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HFC - Q1 2018 HollyFrontier Corp Earnings Call

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OVERVIEW:

Co. reported 1Q18 net income attributable to HFC shareholders of $268m or $1.50 per diluted share.

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Roger David Read *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Ryan Todd *Deutsche Bank AG, Research Division - Director*

PRESENTATION

Operator

Welcome to HollyFrontier First Quarter 2018 Conference Call and Webcast. Hosting the call today from HollyFrontier is George Damiris, President and Chief Executive Officer. He is joined by Rich Voliva, Executive Vice President and Chief Financial Officer; Jim Stump, Senior Vice President of Refinery Operations; and Tom Creery, President, Refining and Marketing. (Operator Instructions) Please note that this conference is being recorded.

It is now my pleasure to turn the floor over to Jared Harding, Investor Relations. Jared, you may begin.

Jared Harding

Take you, Luke. Good morning, everyone, and welcome to HollyFrontier's first quarter 2018 earnings call. I'm Jared Harding with Investor Relations for HollyFrontier.

This morning, we issued a press release announcing results for the quarter ending March 31, 2018. If you would like a copy of the press release, you may find one on our website at hollyfrontier.com.

Before we proceed with prepared remarks, please note the Safe Harbor disclosure statement in today's press release.

In summary, it says statements made regarding management expectations, judgments or predictions are forward-looking statements. These statements are intended to be covered under the Safe Harbor provisions of federal securities laws. There are many factors that could cause results to differ from expectations, including those noted in our SEC filings.

Today's statements are not guarantees of future outcomes.

The call also may include discussion of non-GAAP measures, and please see the press release for reconciliations to GAAP financial measures.

Also, please note that information presented on today's call speaks only as of today, May 2, 2018. Any time-sensitive information provided may no longer be accurate at the time of any webcast replay or reading of the transcript.

And with that, I'll turn the call over to George.

George J. Damiris - *HollyFrontier Corporation - CEO, President & Director*

Thanks, Jared. Good morning, everyone. Today, we reported first quarter's net income attributable to HollyFrontier shareholders of $268 million or $1.50 per diluted share. Certain items detailed in our earnings release increased net income by $131 million on an after-tax basis. Excluding these items, net income was $137 million or $0.77 per diluted share versus a net loss of $33 million or $0.19 per diluted share for the same period in 2017.

Adjusted EBITDA for the period was $316 million, an increase of $230 million compared to the first quarter of last year. This increase was principally driven by our Refining and Marketing segments, but we were able to capitalize on favorable crude differentials and strong product crack spreads in our market.

Our Lubricants and Specialty Products business reported EBITDA of $41 million, driven by strong Rack Forward sales volume and margins. Rack Forward posted adjusted EBITDA of $56 million, representing a 14% EBITDA margin and had operating costs of $36 million.

HollyFrontier continues to expect Rack Forward EBITDA of $180 million to $200 million for 2018 with an EBITDA margin of 10% to 15% of sales.

Lower base oil crack combined with the lumping impact of our feedstock supply issues hurt rack back earnings in the first quarter. With our feedstock supply issues behind us, we expect significant improvement in rack back as we entered the seasonally strong second and third quarters.

We do have plant maintenance at our Mississauga facility in the second quarter, which will impact both Rack Forward and rack back volumes.

Holly Energy Partners reported EBITDA of $89 million for the first quarter compared to $70 million in the first quarter of last year. This growth was driven by the acquisition of the Salt Lake City and Frontier Pipeline as well as volume growth in HEP's crude gathering system. Distributable cash flow came in at $69 million, delivering a distribution coverage ratio of 1.04.

During the quarter, we purchased $25 million worth of HFC shares. This demonstrates our disciplined capital allocation strategy of first, maintaining our current assets and balance sheet strength; second, sustaining a competitive dividend; third, growing our business, both organically and through transactions; and fourth, returning excess cash to shareholders.

