



HF Sinclair (DINO)

Updated May 12th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$40	5 Year CAGR Estimate:	7.1%	Market Cap:	\$7.8 B
Fair Value Price:	\$79	5 Year Growth Estimate:	-10.0%	Ex-Dividend Date:	5/17/2023
% Fair Value:	50%	5 Year Valuation Multiple Estimate:	14.7%	Dividend Payment Date:	6/1/2023
Dividend Yield:	4.5%	5 Year Price Target	\$47	Years Of Dividend Growth:	2
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Hold

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 \$7.8 billion and operates in three segments: refining, lubricants, and Holly Energy Partners, which is a midstream entity. Nevertheless, HF Sinclair should be viewed primarily as a refiner. The refining segment generated 97% of the total operating income in 2022.

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 timing of the deal is ideal, as refining margins have skyrocketed since the completion of the merger due to the Ukrainian crisis.

On May 4th, 2023, HF Sinclair offered to acquire the remaining 53% stake in Holly Energy Partners (HEP) that it does not own in order to improve the efficiencies of its network of assets. The company offered 0.3714 shares of its stock for every unit of Holly Energy Partners. Thanks to the attractive valuation of Holly Energy Partners, we view the deal as positive for HF Sinclair and expect it to materialize until the end of the year.

In early May, HF Sinclair reported (5/4/23) financial results for the first quarter of fiscal 2023. Refining margins remained essentially flat sequentially, at blowout levels, thanks to the sanctions of western countries on Russia, which have greatly tightened the global market of oil products. However, earnings-per-share dipped from \$2.97 to \$2.00 due to planned maintenance activity in refineries. Due to this factor, we have lowered our annual forecast from \$8.00 to \$7.70.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.64	\$2.66	\$4.67	\$0.51	\$2.32	\$6.44	\$4.90	-\$0.87	\$1.52	\$14.73	\$7.70	\$4.55
DPS	\$1.20	\$1.26	\$1.31	\$1.32	\$1.32	\$1.32	\$1.34	\$1.40	\$0.35	\$1.20	\$1.80	\$2.00
Shares¹	198.8	196.6	180.2	177.4	177.4	174.3	162.9	162.2	162.7	199.5	200.0	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 have already resulted 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 abnormally

¹ In millions.

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high 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 -10.0% per year on average over the next five years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	13.0	17.4	9.3	---	13.8	9.6	10.2	---	21.7	3.2	5.2	10.3
Avg. Yld.	2.5%	2.7%	3.0%	4.5%	4.1%	2.1%	2.7%	4.9%	1.1%	2.6%	4.5%	4.3%

Due to its blowout earnings, HF Sinclair is trading at only 5.2 times its expected earnings this year. This earnings multiple is much lower than the historical average of 10.3 of the stock. If the stock trades at its average valuation level in five years, it will enjoy a 14.7% 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

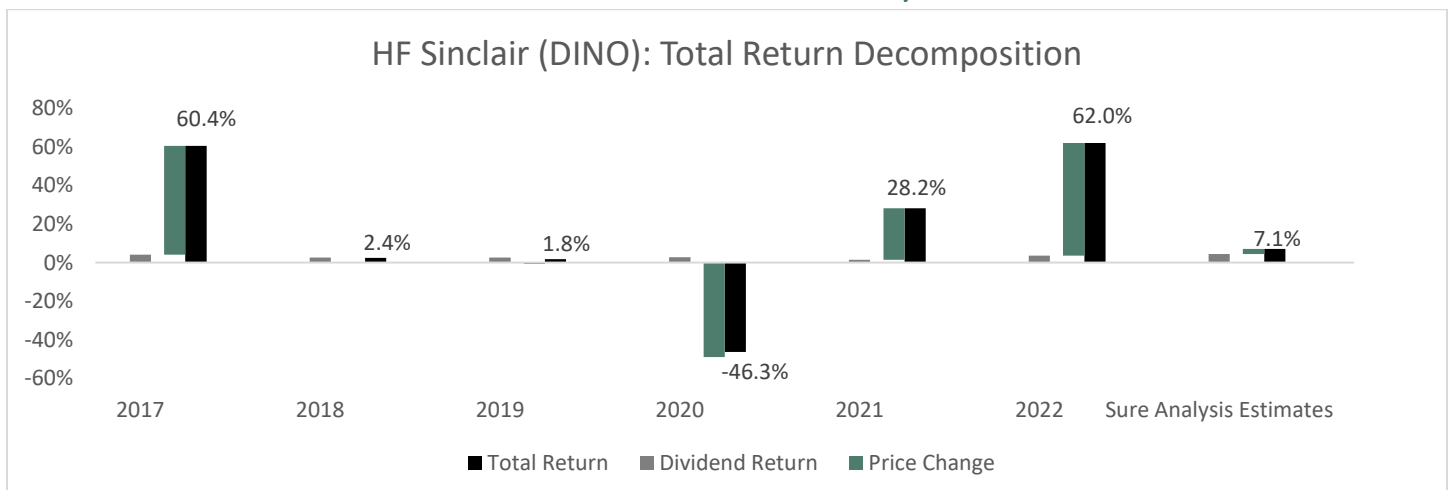
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	33.0%	47.4%	28.1%	259%	56.9%	20.5%	27.3%	---	23.0%	8.1%	23.4%	43.9%

