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Par Pacific Holdings, Inc. (PARR)

Q1 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Par Pacific Holdings First Quarter Earnings Conference Call. As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation there will be an opportunity to ask questions. [Operator Instructions]

It is now my pleasure to introduce your host, Ashimi Patel, Manager, Investor Relations for Par Pacific Holdings. Thank you, Ms. Patel. You may begin.

Ashimi Patel

Manager - Investor Relations, Par Pacific Holdings, Inc.

Thank you, operator. Welcome to Par Pacific's first quarter earnings conference call. Joining me today are William Pate, President and Chief Executive Officer; Will Monteleone, Chief Financial Officer; and Joseph Israel, President & Chief Executive Officer of Par Petroleum.

Before we begin, note that our comments today may include forward-looking statements. Any forward-looking statements are subject to change and are not guarantees of future performance or events. They're subject to risks and uncertainties, and actual results may differ materially from these forward-looking statements. Accordingly, investors should not place undue reliance on forward-looking statements and we disclaim any obligation to update or revise them. I refer you to our investor presentation on our website and to our filings with the SEC for non-GAAP reconciliations and additional information.

I'll now turn the call over to our President and Chief Executive Officer, Bill Pate.

William C. Pate

President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.

Thank you, Ashimi. Good morning and welcome to all our conference call participants. I'd like to begin this call by wishing you and your families the best of health and well-being in these trying times.

The energy sector is in the midst of one of the most challenging macro environments ever faced with dramatic changes to supply and demand. Our organization has continued to function seamlessly through this disruption as we responded swiftly to market conditions and government measures. Our first quarter results, particularly with respect to Hawaii, illustrate the rolling impact of demand destruction on the refining sector. Singapore refined product cracks declined rapidly during February after the initial Chinese lockdown. While cracks dropped immediately, crude oil differentials did not begin to decline until the physical supply market loosened when refiners cut runs. And the supply chain in the Pacific Basin creates a long lag between market change and realized crude oil differentials. As a result, we experienced an intense period of weak cracks and strong differentials.

The tight crude market collapsed even further during March when OPEC+ failed to agree on production cuts. After the market share war began, the market structure flipped from backwardation to steep contango. Our waterborne crude supply chain changed dramatically which will improve our cost of crude beginning in the latter part of the second quarter. These trends are largely related to our Hawaii refining profitability. Our mainland locations were principally impacted after United States social distancing regulations were enacted during mid-March. As we look to the rest of the year, our perspective on product demand is quite limited and linked directly to relaxation of social distancing and other protective measures. While the timing is uncertain, much of the demand destruction for our industry is temporary.

Consequently, our business posture prioritizes flexibility and optionality. Broadly, we expect to see a gradual increase in gasoline demand before any changes in jet fuel demand occur. We expect diesel demand which has held up well through the early stages of this pandemic to be weakened by declining industrial production. We're fortunate to be market leaders in our niche markets and we intend to run our refineries solely to meet local market demand. We're confident that our local refining and logistics operations will be the low-cost suppliers to our market.

However, as market demand evolves we must address changing needs. For example, the Hawaii market demand dropped from 120,000 barrels to 65,000 barrels per day immediately after quarantine and stay-at-home orders were implemented. Declining commercial jet arrivals and departures created most of this demand destruction. Our team took early actions to reduce Hawaii production by shutting down one of our crude units, reducing refined product import and limiting refining activities to the original Par Pacific facility. As you know, we previously operated that plant on a stand-alone basis with low operating cost and high operational reliability. We will operate in this fashion until a significant resumption in commercial jet traffic occurs.

Washington continues to perform, well benefiting from favorable inland crude prices and reasonable local demand. Although Wyoming reported excellent operational performance again during this quarter, the falling crude price environment hampered profitability due to significant FIFO losses. With the stabilization and eventual increase in WTI crude oil prices, we expect a profitable contribution from Wyoming. We also believe the summer and fall driving season in the Rockies could be strong as the public chooses to drive and vacation outdoors.

Our Logistics and Retail segments continue to bolster overall results during the first quarter. Retail margins were especially strong which mitigated some of the decrease in fuel demand due to social distancing restrictions.

Our team has responded rapidly to the market impacts of the COVID-19 pandemic. The actions we are taking simultaneously attack multiple key focus areas including safety, production alignment, business continuity, cost reduction and balance sheet management. We anticipated declining demand with efforts that began during late February and we intensified these activities when the pandemic began to spread globally. As a result of these efforts, we've reduced our planned cash outlays in 2020 by approximately $150 million. We will continue to focus on reducing our cost structure and expect to further increase the reduction in cash outlays in the second quarter. In light of the current environment, the independent members of the board and I have reduced our cash salaries by 75% effective May 5. We remain committed to supplying our local markets and are well-positioned to ramp up throughput at all our locations when demand recovers. The health and well-being of our employees, communities and stakeholders remain paramount and we're following all local, state and federal guidelines in managing our response to COVID-19.

