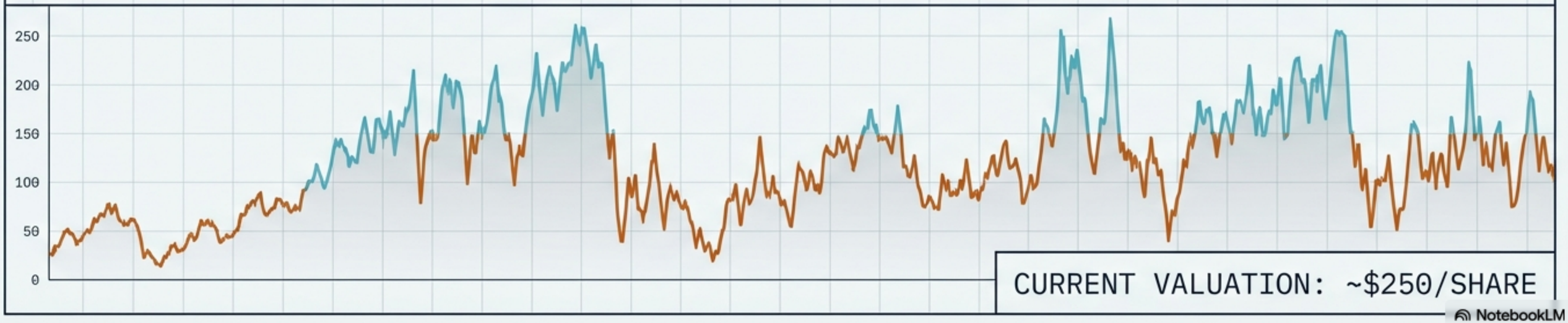
TICKER: VLO

INDUSTRY: PETROLEUM REFINING

Valero Energy (VLO): The Gold Standard in a Brutal Neighbor Neighborhood

Evaluating the tension between structural operational advantages and geopolitical cyclicality at a $250 valuation.



CURRENT VALUATION: ~$250/SHARE

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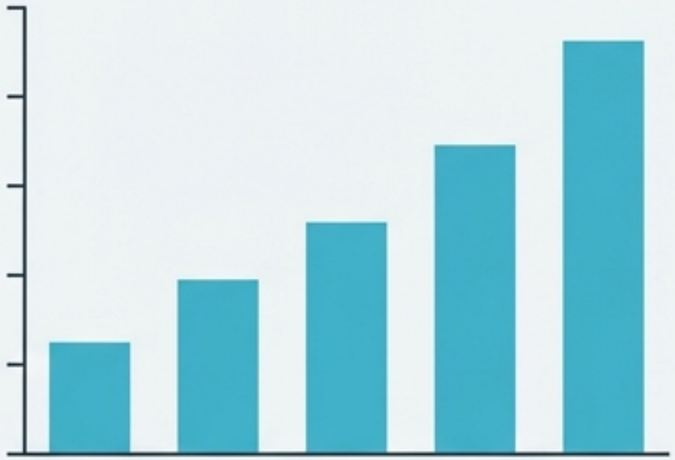
The Investment Paradox at $250 per Share

The Operator Alpha



Valero generates a **measurable $2–5/bbl structural margin advantage** over weaker peers.

Its massive scale, high Nelson Complexity (12–13), and Gulf Coast footprint make it the highest-margin U.S. refiner in 9 of the past 11 years.

The Macro Tension



The U.S. has **permanently closed** over **1.4 million bpd** of capacity since 2019, structurlly tightening domestic supply.

However, this is currently masking a **hyper-cyclical market** temporarily distorted by the **2026 Strait of Hormuz crisis**.

The Valuation Crossroads



At ~$250, the market prices VLO at a **55% premium** to its 10-year median mid-cycle multiple.

