Consensus Estimate for the to-be-reported quarter is a profit of \$6.70 per share. The estimated figure indicates a 190% jump year over year. Currently, VLO carries a Zacks Rank of 2.

4 Oil Stocks with Massive Upsides

Global demand for oil is through the roof... and oil producers are struggling to keep up. So even though oil prices are well off their recent highs, you can expect big profits from the companies that supply the world with "black gold."

Zacks Investment Research has just released an urgent special report to help you bank on this trend.

In *Oil Market on Fire*, you'll discover 4 unexpected oil and gas stocks positioned for big gains in the coming weeks and months. You don't want to miss these recommendations.

[Download your free report now to see them.](#)