



Valero Energy Corporation (VLO)

Updated January 31st, 2025 by Aristofanis Papadatos

Key Metrics

Current Price:	\$135	5 Year CAGR Estimate:	-3.5%	Market Cap:	\$42.5 B
Fair Value Price:	\$82	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	1/30/2025
% Fair Value:	165%	5 Year Valuation Multiple Estimate:	-9.5%	Dividend Payment Date:	3/3/2025
Dividend Yield:	3.3%	5 Year Price Target	\$90	Years Of Dividend Growth:	3
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Sell

Overview & Current Events

Valero, a \$42.5 billion market cap business, is the largest petroleum refiner in the U.S. It owns 15 refineries in the U.S., Canada and the U.K. and has a total capacity of about 3.2 million barrels/day. It also produces renewable diesel and has a midstream segment, Valero Energy Partners LP, but its contribution to total earnings is under 10%. Valero should be viewed as a nearly pure refiner.

U.S. refiners faced a severe downturn in 2020-2021 due to the pandemic, which caused a collapse in the consumption of oil products. Refining margins plunged and hence all the U.S. refiners incurred hefty losses in 2020. However, thanks to the vaccine rollout and weaker mutations of the virus, the pandemic has subsided and global oil demand has recovered.

In late January, Valero reported (1/30/25) results for the fourth quarter of 2024. The global market of refined products had become extremely tight due to the sanctions of western countries on Russia since early 2022 but that has come to an end in the last two quarters. In the fourth quarter, refining margins collapsed off blowout levels in the prior year's quarter. Earnings-per-share slumped -82% over the prior year's quarter, from \$3.57 to \$0.64, though they exceeded the analysts' consensus by \$0.58. Valero has not missed the analysts' estimates for 26 consecutive quarters. The company began producing sustainable aviation fuel (SAF) during the fourth quarter. Refining margins remained elevated for longer than expected thanks to strong demand for oil products, the permanent shutdown of some refineries around the globe since 2020 due to the pandemic and tight supply due to the Ukrainian crisis. However, they have returned to normal levels lately. As a result, we expect earnings-per-share around \$7.50 this year.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$7.99	\$4.94	\$4.96	\$7.37	\$5.70	-\$3.12	\$2.81	\$29.16	\$24.90	\$8.48	\$7.50	\$8.28
DPS	\$1.70	\$2.40	\$2.80	\$3.20	\$3.60	\$3.92	\$3.92	\$3.92	\$4.08	\$4.28	\$4.52	\$4.52
Shares¹	500	464	444	422	410	407	408	381	338	315	305	280

As shown in the above table, the earnings of Valero are extremely sensitive to the cycles of refining margins. Valero was severely hurt by the pandemic in 2020-2021 and froze its dividend for 12 consecutive quarters, thus putting an end to its 10-year dividend growth streak. However, it has been thriving since 2022 thanks to the aforementioned tailwinds and thus it has raised its dividend by 6% this year. Moreover, it has a promising pipeline of growth projects for the next three years. These projects aim to lower carbon intensity and improve refining margins. Nevertheless, as refining margins are highly cyclical, we have assumed just 2% average annual growth of earnings-per-share over the next five years.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	7.7	11.9	14.3	13.8	14.9	---	25.5	3.8	5.1	17.2	18.0	10.9
Avg. Yld.	2.8%	4.1%	4.0%	3.1%	4.2%	6.7%	5.5%	3.6%	3.2%	2.9%	3.3%	5.0%

¹ In millions.