The core question: **is this a structurally higher-margin equilibrium**, or a **temporary geopolitical windfall?**

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Operational Supremacy: The Best House in a Tough Neighborhood

Terminal Heatmap				
Metric	**Valero (VLO)**	**Marathon (MPC)**	**Phillips 66 (PSX)**	**PBF Energy (PBF)**
Nelson Complexity	12-13 (Highest)	High	Medium	Medium-Low
Margin Advantage (Q2 2025)	$17.58/bbl	N/A	$12.35/bbl	N/A
Through-cycle ROIC	~11%	~10-12%	8-10%	5-8%
Balance Sheet Health	0.5x Net Debt / BBB	1.5-2x	~2x	2x+



Q4 2024 Catalyst: VLO set a record processing 608,000 bpd of heavy sour crude. Sourcing discounted Venezuelan heavy crude (~$9/bbl under Brent) generated an estimated $58M/month in pure feedstock savings.

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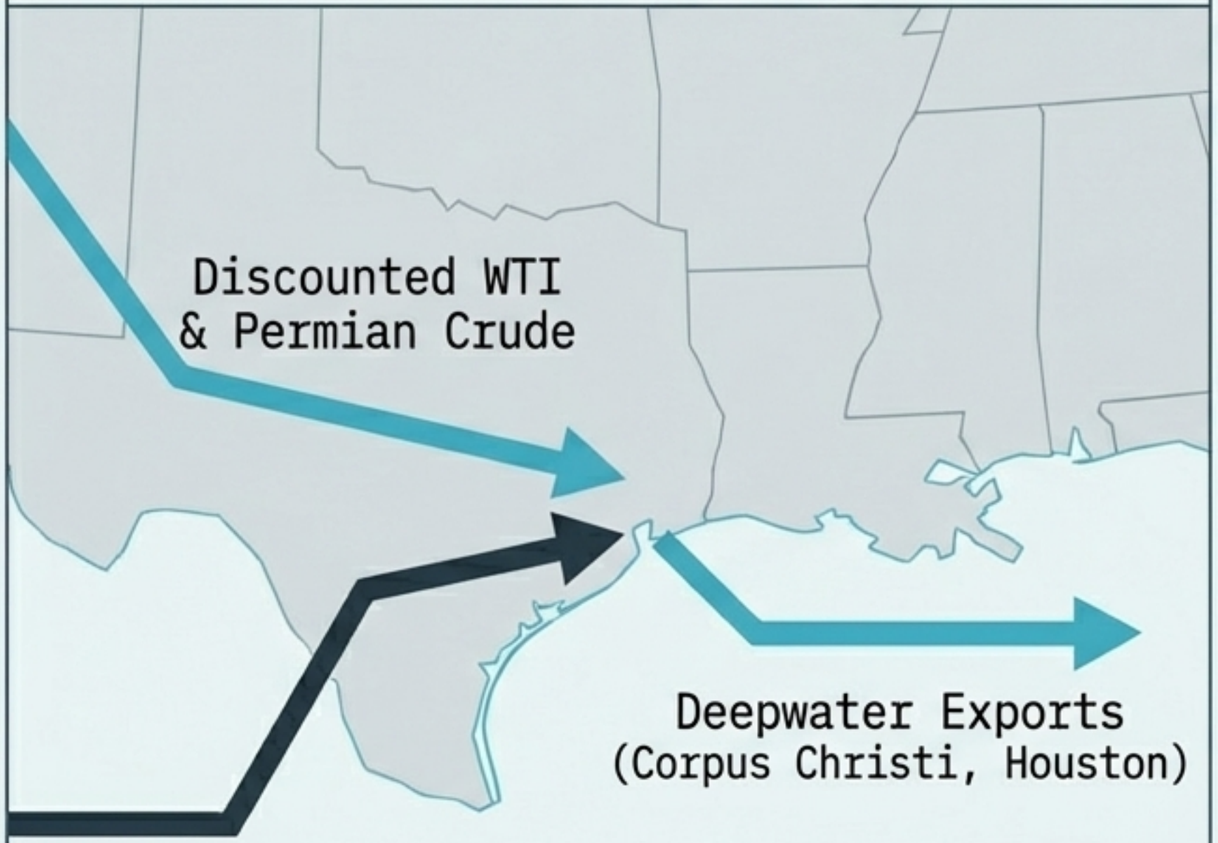
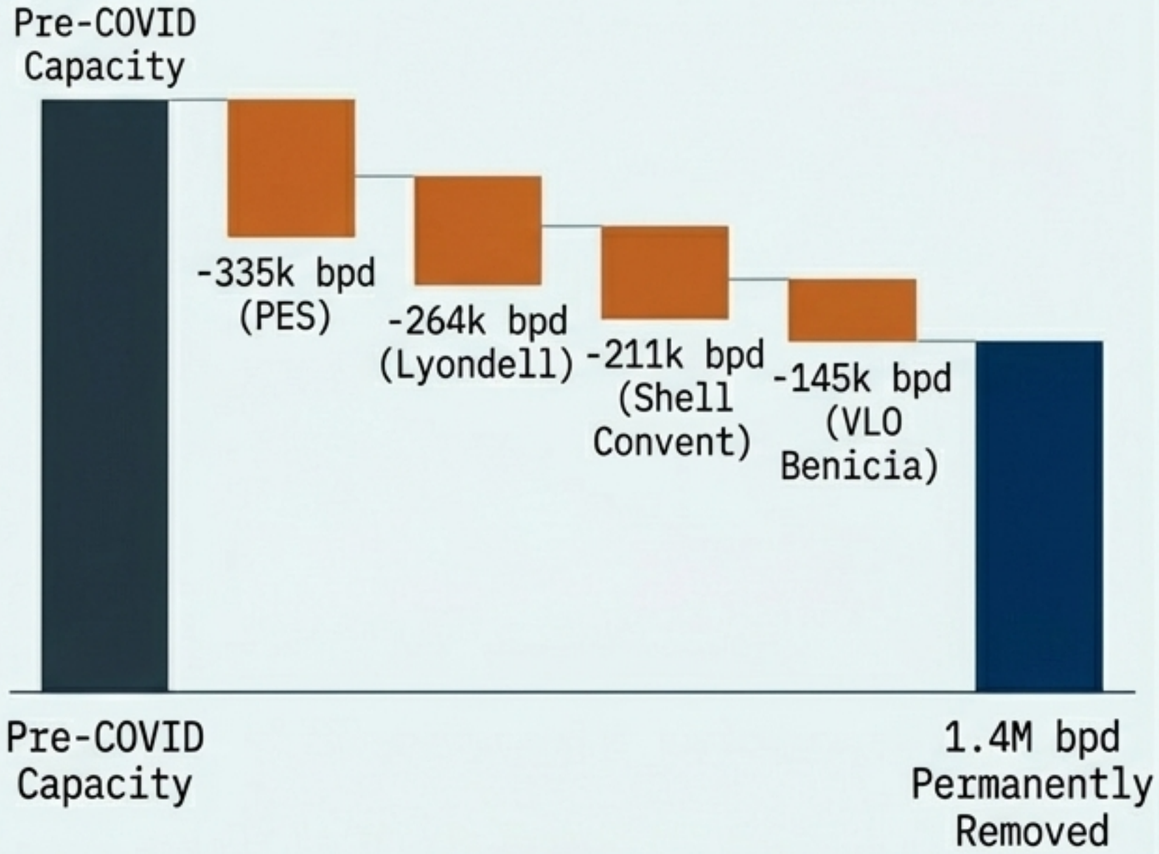
The Permanent Gulf Coast Moat and Post-COVID Rationalization

Structural Advantages



Capacity Rationalization (2019-2026)



Insight: Zero new U.S. refineries built since 1976. Permitting barriers effectively guarantee no future domestic entrants.

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The Global Supply Threat: Tepid Demand Meets Mega-Refineries

Opposing Forces

U.S. Demand Erosion

- U.S. gasoline peaked in 2018 at 9.3M bpd.
- Down 3.9% to ~8.97M bpd in 2024.
- EVs displaced 1.3M bpd globally in 2024.

