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HFC - Q3 2017 HollyFrontier Corp Earnings Call

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OVERVIEW:

Co. reported 3Q17 net income attributable to HFC shareholders of $272m or $1.53 per diluted share.

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PRESENTATION

Operator

Welcome to the HollyFrontier Corporation's Third Quarter 2017 Conference Call and Webcast. Hosting the call today is the 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 of Refining and Marketing. (Operator Instructions) Please note that this conference is being recorded.

It is now my pleasure to turn the floor over to Craig Biery, Director Investor Relations. Craig, you may begin.

Craig Biery *- HollyFrontier Corporation - Director of IR*

Thank you, Natalie, and good morning, everyone, and welcome to HollyFrontier Corporation's Third quarter 2017 Earnings Call.

This morning, we issued a press release announcing the results for the quarter ending September 30, 2017. If you would like a copy of the press release, you may find one on our website at www.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 security 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, November 1, 2017. Any time-sensitive information provided may no longer be accurate at the time of any webcast replay or rereading of the transcript.

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

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

Thanks, Craig. Good morning, everyone. Today, we reported third quarter net income attributable to HFC shareholders of $272 million or $1.53 per diluted share. Certain items detailed in our earnings release, that Rich will discuss in his prepared remarks, increased net income by $70 million on an after-tax basis. Excluding these items, net income for the quarter was $202 million or $1.14 per diluted share, versus $75 million or $0.42 per diluted share for the same period last year.

Adjusted EBITDA for the period was $454 million, an increase of 119% compared to the third quarter of 2016. This increase was principally driven by higher refinery production and higher realized margins, combined with $23 million of earnings from our Petro-Canada Lubricants business. For the quarter, crude oil charge was approximately 455,000 barrels a day, within our guidance range.

Our PCLI lubricants business had a strong third quarter, led by solid operations and strengthening margins in the base oil market. Adjusted EBITDA for the quarter was $36 million and operating costs were $56 million.

Our first 8 months of EBITDA annualized to $141 million, at the midpoint of our guidance range. Production levels increased quarter-over-quarter, as we completed planned maintenance in July. Our plan is to run the plant at normal operating levels through the end of the year. We look forward to sharing more about our lubricants business at our upcoming Analyst Day in December.

HollyFrontier's strong financial results reflect our ability to capitalize on the margins available during the third quarter. Additionally, PCLI performed well,and we are reaching the conclusion of our integration project. To date, fourth quarter margins have held steady. With no major turnaround work scheduled until February of next year, we expect a strong finish to 2017.

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. As George mentioned, for the third quarter, our crude throughput was 455,000 barrels per day despite an unplanned reduction in El Dorado. Our Navajo plants set a new quarterly crude charge record, averaging over 112,000 barrels per day in the third quarter, while also setting production records for both gasoline and diesel. These are the benefits of the new optimization project completed during our first quarter turnaround.

The Navajo Refinery also set a new low quarterly operating expense, averaging just $4.13 per throughput barrel during the period. The Rockies region continues to improve operationally, we set a quarterly crude record charge, averaging over 80,000 barrels per day for the quarter and ran over 50,000 barrels per day at Cheyenne in September.

Our consolidated operating cost of $5.32 per throughput per barrel was slightly elevated versus the $5.07 we posted in the same period last year, due to the maintenance we incurred in the third quarter. Due to the effects of hurricane Harvey, we made the decision to push our planned Tulsa west turnaround from November of this year to February of 2018.

We've got scheduled maintenance in October on the gas oil hydrocracker in Woods Cross, that is now complete, and we have no other work planned for the remainder of the year.

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 LLC*

Thanks, Jim. For the third quarter of 2017, we ran 25% sour and 20% WCS and black wax crude oil. Our average laid-in cost in the Mid-Con was flat against WTI and under WTI by $2.20 in the Rockies and $0.50 in the Southwest. The Brent/WTI differential starting to widen during the third quarter and still remains wide at over $6 a barrel, providing a tailwind into the fourth quarter.

