



Valero

Gerry Neugent III – FINC 356
March, 2023



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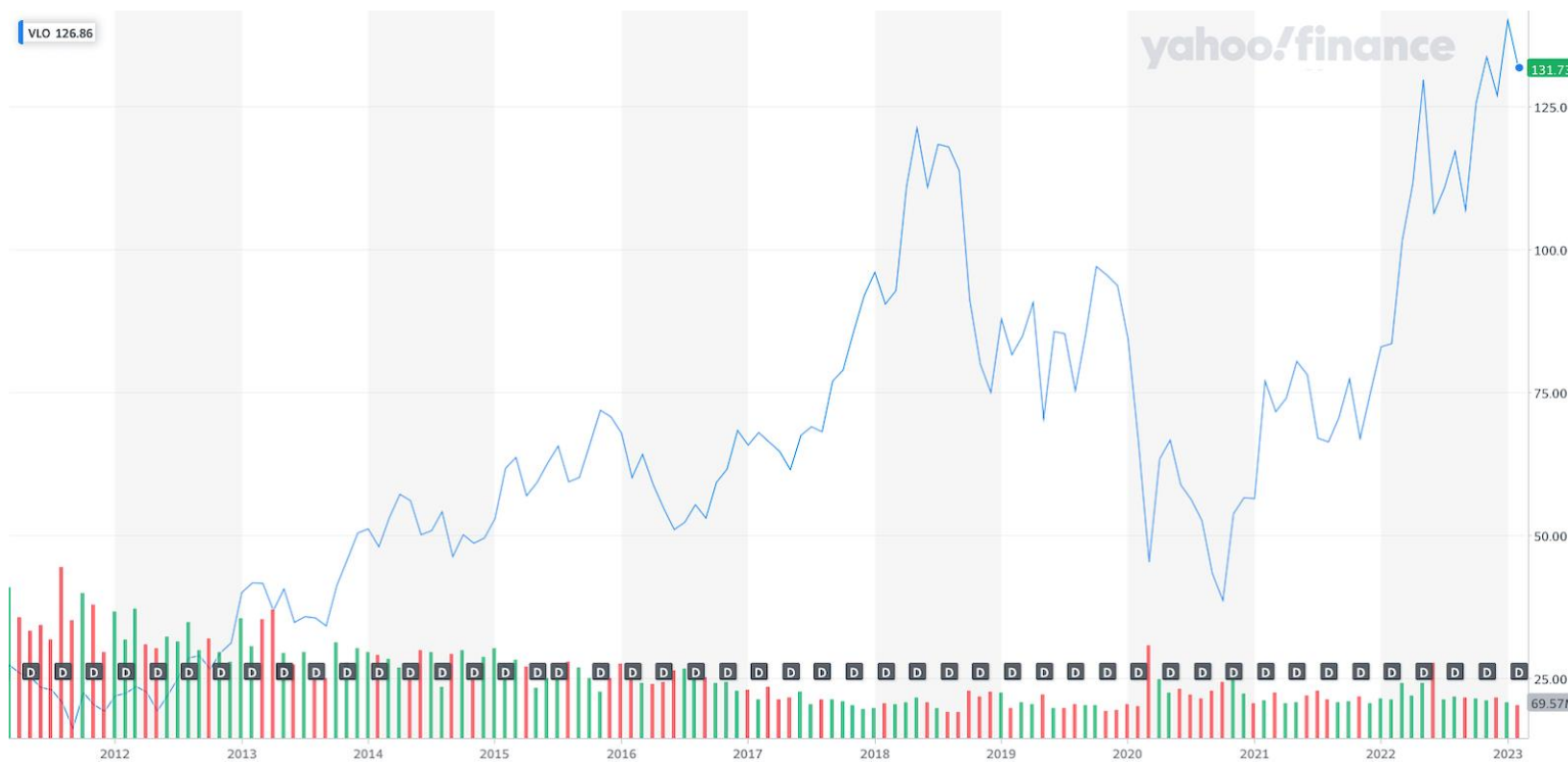
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Investment Thesis

- Buy Valero Energy Corp (VLO) Shares
- Target Price: \$214.72
- Upside > 54%
- Key Drivers:
 - Well positioned to succeed in a new low-carbon economy
 - Profit Margin increasing despite economic conditions
 - Excels relative to its peers
 - Refining will continue to be a powerful industry as oil remains the #1 fuel for some time still



Price Chart and Summary Data



Share Price	\$139.29
Market Cap	\$51.698B
Dividend Yield (%)	3.10%
Beta	1.63
Debt / Equity	.457
P / E	4.78
P / B	2
ROE	54.7%*

Business Description



- “Valero is the largest independent petroleum refiner in the world”
- A leading renewable fuels producer today