Global Mega-Additions

- Dangote (Nigeria): 650,000 bpd
- Al-Zour (Kuwait): 615,000 bpd
- Dos Bocas (Mexico): 340,000 bpd

The Atlantic Basin Collision

The Collision: With U.S. demand structurally declining (~1-2% annually), Valero relies on exporting ~25-30% of throughput. These barrels will directly compete with new global mega-refineries in the tightening Atlantic Basin.

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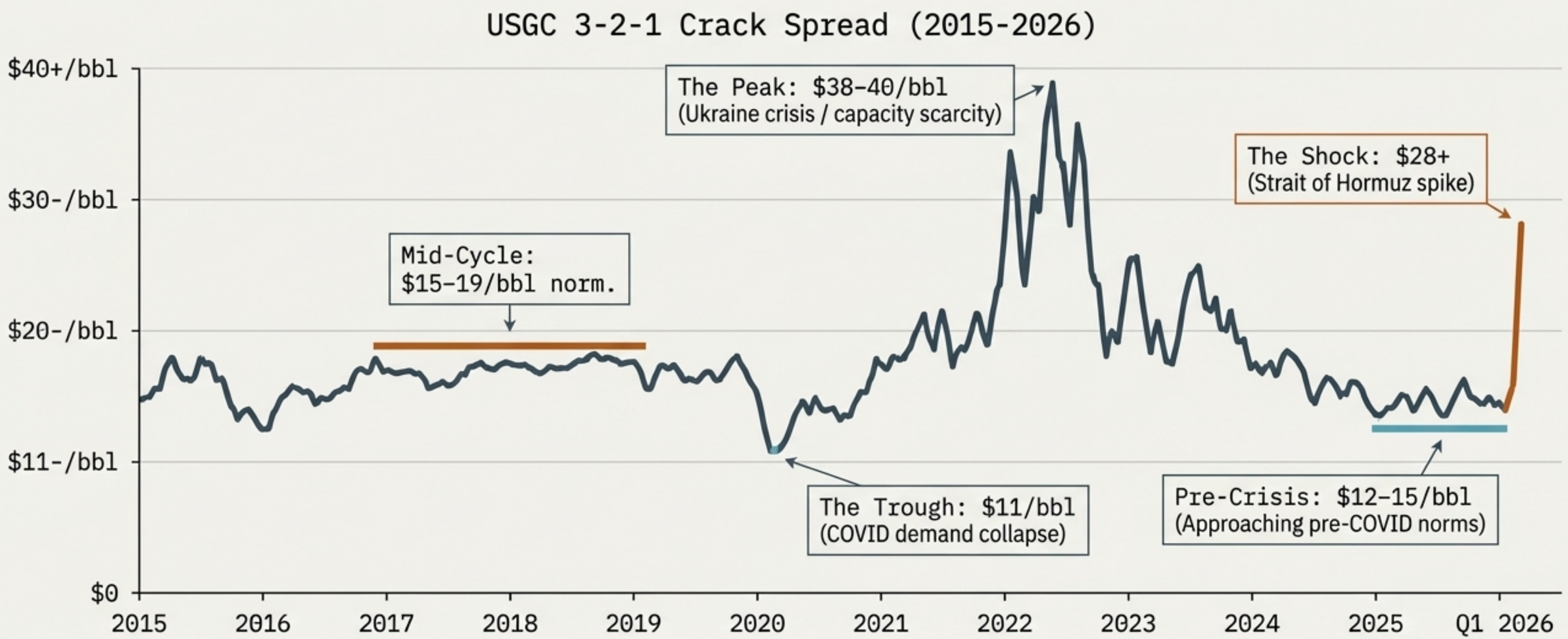
The 3-2-1 Crack Spread: A Barometer of Extreme Cyclicality



Key Takeaway: Refiner cash operating costs are $4–8/bbl. With crack spreads exhibiting a massive 4:1 peak-to-trough ratio, earnings volatility is an unavoidable mathematical reality.