We experienced tightening differentials, primarily amongst our heavy and sour crude slates during the third quarter. However, currently we are seeing the move towards historical levels, as Canadian differentials in synthetic and WCS crudes are currently trading at plus $2.30 and minus $13, respectively, well off their third quarter averages.

Midland third quarter price differentials showed strength over the second quarter, as the Brent TI spread provided the incentive to move barrels to the U.S. Gulf Coast for export. In the future, we expect differentials, including the Brent TI, to be set by transportation and quality. Due to the effects of hurricane Harvey, we expected -- experienced some relief on product inventories during the third quarter.

Gasoline inventories in the Magellan system dropped by 1 million barrels during the third quarter, roughly 6 million barrels. Diesel inventories were down by 1.5 million barrels over the same time to close at 6.3 million barrels. In terms of day supply, gasoline is at 17 days and diesel is at 24 days. Each of these ratios is at or near 6-year lows. This and the higher demand in the Gulf Coast post-Harvey helped peak cracks in the Mid-Con in the third quarter higher as compared to the second quarter of this year.

Third quarter consolidated the gross refinery margin was $14.55 per produced barrel, this represented a 48% increase over the $9.83 recorded in the third quarter of 2016. We've continued to see improvements in our Rocky Mountain region, with the realized gross margin of $17.78 per produced barrel. This represented a 60% increase on the third quarter of 2016.

RINs expense in the quarter was $90 million, driven by higher biodiesel and ethanol RIN prices. For the fourth quarter of 2017, we expect to run between 450,000 and 460,000 barrels per day.

With that, let me turn the call over to Rich.

Richard Lawrence Voliva - *HollyFrontier Corporation - CFO and EVP*

Thank you, Tom. Third quarter included a few unusual items: pretax earnings were positively impacted by $111.1 million lower cost-to-market benefit, which was partially offset by $4.2 million in PCLI integration-related charges.

The table detailing these items can be found in our press release.

PCLI's adjusted EBITDA for the quarter was $36 million. We remain confident in our expected annualized EBITDA range of $100 million to $200 million for 2017.

For the third quarter of 2017, cash flow from operations was $312 million, including turnaround expense of $25 million. And HollyFrontier's stand-alone CapEx for the quarter was $36 million. Due to the deferral of the Tulsa turnaround as well as other project timings, we expect to spend a total of $325 million to $350 million for both stand-alone capital and turnarounds for the full year of 2017. Additionally, we expect to spend $40 million to $50 million of capital at HEP exclusive of acquisitions and $20 million to $25 million for PCLI.

As of September 30, our total cash and marketable securities balance stood at $631 million, representing $170 million increase over our balance on June 30. During the quarter, we announced and paid a $0.33 regular dividend, putting our yield at 3.6% as of last night's close. As of September 30, we have $1 billion of standalone debt and no drawings under our $1.35 billion credit facility, which puts our liquidity at a healthy $2 billion and debt-to-cap at a modest 18%.

Yesterday, HollyFrontier and Holly Energy Partners closed their previously announced IDR simplification transaction. HFP now owns 59.6 million HEP limited partner units, representing a market value over $2 billion as of last night's close. We believe this transaction provides both fair value for the IDRs to HollyFrontier as well as strengthens HEP's capital structure for long-term sustainable growth.

As a reminder, we have published benchmark margins for Group I, II and III base oils. Going forward, we will continue to publish these lubricant indicators monthly, along with the WTI-based 3-2-1 margins in each of our operating regions. These regional product and base oil indicators do not reflect actual sales data and are meant to show monthly trends. Realized gross margin per barrel may differ from the indicators for a variety of reasons. You can find this data on the Investor page of www.hollyfrontier.com.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is coming from Roger Read from Wells Fargo.