At this time, I'd like to turn the call over to Joseph.

Joseph Israel

President, Chief Executive Officer & Director-Par Petroleum, LLC, Par Pacific Holdings, Inc.

Thank you, Bill. Starting with Wyoming, the 3-2-1 Index for the first quarter was $15.86 per barrel, consistent with past seasonal trends. The significant reduction in crude prices during the month of March resulted in approximately $10 per barrel of unfavorable FIFO impact. As a result, our realized adjusted gross margin was negative $0.81 per barrel. Our refinery throughput averaged approximately 16,000 barrels per day with 99.7% operational availability and production costs were $6.51 per barrel. COVID-19 started to impact Rocky Mountains demand for gasoline and jet fuel around mid-March, reducing PADD 4 refining utilization rate under 65% through the month of April. Diesel demand has remained strong with a much lower COVID-19 impact thus far, supporting our maximum diesel production mode of operation up from a typical 30% to approximately 43% of total yield. To balance demand, our target throughput for the second quarter is at the 12,000 to 14,000 barrels per day range.

In Washington, our Pacific Northwest 5-2-2-1 Index was $13.24 per barrel on an ANS basis. Our refinery throughput averaged approximately 41,000 barrels per day reflecting a strong 100% operational availability. Adjusted gross margin in the first quarter was $9.14 per barrel and production cost was $3.40 per barrel. PADD 5 refining utilization rates are down to approximately 60% in April as a result of COVID-19 impacts on demand. So far, our relatively low gasoline yield configuration has effectively protected us from the decline in West Coast demand. In addition, our unit train and barge operations continue to provide us with valuable flexibility in crude oil sourcing. As a result, our second quarter target throughput is at the 37,000 to 40,000 barrels per day range. To balance our production with demand, we are minimizing gasoline and jet production and maximizing VGO and diesel use in our system's LSFO blending activities.

In Hawaii, our 3-1-2 Singapore Index was $8.11 per barrel on a Brent basis. Refinery throughput averaged approximately 95,000 barrels per day in the quarter as a result of lower demand for oil products in the State of Hawaii. Operational availability was strong, 99.7%, and production costs were $3.36 per barrel. Waterborne crude pricing continues to impact our Hawaii refining operation. Our first quarter realized adjusted gross margin in Hawaii was only, what was it, $0.21?

William Monteleone

Chief Financial Officer & Director, Par Pacific Holdings, Inc.

Yes, that's right.

Joseph Israel

President, Chief Executive Officer & Director-Par Petroleum, LLC, Par Pacific Holdings, Inc.

Was only $0.21...

William Monteleone

Chief Financial Officer & Director, Par Pacific Holdings, Inc.

$0.24.

Joseph Israel

President, Chief Executive Officer & Director-Par Petroleum, LLC, Par Pacific Holdings, Inc.

... $0.24 per barrel. Our low capture was driven by elevated crude differentials resulting in a realized $7.04 per barrel premium to Brent on a delivered basis. Second quarter differentials have improved to approximately $4 per barrel, reflecting the oil market conditions at the time we committed and purchased the crude oil, mostly between January and March. With the recent crude oil and macro changes outlined by Bill, the bottom line is that our third quarter crude differentials are likely to be about $10 per barrel more favorable than our first quarter differentials.

On the product side, COVID-19 demand destruction in Hawaii has been approximately 50% through the month of April, with jet fuel demand cut by approximately 75% and gasoline demand cut by 40% to 50%. As a result, we have adjusted our operations to balance yield with demand. Second quarter planned throughput in Hawaii is in the 70,000 barrels to 74,000 barrels per day range. We shut down our crude unit on the West side and adjusted our staffing accordingly to the current operations.

We are aggressively minimizing jet production from our typical 30% down to 15% to 20% of total yield. At this level, we sell our entire jet production mainly to the military and freight customers. We have also reduced gasoline yield and increased fuel oil yield to match as close as possible the current demand profile in Hawaii, including utility fuel for power generation.

In summary, we're focused on what we can control as we navigate our system through this pandemic crisis and the demand recovery phase. We remain optimistic and excited about our future as an efficient and competitive system.

And now, I will turn the call over to Will to review our financial results.

William Monteleone

Chief Financial Officer & Director, Par Pacific Holdings, Inc.

Thank you, Joseph. First quarter adjusted EBITDA and adjusted earnings totaled $11 million and a loss of $30 million or $0.57 per fully diluted share. Focusing on accounting items first, there are two items that impacted both adjusted EBITDA, adjusted earnings and GAAP net income: one, Wyoming Refining results include an approximate $15 million FIFO accounting loss; and, two, Hawaii Refining recognized an approximate $6 million in realized derivative losses related to the approximately $5 million gain that was called out during the fourth quarter of 2019.

