August 23, 2021

**Comments on Seeking alpha Article: Phillips 66 Stock: Advantaged By Its Refining-Adjacent Businesses, by Laura Stark**

**Published Aug. 16, 2021 10:00 AM by Laura Starks on Seekingalpha.com**

# Comments on Refining segment margin capture and Tier 3

**George Hoekstra** 16 Aug. 2021, 10:27 AM

Thanks, Laura, for this thorough analysis. PSX has had record low refining margin capture rate in 2021, in 2nd quarter the realized margin was $3.94/barrel versus a benchmark market crack spread of $17.76. Half the difference is well-explained by management in the earnings calls, but the other half is poorly explained. It seems for some reason they are not capturing the benefit of high wholesale gasoline prices. Do you have a theory on why this is, and will it continue?

**Laura Starks** 16 Aug. 2021, 6:34 PM

***Author's Reply*** *To: George Hoekstra* As noted above under 2 Q results, two key issues were high RIN costs and high crude costs. Per the earnings call transcript and referring to page 9 of the 2Q earnings presentation, high RIN costs (biofuel blending) are most of the $7.84--as you refer to in 'half'. "Secondary products" (-2.38/bbl) means they didn't make as much as expected on products like butane and coke. I'm not sure what they mean by configuration (-3.89), but in the transcript they note the following issues: a) unplanned FCC downtime, b) some products had wider differentials to market reference than expected, in part because weak European markets meant Europe was exporting more product to the US than typical, c) on some heavy sour crude feedstocks they didn't get the normal discount, and there is reference to d) inventory effects. PSX expects better 3Q refining results.

**Fwc3030** 17 Aug. 2021, 7:31 AM

Ms. Starks ­

Thank you for a well written over-view of Phillips. Your writing style is to be commended as it was clear, concise and when appropriate supported with factual data and charts.

Have been long in PSX since mid year last year. There is something bothering me that perhaps you can explain? I keep wondering when (or if) PSX's refining business will turn profitable?

The 2nd quarter Pre-Tax Profitability Chart shows PSX's refining business loss $729 million. This is perplexing as (i) Figure 5 indicates crack spreads were generally higher than crude costs for the second quarter (though that fell in July), (ii) gasoline usage is about 90% -95% back to 2019 normal levels, and (iii) I am (and consumers in general are) paying retail gasoline prices 50% greater than a year ago. By gosh, if PSX refining can't make a profit with these kinds of tailwinds, well, I doubt it ever can.

I did notice chemicals made $623 million in the 2nd quarter, which is part of the road to recovery. But most chemical companies have produce solid profitability. I'm long LYB since last year and it has hit the cover off the ball.

Any illumination regarding PSX's inability to operate profitably would be appreciated. I am extremely interested in its refining 3rd quarter results due out in October.

Thank you.

PS: Have decided to begin following your writings due to the quality of the PSX article.

**George Hoekstra** 17 Aug. 2021, 8:44 AM

*To: Laura Starks* Thanks Laura, I have a theory on the low margin capture which also addresses FWC3030's comments above. Set aside for a moment the RIN issue, secondary products, and the refinery configuration factor. I believe the big unexplained part is low realized gasoline margins compared to the market benchmark crack spread. This low capture of gasoline margin is caused mainly by the new 10-ppm gasoline sulfur specification known as Tier 3. It is a bit complicated how this occurs and why it's happening now; it involves octane and is explained in brief posts on my blog (links below), and in detail in publications on my web site. Tier 3 is a huge, overlooked issue that affects refiners differently, depending on how efficiently they can produce low sulfur, high octane blend stocks from crude IN THEIR OWN REFINERIES (versus buying them from India which just exports the gasoline margin to India). See these blog posts:

[Refinery profit margin capture problem - here's the hidden cause](https://hoekstratrading.com/refinery-margin-capture-problems-heres-the-hidden-cause/)

[Today’s octane economics](https://hoekstratrading.com/vineyard-economics/)

[Refiners' profit margin capture is being hurt by Tier 3 gasoline](https://hoekstratrading.com/us-refiners-profit-margin-capture-is-being-hurt-by-tier-3-gasoline/)

