



Bloomsburg Investment Group

Equity Analysis
Valero Energy Corporation (VLO)

Analysts:
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Bloomsburg Investment Group Opinion:

The Energy Sector believes that Valero Energy Corporation is a strong hold. Their dividend yield is appealing, and is expected to continue to increase as their cash reserves appreciate. The Trump Administration and their pro-fossil fuel proposals will only help the energy sector with deregulation and more pipeline construction being the key facilitators in the energy sector revival. We anticipate Valero using cash reserves to expand on Capital Expenditure in hopes of getting an even higher ROI than previous investments. With Valero having the Upstream, Midstream, and Downstream components of business, they are able to have a competitive advantage over others in the industry. Their efficiency in operations is top-notch, and is only going to improve. We anticipate the next four years to be lucrative for the energy sector in general, but specifically for a company like Valero.

Corporate Summary:

Valero Energy Corporation is an independent petroleum refining and marketing corporation in the United States, Canada, U.K, Caribbean & Ireland. It also exports to South America and Asia. The company has two main segments: refining and ethanol. The refining segment has 15 petroleum refineries located in the United States, U.K, and Canada. The segment is involved in refining, wholesale marketing, product supply, and distribution. Refining produces premium gasolines, CARB specific gasolines, diesel fuels, distillates, jet fuel, asphalts, lubricants, and other petrochemicals. The ethanol segment produces and sells ethanol and distillers grains. The ethanol segment has 11 plants with a production capacity of 1.3 billion gallons per year. Valero has over 7,500 outlets to carry their product to the market. Valero also has a 2/3 ownership of Valero Energy Partners LP, which is a Midstream Master Limited Partnership.

Corporate Details:

Name	Valero Energy Corp
Ticker	VLO
Domicile	United States
Sector	Energy
Industry	Oil & Gas Refining & Marketing
Exchange	NEW YORK STOCK EXCHANGE, INC.
Last Close	67.31
Price 52 Wk High	71.40
Price 52 Wk Low	46.88
Latest Dividend	0.70
Dividend Yield % TTM	3.57
Beta 5 Yr (Mo-End)	1.43
Avg Daily Volume (3 Mo)	4,643,885.03
Shares Outstanding (mil)	452.66
Number of Analysts	4



Valero Energy Corp

VLO

Financial Summary, Year End 2015 (in millions)

Market Capitalization	30,468.86
Total Revenue	87,804.00
Gross Profit	8,910.00
Operating Income	6,358.00
Net Income Cont Ops	4,101.00
Net Income	3,990.00
Current Assets	14,972.00
Cash	4,114.00
Total Assets	44,343.00
Current Liabilities	7,360.00
Long-term Liabilities	16,456.00
Total Liabilities	23,816.00
Total Equity	20,527.00
Operating Cash Flow	5,611.00
Investing Cash Flow	-2,487.00
Financing Cash Flow	-2,545.00
Change In Cash	425.00
EBITDA	8,246.00
Enterprise Value	33,471.86
Capital Expenditure	-1,618.00
P/E Ratio Forward	13.07
PEG Ratio	
Dividend Yield % TTM	3.57

Financial Highlights

Net Income down for Q3 2016, which is expected as 2016 had a lull in oil prices for majority of the first half of the year.

High amount of cash reserves, roughly \$6 billion. We anticipate that being used for future buybacks, dividends, and Capital Expenditure. There may be speculation of future acquisitions of more pipelines as well.