In addition, there were three items that solely impacted GAAP net income. One, we reported a non-cash lower of cost or market charge of approximately $182 million. Related to the LCM charge, we recorded an offsetting gain on the reduction of our supply and offtake liability of $204 million. Two, we are recording a goodwill impairment of approximately $68 million to reflect estimates of current fair values. And, three, we recorded an impairment to our investment in Laramie of approximately $45 million.

Shifting to segment results. Retail adjusted EBITDA contribution was $15 million, driven by increased fuel margins, primarily during the March timeframe. Same-store sales fuel volumes were down roughly 5.2%, while merchandise sales were up approximately 2.1% compared to the first quarter of 2019. We expect gasoline demand to be down approximately 40% to 50% on a year-over-year basis until social distancing restrictions are relaxed in Hawaii, Washington and northwestern Idaho.

Diesel demand is down, but has been more resilient. And our merchandise sales have been much stronger as customers turned to our stores at times when social distancing measures make larger format retail locations more cumbersome to access. Our prompt views of late April and early May suggest volumes are rebounding from trough levels referenced above.

The Logistics segment adjusted EBITDA contribution was $23 million, with increased throughput across principally Hawaii and Washington during the quarter. We saw minimal impacts to throughput other than late March reductions across certain locations which did not have a material impact on the quarter's results. We expect annualized Logistics segment results to proportionately move with throughput rates at our respective refining locations.

The Refining segment recorded segment adjusted EBITDA loss of $15 million. Hawaii results reflect the impact of lagged crude differentials paired with compressed crack spreads. As a reminder, Q1 Hawaii crude differentials reflect Q4 2019 market conditions where elevated freight and backwardation drove a tight Pacific Basin crude market. Partially offsetting Hawaii's results was a seasonally strong Washington performance and a modest Wyoming contribution, excluding the FIFO crude impacts. Washington's inland crude advantage was on display as Bakken and Cold Lake crudes traded at attractive delivered discounts to ANS.

Laramie generated adjusted EBITDAX of $12 million and net income of $1 million for Q1 2020. Net to our interest, Laramie's results reduced our adjusted earnings by $1 million. Laramie has extended the term of its credit facility through 2021 and current leverage sits at 2.9 times debt to EBITDA.

Moving to the capital structure and liquidity front, our ending liquidity totaled $137 million made up of $62 million in cash and $75 million in availability. The decline in the headline liquidity for the quarter was principally driven by the reduction in the underlying collateral value of each intermediation or ABL credit facility.

Of the approximate $105 million decline versus yearend 2019, over $90 million was from the reductions in collateral value. However, this reduction in availability should be viewed in the context of our current operations and daily required crude oil purchases to our refineries, which in a $25 Brent and $20 WTI world is approximately $3 million per day compared to nearly $10 million per day in a $60 Brent and $55 WTI world. In other words, while the decline in commodity prices has impacted our liquidity, it also reduces our daily cash operating requirements.

We generated cash from operations of $15 million. Working capital was a source of funds, excluding the non-cash impacts from intermediation revaluation and was principally used to pay down the deferred payment facilities within the financing sections of our cash flow statement by approximately $52 million. Capital expenditures and turnaround outlays totaled approximately $17 million and cash interest equaled $15 million.

We are taking a number of actions to reduce our total operating expenses, capital expenditures and turnaround outlays in response to the current environment. Thus far, we have identified approximately $150 million in annualized total reductions versus our 2020 planned outlays, consisting of $65 million to $70 million in reductions to cost of goods sold, $50 million to $55 million in reductions to operating expenses, and $20 million to $25 million in reductions to capital expenditures and turnaround outlays, and $5 million to $10 million in reductions in interest expense.

The largest driver of the $65 million to $70 million reduction in cost of goods sold is reduced internal fuel burn of between $45 million to $50 million within our refineries followed by projected reductions in our supply and offtake fees which flow through our cost of goods sold of $15 million to $20 billion. OpEx reductions are a combination of reduced Hawaii refining operations and deferrals of non-critical expenditures across all segments.

Our capital expenditure reductions and turnaround outlay reductions were approximately 60% maintenance and 40% percent growth. Our revised capital expenditure and turnaround outlay outlook for the full year is now $95 million to $110 million with the majority of this scheduled for the second half of the year. These actions demonstrate our commitment to navigating this environment.

This concludes our prepared remarks. Operator, I'll turn it back to you for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Neil Mehta with Goldman Sachs. Please go ahead.