Going into the summer, we are optimistic about light products and lubricant markets as well as the sustainability of crude differentials.

Now I'll turn the call over to Jim for an update on our operations.

James M. Stump - *HollyFrontier Corporation - SVP of Refining*

Thanks, George. For the first quarter, our crude throughput was 415,000 barrels per day, in line with our guidance of 410,000 to 420,000 barrels per day. While our crude throughput was impacted by our Tulsa turnaround and unplanned maintenance at Woods Cross, our Refining system as a whole performed very well.

Our consolidated operating cost of $5.86 per throughput barrel was a 16% improvement versus the $6.97 in the same period last year.

The improvement was driven by increased throughputs along with operating cost reductions across our Refining system.

In the Rockies, operating expenses were $9.62 per throughput barrel, a steady improvement over the $9.87 recorded in the first quarter of 2017. This was led by the continued focus on improving operational reliability and operating costs at our Cheyenne refinery.

Our Navajo plant ran approximately 106,000 barrels per day in the first quarter. We continue to see the benefits of higher crude throughputs since the completion of debottleneck project in the first quarter of 2017.

In the Mid-Con, despite the turnaround at Tulsa, our operating expenses per throughput barrel of $5.28 improved by $0.52 per barrel versus the first quarter of last year. We have completed all the turnaround work at Tulsa safely, and we have resumed normal operating rates there.

Our Woods Cross Refinery experienced a fire in mid-March. We are still in the process of repairing the [Number 1] crude unit and expect Woods Cross to run at reduced rates at the balance of the quarter. During the quarter, we also have planned maintenance scheduled at our El Dorado Refinery that will slightly impact our sales volumes.

For the second quarter of 2018, we expect to run between 440,000 and 450,000 barrels per day of crude oil.

I will now turn the call over to Tom for an update on our commercial operations.

Thomas G. Creery - *HollyFrontier Corporation - SVP of Commercial and President of HollyFrontier Refining & Marketing*

Thanks, Jim, and good morning, everyone. The first quarter of 2018, the 415,000 barrels a day of crude throughput was composed of 32% sour and 22% WCS and black wax crude oil. Our average laid in crude cost was under WTI by $8.47 in the Rockies, $2.80 in the Mid-Con and flat versus WTI in the Southwest.

In the first quarter of 2018, we witnessed global and U.S. product inventories to continue to be rebalanced, signaling global economies are continuing to grow and increasng the demand for refined products.

Gasoline inventories in the Magellan system ended the quarter at 9.8 million barrels, which was similar to last year's first quarter ending inventories. Diesel inventories remained static as compared to the fourth quarter of 2017 and approximately 0.5 million barrels lower than last year levels.

First quarter cracks in the Mid-Con were $15.56, $13.70 in the Southwest and $15.66 in the Rockies. When compared to 2017, first quarter cracks were higher in the Mid-Con and lower in both the Rockies and Southwest.

Crude differentials widened across heavy and sour slates during the first quarter. In the Canadian heavy market, first quarter crude differentials [in RSD] averaged over 20 -- $4.25 per barrel compared to a fourth quarter differential of $12.25 per barrel.

HFC with its firm space commitments on various pipelines was able to purchase and deliver adequate volumes of price-advantaged heavy crude from Canada to meet our refining needs.

Our Canadian heavy and sour runs averaged 86,000 barrels per day at our plants in the Mid-Con and Rocky regions. We also refined approximately 174,000 barrels a day of Permian crude in our refining system composed of 106,000 barrels per day at our Navajo complex and 68,000 barrels a day at our El Dorado Refinery delivered by the Centurian Pipeline.

Increased to Permian base crudes will allow us to take advantage of the widening differentials for Midland price-based oils.

First quarter consolidated gross margin was $12.83 produced barrels sold. This was a 70% increase over the $7.54 recorded in the first quarter of 2017. This increase was driven by improved laid in crude costs in the Mid-Con and Rockies regions and the small refinery exemptions at our Cheyenne Refinery

With widening Permian differentials and consistent discounts for WCS and black wax crude oils, we anticipate continued margins across our Refining system in the second quarter.