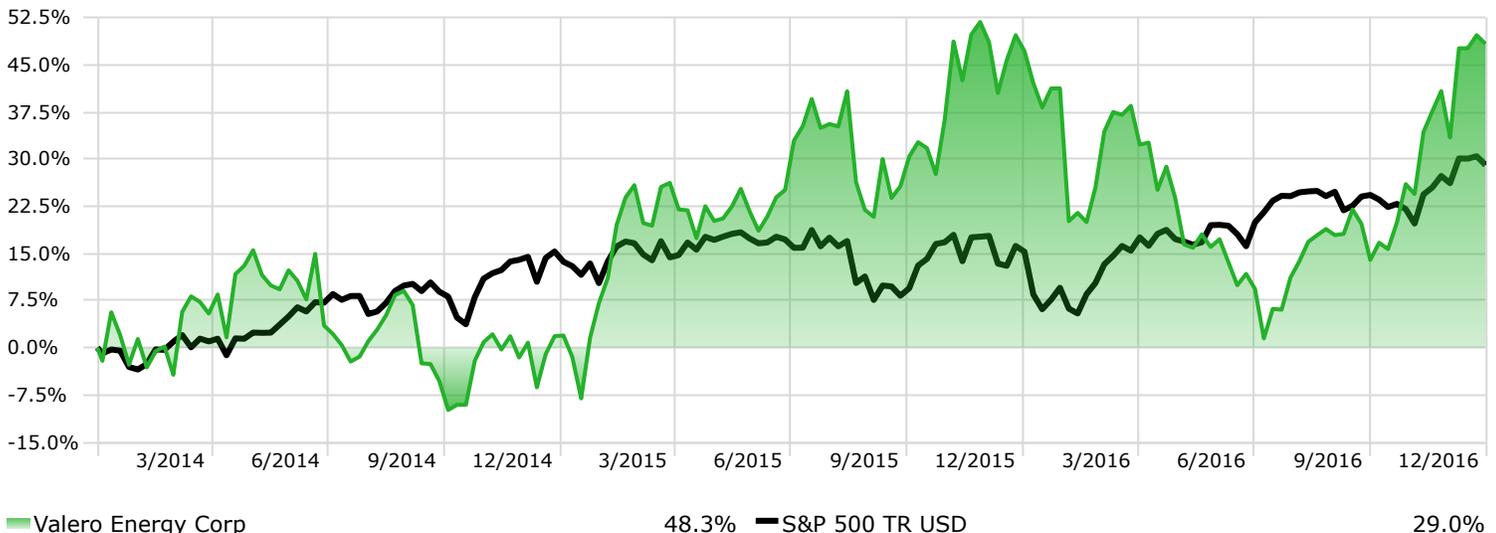
Large portion of Other Assets consists of Derivatives. They are used as a hedge in commodity pricing of Crude Oil as well as currency protection.

Near 50% Payout Ratio to Shareholders.

Valero doesn't go into great detail except for 10K's. 10Q's provide some detail, but not nearly as much as a full year's worth of data. For example, no numerical reporting of land, buildings, etc for Q3.

Investment Growth

Time Period: 1/1/2014 to 12/31/2016





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VLO Energy increased regular cash dividend by 17%

January 26, 2017

*Increases regular cash dividend by 17%

*Increase in company's regular quarterly cash dividend on common stock from \$0.60 per share to \$0.70 per share

Shares of VLO Energy Jump 11% in October

November 2, 2016

Shares of oil refiner **Valero Energy** (NYSE: VLO) jumped 11% in October. Helping with that stock price surge was the announcement that the board of directors has approved another \$2.5 billion in stock repurchases. In the past 5 years, the company has reduced its overall share count by 17.9% thanks to these large share repurchase programs. With close to \$6 billion in cash on the books, Valero doesn't run much risk of a cash crush with this program.

Keystone XL Pipeline

January 25, 2017

President Donald Trump on Tuesday signed an executive order moving forward the proposal of the Keystone XL Pipeline. Originally proposed by TransCanada Corp. in 2008, the 2,100-mile Keystone XL Pipeline was designed to move crude oil from the tar sands region of Canada to refineries owned by Valero Energy and other companies in and around Houston. Gorder said the Keystone XL Pipeline would enable Valero and other companies to use domestically produced oil as opposed to feedstocks from the Middle East or other nations.

Red River Pipeline

January 19, 2017

A subsidiary of Valero Energy Partners LP acquired a 40 percent stake in a new 138-mile segment of a pipeline in Oklahoma for about \$70 million. . The pipeline began supplying crude oil to Valero Energy Corp.'s refinery in Ardmore, Oklahoma, in January. Also, concurrent with the acquisition, Valero Energy Partners entered into a 10-year throughput agreement with a subsidiary of Valero Energy Corp. The agreement includes a minimum volume commitment, a five-year renewal term and no direct commodity price exposure.



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Industry Environment:

The energy sector is extremely volatile. Largely dependent of the price of oil, specifically WTI and Brent, the energy sector is at the hands of OPEC as they ultimately control the production threshold for the world. With constant fluctuations in oil prices, especially as of late, stock prices are directly affected, so dramatic swings are common for this sector. Since the election, the energy sector has seen a nice boost, in large part because of President Trump's proposed policies and outlook on fossil fuel. We envision the next four years to be pro-fossil fuels.