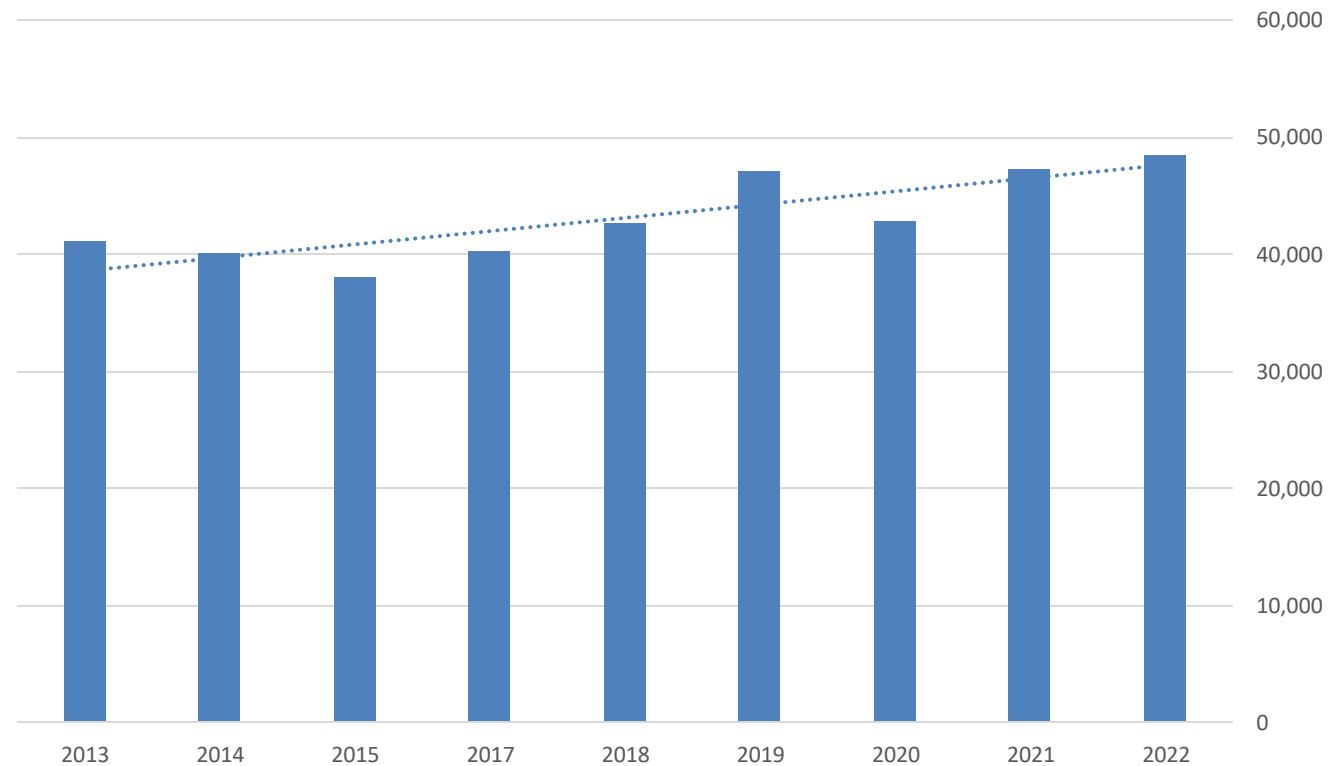


Joe Gorder, CEO

Lane Riggs, President & COO

Jason Fraser, Executive VP & CFO

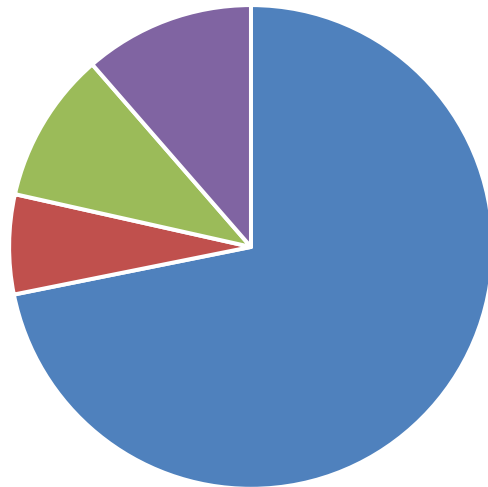
Refining Total Assets (\$ Millions)



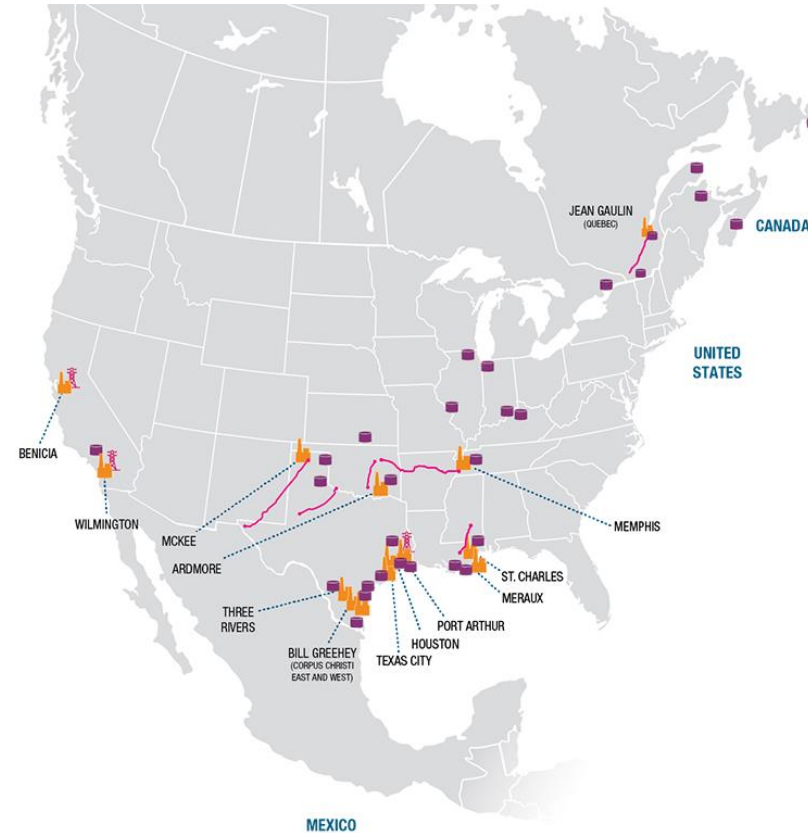
Business Description

- Valero international expansion in 2011
- 15 refineries spread across the U.S., Canada, and U.K.

