

Valero Energy

Expanding renewable fuels portfolio

19 February 2026

Company Overview

Valero Energy Corp (VLO), based in San Antonio, is a multinational manufacturer and marketer of petroleum-based and low-carbon liquid transportation fuels and petrochemical products in US, Canada, Ireland, and UK. It also owns 12 ethanol plants located in the mid-continent of US with combined capacity of c.100kbd. Refining segment - 15 operational petroleum refineries with total nameplate capacity of 3.2mbd. Renewable diesel segment - 2 renewable diesel plants under JV Diamond Green Diesel (DGD) with total renewable fuel capacity of c.80kbd (renewable diesel, renewable naphtha, and sustainable aviation fuel).

Investment Overview

Strategic Advantage: US Gulf Coast & Mid-Continent. VLO dominates the US Gulf Coast, where approximately 55% of its refining capacity is located. This prime positioning offers superior feedstock flexibility and access to a highly skilled labor pool. Furthermore, VLO's ability to rapidly shift yields between "max gasoline" and "max distillate" allows for optimal margin capture as market conditions change.

Green Fuels as Earnings Drivers. As refining crack spreads soften, renewable diesel and SAF are becoming primary growth engines. Net profit for renewable diesel doubled to USD70mn in 4Q24, a trend expected to persist through 2025. Notably, the DGD Port Arthur SAF project is now at full utilization. Beyond renewables, the \$230mn St. Charles FCC optimization project (completion 2026F) will further boost high-value product yields.

Operational Efficiency & Low Costs. VLO remains a top-quartile performer with industry-leading operating costs of ~USD4.0/bbl, compared to the peer range of USD4.0–USD8.0/bbl. The shift toward sustainable energy continues, with renewable capacity reaching ~80kbd in 2025. These fuels command \$3.0–\$4.0/bbl higher EBITDA margins than standard diesel, with the DGD project expected to exceed a 25% after-tax IRR.

Valuation & Outlook. At a forward P/BV of 1.6x, VLO trades at a discount to MPC and offers an attractive ~3% dividend yield. The increasing mix of high-margin renewables should dampen earnings volatility and support a valuation re-rating. We recommend a BUY with a TP of USD197 (based on 1.7x FY25 P/BV). Potential geopolitical tensions in the Middle East present further upside risk to supplies and pricing.

Risks

Key risks include i) business and operational risk, failure of transportation infrastructure, energy price volatility, extreme weather conditions, and operational accidents, ii) legal and regulatory risks, and iii) foreign exchange risk.

Duladeth Bik

Analyst

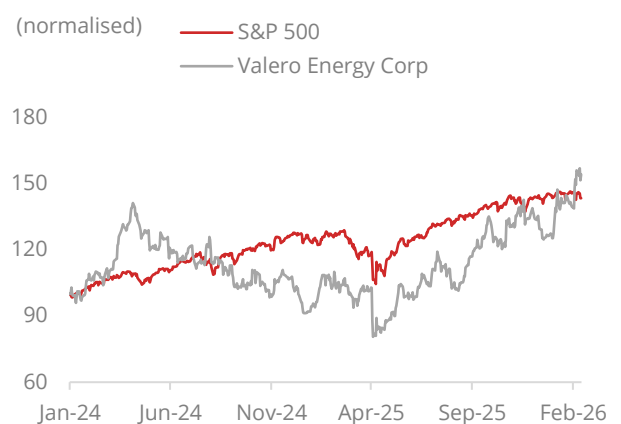
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Key Financial Data

Bloomberg Ticker	VLO US
Sector	Utilities
Share Price (USD)	196.91
DBS Rating	BUY
12-mth Target Price (USD)	197.0
Market Cap (USD\$b)	60.1
Volume (m shares)	3.2
Free float (%)	99.4
Dividend yield (%)	2.3
Net Debt to Equity (%)	21.1
Fwd. P/E (x)	15.8
P/Book (x)	2.5
ROE (%)	6.0

Closing Price as of 12 Feb 26
Source: Bloomberg, DBSVTH

Indexed Share price vs Composite Index Performance



Source: Bloomberg

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Financial Summary

FY Dec (USDmn)	FY2023(A)	FY2024(A)	FY2025(A)	FY2026(F)	FY2027(F)
Sales	144,766	129,881	122,687	108,299	112,475
% y/y	(17.9)	(10.3)	(5.5)	(12.1)	3.3
Gross Profit	21,679	13,365	14,886	14,816	14,542
% y/y	(15.4)	(38.4)	11.3	(3.4)	(2.0)
EBITDA	14,682	6,645	7,667	7,793	7,689
% y/y	(19.5)	(54.8)	15.4	(3.0)	(1.5)
Net Profit	8,826	2,718	3,292	3,468	3,491
% y/y	(23.8)	(69.2)	21.1	5.3	(0.3)
FCF	8,318	5,776	5,001	5,790	5,359
% y/y	(23.6)	(30.6)	(13.4)	13.9	(8.1)
CAPEX	911.0	907.0	795.3	926.0	1,028
% y/y	(45.8)	(0.4)	(12.3)	24.8	18.2
EBITDA Margin (%)	10.1	5.0	6.2	7.3	7.2
Net Margin (%)	6.1	2.1	2.7	3.3	3.4
ROA (%)	14.2	4.4	5.6	6.1	6.2
ROE (%)	32.7	9.7	12.1	13.3	13.6
Tax Rate (%)	22.6	20.7	24.2	23.0	22.9

Source: Visible Alpha

Valuation Metrics

FY Dec	FY2023(A)	FY2024(A)	FY2025(A)	FY2026(F)	FY2027(F)
P/E (x)	8.0	23.7	18.8	17.3	15.9
P/B (x)	2.7	2.6	2.6	2.5	2.4
Dividend Yield (%)	2.0	2.1	2.3	2.4	2.5
EV/EBITDA (x)	3.6	7.2	9.2	9.0	9.2
FCF Yield (%)	11.8	9.0	8.1	9.9	9.7
Dividend Per Share (DPS)	4.1	4.3	4.5	4.8	4.9

Source: Visible Alpha

Credit & Cashflow Metrics

FY Dec	FY2023(A)	FY2024(A)	FY2025(A)	FY2026(F)	FY2027(F)
Debt / Equity (%)	40.4	38.0	38.3	37.0	36.3
Net Debt / Equity (x)	0.2	0.2	0.2	0.2	0.2
Debt / Assets (%)	18.3	17.4	17.6	16.9	16.1
Net Debt / Assets (x)	0.1	0.1	0.1	0.1	0.1
EBITDA / Int Exp (%)	24.8	12.0	13.8	14.3	15.2
ST Debt / Total Debt (x)	0.1	0.1	0.1	0.1	0.1
Debt / EBITDA (x)	0.8	1.6	1.3	1.2	1.2
[Cash + CFO] / ST Debt (%)	10.4	15.3	11.7	15.6	15.6
Receivables Days	31.6	30.1	30.8	34.8	34.1
Days Payable	31.7	34.0	33.1	38.3	37.5
Inventory Days	19.1	21.8	21.7	24.0	23.5

Source: Visible Alpha

Target Price & Ratings History



Source: DBS

Analyst: Duladeth Bik

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

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*Share price appreciation + dividends

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