RINs expense in the quarter was $6 million, which is net of the $72 million cost reduction resulting from the Cheyenne 2015 and 2017 small refinery exemptions received during the quarter.

And with that, let me turn the call over to Rich.

Richard Lawrence Voliva - *HollyFrontier Corporation - CFO & Executive VP*

Thanks, Tom. As George mentioned, the first quarter included a few unusual items. Pre-tax earnings were positively impacted by $104 million lower cost to market benefit as well as $72 million reduction in RINs costs as a result of our Cheyenne refineries small refinery exemptions. These positives were partially offset by $4 million of PCLI integration-related charges.

The table detailing these items can be found in our press release, and I am pleased to report we completed the integration of PCLI in the first quarter.

For the first quarter of 2018, cash flow provided by operations was $334 million including turnaround spending of $57 million, and HollyFrontier's stand-alone capital expenditures totaled $57 million.

As of March 31, our total cash and marketable securities balance stood at $782 million, an increase of $151 million over the balance on December 31 of 2017. This increase was driven by our strong earnings and supplemented by a drawdown of inventory we had built in preparation for the first quarter turnaround at our Tulsa Refinery.

During the quarter, we returned a total of $84 million of cash to shareholders comprised of a $0.33 regular dividend totaling $59 million as well as the repurchase of approximately 550,000 shares of common stock totaling $25 million.

As of March 31, we had $152 million remaining on our existing stock repurchase authorization.

As of March 31, HollyFrontier had $1 billion of stand-alone debt outstanding and no drawings on our $1.35 billion credit facility. This puts our liquidity at a healthy $2.1 billion and debt-to-capital at a modest 15%.

HEP distributions received by HFC during the first quarter totaled $36 million, a 20% increase over the same period in 2017. HollyFrontier now owns 59.6 million HEP limited partner units, representing 57% of HEP's LP units with a market value of $1.7 billion as of last night's close.

For the full year of 2018, we slightly increased our CapEx guidance, driven by higher turnaround scope and costs. We now expect to spend between $380 million and $440 million for both stand-alone capital and turnarounds at HollyFrontier Refining and Marketing, $70 million to $90 million at our Frontier Lubes and Specialties, and this includes our scheduled turnaround in the Mississauga base oil plant and $50 million to $60 million of capital for HEP.

And with that, Luke, we are ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Doug Leggate from Bank of America.

Douglas George Blyth Leggate - *BofA Merrill Lynch, Research Division - MD and Head of US Oil and Gas Equity Research*

George, I wondered if you could just give us some prognosis as to how you see the spread outlook. Obviously, you are probably the primary beneficiary, both from Canadian heavy and end run discounts. So I'm just curious, on your Analyst Day, you laid out what now is the relatively conservative view about a $4 run rate for TI or for your realized margin under TI -- realized crude under TI. I'm just curious if that's changed, and I've got a quick follow up, please.

George J. Damiris - *HollyFrontier Corporation - CEO, President & Director*

Yes, I think the best way to answer that question -- those differentials we covered in the Analyst Day we view as the long-term trend. It's going to bounce around above and below that, depending on the timing of crude production and pipeline capacity. Right now, obviously, things are getting tight at the Permian from a pipeline perspective. You're seeing dips to the $6 to $7 per barrel range and perhaps even spiking up a little bit above that recently. In Canada, we saw dips blow out as wide as $25-ish and settling now down back into the $16, $17 range. So that's going to be a function of how much crude can be taken out by rail in the interim year until the next increment of pipeline capacity is added.