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

I guess, maybe we can come around really to the Brent TI differentials, seems you're one of the more favorably positioned companies for that. And I agree with you in the long-term in terms of transportation and quality. But I guess, one of the questions here is what is the right transportation number? And we've heard about lighter barrels may be leading to a little bit of a quality differential. So is it a $4 long-term differential we should think about? Something closer to $3? Do you have any sort of detail to offer on that?

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

Yes, Roger. It's Tom Creery. As you know, we're not a big international player. But the information that we've gained in talking to other treasurers at our counterpart, we realized the transportation rates have gone up from Europe back into the Gulf Coast in freight rates. So in the long-term, we're probably expecting between $4 and $5. And I think that's reported by the futures market at this point in time.

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

Yes, I would agree with that. I just didn't know if you could give us any kind of thoughts on, maybe, the quality or whether or not you've seen any changes running a WTI barrel through your system.

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

We have not -- the barrels that we run out of the Mid-Con as sourced through clicking, we have not been seen any appreciable quality changes.

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

Okay. Great. And then, George, maybe a question for you on PCLI. Still offering guidance for the year of $100,000 million to $200,000 million, we're 3 quarters through the year. Surprised, you're not tightening that up a little bit. And I know that you're going to really want to focus on it at the Analyst Day. But I was just curious if you can give us some ideas. You've had it almost 9 months now, I guess, by today, it's 9 months. How it's performing relative to your expectations?

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

I think everybody -- everything is on base for our expectations, Roger. We said that our annualized number so far is $141 million. Obviously the midpoint of our range is $150. We mentioned on our last call that we've achieved those results despite some operating issues at the plants that were to the tune of $20 million, so we hope to rectify that going forward. And again, as we've talked in the past, that excludes the synergies we believe we get from combining this business with our Tulsa business. Opportunities to optimize crude slate and to optimize the products slate and produce more finished products. So again, more to come in December, when we see you guys in New York.

Operator

Your next question comes from the line of Chi Chow from Tudor, Pickering.

Chi Chow - *Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - MD of US Refining Equity Research*

The margin capture rates across your refining system were noticeably higher than recent history relative to our indicators. Were there any kind of onetime type of items in the Q3 that contributed to that performance? Or do you think this is more the norm on operations going forward?

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

Well, Chi, I think we've talked about this a little bit in the past. This is kind of a function of the absolute crack spread as well. So, as you know, a lot of the things to track from capture rate are fixed in nature. So at a lower-margin, the higher -- fixed costs represents the higher percentage and thus, the lower capture rate. So like in the third quarter with a higher margins, fixed costs are a lower percentage and thus, the higher capture rate.

Chi Chow - *Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - MD of US Refining Equity Research*

Okay. With that increased crude flexibility you now have at Navajo, are you seeing any sort of appreciable discount on the higher API gravity barrels there?

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

To date, at this point in time, Chi, we haven't seen any appreciable discount from the higher gravity barrels at this point in time.

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

A little bit of that depends on what you define is the higher gravity too, right? So between 42 and 50, I'd say not too much discount. Once you start getting above 50, that's where you start seeing some discount. But with as much pipeline capacity that's been built in the Permian, people are starving for barrels to put in the pipes and the differentials aren't as wide as you would think.

Chi Chow - *Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - MD of US Refining Equity Research*

Okay. And then, maybe one final question, Rich. Do you have an outlook yet for 2018 CapEx?

Richard Lawrence Voliva - *HollyFrontier Corporation - CFO and EVP*

Chi, we're firming it up now. Directionally, it will be higher, largely driven by a higher turnaround schedule in 2018. The Tulsa deferral is going to push it in that direction. We'll have a full formal budget for you, December 7.

Chi Chow - *Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - MD of US Refining Equity Research*

Okay. Do you think the maintenance and environmental spending will be about similar this year, any outlook there?

Richard Lawrence Voliva - *HollyFrontier Corporation - CFO and EVP*

So environmental, the turnarounds are up. But to say it everything else is down, environmental spending is drastically down, as we finish completing our work on Tier 3 and some other issues.