**George Hoekstra** 17 Aug. 2021, 8:57 AM

*To: Fwc3030* Your question is right on the nose! I believe the low refining margin is caused by low capture of wholesale market gasoline margins (especially premium) and that is caused by the new Tier 3 ultra-low sulfur gasoline specification which causes octane destruction in some (but not all) refineries. Tier 3 is an important overlooked issue. See my other comment and discussion with Laura and these blog posts:

[Refinery profit margin capture problem - here's the hidden cause](https://hoekstratrading.com/refinery-margin-capture-problems-heres-the-hidden-cause/)

[Today’s octane economics](https://hoekstratrading.com/vineyard-economics/)

[Refiners' profit margin capture is being hurt by Tier 3 gasoline](https://hoekstratrading.com/us-refiners-profit-margin-capture-is-being-hurt-by-tier-3-gasoline/)

**Nasikitika** 17 Aug. 2021, 1:41 PM

*To: George Hoekstra* "I believe the low refining margin is caused by low capture of wholesale market gasoline margins (especially premium) and that is caused by the new Tier 3 ultra-low sulfur gasoline specification which causes octane destruction in some (but not all) refineries."

This may very well be the explanation.

The two common ways to make premium gasoline economically are from:

1) The FCC unit heavy cracked naphtha (HCN) stream, and 2) The Alkylation unit stream.

The FCC feed is much higher in sulfur, and needs to be desulfurized before or after it is processed in the FCC to make a stream low enough in sulfur.

Not to get too techy, but worth mentioning: Also if the refinery is processing a high level of light tight oil (LTO) this crude produces lots of light naphtha with a sulfur content up to 30 ppm. To become a suitable Tier 3 (10 ppm sulfur) gasoline blend stream additional desulfurization costs will have to be absorbed. Also light naphtha from LTO crudes is sub-octane (about 70 AKI) and depending on aromatic content, may impose an additional octane burden if catalytically desulfurized.

So, maybe PSX competitors have better access to Alkylate?

**George Hoekstra** 17 Aug. 2021, 2:42 PM

*To: Nasikitika* These are great points! The most critical factor is 99+% of the sulfur must now be removed from the FCC unit heavy cracked naphtha (HCN) stream. Far too many US refineries do that in "post-treaters", i.e., AFTER the feed is cracked. That is a huge disadvantage, profit-wise, compared to doing it in FCC feed pre-treaters, BEFORE the feed is cracked. This critical difference has been ignored by refiners and investors and is coming to roost on the bottom line today.

**Laura Starks** 17 Aug. 2021, 2:20 PM

***Author's Reply*** *To: Nasikitika* This is a good explanation and fits with the product differential issue PSX cited, though 2 things: 1) PSX themselves said about half the difference was RIN costs and 2) premium gasoline is a surprisingly small percentage of the total gasoline market.

**Laura Starks** 17 Aug. 2021, 2:51 PM

***Author's Reply*** *To: George Hoekstra* Agreed. And PSX said their FCC ops were down a bit in 2Q due to turnarounds. reg "Garland--Roger, I think when I think about kind of Q2 and maybe Q1, we have had quite a bit of planned FCC downtime this year. So if you look at our yields relative to historical years, we are probably down 2%. And so we are just simply going to run better in the third quarter and fourth quarter. I think, Bob, that things tuned up that we are ready to do tht. So I think that is one of the things that we are focusing on right now also."

**George Hoekstra** 17 Aug. 2021, 3:50 PM

*To: Laura Starks* FCC downtime is a symptom of Tier 3 problems. You want the whole FCC train (pretreater-cracker-posttreater) to run a 5-year cycle. Because of Tier 3, several refiners have had unplanned FCC downtime to change catalyst in their (overloaded) posttreaters. This is a non-economic condition to say the least. It should have been planned for, but the whole refining industry has been in denial about the true requirements and profit impacts of Tier 3.

**Laura Starks** 17 Aug. 2021, 2:54 PM

***Author's Reply*** *To: Fwc3030* I believe the commentary from others, along with my answers, addresses the important refining profitability Q. You can see the good discussion around RIN costs, product differentials, getting less advantage from lower-quality crude than usual and especially costs for sulfur removal for premium gasoline down to 10 ppm.

**Fwc3030** 17 Aug. 2021, 3:39 PM

*To: Laura Starks* Yes, Laura, thank you. When I wrote my post I had yet to read the good discussion from the posts of others. But I did so after writing you.