Douglas George Blyth Leggate - *BofA Merrill Lynch, Research Division - MD and Head of US Oil and Gas Equity Research*

Better operations, obviously, have done a great job of capturing that margin. So congrats on turning that around, George. I guess my follow-up is also at your Analyst Day, and again, there's a lot of moving parts in the assumptions. You kind of laid out what your view was of midcycle value for Holly, and you're pretty much there. So I am just wondering how that alters your view of share buybacks relative to other uses of cash, specifically stepping up the dividend at a more sustainable basis. I'll leave it there.

George J. Damiris - *HollyFrontier Corporation - CEO, President & Director*

Again, I don't think it -- our stock current stock price impacts our capital allocation strategy. We're going to get monies back to shareholders to the extent that we have excess cash above our other priorities as I laid out in my prepared remarks.

Douglas George Blyth Leggate - *BofA Merrill Lynch, Research Division - MD and Head of US Oil and Gas Equity Research*

So you're pretty agnostic to the share price and buybacks?

George J. Damiris - *HollyFrontier Corporation - CEO, President & Director*

Again, I just view it as a way of getting money back to shareholders.

Operator

Your next question comes from the line of line of Brad Heffern from RBC Capital Markets.

Bradley Barrett Heffern - *RBC Capital Markets, LLC, Research Division - Associate*

A couple of questions on the RFS. Obviously, you've gotten the Cheyenne waivers for 2015 and 2017 year. No mention of Woods Cross. Is that application still outstanding? And additionally, is there a chance that you could get a retroactive 2015 exemption as well for Woods Cross?

George J. Damiris - *HollyFrontier Corporation - CEO, President & Director*

Yes, I would say that we're in the process of working through all that, Brad. We haven't heard anything back yet, otherwise we would have reported it.

Bradley Barrett Heffern - *RBC Capital Markets, LLC, Research Division - Associate*

Okay. And then I guess on the RFS in general. Any thoughts you have, George, about the tack the EPA seems to be taking -- giving out a lot more smaller refinery exemptions and how that impacts the potential for broader reform?

George J. Damiris - *HollyFrontier Corporation - CEO, President & Director*

Yes, I think the DC applicant court finding late last year, they've found that the previous EPA had erred in their review of applications for small refinery exemptions. So I think that was the key change from previous that opened up the door for what's provided for in the Clean Air Act, to allow the EPA to exempt small refiners from the RFS, from disproportionate economic harm. And, obviously, we view a high RIN cost market as disproportionate economic harm. Longer term, we are pleased by what we are seeing coming out of Washington. We applaud both of our Senators from the great state of Texas for their efforts in this area. Senator Cruz has gotten very involved in this effort and has been very involved to the Philadelphia Energy Solutions bankruptcy. Senator Cornyn is working on a legislative fix. We are also encouraged about what we're hearing from Congressman Flores and Shimkus working similar legislative action on the House side. So you never know what's going to come out of Washington, but we're pleased with the direction things are going and fully recognize there is still have a lot of work to be done here.

Operator

Your next question comes from the line of Manav Gupta from Crédit Suisse.

Manav Gupta - *Crédit Suisse AG, Research Division - Research Analyst*

My question is can you talk about HFC's role in the Delaware diesel project?

George J. Damiris - *HollyFrontier Corporation - CEO, President & Director*

It's a little bit premature to talk too much about it, but what we can tell you is we expect HFC to be the major customer for that facility. And we view it as a great opportunity to sell more diesel into the growing Delaware Basin market at improved netbacks to HollyFrontier against other alternatives for that product.

Manav Gupta - *Crédit Suisse AG, Research Division - Research Analyst*

I mean, going ahead, do you envision HEP growing such businesses like HFC is growing the Lubes business? Is this the kind of group growth that you have planned for HEP going ahead? Projects like this?

George J. Damiris - *HollyFrontier Corporation - CEO, President & Director*

Absolutely. These are exactly the type of projects that we view HEP as being a key part of our overall strategy.

Manav Gupta - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. And second question is more on spreads. So, I am looking at the forward spreads on Midland-Cushing, I'm seeing a $12 discount for November '18. I just wanted to know your view on the spread. And if anything, what you are seeing on the ground in terms of tracking economics from the region. Anything -- any color you could add.

