HF Sinclair (DINO)

Updated August 18th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	$52	**5 Year CAGR Estimate:**	1.8%	**Market Cap:**	$11.0 B
Fair Value Price:	$132	**5 Year Growth Estimate:**	-18.0%	**Ex-Dividend Date:**	8/17/2022
% Fair Value:	39%	**5 Year Valuation Multiple Estimate:**	20.5%	**Dividend Payment Date:**	9/1/2022
Dividend Yield:	3.1%	**5 Year Price Target**	$49	**Years Of Dividend Growth:**	0
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Rating:**	Sell

Overview & Current Events

In March 2022, HollyFrontier (HFC) changed its name to HF Sinclair (DINO) to reflect its acquisition of Sinclair Oil. The company was initially formed by the merger of two independent U.S. refiners, Holly Corporation and Frontier Oil, in 2011. It has a market cap of $11.0 billion and operates in three segments: refining, lubricants, and Holly Energy Partners, which is a midstream entity. Nevertheless, HollyFrontier should be viewed primarily as a refiner. The refining segment generated 90% of the total operating income in 2019 but only half of the operating income in 2021 due to the pandemic.

On November 1st, 2021, HF Sinclair completed the acquisition of the Puget Sound Refinery from Shell for $350 million. The company funded the acquisition via the suspension of its dividend for one year and cash on hand.

On March 14th, 2022, the $1.8 billion merger between HollyFrontier and Sinclair Oil was completed. The deal was funded with the issuance of ~60.2 million of shares. Sinclair has two refineries based at Rocky Mountain, a renewable diesel business and a branded marketing business. The deal is expected to enhance free cash flow by 20% in the first year while it has caused a 27% increase in the share count.

In early August, HF Sinclair reported (8/8/22) financial results for the second quarter of fiscal 2022. The sanctions of western countries on Russia have greatly tightened the markets of oil and refined products. As a result, refining margins have skyrocketed to unprecedented levels. In the second quarter, the refining margin of HF Sinclair more than tripled over the prior year's quarter, from $11.7 to $36.4 per barrel, and refinery throughput increased 51%, mostly thanks to the acquisition of the Puget Sound Refinery, which could not have a better timing. As a result, the adjusted earnings-per-share of HF Sinclair jumped from $0.87 to an all-time high of $5.59, beating the analysts' consensus by $1.04. Given the sky-high refining margins, which have resulted from the war in Ukraine and have remained in place in the running quarter, we have raised our forecast for earnings-per-share in 2022 from $5.10 to $12.80.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$8.38	$3.64	$2.66	$4.67	$0.51	$2.32	$6.44	$4.90	-$0.87	$1.52	***$12.80***	***$4.75***
DPS	$0.60	$1.20	$1.26	$1.31	$1.32	$1.32	$1.32	$1.34	$1.40	$0.35	***$1.60***	***$1.60***
Shares[1]	203.6	198.8	196.6	180.2	177.4	177.4	174.3	162.9	162.2	162.7	***220.0***	***200.0***

Thanks to the proximity of its refineries to the domestic oil production, HF Sinclair buys its crude oil at a discount to WTI. Moreover, HF Sinclair is likely to benefit from the synergies it will achieve from its recent acquisitions of the Puget Sound Refinery and Sinclair Oil. We applaud management for suspending the dividend for one year in favor of acquisitions that will result in earnings growth. We have seen many oil companies, including Exxon Mobil, curtailing their growth projects to defend their generous dividends, but such a strategy may not benefit long-term shareholders. HF Sinclair has also resumed share repurchases. Moreover, HF Sinclair has the strongest balance sheet in its peer group and hence it can endure downturns. The strong balance sheet is paramount in this cyclical business. Due to the blowout earnings-per-share expected this year and the cyclical nature of the refining business, we expect the earnings-per-share of HF Sinclair to decline by -18.0% per year on average over the next five years.