**Fwc3030** 17 Aug. 2021, 3:58 PM

*To: George Hoekstra* Thank you, sir, for helping my understanding. This makes sense. Thought there was something else going on beside demand shortfall.

**jacksalmon** 16 Aug. 2021, 2:31 PM

To the author: Since VLO and MPC have business plans that involve mostly refining and they made money last quarter, why did PSX' refining operations lose so much money? I would not think it would be the crack spread because I would assume that the crack spread is mostly the same for all refiners. So, if VLO and MPC were able to make refining money, why couldn't PSX?

**Laura Starks** 16 Aug. 2021, 6:37 PM

***Author's Reply*** *To: jacksalmon* Good question. Please see my answer below to *George Hoekstra*

**Laura Starks** 16 Aug. 2021, 6:42 PM

***Author's Reply*** *To: Toni Nikkanen* While I didn't look at each of the 14 refineries individually, it would be unusual for issues at one to throw off the whole segment, and in fact, throughputs percentages overall were decent: 88% in 2Q up from 74% in 1Q. Biggest issue was biofuel blending costs. Pls see my answer below to *George Hoekstra*

**George Hoekstra** 17 Aug. 2021, 9:02 AM

*To: jacksalmon* I have offered a theory in my comments/discussion with Laura. Short answer: Marathon and Valero's refineries are better able to produce the ultra-low sulfur high octane blend stocks needed to meet the new Tier 3 gasoline specification. See these posts on my blog:

hoekstratrading.com/...

hoekstratrading.com/...

**Laura Starks** 17 Aug. 2021, 11:00 AM

***Author's Reply*** *To: George Hoekstra* Thx for insight. There are some references in the transcript and your description adds context. seekingalpha.com/... In the Q&A, 1) Robert Herman: "We did a lot of things we hadn't done before or needed to do before, such as we ran a lot resid down into our Sweeny Refinery, whereas typically we'd be running Maya or some of the heavy Canadians. The profitability really wasn't there and so (we optimized) around high-sulfur resids... 2) Kevin Mitchell: "Product differentials, which is the difference between the market indicator and actual product realizations that one can move around and go both directions on us. During the quarter, those differential we were not getting, seeing the value for some of the premium products that often can be a benefit to us in the quarter. So, that's one that can move around and come back the other direction . And the other component that's also in there, again it can go both directions, is inventory impacts. And so, inventory was a hurt to earning in refining in this particular quarter, but that can move in both directions."

**George Hoekstra** 17 Aug. 2021, 3:06 PM

*To: Laura Starks* Thanks Laura. I have asked contacts in PSX what is meant by this part of Kevin Mitchell's answer: "those differentials we were not getting, seeing the value for some of the premium products that often can be a benefit to us in the quarter." My conjecture is this phrase refers to my Tier 3 theory (realized gasoline margin is low due to inadequate production of ultra-low sulfur, high octane blend stocks). Not all gasoline yields the same profit margin. Gallons made with internally-produced blend stocks generally yield high margin. If you can't make enough good blend stocks for Premium, and/or must buy them from others to fill available demand, it crushes the realized margin. So far the only answer I got from PSX is "no comment".

**jacksalmon** 17 Aug. 2021, 1:17 PM

George and Laura: Both of you make excellent analyses about PSX' refining profitability problem. Have things changed that much in the industry compared to 2018 when PSX made plenty of money in refining? Are they likely to ever return to that level of profitability; or is making money in refining a thing of the past for PSX and other refiners? If it is, then investing in the refiners is an even worse idea than I have been writing about here the last few weeks in my feeble analyses.

**Fwc3030** 17 Aug. 2021, 3:47 PM

*To: Laura Starks* To Mr. Salmon's question, are you stating that the 10% loss of demand is the difference maker in refinery profits returning to historical levels? Based upon earlier posts, it seems as if "Tier 3" (not totally sure I know what that means) is squeezing margins.

**jacksalmon** 17 Aug. 2021, 5:41 PM

*To: Fwc3030* Laura: I do appreciate your comment about how big a difference it makes when demand is just down a little in making profits. However, demand is likely to be down more than just a little with all the thanks due to the unvaccinated.