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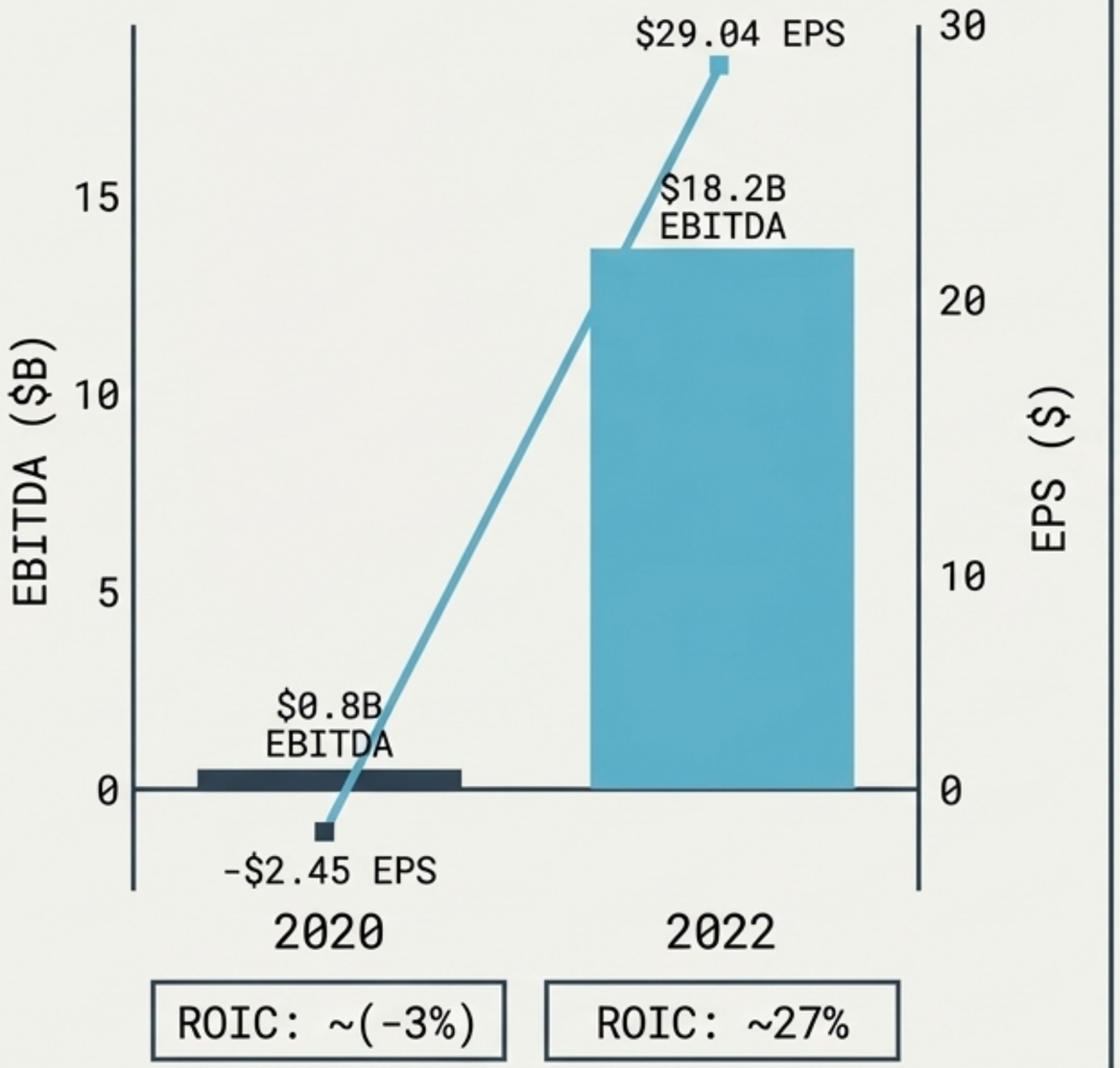
The Financial Heartbeat: Why Supercycles Are Mandatory



THE 22X SWING: EBITDA exploded by 22x in just 24 months.