Carly Davenport
Analyst, Goldman Sachs & Co. LLC

Q

Hi, good morning. This is Carly on for Neil. Thanks very for taking the questions.

Joseph Israel
President, Chief Executive Officer & Director-Par Petroleum, LLC, Par Pacific Holdings, Inc.

A

Good morning.

Carly Davenport
Analyst, Goldman Sachs & Co. LLC

Q

The first one was just around the $150 million reduction in the cash outlay. Thanks for the color on kind of walking through some of the key line items driving that reduction. Just curious on your thoughts on if any of that should be viewed as structural versus just cyclical in response to the current environment.

William Monteleone
Chief Financial Officer & Director, Par Pacific Holdings, Inc.

A

Sure. I mean, I think the cost of goods sold reductions we're referencing $65 million to $70 million are correlated to the price of oil. So depending on your structural view of the price of oil, I think that's repeatable. So again, in a low price environment, we think those benefits flow through. Again, the OpEx reductions are a reflection of reduced activity in Hawaii. So to the extent we increased activity levels there, you'd see that return. And again, I think, we've deferred a number of expenses to future years.

Carly Davenport
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thanks. And then the follow-up is just around Hawaii. Can you talk a little bit about what you're seeing in real-time from a demand perspective in that market, particularly as it relates to jet fuel? And then could you also touch upon how operations around crude slate and product yields have been flexed in order to address the changes that you've seen in that market?

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.

A

Sure, Carly. This is Bill. Let me address the changes in the market and then I'll let Joseph handle the discussion on the crude yield and – or the product yield and crude slate. Generally speaking, as you know, when the governor announced the quarantine, our jet fuel demand or commercial jet traffic dropped within literally a 72-hour period, and that demand in the past has been as high as 50,000 barrels a day in peak season. That's including all demand on commercial, military and cargo. When the commercial jet activity dropped, we've really dropped down virtually to only cargo and military at this point. So 45,000 to 50,000 barrels a day, depending on the seasonality, has gone down to the 12,000 to 15,000 barrels a day level. And that's again really related principally to military, cargo and some commercial jet traffic, but even the commercial jet traffic that I think we are seeing is somewhat cargo related because the load factors are so low.

On the gasoline side, a very different story. Very similar to the mainland, I think we probably bottomed at about 50% decline at the kind of peak of the shelter in place. We're seeing a trend up. We're probably up 20% from the bottom. I mean, we're probably closer to 65% today. I would say gasoline demand, probably only about 10% of gasoline demand is really related to the tourism market, but keep in mind 90% of the gasoline demand a local demand factor. Diesel demand has been relatively strong just like the mainland. It's down a little bit but it's clawed its way back alongside with gasoline demand where again we're probably in the 65% range. Given the tourism variability you tend to see lower demand in neighbor islands than you do in Oahu, where two-thirds of the population lives, where you've got military activity and much more commercial activity as opposed to Maui, the big island in Hawaii where you have a much larger impact from the tourism trade.

Joseph, you want to handle crude slate?

Joseph Israel
President, Chief Executive Officer & Director-Par Petroleum, LLC, Par Pacific Holdings, Inc.

A

Okay. Yes, so we have [indiscernible] (25:06) the production and match our yield to demand to stay feasible at the point where we actually sell everything that we make. So number one, we cut throughput by 40% by shutting down our crude unit. Number two, we cut our jet fuel production by almost 50% by dropping [indiscernible] (00:25:28) diesel in the diesel hydrocracker and the diesel hydro treater. Number three, we are running the reformer at reduced rates to make less pay gasoline. And number four, we will manage a fuel oil blending to really increase our system flexibility.

Carly Davenport
Analyst, Goldman Sachs & Co. LLC

Q

That's great. Thank you.

Joseph Israel
President, Chief Executive Officer & Director-Par Petroleum, LLC, Par Pacific Holdings, Inc.

A

Thank you.

Operator: Our next question is from Matthew Blair with Tudor, Pickering, Holt. Please go ahead.

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.

A

Good morning, Matthew.

Matthew Blair
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Hey, good morning, everybody. Hope everybody is safe. I was hoping you could talk about your exposure to contango at all three of your refineries. For your mainland refineries, looks like the WTI CMA, the market structure is showing about $4.60 discount. So, would you expect to capture 100% of that in Wyoming and in Washington? And then I guess for Hawaii, I guess can you confirm that you do have exposure to the benefits of Brent contango and walk us through maybe just how to think about modeling that?

William Monteleone
Chief Financial Officer & Director, Par Pacific Holdings, Inc.

A

Sure. Yeah, so Matthew, I think in Washington, again we do have exposure to that with respect to most of our barrels. And given the way in which we hedge and the way our intermediation functions, we do capture the benefit of the WTI contango there. Again, I think that's evident in the way our intermediation functions in Hawaii. Again, a similar dynamic is in place with the way the intermediation with J. Aron functions.

