Second Quarter 2015 Earnings Conference Call

Thursday, July 30, 2015, 10:00 a.m. CT

Introduction – John Locke

- Good morning and welcome to Valero Energy Corporation's second quarter 2015 earnings conference call.

- With me today are Joe Gorder, our Chairman, President, and Chief Executive Officer; Mike Ciskowski, our Executive Vice President and CFO; Lane Riggs, our Executive Vice President of Refining Operations and Engineering; Jay Browning, our Executive Vice President and General Counsel; and several other members of Valero's senior management team.

- If you have not received the earnings release and would like a copy, you can find one on our website at valero.com. Also, attached to the earnings release are tables that provide additional financial information on our business segments. If you have any questions after reviewing these tables, please feel free to contact our Investor Relations team after the call.

- I would like to direct your attention to the forward-looking statement disclaimer contained in the press release. In summary it says that . . .
- Statements in the press release and on this conference call that state the company's or management's expectations or predictions of the future are forward-looking statements intended to be covered by the safe-harbor provisions under federal securities laws. There are many factors that could cause actual results to differ from our expectations, including those we've described in our filings with the SEC.
- Now I will turn the call over to Joe for a few opening remarks.

Joe Gorder

- Well, thanks John and good morning everyone. As John will cover in more detail shortly, our system operated safely and reliably during the second quarter, allowing us to capture a high percentage of the favorable margins available to us. In particular, we saw market conditions that incentivized maximum gasoline production in most regions.

- This quarter, we continued to demonstrate our commitment to stockholders by exceeding our total payout guidance. And as reflected in the earnings release, we have increased the targeted total payout ratio for 2015 to approximately 75% of net income.

- We continue to advance the next drop down transaction to Valero Energy Partners LP, which is our sponsored MLP. We have also completed our estimate of potential MLP eligible EBITDA within our fuels distribution business. In that regard, we've identified approximately $350 million that may be eligible for drop-down transactions to VLP, which is incremental to the approximately $800 million of remaining EBITDA that we've previously identified.

- And finally, in regard to the proposed methanol project at St. Charles, we plan to have a final investment decision by the end of the fourth quarter. As a reminder, our prior investments in hydrogen production capacity at the refinery provide us with a competitive advantage versus a green-field methanol plant in the US Gulf Coast region.

- And with that, John, I'll hand it back over to you.

John Locke

- Thank you Joe. Moving on to the quarterly results, we reported net income from continuing operations of $1.4 billion, or $2.66 per share versus second quarter 2014 earnings per share of $1.22.

- The refining segment reported operating income of $2.2 billion, [notwithstanding planned turnaround work on the FCC and Alky units at our Port Arthur refinery.]

- Refining throughput volumes averaged 2.8 million barrels per day, which is an increase of 87,000 barrels per day versus the second quarter of 2014. Our refineries operated at 96 percent throughput capacity utilization in the second quarter of 2015.

- Refining cash operating expenses were $3.66 per barrel in the second quarter of 2015, or 24 cents per barrel lower than the second quarter of 2014. Lower energy costs, primarily due to lower natural gas prices, and less planned and unplanned downtime were the main drivers for the decrease.

- The ethanol segment generated $108 million of operating income in the second quarter of 2015 versus $187 million in the second quarter of 2014.

- General and administrative expenses, excluding corporate depreciation, were $178 million in the second quarter of 2015.
- Also in the second quarter of 2015, net interest expense was $113 million, which is $15 million higher than in the second quarter of 2014 primarily due to the debt issuance in March of this year.
- Depreciation and amortization expense was $425 million. The effective tax rate was 30.8 percent.
- With respect to our balance sheet at quarter-end, total debt was $7.3 billion, and cash and temporary cash investments were $5.8 billion, of which $52 million was held by VLP. Valero's debt-to-capitalization ratio, net of $2 billion in cash, was approximately 20 percent. Valero had over $5 billion of available liquidity excluding cash.
- Cash flows in the second quarter included $530 million of capital spending, of which $160 million was for turnarounds and catalyst. We also repaid $75 million of debt that matured in June.

- We returned $870 million in cash to our stockholders in the second quarter, which included $203 million in dividend payments and $667 million for the purchase of 11.3 million shares of Valero common stock. Year to date, we've purchased 19.5 million shares for $1.2 billion.

- For modeling our third quarter operations, we expect throughput volumes to fall within the following ranges: U.S. Gulf Coast at 1.57 million to 1.62 million barrels per day; U.S. Mid-Continent at 445 thousand to 465 thousand barrels per day; U.S. West Coast at 275 thousand to 295 thousand barrels per day; and North Atlantic at 475 thousand to 495 thousand barrels per day.

- We expect refining cash operating expenses in the third quarter to be around $3.75 per barrel.

- Our ethanol segment is expected to produce a total of 3.8 million gallons per day in the third quarter. Operating expenses should average 37 cents per gallon, which includes four cents per gallon for non-cash costs, such as depreciation and amortization.

- We expect G&A expense, excluding corporate depreciation, for the third quarter to be around $180 million, and net interest expense should be about $110 million. Total depreciation and amortization expense should be approximately $450 million, and our effective tax rate is expected to be around 33 percent.

- Lastly, following the EPA's announcement of proposed RFS targets in late May and the subsequent decline in ethanol RIN prices, we expect 2015 RINs expense to be between $350 and $450 million.

- Operator, we have concluded our opening remarks. In a moment, we will open the call to questions. During this segment, we request that our callers please limit each turn to two questions. Callers may re-join the queue with additional questions as time permits.

Operator Facilitated Q&A

John Locke

- We appreciate all those who called in and everyone listening today. If you have any additional questions, please contact me or Karen Ngo. Thank you.