Operator

Our next question comes from the line of Doug Leggate of Bank of America.

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

I guess, George. Can I go back to your Brent TI comment that you gave to Roger. I'm just curious, $4 to $5 obviously would -- I guess, that would be sustainably above what most folks have got in their numbers right now. And I'm just curious, what's giving you confidence that we're not still seeing some wash through from the hurricane impacts. And of course, TI is a higher-quality grade. So if you remove the transport bottlenecks, what leads you to think TI doesn't narrow that gap a little bit on its quality differential, I'm just curious on your conviction on that? And I've got a follow-up please?

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

Yes. I think there is some hurricane effect in the prop market. It's over $6 plus right now. I think, like Tom said, transportation costs, if you figure it, $2 to $3 to get from either Midland or Cushing to the Gulf and then, another $2 or $3 to get from the Gulf to a foreign market. That's where we're coming up with, call it, $5 on transportation. And then, from a quality perspective, Brent is a good barrel, it's got a lot of distillate in it. But obviously, the quality differential between Brent and TI depends on the gasoline-diesel spread as well. But normally, in the past, I thought that Brent was a better-quality barrel than TI, even a quality TI barrel that comes from Midland.

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

Yes. I guess, what was in the back of my mind, was the export dynamics, because in all prior periods, the U.S. wasn't exporting 2 million barrels a day. So that's actually what I was kind of getting at, yes. Okay. My follow-up is really on the IDR exchange. So now you've done this, I'm curious on the timing, obviously, it's been coming for a while I guess, for you guys. But now that you're there, is there a visible pipeline that you expect HEP to be able to compete against in terms of with a lower-cost of capital now, I guess, is better able to look at acquisitions. I'm just curious, do we need to wait in December for that? Or have you got something in mind that's already on the books?

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

No. I think, we're going to continue the same strategy we've had to grow HEP in the past. We've mentioned in the past that we spend about $1 billion at HFC moving things around. Not all of that's going to be addressable by HEP. But to the extent that we can substitute the third party service providers with HEP, we'll continue to do that. I think you've seen that in some of the deals we've done over the last couple of years, buy pipelines that feed refineries, tanks that service our refineries, our product systems that take product out of our refineries. We've got a decent position, as we said in the past, around the Permian. Now, as you know, Permian's a scorching hot market, and a lot of dollars chasing deals around there. So it's going to be very competitive. But again, we've got a good position for leverage there. And then, I think there's going to be some consolidation in the NLP space that we would like to think there's some smaller NLPs than us that we can acquire and bolt on to HEP. So nothing more specific than that, Doug, and we'll continue to work across all those dimensions.

Operator

Our next question comes from the line of Blake Fernandez with Scotia Howard.

Blake Michael Fernandez - *Scotia Howard Weil, Research Division - Analyst*

I just want to go back to the lubes business. Obviously, a pretty good quarter with $36 million as -- of EBITDA. It seems to be a run rate riding in the fairway of kind of what we would think on a full year basis. Is there anything that drove that performance, whether like hurricane, storm-related. I'm just trying to get a sense if this is the true underlying kind of run rate or if there are any one-offs that kind of drove that number?

Richard Lawrence Voliva - *HollyFrontier Corporation - CFO and EVP*

Nonbalanced, Blake, we think it's a good run rate, as you saw in our indicators Group I and II base oil cracks rose a little bit. I think that was somewhat storm affected, but Group III compressed a little bit, which was sort of a flip of Pearl GTL coming back on. If you put that all on balance, we think this is a pretty reflective quarter.

Blake Michael Fernandez - *Scotia Howard Weil, Research Division - Analyst*

Okay. And if not mistaken, Rich, there's a bit of a lag too right?