Again, I would say the benefit there is probably not dollar-for-dollar as we manage the exposure to the front of the curve and again tend to be spread out further down the curve for the majority of our barrels. That said, we do have a fair amount of exposure to the front of the curve there as we're using our tankage as another one of our assets in Hawaii to manage and optimize production and contango is one of those tools that's available to us and with the intermediation, we can capture that.

Joseph Israel
President, Chief Executive Officer & Director-Par Petroleum, LLC, Par Pacific Holdings, Inc.

A

Let me add, in Hawaii, we mentioned going from a plus $7 this quarter to plus $4 in the second quarter, going to minus $3 basically in the third quarter. A $10 per barrel improvement between first quarter to the third quarter. That contango you just mentioned is already built in this differential and will really help our competitive position in Hawaii.

Matthew Blair
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Indeed, indeed. Okay, great. Thanks for the color. I guess just turning to Logistics, so results were strong for second quarter in a row. Just want to confirm, it kind of sounds like this low $20 million EBITDA number is kind of the baseline going forward. However, this number would be impacted by lower runs at your refineries in Q2. Is that correct?

William Monteleone
Chief Financial Officer & Director, Par Pacific Holdings, Inc.

A

Yeah. Matthew, I think that's the right way to look at it. And if you plug through Joseph's numbers again from a throughput perspective, clearly, the largest impact is in Hawaii. And again I think that's where you'll see the proportional response on the Logistics side. And again I think, Wyoming does have some reductions, but that's just a much smaller overall contributor to our Logistics EBITDA profitability. And then you can see Washington, the reductions there are projected to be much smaller. So less impact through Logistics on that front.

And then I would generally mention that the increase this quarter was driven by increased throughput in Hawaii, in particular. And that's really Logistics throughput, not Refining throughput. And then also the synergies that we're able to capture between Washington and Hawaii as we're using our freight to move product and balance the systems between Washington and Hawaii. So we'd expect that to continue again, but I think there will be some reductions due to lower throughput in Hawaii during the second quarter.

Matthew Blair
Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

Q

Very clear. Thanks, everybody.

Joseph Israel
President, Chief Executive Officer & Director-Par Petroleum, LLC, Par Pacific Holdings, Inc.

A

Thank you.

Operator: Our next question is from Brad Heffernan with RBC Capital Markets. Please go ahead.

Brad Heffern
Analyst, RBC Capital Markets LLC

Q

Hey, everyone. Good morning. Another question on Hawaii just on the margin side of things. So, obviously, the indicator for April was I think minus $2 and change, you're talking about a $4 differential to Brent. So you're starting the quarter, it seems like, well behind on the margin front. But at the same time, I assume that really the indicator at this point isn't necessarily indicative of what's actually happening. So can you talk about how we should think about capture versus these really sort of penal indicators in the second quarter?

William Monteleone
Chief Financial Officer & Director, Par Pacific Holdings, Inc.

A

Yeah, Brad. It's Will. I think one thing to keep in mind in the 3-1-2 today is that a third of that's jet fuel. And today, or let's say over the course of April, the spread between jet fuel and diesel has been negative $10 a barrel in Singapore. And so, again, that is impacting the 3-1-2 index. You heard Joseph reference, in a typical market environment, we would be operating the refinery to maximize jet yields. In this environment, we're minimizing jet yields and are moving our production slate to between 15% and 20% versus the implied 33% in the indicator. So I think that's one dynamic that's significant there.

And then I think the other thing to consider is as you approach a zero bound for the 3-1-2 indicator, you are – typically, our contracts have a fixed adder to them. And so, when you start trying to model capture off of a very low 3-1-2 indicator, again, you need to keep in mind that we've got a fixed adder on almost all of our refined product sales contracts. So keep that in mind.

And then the other color I'd provide on the crude side is while we're at a $4 diff for the second quarter, there is a large spread between, let's say, the month of April and the month of June; and the June numbers are closer to what Joseph's indicating to expect in the third quarter. And so, again, I think April is really the timeframe where the residual lag on crude kind of fully works its way through our system.

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.
A

And, Brad, it's Bill. There's probably one other factor to take into consideration when you think about capture in the 3-1-2, and that is as our jet declines, a lot of the remaining jet fuel demand is actually priced off the West Coast markers. And so, our exposure to Singapore jet cracks in particular is very low. Now, if commercial traffic comes back, I think you can expect to see a weighting that's more consistent with a Singapore oriented marker. But at these low levels, as long as the quarantine's in place, our jet exposure is more likely to be West Coast oriented.

Brad Heffern
Analyst, RBC Capital Markets LLC
Q

Okay.