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 solid 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 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, we expect refining margins to deflate in the upcoming years due to their high cyclicity. The stock has shed -23% since our last research report, in March, primarily due to this issue. It could now offer a 7.1% average annual return over the next five years, as its 4.5% dividend and a 14.7% valuation tailwind may be partly offset by a -10% annual decline of earnings-per-share. Due to the plunge of the stock, we raise our rating from "sell" to "hold". HF Sinclair is likely to keep thriving in the short run but will have material downside risk whenever refining margins revert to normal levels.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	20,161	19,764	13,238	10,536	14,251	17,715	17,487	11,184	18,389	38,205
Gross Profit	2,465	1,775	2,426	1,699	2,482	3,200	3,178	1,425	2,629	6,816
Gross Margin	12.2%	9.0%	18.3%	16.1%	17.4%	18.1%	18.2%	12.7%	14.3%	17.8%
SG&A Exp.	128	115	121	126	266	290	354	314	362	426
D&A Exp.	303	363	346	363	410	437	510	521	504	657
Operating Profit	1,246	516	1,244	552	920	1,624	1,430	(188)	749	4,054
Operating Margin	6.2%	2.6%	9.4%	5.2%	6.5%	9.2%	8.2%	-1.7%	4.1%	10.6%
Net Profit	736	281	740	(260)	805	1,098	772	(601)	558	2,923
Net Margin	3.6%	1.4%	5.6%	-2.5%	5.7%	6.2%	4.4%	-5.4%	3.0%	7.7%
Free Cash Flow	444	194	310	127	679	1,243	1,255	128	(407)	3,253
Income Tax	392	141	406	19	(12)	347	299	(232)	124	895

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	10,057	9,230	8,388	9,436	10,692	10,995	12,165	11,507	12,917	18,125
Cash & Equivalents	940	568	67	711	631	1,155	885	1,368	234	1,665
Accounts Receivable	709	590	352	479	721	672	880	630	1,242	1,703
Inventories	1,354	1,035	842	1,136	1,630	1,354	1,474	1,173	2,122	3,215
Goodwill & Int. Ass.	2,374	2,372	2,370	2,059	2,444	2,429	2,747	2,629	2,592	3,442
Total Liabilities	3,447	3,129	2,579	4,134	4,795	4,536	5,655	5,785	6,622	8,108
Accounts Payable	1,325	1,108	716	935	1,221	873	1,216	1,001	1,613	2,334
Long-Term Debt	963	1,021	1,009	2,235	2,499	2,412	2,456	3,143	3,073	3,255
Shareholder's Equity	6,000	5,524	5,253	4,681	5,371	5,919	5,978	5,168	5,688	9,244
LTD/E Ratio	0.16	0.18	0.19	0.48	0.47	0.41	0.41	0.61	0.54	0.35

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	7.2%	2.9%	8.4%	-2.9%	8.0%	10.1%	6.7%	-5.1%	4.6%	18.8%
Return on Equity	12.2%	4.9%	13.7%	-5.2%	16.0%	19.5%	13.0%	-10.8%	10.3%	39.1%
ROIC	9.5%	3.8%	10.6%	-3.6%	10.1%	12.7%	8.7%	-6.7%	6.1%	25.8%
Shares Out.	198.8	196.6	180.2	177.4	177.4	174.3	162.9	162.2	162.7	202.6
Revenue/Share	100.18	100.11	70.06	59.83	80.43	100.27	104.47	69.04	113.12	188.60
FCF/Share	2.21	0.98	1.64	0.72	3.83	7.04	7.50	0.79	(2.50)	16.06

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

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