External Revenues by Geographic Segment



■ U.S. ■ Canada ■ U.K. ■ Other

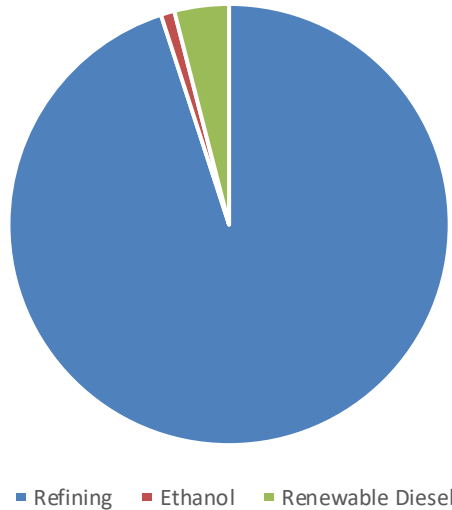


- 🔥 VALERO REFINERIES
- 📡 PIPELINES
- 🏢 VALERO TERMINALS
- 📡 COGENERATION UNITS

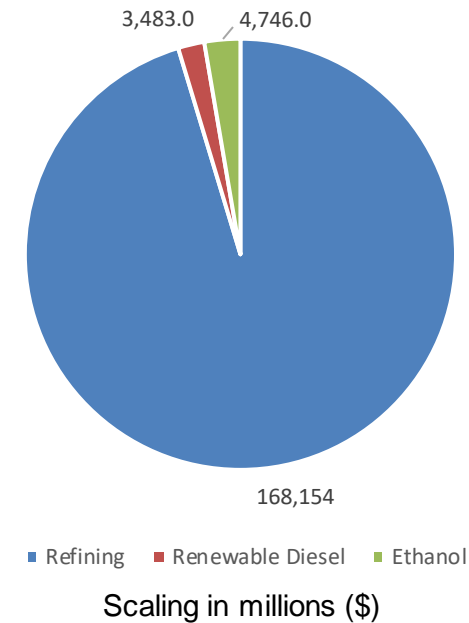
Business Description

- “Mix” for Valero is over 95% Refining, 4% Renewable Diesel, and 1% Ethanol.
- Three Stages
 - Upstream, Midstream, **Downstream**

Valero Revenue Mix



External Revenues by Segment



Business Description

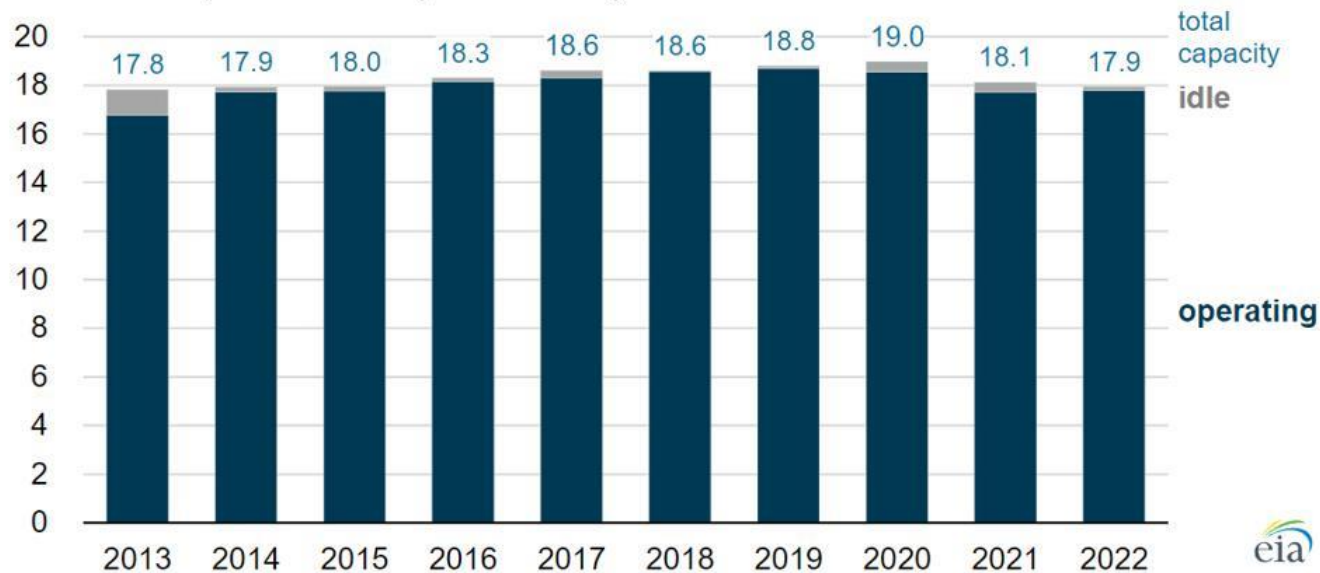
- Further opportunities for growth
 - The renewable diesel market is continuing to grow and expected to grow significantly by 2025
 - Pursuing sustainable aviation fuel to lessen fuel emissions but it is currently much more expensive than traditional jet fuel.