Richard Lawrence Voliva - *HollyFrontier Corporation - CFO and EVP*

Yes. Exactly. We did -- in the second quarter, we saw some compression in what I'll call the rack-forward from the refinery gate to the customer portion of the business. We got some of that back in the third quarter between the 2, that's pretty ratable. So I'm doing a half-handed job of saying we think that 36 is pretty ratable, and there's a lot of different bits and pieces. One of the good things about this business, at the end of the day, is it does produce these kind of ratable results, because there is enough offset within the business over -- from quarter-to-quarter.

Blake Michael Fernandez - *Scotia Howard Weil, Research Division - Analyst*

Got it. Now that's helpful. The second question, I'm not sure, really, if this is answerable necessarily. But we talked about WTI-Brent spread being so expanded. But if you look at a lot of the regional differentials, whether it's Bakken Permian, it doesn't seem like those discounts have been, I guess, similar to what we've seen in the past. And so I guess, what I'm just trying to understand is as we kind of move into 4Q here, do you think it's fair to feel like maybe some of the capture rates are not going to be reflective of the old days when we saw the WTI/Brent back at the $7, $8 level? I guess, what I'm asking is are you recognizing those similar discounts in the different regions? Or is that really just a WTI phenomenon?

Richard Lawrence Voliva - *HollyFrontier Corporation - CFO and EVP*

I think it's primarily a WTI phenomenon. Some of the grades for example, Bakken at Cushing, we're seeing that trade at higher levels than we have historically as some of the other grade have. And I think this is a reflection of and the example of Bakken is the effects of DAPL pipeline taking barrels to a different market. So I think there's going to have to be a reshuffling out. What it looks like now is WTI, or domestic sweet, is under pressure as a grade itself. Whereas, the grades aren't seeing that to any great degree at this point in time.

Operator

Our next question comes from Ryan Todd of Deutsche Bank.

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

Maybe a couple. One a little more strategic and one housekeeping. You mentioned a little bit of commentary on the capital budget for next year. I mean, when you look forward over the next few years, any potential -- if you look at a potential 2020 IMO expect change that's coming? Any thoughts about potential investments that you would be interested in making or not interested in making in your refining system to try to take advantage of that?

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

Specifically in regard to IMO 2020, we don't see a major effect on HollyFrontier at this point in time. What we do expect to see is an increase in the diesel market, because we think that's going to be the substitute fuel that the ship owners are going to go to. We don't move fuel oil to the Gulf Coast on a regular basis. So it's going to have very little if any impact upon us.

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

I think, Ryan -- this is George. In addition of what Tom said, we think it's going to widen out, heavy crude did. As you know, we run a lot of heavy crude between El Dorado and Cheyenne. We've mentioned the project in the past to potentially debottleneck our coker at El Dorado. That would allow us to run about another 20,000 barrels a day in the heavy crude. We're continuing to engineer that project. But we haven't made a final investment decision, but it's still a project that looks attractive that we'll continue to monitor market for.

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

What would be the timeline on that if you were to -- rough idea?

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

I think it takes 2 years from decision to implementation. We've got time before 2020.

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

The good news, Ryan, on that is it's not something we have to do in any particular time. So particularly, if we can find a supply deal or something that will underpin the economics, we can make that choice.

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

Okay. That's helpful. And then, maybe just one housekeeping one. On cash flow, it seems like there was a decent working capital build possibly in the quarter? Can you maybe talk about what impact working capital had on the cash flow number?

Richard Lawrence Voliva - *HollyFrontier Corporation - CFO and EVP*

We did have a bit of a working capital bill in the quarter right now. I wouldn't call anything out being particularly noisy. We do typically see working capital kind of build and fall with crude rate a little bit too. So particularly, as we're looking into the first quarter, we'll see a cash -- we expect to see a working capital drop, but there's nothing notable in here.

Operator

Our next question comes from the line of Justin Jenkins of Raymond James.

Justin Scott Jenkins - *Raymond James & Associates, Inc., Research Division - Research Analyst*

I guess, I got to start again on crude differentials. Thinking about your crude rates in the quarter, seems like the overall mix was pretty similar to what it's been recently. I'm just curious if any of the changes we've seen over the past month or 2 have altered the overall mix of crude to planned mix of crudes running through the system going forward?