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[1] In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	4.3	13.0	17.4	9.3	---	13.8	9.6	10.2	---	21.7	***4.1***	***10.3***
Avg. Yld.	1.7%	2.5%	2.7%	3.0%	4.5%	4.1%	2.1%	2.7%	4.9%	1.1%	***3.1%***	***3.3%***

Due to its record earnings, HF Sinclair is trading at only 4.1 times its expected earnings this year. This earnings multiple is much lower than its historical average of 10.3. If the stock trades at its average valuation level in five years, it will enjoy a 20.5% annualized gain in its returns. While a price-to-earnings ratio of 10.3 may seem cheap to most investors, refining is a highly cyclical business and hence this earnings multiple is reasonable.

Safety, Quality, Competitive Advantage, & Recession Resiliency

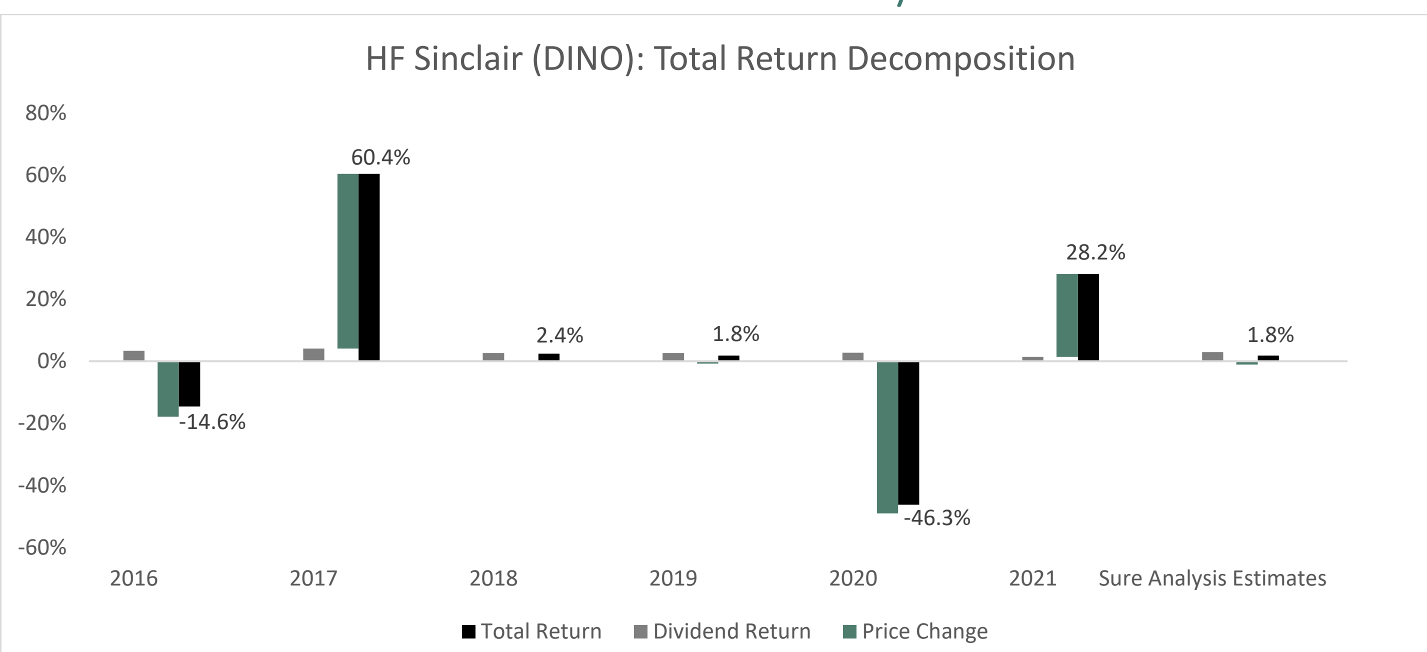
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	7.2%	33.0%	47.4%	28.1%	259%	56.9%	20.5%	27.3%	---	23.0%	***12.5%***	***33.7%***

The refineries of HF Sinclair usually enjoy a discount to WTI thanks to their inland location. On the other hand, investors should always remember that refining is a highly cyclical business and refiners are vulnerable to recessions and fluctuations in crack spreads. In the downturn caused by the pandemic, HF Sinclair incurred a loss in 2020, but it easily endured the downturn thanks to its balance sheet. Management should be praised for the lack of share repurchases during boom times, in contrast to most companies.