Industry Analysis

- Oil & Gas Refining & Marketing
 - Highly regulated
 - Demand for crude oil increasing at a decreasing rate
 - Refining is now capacity constrained

Annual U.S. refinery atmospheric crude oil distillation capacity (2013–2022)
million barrels per calendar day as of January 1

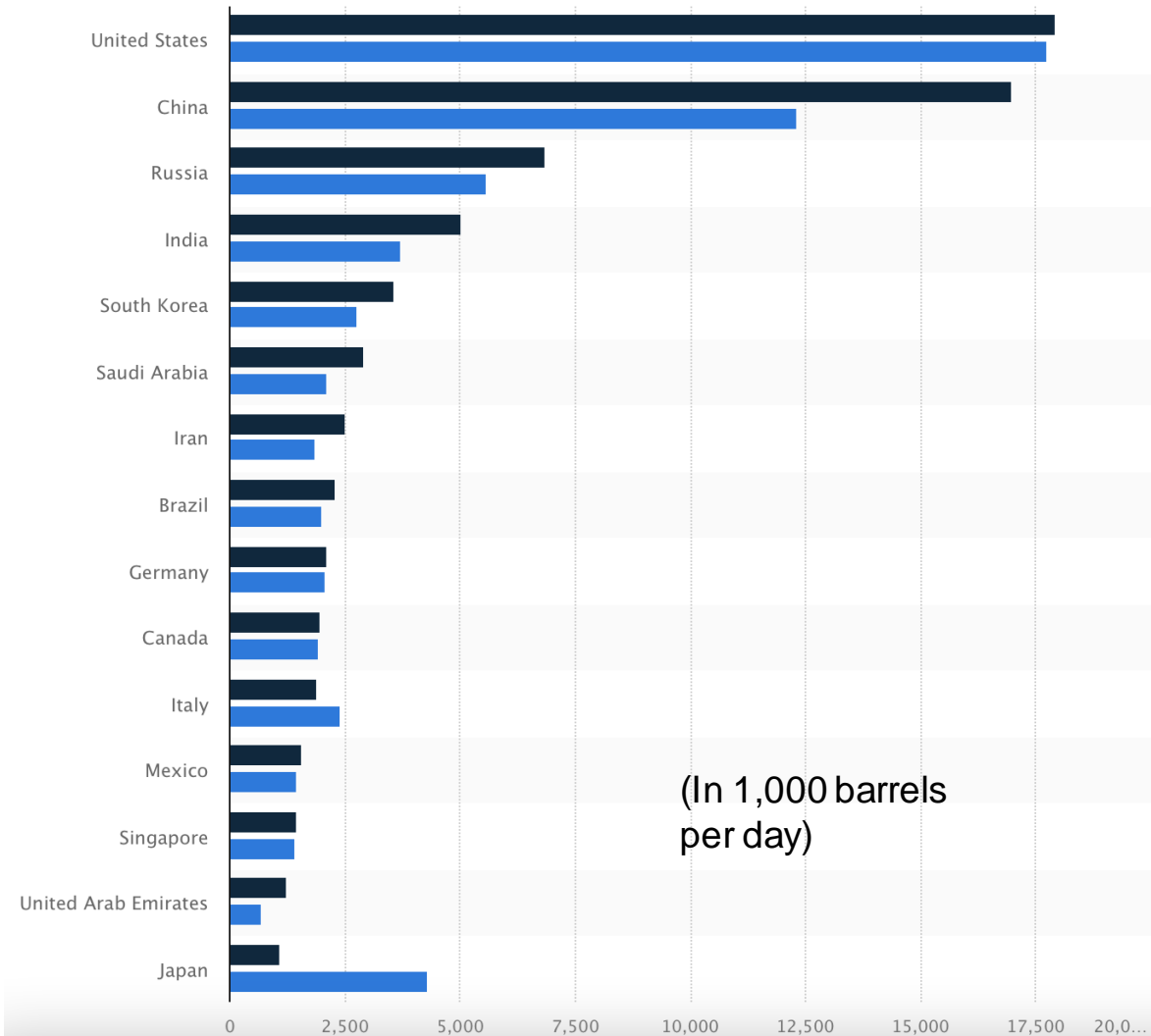


Data source: U.S. Energy Information Administration, *Refinery Capacity Report*



Industry Analysis

Crude oil refinery capacity worldwide in 2010 and 2021, by major country



- Valero is one of the largest worldwide players
- U.S. is the leader in oil refining but...
- Rapid growth in China



Industry Analysis

Other Important Factors

- Oil Consumption still increasing
- Renewables
- Jet Fuel and other less-substitutable fuels will continue to see growth
- Price volatility & COVID-19
- Gasoline/Gas Stations