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

Not directionally at this point in time, as you can be well aware, we run the LP and we're going to maximize crudes basis on current prices. But we will be running a little bit more black wax, as we go forward at Woods Cross. That's something that we are looking forward to. But for the Mid-Continent, a lot of it depends on the Canadian heavy prices on what other crudes that we run as well.

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

Yes, Justin, just to give you a little more flavor here, with the cokers that we have, especially at El Dorado, we have a huge incentive to keep those full with heavy Canadian. So take a really narrows spread to substitute out heavy Canadian with additional light barrels until we fill that coking capacity. So that heavy Canadian part of the slate is fairly strong base load and then we optimize light crude portfolio after that.

Justin Scott Jenkins - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Perfect. That's helpful. And then, I guess, shifting gears to maybe the regulatory front. Seems like a lot of noise here lately on the RIN, both good and maybe even more bad. Any update in terms of what you're saying for the outlook there? And maybe any initial views towards potential corporate tax reform?

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

Justin, I thought we're going to go through a call without RIN.

Justin Scott Jenkins - *Raymond James & Associates, Inc., Research Division - Research Analyst*

I know, right? I know.

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

Good for you for being late in the queue and still bringing it up. Now look, we and others are obviously disappointed and concerned that a small number of Senators can cause due process to be circumvented. And that a President with a position -- a promise to drain the swamp allowed that to happen. Effectively, these actions served as a veto power over some what we thought were very good proposals intended to fix high RIN price. The problem that everybody acknowledges is an unintended consequences of the RFS program. Having said that, we're encouraged that another group of Senators have stepped forward. They are trying to bring together the administration and members of Congress from both the biofuel refining states to find a mutually acceptable solution. We continue to think we have right on our side and in the United States right prevails. We're going to continue to work and fight to make that so. It's not going to be easy as we all know. It's taking a lot longer than we all expected, but we're going to continue to fight on the political side and at the same time, we'll continue to focus on efforts we can make on the commercial side of our business as well, continue to grow our rack sales so we can capture RIN, expanding into wholesale markets to again, capture more RINs and looking at other commercial strategies like that. But it's, again, more in our control than the political process to mitigate our RIN exposure.

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 and Refining Analyst*

One place I wanted to start, George, was on Navajo, where you exceeded, I think, crude expectations on both volumes and on margins. Can you just walk us through the results there and anything you've caught?

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

Well, I think Jim highlighted the benefits of the projects and the turnaround work we did in the first quarter. That is basically taking a refinery that most recently ran mid, say, 105,000 barrels a day, and taking it up to low teens. So every -- basically, let's call it, an 8,000 barrels a day expansion as a result of all that work, and we've already pushed through a plant, as you know, the lower unit costs, I think we've been helped by some operating issues with some refineries on the West Coast, that has helped drive the margins up. CBG prices in Phoenix have been especially strong as a result of that. So that's what's been the major driver on the margin side.

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

The second question is at the 2015 Analyst Day, you guys had come out with a plan to be aggressive around capital returns, particularly in the form of the buybacks. As we go into the '17 Analyst Day, can you just talk about, with margins in a better place, whether HollyFrontier thinks it can be in a position to either be more aggressive around dividend growth again, not in the form of a special dividend, but, at least, growing the dividend or around buybacks?

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

Yes. Neil, we'll continue to return excess cash to shareholders. Our first priority remains our investment grade ratings and our second is to keep and grow, to your point, a competitive regular dividend. Any excess cash, we'll continue to look for the highest and best use for that, whether it's to reinvest in the business or just acquire a business or whether it's to return it to the shareholder.

Operator

(Operator Instructions) Our next question comes from the line of Phil Gresh from JP Morgan.

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

Just following up on RIN, did you give your RINs cost for the quarter and what your expectations would be for the full year at this point?