Thomas G. Creery - *HollyFrontier Corporation - SVP of Commercial and President of HollyFrontier Refining & Marketing*

Yes, this is Tom Creery. We look at the forward markets as well on the Midland. As George mentioned earlier, that's just an indication of the imbalance of takeaway capacity versus drilling activity, which we believe is going to continue well into '19. So we are well poised to take advantage of those conditions. On the ground levels, we don't really see anything that's happening. There are some recently announced, or previously announced pipeline production projects that will be completed later this year that will help remedy it, but those are already built into the price.

Operator

Your next question comes from the line of Roger Read from Wells Fargo.

Roger David Read - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

I'll echo the good quarter comments. Well done and also on the share repos. It's always good to see that kick back around a little bit. If I could, though, jump into the maybe operationally thinking about some things. On the PCLI side, remind me if I'm off here, but I think this would be the third out of fifth -- got 5 quarters where we have seen some level of maintenance at PCLI. So I was wondering, is this a function of a lot of different units that need constant maintenance? Or that you are just getting familiar with the units, and so it makes sense to kind of call out the specific turnarounds as well as just sort of fine-tuning them for better product yields?

George J. Damiris - *HollyFrontier Corporation - CEO, President & Director*

Roger, it's a fair question. I'd say that the maintenance we have this quarter as well as the fourth quarter was always planned. The maintenance we had last year was really not -- to your point, like it's not -- there is room for improvement, absolutely. But really looking into 2019, we had always expected a turnaround at that facility in the fourth quarter, and we have some minor maintenance here in the second quarter.

Roger David Read - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Okay. So I guess that's what I'm trying to figure out is how much of it is normal. What we should consider as normal levels of maintenance going forward, I guess? A little bit each year, or...

George J. Damiris - *HollyFrontier Corporation - CEO, President & Director*

Yes, it should be better. I mean, 2019 is a turnaround year, so fairly typical in that sense. And then we would expect a cleaner run, obviously, 2020 and going forward.

Roger David Read - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Okay, that's helpful.

George J. Damiris - *HollyFrontier Corporation - CEO, President & Director*

So at a high-level year, Roger, we have 2 major process units at Mississauga and those units go down every 3 or 4 years on average. This just happens to be the year, as Rich laid out, that we have taken both units down this year.

Roger David Read - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Okay, perfect. And then my follow-up question, looking at your Southwest region. Obviously and following up on Manav's question about the dips, what is your flexibility there between running the light sweet and the sour barrels out there? So while we haven't seen a real separation, I think, between the price of the two. Thinking about how you are set up for your yield by barrel, what's the swing factor there of sweet versus sour?

George J. Damiris - *HollyFrontier Corporation - CEO, President & Director*

We could swing 100% sweet to sour. Now a little of that depends on what you mean by light sweet. You start getting too much above, say, 45 gravity we can't process a lot of that material. As you know, that type of crude has a lot of light ends and we're constrained in our (inaudible) gas plant. But as far as the swing from sweet to sour, we have 100% flexibility.

Thomas G. Creery - *HollyFrontier Corporation - SVP of Commercial and President of HollyFrontier Refining & Marketing*

And Roger, this is Tom. That's where the Centurion Pipeline comes in, too. That's a huge advantage, enable to bifurcate those crudes and move them around within the system.

Operator

Your next question comes from the line of Ryan Todd with Deutsche Bank.

Ryan Todd - *Deutsche Bank AG, Research Division - Director*

Maybe a quick follow-up on those last comments. I mean, as you think about the flexibility in your system to segregate crudes and swing between things, how do you think about your positioning into the IMO switch in 2020? How it's likely to impact the way that you run your system and the kind of flexibility that you'll see to adjust to a changing environment?