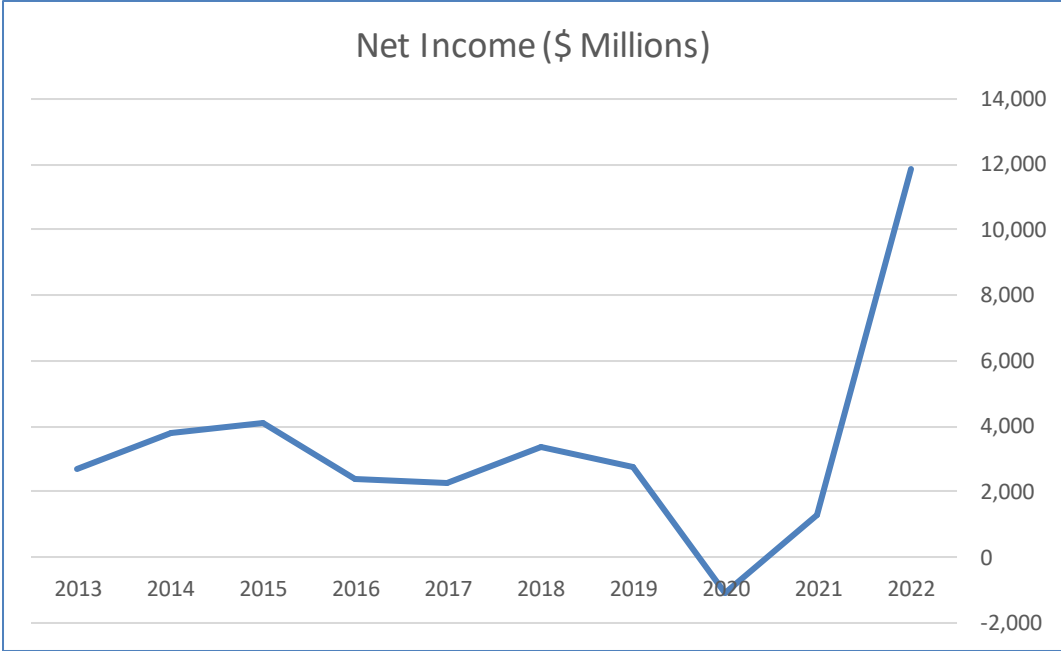
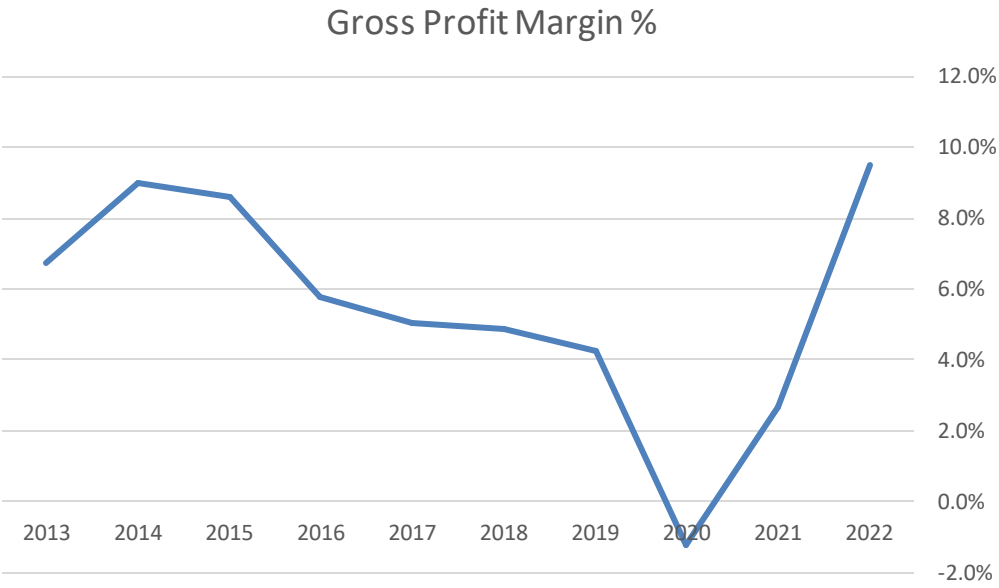
ESG

- Environmental
 - Plans to reduce Greenhouse Gas (GHG) emissions by 100% in 2035
 - **Well positioned to succeed even in a low-carbon economy**
- Social
- Governance
 - Political disclosures
 - Extensive Training Programs