Joseph Israel
President, Chief Executive Officer & Director-Par Petroleum, LLC, Par Pacific Holdings, Inc.
A

Bill and Will spoke about the capture. Let me just add couple of sentences about the market. I think it's very clear that the negative $2 per barrel quarter to-date is not feasible, and the definition of feasible is maintaining refiners in the Mid Pacific at cash flow long-term to survive. Five years average has been $10 per barrel for this index, so there is about $12 per barrel to recover. And the only question is how fast, timing?

On the gasoline side, we are less concerned. We think that the markets are headed back to routine. We also think there will be a demand elasticity impact that will help gasoline. Consumers will drive more as the prices is lower. We appreciate the jet fuel recovery is probably going to be slower and we're going to watch this diesel.

Longer (sic) [shorter] term, it's looking promising with the lowest impact from Covid-19 but we all know longer term, it has some industrial production and economy type of impact. So this is the market for now. We will watch it and we'll wait for things to rebalance at a feasible point.

Brad Heffern
Analyst, RBC Capital Markets LLC
Q

Okay. Great. I appreciate all the detailed answers. And then I guess switching to the inland refineries or the mainland refineries. Is there any chance that we see a move around the crude slates at either facility just given – either shut-ins or the fact that WCS is trading so tight right now? Thanks.

William Monteleone
Chief Financial Officer & Director, Par Pacific Holdings, Inc.
A

Yeah. Brad, it's Will. I think – keep in mind for Washington, we do have some flexibility there given our waterborne access. So we do have levers to pull. And then with respect to Wyoming, keep in mind, we're pipe connected and we also buy fewer barrels. So it gives us some flexibility to try and manage it as effectively as possible. There is no doubt that the producer in the inland United States is responding to low prices and we're seeing that. I think we're – we'll use all available logistics options we've got to ensure that we keep the refineries supplied, as economically as possible.

Brad Heffern
Analyst, RBC Capital Markets LLC
Q

Okay. Thank you.

Operator: Our next question is from Jason Gabelman with Cowen. Please go ahead.

Jason Gabelman
Analyst, Cowen & Co. LLC

Q

Hey, good morning. I want to circle back on the...

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.

A

Hey, Jason.

Jason Gabelman
Analyst, Cowen & Co. LLC

Q

...hey, on the OpEx cuts you announced. About a third of it I guess is related to the fuel burn that has to do with oil prices. So what's the delta or the price you're assuming for that fuel just given there's been a lot of volatility in the crude price over the past few weeks and I guess several months? Just having an understanding of what kind of the assumptions are that underpin that $50 million of savings would be helpful?

William Monteleone
Chief Financial Officer & Director, Par Pacific Holdings, Inc.

A

Hey, Jason, it was roughly the forward curve probably about two weeks ago. So let's just assume that it's on average for the rest of the year, you're probably looking at close to $30 Brent and $25 TI (sic) [$25 WTI].

Jason Gabelman
Analyst, Cowen & Co. LLC

Q

Okay. Great. That's helpful. And then my second question is just circling back on the Asian market. I mean, I think that a lot of indicators out there suggest some rebound in the Asian market, but margins remain low based on kind of the indicator margins that you've provided. Can you just discuss what dynamics are going on there that would keep margins depressed despite demand rebounding? And kind of how long do you think it's going to take until the margin environment improves there?

Joseph Israel
President, Chief Executive Officer & Director-Par Petroleum, LLC, Par Pacific Holdings, Inc.

A

We think it's the short term inventories are starting to respond to people going back to routine. Negative pressure from inventory is starting already to impact gasoline cracks. And then jet fuel, we will watch the recovery, same with ULSD. At the end of the day, refineries need cash flow to stay online and they're responding with cutting runs and slowing down, and supply/demand is taking care of it.

William Monteleone
Chief Financial Officer & Director, Par Pacific Holdings, Inc.

A

Jason, I think what you see in the market today is a reflection of just the kind of imbalance that exists when you see this type of demand shock happen, and again it's literally refiners that have run out of ullage and have to clear barrels into the market, and therefore you're going to see the marginal barrel until that – refiners become feasible again, and again I think they're shifting back there quickly, be incredibly volatile. And you also need to factor in the fact that freight has a huge impact on the Singapore Index as barrels are trying to clear at alternate markets.

So recently you've seen clean product freight spike. That's impacted the Singapore refined product cracks because, again, there's less options for those refiners that are out of ullage that are trying to use floating storage to flex their supply chains to move barrels. So, again, I think as soon as you see that feasibility rebalance, I think you're going to see the margin profiles begin to regress toward the mean.

Jason Gabelman
Analyst, Cowen & Co. LLC

Q

Got it. Can I just sneak one more in, just about this swing from $7 to – or I guess a $10 benefit on the landed cost in Hawaii? Part of that I guess is the contango, but then what's the other part driving that? Is that freight cost or is there something else in there?