George J. Damiris - *HollyFrontier Corporation - CEO, President & Director*

Yes, obviously, IMO is going to help us from a crude differential perspective with the Canadian heavy. I don't see it impacting the rate of Canadian heavy we run because even if it's the recent past differentials, we tend to run as much Canadian heavy as we can. But net-net, as Tom said in his prepared remarks, we run about 85,000, 90,000 barrels a day of Canadian heavy, and we'll run about those types of levels even in an IMO 2020 scenario.

Ryan Todd - *Deutsche Bank AG, Research Division - Director*

Does it change much the type of crude slate on the light side that you had looked to run?

George J. Damiris - *HollyFrontier Corporation - CEO, President & Director*

I don't think so.

Ryan Todd - *Deutsche Bank AG, Research Division - Director*

Okay. And then I guess switching to use of excess cash. Again, it's was good to see a restart of the buyback. I appreciate the comments earlier on buybacks versus dividends. But can you -- you're generating a lot of excess cash. I mean, can you talk a little bit about how you think about priorities for the use of excess cash and how much cash that you'd like to keep on the balance sheet? What's the appropriate level there and how should we think about the excess?

Richard Lawrence Voliva - *HollyFrontier Corporation - CFO & Executive VP*

Sure, Ryan. So really, it starts with keeping the balance sheet healthy, which we've laid out. I think given where we are today with debt levels and a credit facility, we feel like $500 million of cash on the balance sheet is a good number. And above that, we would consider to be excess. So first, it's maintaining the facilities; second will be to keep the dividend competitive; third will be to grow, whether that's organic capital or whether it's acquisition; and then beyond that and we hit that $500 million threshold, we'll look to buy back stock.

Ryan Todd - *Deutsche Bank AG, Research Division - Director*

Okay. And the pace of buyback that we saw in -- during the first quarter, is there anything to read in terms of how we should think about that pace going forward? Or is it just going to be, as we you look over the near term, will that just change, based on the level of cash flow?

Richard Lawrence Voliva - *HollyFrontier Corporation - CFO & Executive VP*

I don't think it was done on a reasonable pace, but it's definitely going to -- it will move around a little bit based on what else we have going on. Obviously, we have got a higher level of capital spend in the, call it, last 3 quarters of the year and the first quarter of the year. It will also depend on how cash flow is going, and we are all very optimistic about the rest of the year. But until the dollars are in the door, we're not going to spend them either.

George J. Damiris - *HollyFrontier Corporation - CEO, President & Director*

And most of our repurchase were back half loaded.

Richard Lawrence Voliva - *HollyFrontier Corporation - CFO & Executive VP*

Correct.

Operator

Your next question comes from the line of Paul Cheng from Barclays.

Paul Cheng - *Barclays Bank PLC, Research Division - MD & Senior Analyst*

Two questions, if I may. In the first quarter, George, should we assume your WCS run and the Permian run is the maximum that you can go? And that is as new pipeline is being installed? Or that there is some additional room that you would be able to squeeze more?

George J. Damiris - *HollyFrontier Corporation - CEO, President & Director*

Yes, I think on the Permian, we did a really good job in the first quarter moving volume through our Centurion leased space. As Tom said in his prepared remarks, we ran, what, 68,000 barrels per day through that leased capacity. That's really good. So we might be able to squeeze a little bit more, but I would view that as being near the top of the end. And then I think, similarly, on the WCS, Tom mentioned 86,000 barrels per day of WCS runs between Cheyenne and El Dorado. We might be able to squeeze a little bit more, but wouldn't view it as being significantly more than that.

Paul Cheng - *Barclays Bank PLC, Research Division - MD & Senior Analyst*

Okay. If I'm looking at your margin capture, this seems like you have, at least with your own HollyFrontier, that you bottomed in the first quarter '17. Since then, that you've been steadily improved up and down, but on a rolling fourth quarter basis, steadily improved. And that in the first quarter, you reached on four quarter basis average about 64% versus 56%. So it's a big improvement over the last several quarters. Is there any particular things that you can cite why the improvement has been so sharp? And that the recent performance, could we use it as a baseline to go forward? Or that you think those are not necessarily sustainable?