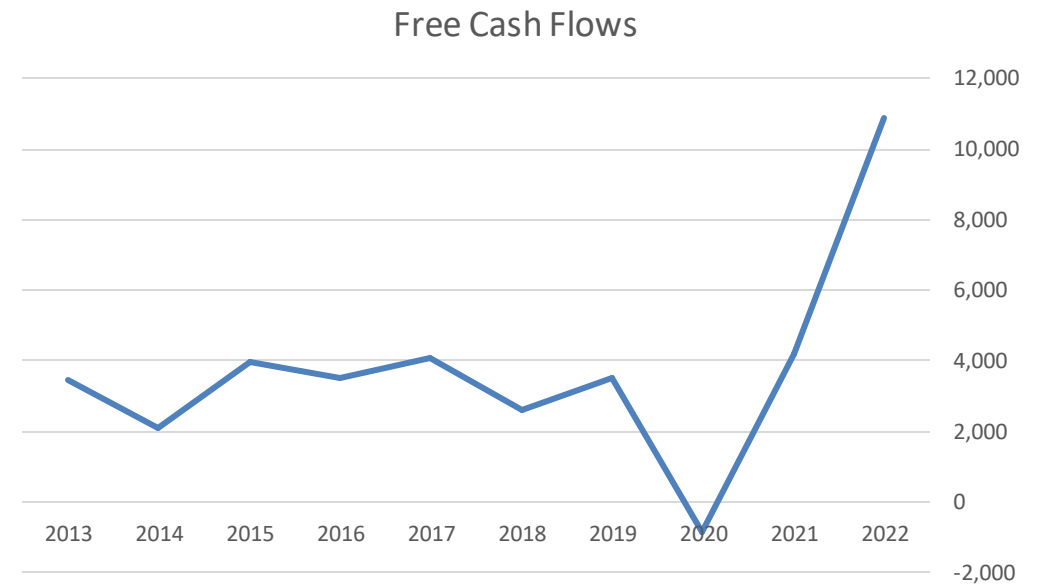
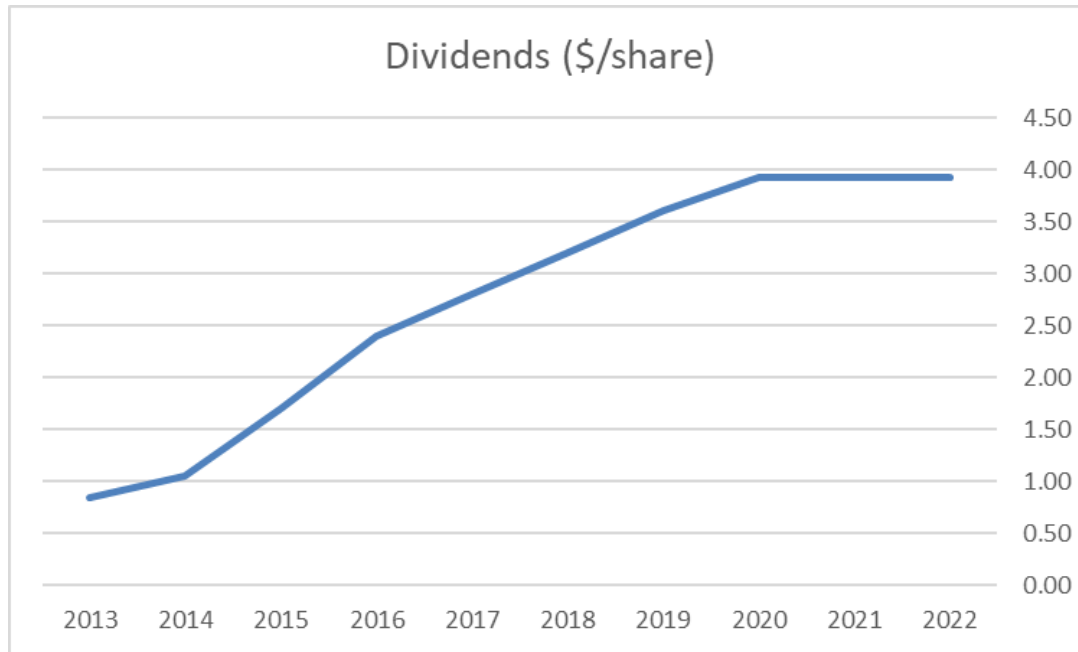
Guiding Principles