However, George, Fxc and yourself have posted about the Tier3 problem. I will admit that when I first started investing in the refiners, there was no concern expressed in analyses about Tier 3. I will also admit that I do not understand the significance of the Tier 3 problem and even the nature of it is way beyond me.

However, it does verify my analysis which states that the refiners are always going to face some insurmountable problem which hits them in the bottom line as well as the bottom. I have also predicted that the refiners would always be plagued by difficulties that will arise out of nowhere such as this Tier 3 problem. Will they ever have smooth sailing? Or, are their sailings always going to be disrupted by 30 foot swells and hurricanes? There is no end to the difficulties the refiners must face. That is why I constantly say that their best days are behind them and they are on a very fast trip to profit hell. There is really no hope for them as there is no end to their inability to avoid difficulties.

**George Hoekstra** 18 Aug. 2021, 9:28 AM

*To: jacksalmon* see my blog hoekstratrading.com/... for info on how Tier 3 is affecting refiners today. Yes things have changed greatly since 2018! Then, gasoline was 30 ppm (Tier 2) and there was a loophole in the sulfur credit system meaning they could all meet sulfur specs in their sleep. Now its 10 ppm which is crippling for some and easy for others. The path of least resistance is to forego sales or buy octane, either crushes margin. Yes, it will stay this way until those challenged by gasoline sulfur/octane take action. Tier 3 is here forever and will not be changed. I am trying to get a response to my theory from PSX, so far no comment.

**jacksalmon** 18 Aug. 2021, 1:26 PM

*To: George Hoekstra* Your articles help one understand the costs of meeting the Tier 3 requirements. However, what I don't understand is just what are those requirements. For example, is Tier 3 gasoline now required for all grades regular thru premium; or is it a separate product designed only for particular uses and thus is not used in the standard grades for automobiles? What are the uses for Tier 1 and 2 gasoline, if there are any such grades? Can the costs of complying with Tier 3 requirements be simply passed on to consumers; or do the differences in cost to the various refiners prevent one from raising prices in fear of losing sales to other refiners who can produce Tier 3 gasoline at less cost?

Finally, why would there be any hope in the future that less efficient refiners can produce Tier 3 gasoline at profit margins that will allow for profit levels seen in the past? Or, does the imposition of Tier 3 requirements mean that refiner profit levels will never again reach the levels seen in 2017 and 2018? In other words, are American refiners simply destined to be cast into a hell of mediocre profits for the rest of their undistinguished, menial existence?

**jacksalmon** 18 Aug. 2021, 2:24 PM

To George, Laura or anyone who can understand this:

This article and comments seem to indicate that most of the reason for PSX' dismal refining performance this last quarter is due to the high cost of complying with Tier 3 gasoline production requirements. Yet, in an article I found about Tier 3 gasoline, I saw the following info:

"Phillips 66 is producing gasoline with sulfur content “comfortably below” where the overall industry is, said Jeff Dietert, vice president of investor relations, in a July earnings call. He added that the spending on Tier 3 capex is within the normal range of the company’s sustaining capital spending at the refiner."

So, if PSX is so good at producing gasoline with low sulfur content, then how is it that their poor refining results can be attributed to this? Is it simply that they pay more to comply than other refiners because they have not modified their infrastructure to reduce the costs of producing it and must use more expensive methods to comply? It appears to the ignorant like myself that VLO and MPC did well last quarter in making paltry sums while PSX suffered losses in refining. So, what is the real story about the differences in refiner outcomes with the need to produce Tier 3 gasoline?

**Laura Starks** 18 Aug. 2021, 3:09 PM

***Author's Reply*** *To: jacksalmon* Issues not exclusive to Tier 3 gasoline: RIN costs (biofuel blending) were PSX's biggest problem, as they explained in their investor conference. Pls also see other factors described in the discussion. But--as you have noted here and elsewhere, I understand that you are dubious about the entire sector. But I'm not sure Tesla/Ford/GM will achieve anything near stated US market penetration goals (from 3% of 6-8% annual fleet turnover now to 40-50% of 6-8% annual fleet turnover in 9 years). I find it amusing that sources, including at least one WSJ article, barely allude to "consumer acceptance of EVs" as a factor, as if consumer reluctance due to EV cost & range anxiety & safety/reliability/battery concerns aren't the whole big, roaring issues.