Richard Lawrence Voliva - *HollyFrontier Corporation - CFO and EVP*

Look, Phil, the RIN cost is roughly $90 million in the third quarter. What I'd say is our expectation continues to be -- we can't call the market, it's up -- the ethanol RIN market is up substantially quarter-to-date versus the third quarter. So volume has been equal, we'd expect that number to be higher. Biodiesel RIN market is roughly traded even for most of the year.

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

Right, got it. Okay. And I know there's been a lot of questions on Brent WTI. Curious, how you're thinking about WTI versus WCS, it had been tight for a little while. It's widening now, when you think about quality and transport. What's your long-term view for that differential?

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

This is Tom Creery. We've been strengthened WTS basically because it's competing with Mars, and we saw some Mars being exported earlier in the year. Looks like the majority of the exports now, from what we understand, are WTI-based -- WTI local light crudes. In fact, they are around 45 degrees, that's what going on at Corpus right now. So probably, what we think is going to happen is that there's still going to be a demand for those sour crudes in the Gulf Coast. And they will compete again as Canadian imports and foreign imports as well. So wouldn't be surprised if we saw WTS trade above WTI on a go-forward basis.

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

Okay. I apologize, I thought I said WTS, and not WCS.

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

Oh, I'm sorry, WCS. Maybe I misheard you so. Same basic questions. I'm not sure if U.S. exports are going to have any impact on WCS price. I think Canadian crude oil in going into the Gulf Coast is going to compete with Maya. Then there's Wayland crude, and that's probably going to have a bigger impact on the differential netted back to (inaudible) .

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

Yes, I think we expect that differential to widen, there's more production coming on in Canada in the fourth quarter. So that's going to be favorable and then, as we look further out in the future, as we talk about the IMO and the impact that's going to have on the fuel oil market. That fuel oil is going to have to be basically coked, which is going to fight for coker capacity with heavy crude barrels. So again, further helping widen differential between WCS and WTI.

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

And to mirror George's comments, we're starting to see a portion of it on the end bridges system going into the fourth quarter, which we haven't seen in a few months. And that's just indicative of more Canadian crude coming onstream and not enough pipeline takeaway capacity to get it to the Gulf Coast or Cushing.

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

Right, okay. And If I could just ask one more. I know you guys -- you've kind of clarified already that you're comfortable with the run rate of the lubes EBITDA as it is. But George, just given that you did talk about $20 million worth of maintenance and other headwinds that happened in the first half. I was never quite clear how much of that was specifically in the second quarter? But just given that headwind and the comment that there were some market headwinds there in the second quarter as well from a timing perspective, if I understood that correctly, I would have thought maybe you could even be run rating a little bit higher on the EBITDA on a go-forward basis?

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

Yes. We'll talk about that more in December. I don't think we are ready to roll that into our long-term EBITDA forecast. As you know, every time you have a -- something going in your favor or something that went against you that's going to revert, there's something usually offsetting that somewhere else. So again, I think we feel comfortable in that mid-$100 million, $150-ish million EBITDA range where ECLI is.

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

Sure. And that's before any of the synergy potential you talked about?

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

That's correct.

Operator

And your last question comes from the line of Paul Cheng from Barclays.

Yim Chuen Cheng - *Barclays PLC, Research Division - MD and Senior Analyst*

George,if I recall correctly, in the past, your WCS purchase, I think roughly about half of them is based on a sort of fixed differential to WTI. Is that contract is still here? Or was that for next year that you may be more exposed to the spot differential, given that some people may, indeed, think that WTI-WCS could widen quite meaningfully over the next couple of years?

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

Paul, I think you have a tremendous memory for the history. But we currently have no...

Yim Chuen Cheng - *Barclays PLC, Research Division - MD and Senior Analyst*

(inaudible)

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

Well, we were just talking about that, but for myself though. But no, we have no fixed differentials on WCS, we're entirely at the spot differentials. Now, from time to time, we could put a financial instrument overlay on that to lock some of that spread in. But we typically do not do that. So basically,think long-term as far as being a spot participant in that differential.