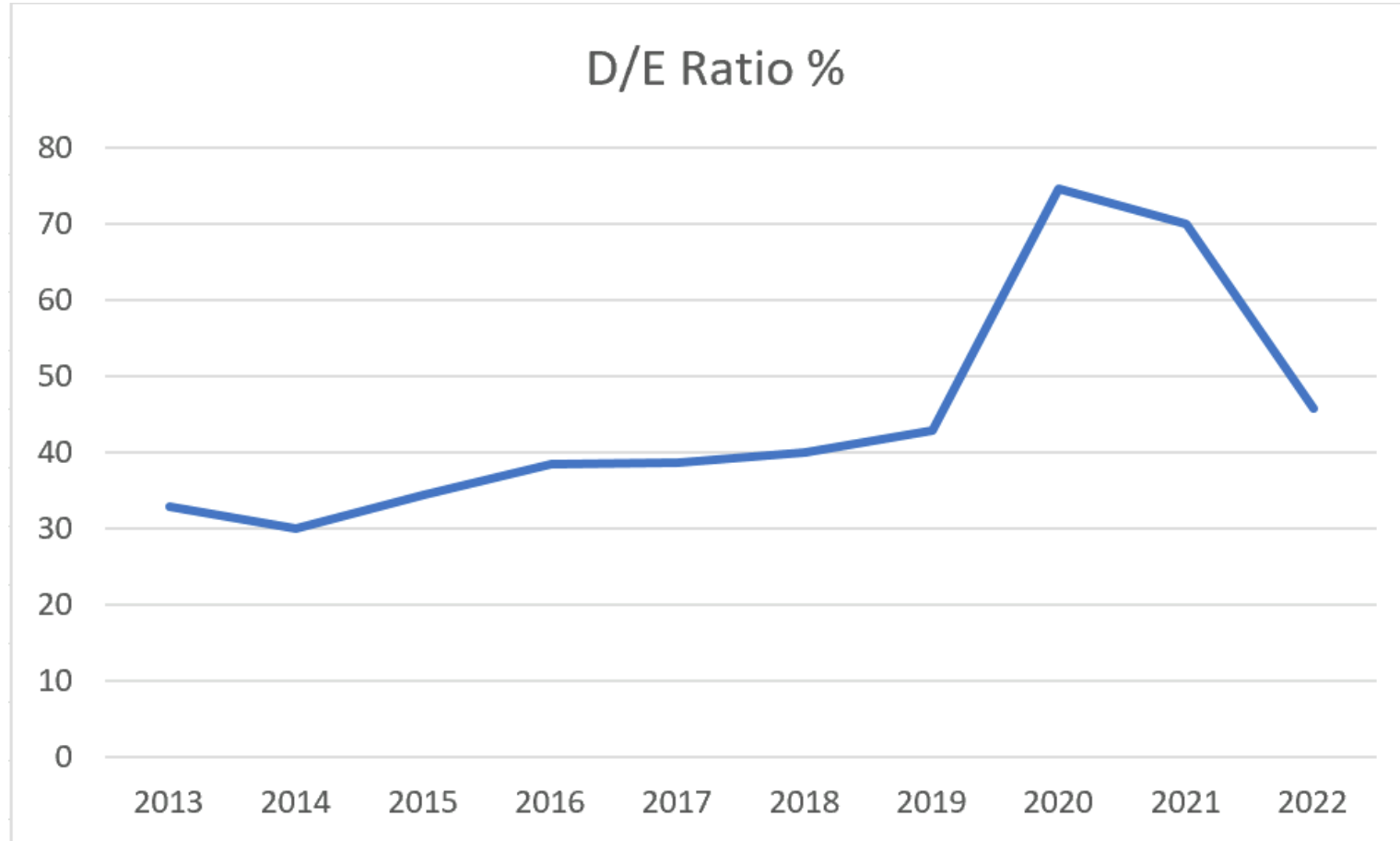
Financial Analysis



Financial Analysis



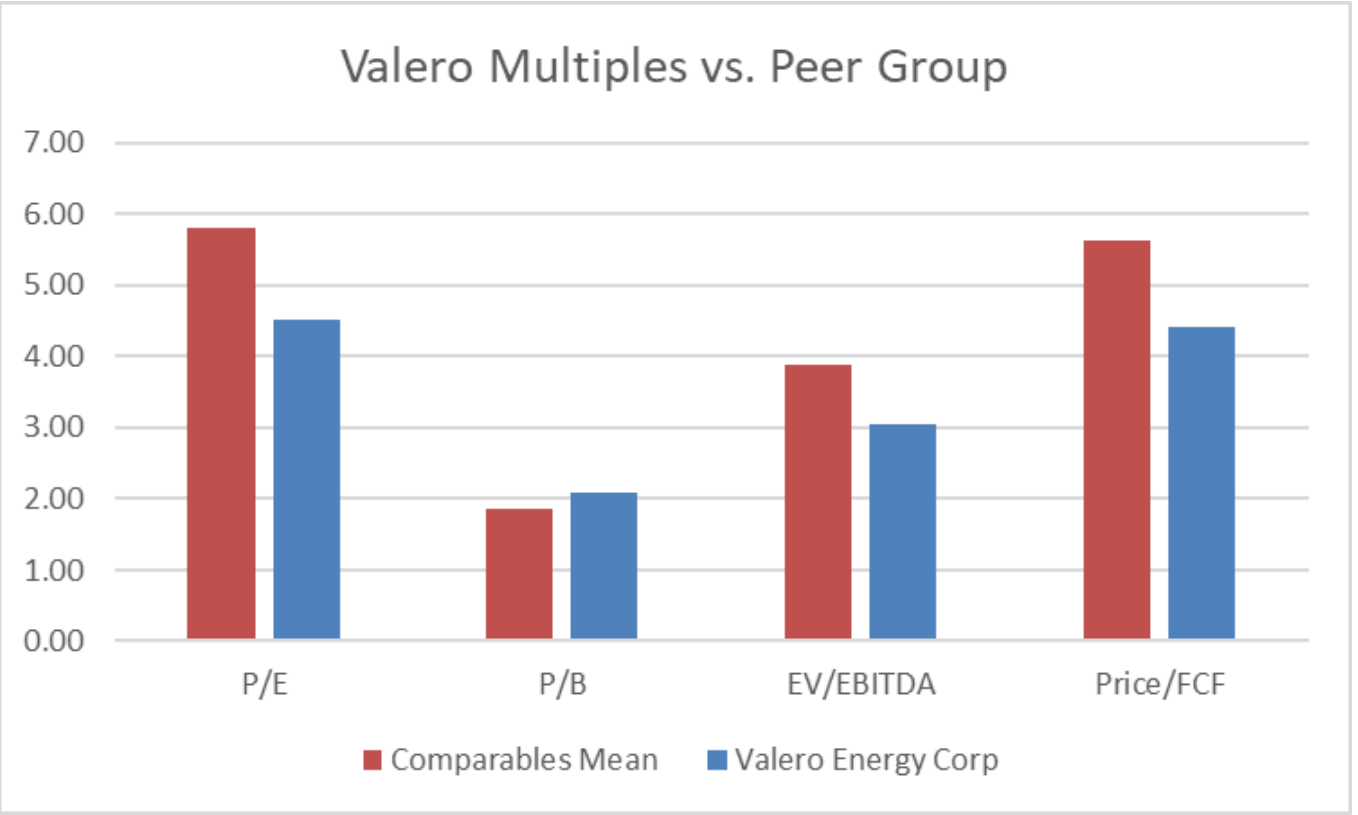
Financial Analysis



Financial Analysis

Company Name	Market Cap	P/E (Daily Time Series Ratio)	Price to Book	Enterprise Value to EBITDA (FY0)	Price to Free Cash Flow
Valero Energy Corp	48,891,699,626.28	4.52	2.08	3.04	4.40
Phillips 66	47,578,317,919.36	4.47	1.62	5.74	5.27
Marathon Petroleum Corp	55,069,597,705.20	4.35	2.02	3.35	3.55
PBF Energy Inc	5,637,500,615.67	1.94	1.15	1.19	2.26
Delek US Holdings Inc	1,754,155,593.72	5.38	1.51	5.66	4.61
Conocophillips	125,960,550,654.90	7.10	2.63	4.67	
Occidental Petroleum Corp	52,708,242,496.32	4.71	1.75	4.14	3.83
EOG Resources Inc	66,424,523,758.44	8.55	2.68	4.22	
HF Sinclair Corp	9,980,322,249.92	4.61	1.11	0.25	
Suncor Energy Inc	44,931,204,429.91	7.06	1.56	2.78	5.80
Exxon Mobil Corp	447,441,960,031.08	8.28	2.30	5.40	10.25
Chevron Corp	306,535,986,053.88	8.81	1.93	6.02	10.58
Mean (Including VLO)	101,076,171,761.22	5.82	1.86	3.87	5.62