**jacksalmon** 18 Aug. 2021, 5:56 PM

*To: Laura Starks* Laura: Thanks for your reply. OK, so if Tier 3 issues is not the reason for PSX' poor refining performance, but RINs are, why is PSX so unable to solve the RIN problem when both VLO and MPC made money in their mostly refining activities last quarter, while PSX lost 3/4 of a billion dollars refining oil. Something ain't right at PSX. Why can't they figure out the RIN situation, if other refiners have?

It is true that I am dubious about the whole sector, but that is only because of the history of the sector which shows that the sector cannot sustain good profits and higher share prices for more than a quarter, or two. There is always something that destroys refiner profits and it happens on a very regular, predictable basis even though the precise nature of the recurring profit destroying events is not foreseen. Yet, one can still count on them recurring in a regular and destructive manner.

**George Hoekstra** 18 Aug. 2021, 8:00 PM

*To: jacksalmon* Thanks for your good questions Jack. Looking at the statement you cited from Jeff Dietert, I believe it is true they are "producing gasoline with sulfur content comfortably below where the overall industry is". My question is what is their margin on that gasoline? If it is all produced with blend stocks MADE IN THEIR REFINERIES FROM CRUDE, then there should be very little unexplained difference between their margin and the benchmark crack spread. But if their refineries cannot produce enough of the ultra-low sulfur, high-octane blend stocks needed to fill demand, then they may buy ultra-low sulfur, high octane blend stocks on the market and use that for blending. This reduces their gasoline margin per gallon by a factor of five. I believe Tier 3 has reduced their ability to produce enough ultra-low sulfur high octane blend stocks in their own refineries and this is now a basic deficiency that explains much of the unexplained deficit in margin capture. I am the only one talking about this theory. I hope PSX will respond whether it has any merit for explaining their record low margin capture rate. I am asking them but am getting no comment and they will not engage in discussion with me about it.

**Laura Starks** 18 Aug. 2021, 6:24 PM

***Author's Reply*** *To: jacksalmon* good questions re RINs for PSX vs. others. I go with PSX saying 3Q will be better, and the other sectors did well (retail mktg, transport, chems), but I appreciate your skepticism.

**George Hoekstra** 18 Aug. 2021, 8:15 PM

*To: jacksalmon* I don't believe RINs are a good explanation for the big difference between PSX vs. VLO and MPC on margin capture. It is the Tier 3 issue, which is site-specific and company-specific. VLO and MPC are better equipped to make the ultra-low sulfur high octane blend stocks needed for Tier 3 in their own refineries which is a huge advantage for gasoline margin. This is my theory. Readers should know that my view on Tier 3 is a contrarian view. I believe it is very important for margins in 2021 and beyond, and most others disagree. But it is based on 3 years of research done by my client group; and investors deserve a response whether it has any merit in the PSX case.

**George Hoekstra** 18 Aug. 2021, 10:18 PM

*To: jacksalmon* tier 3 requires all suppliers to the us market meet an annual average gasoline sulfur of not more than 10 ppm for all gasoline sold in the us, or else buy credits from those who average less than 10 ppm. Disadvantaged refiners will realize lower margins and/or sulfur credit liabilities, advantaged refiners will realize higher margins and/or credit revenues. There will be a shift in profitability toward those who can most effectively MAKE (not buy) low sulfur high octane blend stocks in high volumes. My company has a list of things refiners can do to improve their position, some are easy and fast, others require capital investment, all of which have been successfully applied by our clients but not by those (many) who deny Tier 3 is important for profitability. See my blog articles and other publications on my website hoekstratrading.com/...

**Laura Starks** 19 Aug. 2021, 10:36 AM

***Author's Reply*** *To: Fwc3030* 10% loss of demand is a 2020 Covid artifact from which the sector has been recovering, unevenly. It is context. Tier 3 insights from George are useful, and there are several other factors operating. WSJ has an article today on comparative refining profitability.

**jacksalmon** 19 Aug. 2021, 1:07 PM

*To: George Hoekstra* George: Thank you for your reply. Obviously, saying that PSX is producing low sulfur content gasoline does not explain how they are producing that Tier 3 gasoline. I suspect that you are absolutely correct when you say that they are doing it by buying blend stocks in the open market to arrive at the correct sulfur level and losing their shirts in the process because they can't produce it in their own refineries. How else do they realistically explain that their refining arm lost almost a billion dollars when other refiners were making money refining oil into gasoline?