Competitor Comparison

	Revenue (mil)	Revenue % Chg	Gross Profit (mil)	Gross Margin %	Net Income (mil)	Net Income % Chg	Net Margin %	Market Cap (mil) (Daily)	Current Ratio	Receivable Turnover
Valero Energy Corp	87,804.00	-32.89	8,910.00	10.15	3,990.00	9.92	4.54	30,468.86	2.03	18.40
Exxon Mobil Corp	268,882.00	-34.73	80,614.00	29.98	16,150.00	-50.34	6.01	354,583.75	0.79	11.23
Chevron Corp	138,477.00	-34.67	45,692.00	33.00	4,587.00	-76.16	3.31	214,809.27	1.34	9.24

Competitor Comparison (Cont.)

	Asset Turnover	ROA %	Total Debt to Total Equity	ROE %	Beta 5 Yr	P/E Ratio Forward	PEG Ratio	P/B Ratio Current	Dividend Yield % TTM	Free Cash Flow / Sales % TTM
Valero Energy Corp	1.95	8.88	0.36	19.37	1.43	13.07		1.50	3.57	4.07
Exxon Mobil Corp	0.78	4.71	0.23	9.36	0.89	20.12	3.27	2.08	3.48	0.29
Chevron Corp	0.52	1.72	0.25	2.98	1.19	25.51	1.36	1.46	3.77	

Investment Growth

Time Period: 1/1/2012 to 12/31/2016





Valero Energy Corp

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Strengths:

Dividend – 2.40 (3.62%). Current as of 1/22/17.
Has the possibility to grow our investment over time.

Valero has all 3 stages of the oil and gas industry:

Upstream (Exploration) – Process of searching for land and areas of the ocean where they might want to drill for oil.

Midstream (transportation) – Process, stores, markets, and transports the oil and gas as well as other products. Transports the gas to their customers. (Valero gas stations, Airlines etc.)

Downstream (Refining) – Includes the oil refineries, petroleum product distributions. VLO is the largest oil refiner. 44 States in the US, 6 Canadian Provinces, UK, and Ireland.

Opportunities:

Valero plans to continue increasing its exports. The current export capacity is 225Mbpd for gasoline and 412 Mbpd for diesel. They expect to expand their Gulf Coast exporting capacity to 308Mbpd for gas and 472 Mbpd for diesel. Higher export levels mean a higher, more stable utilization rate.

Valero also plans to increase their logistics operation. Valero allocated about 50% of their 2014 capex to logistics investments. Valero said “The majority of our growth investment for 2015 and 2016 are allocated to the logistics and to the increasing our capability to access and process advantaged crude oils through flexible refining system.”

President Trump's proposed deregulation of pipelines can benefit Valero's operations significantly.

Weaknesses:

Volatility- The oil industry is the most volatile sector. Therefore the price of oil is changing very often.

Falling Prices- reported a profit of \$298 million, or 62 cents per share which is down from a year before where profit was \$1.16 billion or \$2.22 a share.

Rely heavily on crack spread, the difference between WTI and Brent. When WTI is more expensive than Brent, Valero loses profit.

Threats:

Valero is in both the refining and ethanol segments therefore their stock price is based off the price of oil which is very volatile. Since the price of oil is ever changing, Valero's stock has more risk associated with it. Furthermore, Valero deals with other countries so they are subject to foreign exchange rates. These rates can change as well which could make exporting to some countries more expensive than others.

Clean energy, not if but when? At some point clean energy will take precedence over fossil fuels. At that time Valero's operations will be significantly affected.



Valero Energy Corp

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Valuation: Discount Cash Flow Model (DCF)

We got a DCF value of \$115.93 for VLO. This number is a relatively fair value, as cash flows deviate strongly in the high-volatility energy sector. We feel the value is higher than expected; this value is attributed to recent fluctuations in dividend payments. While we expect dividend payments to continue, we are expecting scaled back dividend growth long-term.

Valuation: Discount Dividend Model (DDM)

We got a DDM value of \$91.44 for VLO. We feel that this is a strong value for the company, as mentioned throughout this report. The dividend is going to increase but not at as high of a rate, and we expect it to be continued to be paid. By discounting future expected growth rates, we could arrive at our DDM valuation.

Valuation: Multiple Valuation

We got a multiples value of \$88 for 2017 and \$101.52 for 2018. We used the Price/Earnings multiple method. We used the projected EPS from CapitalIQ and multiplied it by the average projected growth in dividends. We feel this is the most accurate measure of VLO's value, and is still 31% above the current market price.



Valero Energy Corp VLO

Bloomsburg Investment Group Disclaimer

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