Final Thoughts & Recommendation

HF Sinclair has a solid balance sheet and is thriving right now thanks to the unprecedented refining margins, which have resulted from the war in Ukraine. In addition, the refiner has promising growth prospects thanks to its recent acquisitions. However, the stock has rallied 75% in the last 12 months. As a result, it could offer just a 1.8% average annual return over the next five years, as its 3.1% dividend and a 20.5% valuation tailwind may be offset by a -18% annual decline of earnings-per-share. Given the high cyclicality of the refining industry, we rate the stock as a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	20,091	20,161	19,764	13,238	10,536	14,251	17,715	17,487	11,184	18,389
Gross Profit	4,007	2,465	1,775	2,426	1,699	2,482	3,200	3,178	1,425	2,629
Gross Margin	19.9%	12.2%	9.0%	18.3%	16.1%	17.4%	18.1%	18.2%	12.7%	14.3%
SG&A Exp.	128	128	115	121	126	266	290	354	314	362
D&A Exp.	243	303	363	346	363	410	437	510	521	504
Operating Profit	2,884	1,246	516	1,244	552	920	1,624	1,430	(188)	749
Operating Margin	14.4%	6.2%	2.6%	9.4%	5.2%	6.5%	9.2%	8.2%	-1.7%	4.1%
Net Profit	1,727	736	281	740	(260)	805	1,098	772	(601)	558
Net Margin	8.6%	3.6%	1.4%	5.6%	-2.5%	5.7%	6.2%	4.4%	-5.4%	3.0%
Free Cash Flow	1,327	444	194	310	127	679	1,243	1,255	128	(407)
Income Tax	1,028	392	141	406	19	(12)	347	299	(232)	124

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	10,329	10,057	9,230	8,388	9,436	10,692	10,995	12,165	11,507	12,917
Cash & Equivalents	1,758	940	568	67	711	631	1,155	885	1,368	234
Accounts Receivable	634	709	590	352	479	721	672	880	630	1,242
Inventories	1,320	1,354	1,035	842	1,136	1,630	1,354	1,474	1,173	2,122
Goodwill & Int. Ass.	2,383	2,374	2,372	2,370	2,059	2,444	2,429	2,747	2,629	2,592
Total Liabilities	3,686	3,447	3,129	2,579	4,134	4,795	4,536	5,655	5,785	6,622
Accounts Payable	1,314	1,325	1,108	716	935	1,221	873	1,216	1,001	1,613
Long-Term Debt	1,300	963	1,021	1,009	2,235	2,499	2,412	2,456	3,143	3,073
Shareholder's Equity	6,053	6,000	5,524	5,253	4,681	5,371	5,919	5,978	5,168	5,688
LTD/E Ratio	0.21	0.16	0.18	0.19	0.48	0.47	0.41	0.41	0.61	0.54

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	17.4%	7.2%	2.9%	8.4%	-2.9%	8.0%	10.1%	6.7%	-5.1%	4.6%
Return on Equity	30.7%	12.2%	4.9%	13.7%	-5.2%	16.0%	19.5%	13.0%	-10.8%	10.3%
ROIC	23.1%	9.5%	3.8%	10.6%	-3.6%	10.1%	12.7%	8.7%	-6.7%	6.1%
Shares Out.	203.6	198.8	196.6	180.2	177.4	177.4	174.3	162.9	162.2	162.7
Revenue/Share	97.87	100.18	100.11	70.06	59.83	80.43	100.27	104.47	69.04	113.12
FCF/Share	6.47	2.21	0.98	1.64	0.72	3.83	7.04	7.50	0.79	(2.50)

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.