Paul Benedict Sankey - *Wolfe Research, LLC - MD and Senior Oil & Gas Analyst*

My suggestion is that don't lock it in. I think that you're better off there to just let it (inaudible) .

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

We're with you.

Yim Chuen Cheng - *Barclays PLC, Research Division - MD and Senior Analyst*

And the second question -- actually, maybe 2 more questions if I may, one is on the M&A on the bid-ask. Whether that you see the current market is still -- difference is too wide or do you think is start to coming to a point? We assume maybe that more doable of a deal? And also that do you have a number what is the black wax and yellow wax, you are running at what cost and how much is the same crude you're running over there?

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

Okay. That's 2a, 3 and b or something like that? On M&A, Paul, we don't see a whole lot of activity out there. I think you've seen same deals, the transactions that we've seen. There was 1 transaction that we would have liked to have been the winner on, but the price was way in excess of our valuation for it. I think that is a further illustration of the discipline that we're going to impose on ourselves to -- on how we want to grow. We want to grow prudently and economically. So we're still looking for deals, again, there are not a lot of deals out there. And when deals do pop-up, we're going to exercise discipline. Now as far as the question on black and yellow wax, at Woods Cross, we're running about 20 a day. It's about 2/3 black, 1/3 yellow. And yellow is growing faster than black in the field.

Yim Chuen Cheng - *Barclays PLC, Research Division - MD and Senior Analyst*

So are you seeing the production in black wax and yellow wax now have turnaround start growing again?

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

Yes, it's growing, but not at a fast rate. But we're pleased with the activity we're seeing out in the Uintah Basin in the quality of the producers that are involved with that production increase.

Yim Chuen Cheng - *Barclays PLC, Research Division - MD and Senior Analyst*

And are you running anything crude and what cost?

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

Yes, Paul, we're running limited amounts between 2,000 and 5,000 barrels a day of synthetic crudes at Woods Cross at this point in time. And a lot of that is price dependent.

Operator

And our next question comes from the line of Chi Chow of Tudor, Pickering.

Chi Chow - *Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - MD of US Refining Equity Research*

Just one follow-up. You're talking about the El Dorado coker expansion project. I think, Rich, you mentioned that you may look at a supply deal to underpin those economics. Would you consider taking a committing to line space on something like Keystone XL to secure those barrels?

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

Chi, this is Tom again. Currently, we've got a fair amount of line space both on Enbridge and on the Keystone, the old Keystone. And we feel that we have enough capacity to move crude to Cushing, to support that project going forward. And if we come up a little bit short, we expect that there is going to be a fairly robust market at Cushing itself. So the transportation would not necessarily be the key driver on that decision.

Chi Chow - *Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - MD of US Refining Equity Research*

So would you be looking at some sort of link to production then, when you talk about that sort of supply deal?

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

I'm not sure what you mean by linked production. I mean, somebody delivering the barrels to us at Cushing?

Chi Chow - *Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - MD of US Refining Equity Research*

Yes, some sort of agreement with the producer.

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

No. That's all on the table, Chi. And again like I mentioned earlier, we'll continue to see what the market is for this type of project. And if economics and the security of the home for, again, roughly 20,000 barrels a day of heavy Canadian crude.

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

Just a follow-up on that as well, I'm sure that you're aware of plants -- plans to cut into spearheaded in Nebraska, so that will allow us to get crude from Canada down express. To Cushing as well, they could go that coker expansion and that'll help us optimize crude's link between Cheyenne and the Mid-Continent refineries as well.

Operator

And there are no further questions. I would now like to turn the floor back over to Craig for closing remarks.

Craig Biery - *HollyFrontier Corporation - Director of IR*

Thanks, everyone. If you have any follow-up questions, as always, reach out to Investor Relations. Otherwise, we look forward to sharing our fourth quarter results with you in February.

Operator

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