Richard Lawrence Voliva - *HollyFrontier Corporation - CFO & Executive VP*

This is Rich. There's a couple of things going on there, it captured 10 -- just the way the math works, capture 10 seems better at higher cracks, which they definitely have been better than the last call at 6 months, than they were late -- early '17 and certainly 2016. Second, honestly our benchmark cracks are based on WTI at Cushing. So in as much as crude differentials are widening, that's a big boon to capture rates per se. And then we obviously had pretty good discussion on that. And last will be a RIN costs again. That gets back to that, at the higher level, the RINs are roughly the same but cracks are higher, the capture is going to look better. So that's the other big factor that comes in here. So to your point, Paul, we've been running well. We expect to continue to run well at higher differentials and we would expect to see higher capture rates going forward.

Paul Cheng - *Barclays Bank PLC, Research Division - MD & Senior Analyst*

Right. So I guess my question is that, Rich, I understand everything that you just said earlier. So from an operational standpoint, is there any one-off issue that makes the operation to be better? Or that some benefit whether it's your wholesale margin, price realization that we should take into consideration may not be repeatable. I guess those are my questions.

Richard Lawrence Voliva - *HollyFrontier Corporation - CFO & Executive VP*

I don't really believe so. No, Paul.

Operator

Your next question comes from the line of Neil Mehta from Goldman Sachs.

Neil Singhvi Mehta - *Goldman Sachs Group Inc., Research Division - VP and Integrated Oil & Refining Analyst*

Just want to start off on the Lubricants business, PCLI. And as the crude price have ticked up, we've been watching your index here. But how do you see higher crude price impacting the profitability of that business? And can pricing increases keep up with input costs?

Richard Lawrence Voliva - *HollyFrontier Corporation - CFO & Executive VP*

So, this is where, frankly, having an integrated business is really helpful, obviously, we saw compression on the rack back side. And to your point, we saw base oil, kind of benchmark cracks compress in the first quarter, some of that is seasonality. Some of it was just where we are on the cycle on the Group III side. We expect it to get better seasonally on the second and third quarter, and what we have seen, frankly, is base oil postings have started moving up. On the flip side, then, there is going to be a lag on the rack forward side going through, passing through pricing of slower to move. But again, this where we are optimistic on the business in general and having an integrated business model is really helpful.

Neil Singhvi Mehta - *Goldman Sachs Group Inc., Research Division - VP and Integrated Oil & Refining Analyst*

All right. And a follow-up is just on the share repurchases and dividend growth. Again, recognize that you want to see the cash come in first. But one of the constraints we've viewed historically about being overly aggressive around different growth has been the fact that you guys are BBB- and so want to protect that investment-grade rating. Do you think there's the balance sheet capacity to become more aggressive around the buyback? And do you think the ratings agencies would give you the space to do that?

George J. Damiris - *HollyFrontier Corporation - CEO, President & Director*

I think, again, we laid out earlier kind of how we think about cash return, and we view excess cash above, call it, $500 million in the balance sheet. But today's debt loads and revolver capacity, $500 million is sort of our walk around number and beyond that is excess. Keeping in mind that we've got an eye at growing the business both organically and inorganically. So where we are in those kind of opportunities will affect that pace in rate.

Operator

Your next question comes from the line of Phil Gresh with JPMorgan.

Philip Mulkey Gresh - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Quick question on the cash flow in the quarter. Was there a working capital benefit?

Richard Lawrence Voliva - *HollyFrontier Corporation - CFO & Executive VP*

Yes, Phil, there was a small working capital benefit in the quarter. About $80 million or so, just looking for the number exactly.