THE WINDFALL REALITY: 65% of 2022 earnings were windfall above historical norms.

THE ROIC PARADOX: 10-year average ROIC is ~11%. However, excluding the 2022-2023 supercycle, average ROIC drops to ~8%—matching the company's estimated WACC.

CONCLUSION: Periodic margin spikes are mathematically essential to generate adequate through-cycle returns.

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The 2026 Black Swan: The Strait of Hormuz Shock

Catalyst: March 4, 2026 Iranian closure of the Strait following U.S.-Israeli strikes.



20% OF GLOBAL SUPPLY BLOCKED

27% OF SEABORNE CRUDE HALTED

BRENT SPIKES: $61 → $118/BBL

NYH DISTILLATE CRACK: $1.42/GAL

The Valero Advantage: The crisis drastically widened the WTI-Brent spread. Valero's Gulf Coast position allows it to purchase domestically trapped, discounted WTI crude, while selling refined products into global markets priced off sky-high Brent benchmarks. Stock surged from ~$190 to ~$254 in weeks.

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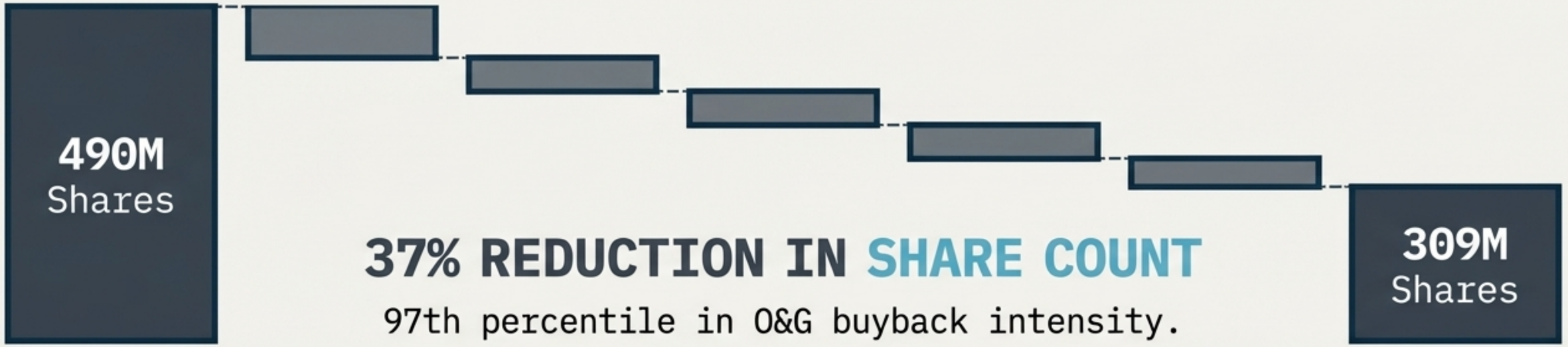
Capital Allocation Masterclass: The 37% Share Cannibalization



37% REDUCTION IN SHARE COUNT

97th percentile in O&G buyback intensity.

$33.4 Billion Returned (2015-2024)

$33.4B
Total

$19.6B
Buybacks

$13.8B
Dividends

Dividend Resilience

9.7% CAGR ($1.70 in 2015 to $4.80 in 2026). The dividend was held pristine through the 2020 COVID operating losses—a definitive proof point of management discipline and balance sheet strength.