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Valero is currently trading at 18.0 times its expected earnings-per-share this year. This earnings multiple is much higher than the 10-year average price-to-earnings ratio of 10.9 of the stock. If the stock trades at its average valuation level in five years, it will incur a -9.5% annualized drag due to the contraction of its price-to-earnings ratio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	21.3%	48.6%	56.5%	43.4%	63.2%	---	140%	13%	16.4%	50.5%	60.3%	54.6%

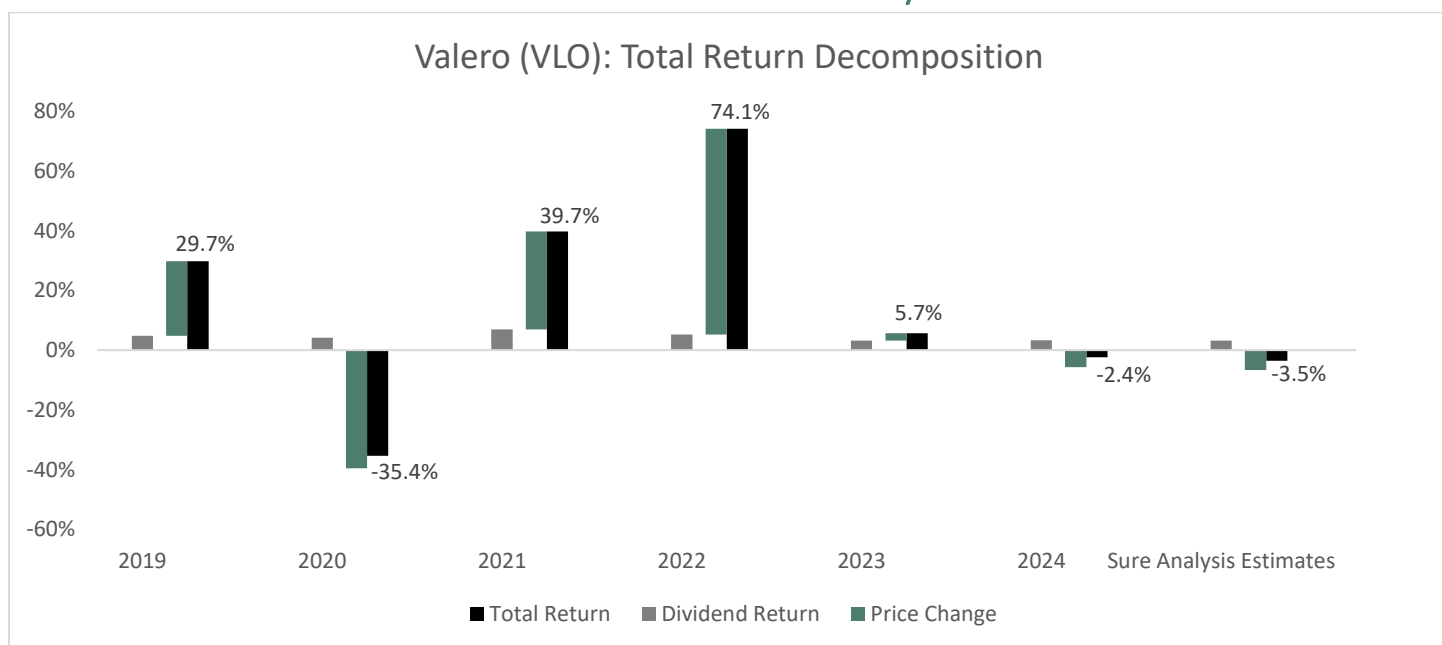
Refining is a highly cyclical business and hence all the refiners are vulnerable to declining crack spreads. Crack spreads tightened significantly during the Great Recession, when the demand for oil products greatly deteriorated and gasoline became cheaper than crude oil for almost three months. As a result, Valero posted operating losses. A similar picture was evident in 2020-2021 due to the pandemic, as the prices of refined products fell more than the price of crude oil, thus exerting pressure on refining margins. On the bright side, Valero has a competitive advantage over its peers, namely the high complexity of its refineries, which enables the company to benefit from the gyrations of oil prices and refined products by optimizing its blend of feedstock and products.