In addition, the fact that PSX will not respond to your pointed questions demonstrates that they are not willing to reveal the true nature of the problem. Regardless though, whether it is Tier 3 or RIN, it is absolutely clear that PSX has a serious problem in profitably producing gasoline. If it is RINs, then it is clear that they are clueless as to how to fix that problem given how long RINs have been around. In fact, PSX may be clueless as to how to profitably produce gasoline at least for the present time and into the short-term future. By the time they figure out the solutions, if they ever do, there will some new problems preventing them from profitably producing gasoline. It is simply the nature of the refining business. They will never again be serious profitably as they were in 2017 and 2018. Their glory days are over.

They will continue to exist and make some money because their products are essential to modern life. But, they will never again make a lot of money doing it. They will be lucky to pay their dividends.. The only real question involving the refiners is how does one value a company that can barely pay its dividends, but will never have serious share price appreciation that will last.

**George Hoekstra** 18 Aug. 2021, 8:35 PM

*To: jacksalmon* I agree refining is a very difficult business. But we will be needing and paying for refined petroleum fuels for many decades to come. So I believe those refiners who plan and operate well will perform well financially. Another comment on my favorite subject, Tier 3: It does seem to be coming out of the blue, but that's only because the entire industry has been denying its importance and most refiners vastly underestimated its profit impact. US refiners were given 6 years to prepare for today, and very little preparation was done.

**jacksalmon** 19 Aug. 2021, 1:34 PM

It does not seem that anyone really appreciates the significance of PSX losing almost a billion dollars in its refining sector. While it does have other operations, it is still mostly a refiner. It is a refiner that cannot figure out how to make money in a business in which it has been operating for decades. I don't care if they are making money in midstream or chemical operations, it is still a refiner and it is clueless.

**George Hoekstra** 19 Aug. 2021, 4:55 PM

*To: jacksalmon* I am happy to hear you Jack, and Fwc3030, express shock over a refiner's inability to make money in 2Q2021. It should be shocking to investors for the reasons you've given and it deserves better explanation. Readers of this comments section will know, I think the root cause is lack of focus on gasoline profitability which is the heart of US refining profitability. During the 3 years I worked on Tier 3 gasoline research, I was shocked how little attention was paid to, and investment made in, the gasoline business. Everyone obsessed over low sulfur bunker fuel and legal/political opposition to RIN rules. Gasoline was out of vogue! Industry meeting sessions on IMO2020 (bunker fuel) and renewables were packed to the rafters for years, gasoline sessions were ghost towns. The distribution of attention was unrelated to the distribution of profit. Refiners should refocus --put less attention on the headlines and more on how to make 21st Century (Tier 3) gasoline profitably.

**jacksalmon** 19 Aug. 2021, 6:06 PM

*To: George Hoekstra* Between RINs and Tier 3 costs, it is pretty clear that the refiners have been split into two groups. One, those that can barely make a profit in the gasoline business like VLO and MPC; and two, those that are losing a lot of money by continuing to sell gasoline, like PSX. One would think that because the price of gasoline is the same whether one is buying from VLO or PSX that VLO would be making a lot more money than PSX in the gasoline business. They are making more money than PSX (which is not hard to do given PSX' almost billion dollar loss last quarter), but neither company will ever revisit the glory days of 2017 and 2018, the last time they made serious money.

PSX should just give it up and sell off their refineries and concentrate on business activity at which they are profitable. VLO will have to keep operating but the best it will ever do is make enough to pay the dividend until it goes out of business because of EVs or whatever else comes along to destroy its gasoline business. Being an oil refiner is no longer a very profitable business, not because of EVs, but because there is always some other problem they face that cuts into their profits.

These refiners will always dream about how good they had it in 2017-18. Look at VLO---it is trading at less than 50% of its 2018 high point. VLO is truly a Very Lousy Opportunity, or Very Lousy Operation. It is a well run company in an industry which will no longer provide good profits. The best a refiner will ever do from here to the end is pay a dividend without experiencing significant share price devaluation. I'll guess we'll get to find out how the market values a company that pays a dividend but never appreciates in price.

