

# Holly frontier corporation report examples

[Business](#), [Company](#)



## **Research Paper Outline**

Holly Frontier Corporation is an independent energy company engaged in refining crude oil and distribution of refined petroleum products such as diesel, gasoline, jet fuel, specialty, and modified asphalt and specialty lubricant products. It operates mainly in the United States through its five refineries in Oklahoma, New Mexico, Utah, Wyoming, and Kansas with its headquarters in Dallas, Texas. The strategic location of these refineries enables it to purchase various crude oil feed stocks at reduced prices due to supply constraints because of poor infrastructure. This corporation has strong refining operation and wide product portfolio to provide its competitive edge. This corporation offers a rare opportunity to take advantage of price differentials from locally sourced crudes (Dean, 2012). Brent crude and West Texas Intermediate, are grades of crude oil used as benchmarks in world oil pricing. These two grades of crude oil have always traded closely but currently WTI has been discounted against Brent. WTI was priced at 63.58 dollars/barrel against Brent's 71.39 dollars per barrel on 24 May 2007 according to Bloomberg. This anomaly was attributed to a temporary refining capacity shortage making Bloomberg state that WTI was not a good benchmark for world oil prices. Brent was trading at around 103 dollars/barrel while WTI was trading at around 85 dollars/barrel in February 2011 the reason given for this anomaly was because Cushing had reached its peak capacity hence depressing the oil market in North America since it is completely dependent on the WTI price (ABN AMBRO, 2013). Civil unrests in Egypt and the Middle East are however pushing up the price of Brent since the stockpiles in Cushing cannot be transported easily to the Gulf Coast so

that they can be exported hence arbitraging WTI to restore the two-way parity is almost impossible. The North Sea oil fields being depleted is another key explanation for the divergence in forward prices between Brent and WTI.

The pressure on the prices of oil has continued during recent weeks, causing the prices of Brent to drop below 100 dollars per barrel in April 2013. This is the first time this has happened in the past 10 months. Reasons for this being disappointing economic data from the US and China, the fact that US inventories are near record levels, the major energy organizations have made adjustments to demand expectations and the IMF is escalating investor worries on future demands, the closure of commodity long positions especially after the sell-off in gold and a lower risk premium on Brent oil. WTI prices have also declined for similar reasons. Lower crude imports by US refineries due to increased production of crude in the US led to a lower Brent discount hence making the spread of Brent/WTI drop below 10 US dollars. The spread of Brent/WTI is expected to continue narrowing then start fluctuating between 5 and 10 US dollars. Transportation of crude oil from Canada or US via truck or rail oilrigs to the refineries on the US Gulf Coast such as the Holly frontier Corporation is significantly more expensive than pipeline transport. With more pipelines coming into play, the discount is bound to reduce further. If this discount falls below 5 US dollars per barrel, refiners will prefer to import foreign crude instead (ABN AMBRO, 2013). Risks on the premium of Brent oil continue to hold due to the political tension due to the June elections in Iran, stagnation in resolving the Syria conflict, and North Korea nuclear attack threats. These could spill over to the major oil

producers and hurt investor sentiment. Holly frontier has however been able to realize peak crack spreads, which have significantly improved its gross profit margins, and returns to shareholders. Since the merging of Frontier Oil Corporation and Holly Corporation in July 2011, the company has managed to return a total of 640 million dollars in special and regular dividends to its shareholders. This corporation is expected to keep benefitting from the discounted crude oil before the discount diminishes over the next 5 years. As a result, forecasted profit margins are expected to diminish from 20.1 percent in 2012 to 14.8 percent in 2016 (Dean, 2012).

US oil demand declined in October 2012 due to Hurricane Sandy. Power outages led to the gasoline shortages in the East Coast making 33 percent of the retailers unable to sell. Decline in demand and supply of crude products has decreased in tandem. Despite the good news concerning the industrial activities in the US, indicators continue to signal challenges of future development.

The increase in oil prices has also contributed to this decrease in demand of oil. For instance in 2012 the demand had dropped by 20 percent compared to 2005 due to the rise in oil prices since 2004. The decline in demand to some extent is attributed to improved gasoline mileage. Seven percent of the decline in demand is due to better automobile mileage (Oil Price Outlook, 2011). Other factors responsible for a decline in demand include; shrinking of the industrial activities in the US, reduction in miles travelled by vehicles, industrial efficiency due to increased awareness about environmental sustainability and the recession causing job layoffs hence less fuel use.

Decrease in the demand for petroleum products spells doom for corporations

like Holly Frontier, whose profits are expected to keep diminishing with time since the world is focused towards an environmentally sustainable second industrial revolution based on the use of clean electricity.

In 2007, the Energy Independence and Security Act called for improvements in fuel economy for light duty vehicles by 40 percent by the year 2020, and in December 2011, the Environmental Protection Agency proposed a legislation that would restrict emissions of CO<sub>2</sub> into the atmosphere and improve fleet efficiencies. This means that the automobiles in the US use less gasoline or diesel hence reducing the demand for refined products despite the fact that the US is becoming more energy independent. These will push down Holly Frontier's sales. This pushed the US to become a major exporter of crude and petroleum products for the first time in its history since 1960. Other developed countries will also realize similar fuel efficiencies hence reducing the demand even further.

Completion of the seaway crude pipeline is also set to reduce rail and truck transport of crude oil products due to the expansion of the pipeline network hence meaning a decline in profits for corporations like Holy Frontier. Due to these changes, the margins for Holly Frontier will drop from 20.1 percent in 2012 to 17.3 percent in 2013. The profits will therefore be compressed from 24.36 US dollars/barrel in 2012 to 17.85 US dollars/barrel in 2016 (Dean, 2012).

In conclusion, the current pricing framework for crude oil is quite complicated just as is the nature of price discovery. The global crude trade is currently priced in accordance with a handful of benchmark crudes, which constitute less than 5 percent of the total crude oil, produced. The continued

divergence of WTI from the other benchmark prices has impaired its benchmark status leading to a shift to other benchmarks by some oil consuming and oil producing countries. On the other hand, the demand for petroleum products is bound to keep declining due to the introduction of clean energy with minimal CO2 emissions into the environment and the introduction of electric cars, which are more efficient. Refining corporations like Holly Frontier will have to be innovative to survive in this competitive industry.

## **References**

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