Joseph Israel
President, Chief Executive Officer & Director-Par Petroleum, LLC, Par Pacific Holdings, Inc.

A

Freight cost is actually offsetting the contango a little bit, still a good contribution. When you have contango, the motivation for floating storage is there and it's pushing freight cost a little bit up. But the $10 per barrel improvement indication takes that already into account.

The other key factor is just weakness in turnover. It's oversupply and suppliers then will do everything they can to move their barrel. And you have what Bill referred in his prepared comments on the supply side, we have a supply war. And on the demand side we have the COVID-19 shock. And the combination was very strong on crude differentials.

William Monteleone
Chief Financial Officer & Director, Par Pacific Holdings, Inc.

A

I think, Jason, the other thing to Joseph's point, there's a large spread between the physical crude market and the financial crude market. And so, again, we're quoting everything off of ICE Brent. And again, I think if you look at the Dated Brent relationship to ICE Brent, there's large discounts that are evident and we're capturing that as a physical buyer of crude.

Jason Gabelman
Analyst, Cowen & Co. LLC

Q

Got it. Thanks.

Operator: [Operator Instructions] And our next question is from Andrew Shapiro with Lawndale Capital Management. Please go ahead.

Andrew Evan Shapiro
Analyst, Lawndale Capital Management LLC

Q

Hi, thank you. With the past few impairment write-downs, what is Laramie's net book value left on our books?

William Monteleone
Chief Financial Officer & Director, Par Pacific Holdings, Inc.

A

Just shy of $1 million, Andrew.

Andrew Evan Shapiro
Analyst, Lawndale Capital Management LLC

Q

Okay, so not much more impairment risk there, okay. If this drags on or when we get a second wave in the flu season, have you guys already identified further cuts the companies could make, if needed?

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.

A

Andrew, it's Bill. We're constantly assessing our cost structure and we're certainly looking at what other actions could be done to the extent that this pandemic – and, frankly, we're planning on a long recovery here. I think our cost structure in place actually allows us to handle the current demand environment for quite some period of time. But if it should drop even further, there are other actions that we'll take into consideration that would further reduce our cost structure.

Andrew Evan Shapiro
Analyst, Lawndale Capital Management LLC

Q

Okay. So you feel like you have already adjusted to the current demand levels adequately?

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.

A

Yes.

Andrew Evan Shapiro
Analyst, Lawndale Capital Management LLC

Q

Okay.

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.

A

Yes, we have.

Andrew Evan Shapiro
Analyst, Lawndale Capital Management LLC

Q

And since you are on the ground, or your team is on the ground in Hawaii, and the state has kept its curve well under control as it's an island like New Zealand and Australia have done the same, what are you hearing about the state's reopening plans with respect to, first off, locals and then the timing or the steps necessary for it to open to tourism, which would obviously improve the jet demand?

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.

A

Well, as you mentioned, it's actually a very safe place with respect to the pandemic. I think there have been fewer than 10 positive cases in the last week in Hawaii. And the governor has begun to discuss limited openings. They've done a really good job of stamping down the virus in Hawaii. The climate may help a little bit. So I think you're going to see an increase in activity within the main community there in the next month.

Your question about tourism is something that really is just up in the air, and I couldn't really tell you what they're going to do at this point. Obviously, if they're bringing tourists into the state, they run the risk of introducing the virus and having an outbreak. So I think the state will be very careful and do what they can to ensure that they limit any ability to – or any risk associated with tourists entering the market.

Andrew Evan Shapiro
Analyst, Lawndale Capital Management LLC

Q

Yes. And lastly, given that you're not going to be attending any in-person investor conferences for the foreseeable future, what are you doing to continue to – I don't want use the word market per se, but to conduct investor relations for current and potential future shareholders? And what, I guess, virtual conferences are on the calendar?

William Monteleone
Chief Financial Officer & Director, Par Pacific Holdings, Inc.

A

Yeah, Andrew, it's Will. I think at this point we don't have any kind of current virtual conferences on the calendar. I think the typical scheduling is still I think reforming and reshaping with respect to how investor outreach is going to function in this environment. So again, I think for the time being we're ensuring that we're reaching out to our known shareholders and ensuring that that we're reaching out to prospective shareholders that we've either received reverse inquiry from or, again, have had historical dialogue with.

Andrew Evan Shapiro
Analyst, Lawndale Capital Management LLC

Q

Thank you guys.

Joseph Israel
President, Chief Executive Officer & Director-Par Petroleum, LLC, Par Pacific Holdings, Inc.

A

I will remind you the virtual conference with Scotia and it was very successful, so we may see this activity coming back.

William Monteleone
Chief Financial Officer & Director, Par Pacific Holdings, Inc.