Financial Analysis



Valero trades at discounted P/E, EV/EBITDA, and Price/FCF compared to its peers

Valuation - DDM

Dividend Discount Model	
Two Stage Growth Model	
Stage 1 Growth Rate	15.72%
Number of Years in Stage 1	5
Stage 2 Growth Rate	8.00%
Number of Years in Stage 2	
Stage 3 Growth Rate	
Growth Path	Linear
Cost of Equity Capital	11.08%
Dividends per share, LTM	\$3.92

Fair Value = \$192.97
 Upside of 38.5%
 Weighted 60%

	k / terminal g	6.50%	7.00%	7.50%	8.00%	8.50%	9.00%	9.50%
	9.58%	\$177.52	\$208.62	\$254.70	\$330.03	\$475.45		
	10.08%	\$152.44	\$174.43	\$204.97	\$250.21	\$324.19	\$466.99	
	10.58%	\$133.52	\$149.81	\$171.41	\$201.40	\$245.83	\$318.48	\$458.71
	11.08%	\$118.73	\$131.24	\$147.25	\$168.46	\$197.91	\$241.55	\$312.90
	11.58%	\$106.86	\$116.73	\$129.01	\$144.74	\$165.57	\$194.49	\$237.36
	12.08%	\$97.13	\$105.08	\$114.77	\$126.84	\$142.28	\$162.74	\$191.15
	12.58%	\$89.00	\$95.52	\$103.33	\$112.85	\$124.71	\$139.88	\$159.98
Average	\$192.97							

Valuation – FCFE

Fair Value = \$210.89

Upside of 51.4%

Weighted 35%

Free Cash Flow to Equity Model	
Three Stage Growth Model	
Stage 1 Growth Rate	26.72%
Number of Years in Stage 1	2
Stage 2 Growth Rate	-2.00%
Number of Years in Stage 2	4
Stage 3 Growth Rate	5.00%
Growth Path	Linear
Cost of Equity Capital	11.08%
Free Cash Flow to Equity, LTM	\$3,859.89

For FCF and FCFE models only:	
Net new debt (\$ millions)	-\$2,403.00
Interest on debt (\$ millions)	\$562.00
Shares Outstanding (millions)	371.15
Corporate tax rate (%)	22.40%

	k / terminal g	3.50%	4.00%	4.50%	5.00%	5.50%	6.00%	6.50%
	9.58%	\$212.64	\$226.79	\$243.72	\$264.36	\$290.05	\$322.91	\$366.45
	10.08%	\$196.65	\$208.38	\$222.21	\$238.76	\$258.93	\$284.04	\$316.17
	10.58%	\$182.91	\$192.76	\$204.23	\$217.75	\$233.93	\$253.65	\$278.20
	11.08%	\$170.99	\$179.34	\$188.97	\$200.18	\$213.40	\$229.23	\$248.50
	11.58%	\$160.53	\$167.70	\$175.87	\$185.28	\$196.24	\$209.17	\$224.64
	12.08%	\$151.30	\$157.48	\$164.49	\$172.48	\$181.68	\$192.40	\$205.04
	12.58%	\$143.08	\$148.46	\$154.51	\$161.36	\$169.17	\$178.18	\$188.66
Average	\$210.89							

Valuation – FCF

Fair Value = \$502.62

Upside > 250%

Weighted 5%

Free Cash Flow Model	
Three Stage Growth Model	
Stage 1 Growth Rate	33.05%
Number of Years in Stage 1	2
Stage 2 Growth Rate	-2.00%
Number of Years in Stage 2	5
Stage 3 Growth Rate	3.00%
Growth Path	Linear
Cost of Equity Capital	
Free Cash Flow, LTM	\$6,699.00

For FCF and FCFE models only:	
Total Debt (\$ millions)	\$9,240.00
Cash (\$ millions)	\$4,862.00
Shares Outstanding (millions)	371.15
Weighted Average Cost of Capital (%)	7.99%

	k / terminal g	1.50%	2.00%	2.50%	3.00%	3.50%	4.00%	4.50%
	6.49%	\$498.01	\$540.44	\$593.51	\$661.78	\$752.89	\$880.59	\$1,072.45
	6.99%	\$451.70	\$485.44	\$526.70	\$578.29	\$644.68	\$733.26	\$857.42
	7.49%	\$413.12	\$440.45	\$473.26	\$513.38	\$563.55	\$628.10	\$714.24
	7.99%	\$380.47	\$402.96	\$429.54	\$461.45	\$500.47	\$549.27	\$612.04
	8.49%	\$352.50	\$371.24	\$393.11	\$418.97	\$450.01	\$487.96	\$535.42
	8.99%	\$328.26	\$344.05	\$362.29	\$383.57	\$408.72	\$438.91	\$475.83
	9.49%	\$307.04	\$320.49	\$335.86	\$353.60	\$374.30	\$398.77	\$428.15
Average	\$502.62							



Investment Risks

Key Risks Include...

- Evolving consumer sentiment related to GHG emissions
- Ability to obtain resources (i.e., crude oil & feedstocks)
- Regulatory & Environmental Risks
- Safety Risks
- Refining Capacity Risk
- Setbacks from lower economic activity

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 - Refining will continue to be a powerful industry as oil remains the #1 fuel for some time still





Thank you!

Questions?

Resources

<https://businessquant.com/valero-revenue-by-segment>

https://www.valero.com/sites/default/files/valero-documents/VLO_4Q22_Earnings_Release.pdf

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