**jacksalmon** 19 Aug. 2021, 10:56 PM

In the article it states that:

"The company's one-year target is about 30% above its most recent closing price,"

Since the article is dated 8/16 and the closing price on 8/13 the last day before the article was $74, or so, that means that the target as of that date was about $97. With its close of $66 today, that means the target is about 33% above today's closing price, or about $97.

There is no way that PSX trades at $97 a year from now. Those analysts are part of the hype machine and are clearly wrong on this one. PSX will be lucky to trade at $75 a year from now let alone $97. In fact, it is possible it might be trading at $55 a year from now, if it keeps up its remarkable record of losing almost a billion dollars a quarter on its refining operations. What are those clueless officers at PSX doing to lose so much money on refining oil, its main business activity? Maybe they need a new recipe, or a new chef.

**jacksalmon** 20 Aug. 2021, 12:03 AM

*To: jacksalmon* I am writing to correct a math error I made in the above comment. From its close today of $66, PSX needs an almost 50% move to get to its target price, not 33% as I stated above. However, whether 33% or 50%, there is no way PSX is getting to $97 in one year and I won't change that. It is a garbage investment like the rest of the refiners.

**George Hoekstra** 20 Aug. 2021, 6:43 AM

*To: jacksalmon* if, as I believe, the problem is gasoline profitability, there’s no reason to throw in the towel, there are easy solutions. I have asked them if this is the problem and they won’t respond. It seems a fair question to ask — why not answer, and if I am right, hear out a well-informed second opinion?

**jacksalmon** 20 Aug. 2021, 12:05 PM

*To: George Hoekstra* On the other hand, why admit to the world that they are clueless?

**George Hoekstra** 21 Aug. 2021, 8:55 AM

*To: jacksalmon* PSX is not alone in their lack of attention to Tier 3 and octane. 90+ of the industry (by gasoline volume) has ignored it. It’s not been mentioned in any earnings calls since 2 years ago, and only then because I and a good analyst instigated the questions. Same story in refining industry conferences. If I am right that Tier 3 and octane are affecting margin capture today, those who address it today will be seen as astute, not clueless. Those who deny it out of fear of being exposed as clueless, they will be the clueless.

**jacksalmon** 20 Aug. 2021, 7:23 PM

As if PSX didn't have enough troubles, Cowen cut it to Market Perform and lowered its target to $73 from $80. It should have been cut to Abandon Immediately with a target of $50. Cowen said it did it because it finally figured out much RINs are hurting PSX. Wait until Cowen figures out how much PSX is hurt by Tier 3 gasoline production requirements. The target may well be lowered to $40. Finally, even the analysts are abandoning the cheerleading posts for the refiners. After creating the hype, they realize it was nothing more than that and are getting in touch with reality and setting the world straight on what garbage investment the refiners are.

**George Hoekstra** 21 Aug. 2021, 7:47 AM

*To: jacksalmon* the analysts, like the executives, should focus less on RINs and more on what differentiates refiners’ ability to produce Tier 3 gasoline and octane reliably and profitably. Gasoline profitability is much more important to investors and also much easier to understand and control. Refining executives keep saying they will focus on “what we can control”. Then why not talk about how they are making 21st century gasoline? It’s like McDonald’s ignoring hamburgers.

**George Hoekstra** 21 Aug. 2021, 8:18 AM

*To: jacksalmon* here are three good questions for analysts to ask: 1) to what extent is gasoline margin a factor in low margin capture rate? 2) to what extent are you able to meet your (Tier 3) gasoline demand with internally-produced low sulfur, high octane blend stocks versus purchasing octane barrels to meet demand? 3) what is the percentage premium bob in your product mix and are you blending that with internally-produced blend stocks? Why am only I am asking these questions? Maybe I’m wrong, but at least they could tell me so.

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Hoekstra Research Report 8 -- In a 3-year research project, Hoekstra Trading’s client group developed new methods and tools to avoid hidden pitfalls with Tier 3 gasoline. All our data and tools are available to anyone for immediate application ***at negligible cost***. Just see this offer letter and join our client group by sending a purchase order today: [Hoekstra-Trading-Offer-letter-Research-Report-8-refiners-under 1 million barrels/day](https://hoekstratrading.com/wp-content/uploads/2021/05/Hoekstra-Trading-Offer-letter-Research-Report-8-refiners-under-1-MBD.pdf)