A

Yeah.

Andrew Evan Shapiro
Analyst, Lawndale Capital Management LLC

Q

Thank you.

Operator: Our next question is from Patrick Sheffield with Beach Point Capital. Please go ahead.

Patrick Sheffield
Analyst, Beach Point Capital Management LP

Q

Hey, guys. Thanks for taking my question. Just wanted to follow-up...

William Monteleone
Chief Financial Officer & Director, Par Pacific Holdings, Inc.

A

Good morning, Patrick.

Patrick Sheffield
Analyst, Beach Point Capital Management LP

Q

Good morning. Just wanted to follow-up on your liquidity position and just maybe a little more color on the cadence of the turnaround and CapEx spend. It sounds like based on your guidance, you have $100 million left to spend and Q2 is going to be the trough for EBITDA based on what you guys see today. Is that the right way to think about it, $136 million of liquidity, $100 million of CapEx needed for turnaround as well? Like, how did you look at that playing out for the rest of the year?

William Monteleone
Chief Financial Officer & Director, Par Pacific Holdings, Inc.

A

Sure. So I think the best way to think about our liquidity is to start with our fixed charges, right, which, to start with, excluding the turnarounds, basically we've got a quarterly CapEx requirement of about $15 million and cash interest and amortization of $16 million, so let's call that $30 million of quarterly fixed charges that we've got. And then if you just think about our Retail and Logistics businesses, right, so last year our Retail adjusted EBITDA averaged about $13 million quarterly and Logistics averaged $19 million, and then layer on top our corporate overhead of about $11 million quarterly. So you add up all those pieces before you get to refining, you've got about $21 million a quarter of EBITDA. So I think even before you get to refining – so if you assume refining is zero contribution from the Refining segment for the remainder of the year,s which I'd say is close to where we were in Q1 if you exclude the Wyoming FIFO impact for refining, you're looking at approximately a $10 million per quarter cash burn versus our ending March liquidity of $137 million.

So I think that's probably the best way to think about it, and then I would just say keep in mind that the $90 million compression in collateral that I referenced that drove the decline in liquidity would start to increase if crude bounces off of let's call it the March lows of $20 WTI and $22 Brent. So we're not planning on this, but I think it's worth watching. And I think with respect to the turnarounds, again, I think we will – it's certainly our preference to conduct those on time, as we planned. I think there are alternatives that we have identified that, if needed, we can defer those further. So again, I think we've also identified a series of smaller options to bolster liquidity should it be required. And I'll just say we'll continue to actively manage the balance sheet and further adjust our operations as we need to respond to market conditions.

Patrick Sheffield
Analyst, Beach Point Capital Management LP

Q

That's very helpful. And the turnaround, is that $60 million-ish for the rest of the year or $50 million that's planned?

William Monteleone
Chief Financial Officer & Director, Par Pacific Holdings, Inc.

A

Yeah. If you just take really the residual remaining for Hawaii and Wyoming, it's roughly $40 million. And then, again, there's sort of $10 million of pre-spend for Washington bucketed in there which is really a Q1 2021 item. But again, I think the timing and the outflow of that I think is certainly very late in the year, if not probably trickling into Q1 of 2021.

Patrick Sheffield
Analyst, Beach Point Capital Management LP

Q

Got it. And then sorry, last question. I guess you did your Retail average and Logistics average based on last year. I guess we can just take look Logistics and flex it down by how much runs are going down. And then Retail had a good Q1 but I forgot what you said earlier in the call, that was it April was down a bunch but it bounced back the beginning of May, or I don't know if that was reference to another part of the business, but...

William Monteleone
Chief Financial Officer & Director, Par Pacific Holdings, Inc.

A

Yeah. I think the Logistics piece, the best thing to think about it is just the Hawaii impact is probably the most meaningful to our Logistics EBITDA during the second quarter. And then again Retail, again, without getting into the dynamic between margins and volume, keep in mind margins have continued to expand as the price falls faster, which was the case during April. So again, there's dynamics with respect to both volume and margin to consider.

Patrick Sheffield
Analyst, Beach Point Capital Management LP

Q

Right. Awesome. Thanks. Appreciate the pretty good color. Thanks, guys.

William Monteleone
Chief Financial Officer & Director, Par Pacific Holdings, Inc.

A

Thanks, Patrick.

Operator: This concludes the question-and-answer session. I would like to turn the conference back over to William Pate for any closing remarks.

William C. Pate
President, Chief Executive Officer & Director, Par Pacific Holdings, Inc.

Thank you for joining us today, everyone. We've certainly begun 2020 in a challenging environment. However, I remain confident in the durability of our business through the market cycle and our track record of delivering long-term value to our stakeholders. Thank you. Have a good day.

Operator: This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.