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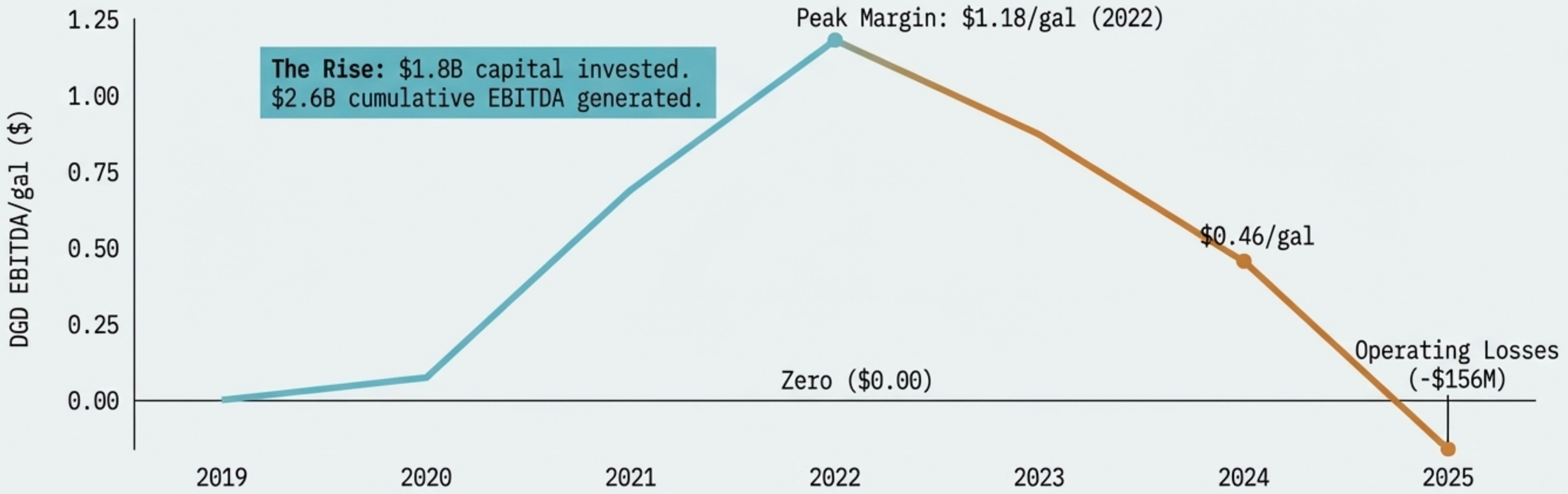
The Diamond Green Diesel Pivot & Penalty

Margin Lifecycle



The Cause

U.S. capacity approached 7 billion gallons vs mandated demand of 4-5 billion. D4 RIN prices fell 70%.

The Sunk Cost Reality

While SAF upgrades ($315M) offer optionality, AlixPartners confirms: "The gold rush for renewable diesel is over."

The strategic penalty is the $1.8B that could have been allocated to sub-$100 share repurchases.

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The Valuation Engine: What Does $250 Imply?

Core Assumption: 10-year median EV/EBITDA multiple of 6.5x applied to through-cycle scenarios.

Scenario	EBITDA Environment	Implied Target Share Price
Trough (2020-like)	$1.0B	~$0/share
Below Mid-Cycle	$5.0B	~$85/share
Mid-Cycle (Normalized)	$7.5B	~$140/share
Above Mid-Cycle	$10.0B	~$194/share
Peak (2022-like)	[illegible]	~$368/share

CURRENT MARKET PRICE: ~$250/SHARE

The Diagnosis: At ~$250, the market is pricing VLO at a 55% premium to mid-cycle multiples. To justify this valuation without multiple expansion, Valero must sustain an $11–12B EBITDA environment indefinitely.

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The Crossroads: Operator Alpha vs. Commodity Mean Reversion

The Bull Thesis (Structural Tightness)

Geopolitics: The Hormuz crisis permanently alters global trade routes, embedding a lasting geopolitical premium.

Supply: Zero new U.S. builds and ongoing closures establish a permanently higher margin floor.

Operations: Widening heavy crude discounts and an aggressive 60-80% FCF buyback program compound EPS exponentially.

The Bear Thesis (Mean Reversion)

Geopolitics: Hormuz resolves, instantly erasing the $28+ crack spread premium and violently reverting margins to pre-crisis $12-15 levels.

Supply: Dangote and Al-Zour flood the Atlantic Basin export market just as U.S. demand continues its 1-2% annual decline.

Valuation: Fair value on $7.5B mid-cycle EBITDA is $140. Normalization implies a ~45% downside from today's $250 price.

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