



Valero Bulls See Value at Recent Trading Low

Ticker/Price: VLO (\$51.75)

Analysis:

Valero (VLO) with 11,000 January \$35 puts sold to open on Friday down to \$4.30 and follows a number of recent size call flows including the January \$55 calls, January \$50 calls, June \$55 calls, May \$55 calls, and Jan. \$70 calls. Insiders active recently, as well. On 3/13, a director bought \$2.1M in stock at \$47.31. Shares are consolidating in a multi-week base under \$55 with a move higher target YTD VWAP at \$60.50 and a high-volume node from March. Downtrend resistance from February is also right around \$62.50 and a move higher opens up a run back to \$85 through a low-volume gap. The \$21.95B company trades 11.75X earnings, 0.20X sales, and 5.6X FCF with a 7.56% yield. VLO has a strong balance sheet given the current downtrend with a 1.4X Current Ratio and Debt/Equity below 0.45X. They also have significant capital flexibility as they slow down growth projects while annual maintenance capex is covered 5X by their current liquidity. Refiners have concerns, certainly, from lower demand expectations in 2020 but with crude oil prices depressed the company stands to benefit from lower input costs and better profit margins on refining crude from outside the US. And, VLO has long had one of the best asset bases and cost-profile of any of the large-cap refiners. The company could also see relief soon as several states have asked the White House to exempt refiners, including VLO, from certain EPA targets to help them survive the demand slump. VLO gave preliminary guidance on 4-13 and came in above expectations and they pre-emptively cut back on certain products. They plan to continue forward with expansion projects like Diamond Green given the strong tax credit incentives that remain in place until 2022. Analysts have an average target for shares of \$82. Jefferies upgrading to Buy on 3-26. Raymond James with a \$60 PT citing their best in class balance sheet, impressive crude flexibility and cost advantages. Piper upgrading to Buy on 3-12 with a \$97 PT. They think VLO is one of the largest beneficiaries from potentially wider sweet/sour differentials which an oil war would serve to exacerbate after a 'tight' 2019. Short interest is 2%. Hedge fund ownership rose 1.65%. Arosa Capital a buyer of call options.

Hawk Vision:



Hawk's Perspective: VLO is the preferred name to own in Refiners but this strategy also seeing plenty of room for downside, so one to target more into weakness with its strong balance sheet.

Confidence Ranking: \$\$