Philip Mulkey Gresh - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Got it. So if we look at the ending cash balance, Rich, about $780 million or so, I think you mentioned on the last quarter call that you did not expect to be building cash on the balance sheet unless perhaps there were M&A opportunities that would be in the line of sight. I think that was how you kind of framed it, relative to the $500 million of cash that you want on the balance sheet? So is the building cash in the quarter because of some working capital timing? Or I guess it somewhat comes back to the buyback question. Just trying to understand how you think about managing the other cash.

Richard Lawrence Voliva - *HollyFrontier Corporation - CFO & Executive VP*

Sure, Phil. So I think in this quarter, to your point, it's a little bit of a working capital build, which is good -- or excuse me benefit. As I mentioned earlier, we've got just timing of CapEx for this year. We are a little bit back end loaded, so we've got to keep that in mind. And the reality already is we can't predict necessarily a month or 2 out, our business, given where crack spreads are, so there's a lot of art to the speed of a buyback at the end of the day.

Philip Mulkey Gresh - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Okay. And I guess maybe more broadly. Obviously, there was other news in the sector this week. We've got a lot of questions from investors as to whether the sector more broadly might have an opportunity to consolidate. You guys have talked about looking for M&A opportunities, but that you really haven't been able to find anything. So do you think the M&A environment in the sector has improved at all recently? Or is it just more status quo from your perspective?

George J. Damiris - *HollyFrontier Corporation - CEO, President & Director*

I think the way we view it is pretty much status quo. I think the macro read we have is consistent with what we shared at our Analyst Day that we think the issue is going to continue to consolidate. I think the scale is important, which is why we have our desire to double the size each of our businesses in a disciplined manner. But as far as the set of opportunities that we are seeing in the market right now, they really aren't impacted by the announcement earlier this week.

Philip Mulkey Gresh - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Okay. So just to clarify, building cash on the balance sheet here shouldn't necessarily be a read, Rich, that there are opportunities unfolding?

Richard Lawrence Voliva - *HollyFrontier Corporation - CFO & Executive VP*

Yes, Phil, that's correct.

Operator

(Operator Instructions) Your next question comes from the line of Matthew Blair with Tudor, Pickering, Holt & Company.

Matthew Robert Lovseth Blair - *Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - Executive Director of Refining and Chemicals Research*

I was hoping you could talk about black wax availability. It looks like you talked crude production is above 100,000 barrels a day for the first time since 2015. And on the screen at least we're seeing some increasing discount on black wax barrels. Are you getting all the black wax volumes that you want? And are you realizing some of these larger discounts that we are seeing?

George J. Damiris - *HollyFrontier Corporation - CEO, President & Director*

Yes, we are very encouraged by what we are seeing and hearing out of the Uintah Basin. So your specific question, we have been receiving all the wax crude that we need, especially prior to our incident at Woods Cross. But I think the producers that are in that region now are very focused on that region. They made some significant technology improvements in the way they are producing the oil. So I think we think as long as crude is in the above the $60 per barrel range, we are pleased with what we are seeing out of the production in that region.

Matthew Robert Lovseth Blair - *Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - Executive Director of Refining and Chemicals Research*

Sounds good. And then I guess sticking in Refining, if I look at the spreads here between your sales of produce refined products and your crude charge, is -- that spread seemed a little elevated in the quarter. Is that a good number to use going forward? Or what was the higher maybe due to like selling inventory during the Tulsa turnaround?

George J. Damiris - *HollyFrontier Corporation - CEO, President & Director*

Yes, I think you just hit it. I don't think using this quarter is representative for our business because as Rich said in his prepared remarks, we have built up inventory in advance of the Tulsa turnaround that we've liquidated through the quarter.

Operator

There are no further questions at this time. I turn the call back to the presenters.

Jared Harding

Thanks, everyone. We appreciate you taking the time to join us on today's call. If you have follow-ups, as always, reach out to Investor Relations. Otherwise, we look forward to sharing our second quarter results in August.

Operator

Thank you. This does conclude today's teleconference. This is disconnect your lines at this time, and have a wonderful day.