Nevertheless, investors should note that U.S. refiners have now lost a significant past advantage. During the fierce downturn of the refining sector within 2011-2013, about 20% of refineries worldwide went out of business. The domestic refiners were not affected, as they were protected thanks to the ban on oil exports that prevailed back then. However, now that the ban has been lifted, they are more vulnerable and thus they all incurred material losses in 2020.

Final Thoughts & Recommendation

Valero has been thriving over the last three years thanks to strong demand for oil products and low global inventories of oil products due to the war in Ukraine and the permanent shutdown of some refineries due to the pandemic. However, refining margins have moderated lately. The stock has shed -26% off its peak last year, but remains unattractive in our view. It could offer a -3.5% average annual return over a 5-year period, as 2% growth of earnings-per-share and a 3.3% dividend may be offset by a -9.5% valuation headwind. We maintain our sell rating. Valero is likely to have material downside risk upon the next downturn of the refining industry.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue (\$B)	87.80	75.66	93.98	117.03	108.3	64.9	114.0	176.4	144.8	129.9
Gross Profit	7,068	4,299	4,453	5,542	4,725	-788	3,082	16,751	12,889	4,760
Gross Margin	8.0%	5.7%	4.7%	4.7%	4.4%	-1.2%	2.7%	9.5%	8.9%	3.7%
SG&A Exp.	710	709	829	925	868	756	865	992	998	961
D&A Exp.	1,842	1,894	1,986	2,069	2,255	2,351	2,405	2,473	2,701	---
Operating Profit	6,358	3,590	3,563	4,572	3,836	-1,579	2,130	15,693	11,858	3,755
Operating Margin	7.2%	4.7%	3.8%	3.9%	3.5%	-2.4%	1.9%	8.9%	8.2%	2.9%
Net Profit	3,990	2,289	4,065	3,122	2,422	-1,421	930	11,528	8,835	2,770
Net Margin	4.5%	3.0%	4.3%	2.7%	2.2%	-2.2%	0.8%	6.5%	6.1%	2.1%
Free Cash Flow	3,993	3,542	4,103	2,619	3,537	-840	4,304	10,893	8,318	---
Income Tax	1,870	765	-949	879	702	-903	255	3,428	2,619	692

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	44,227	46,173	50,158	50,155	53,864	51,774	57,888	60,982	63,056	---
Cash & Equivalents	4,114	4,816	5,850	2,982	2,583	3,313	4,122	4,862	5,424	4,657
Acc. Receivable	4,105	5,687	6,784	6,984	8,058	4,807	9,968	10,761	11,038	---
Inventories	5,898	5,709	6,384	6,532	7,013	6,038	6,265	6,752	7,583	7,761
Goodwill & Int.	156	148	142	567	543	508	478	462	443	---
Total Liabilities	22,873	25,319	27,258	27,424	31,328	32,132	38,071	35,514	34,532	---
Accounts Payable	4,907	6,357	8,348	8,594	10,205	6,082	12,495	12,728	12,567	---
Long-Term Debt	7,335	8,001	8,872	9,109	9,672	13,013	11,950	9,241	9,218	---
Total Equity	20,527	20,024	21,991	21,667	21,803	18,801	18,430	23,561	26,346	24,512
D/E Ratio	0.36	0.40	0.40	0.42	0.44	0.69	0.65	0.39	0.35	---

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	8.9%	5.1%	8.4%	6.2%	4.7%	-2.7%	1.7%	19.4%	14.2%	---
Return on Equity	19.4%	11.3%	19.4%	14.3%	11.1%	-7.0%	5.0%	54.9%	32.7%	---
ROIC	14.2%	8.0%	13.4%	9.8%	7.6%	-4.4%	2.9%	34.7%	24.4%	8.6%
Shares Out.	500	464	444	422	410	407	408	396	353	322
Revenue/Share	175.61	163.06	211.67	273.44	261.65	159.49	280.04	445.41	410.10	403.36
FCF/Share	7.99	7.63	9.24	6.12	9.09	-1.45	10.57	27.51	25.56	---

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

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