Valero Reports 2Q Loss As Energy Demand Crumbles

JOHN PORRETTO AP Energy Writer - July 28, 2009 HOUSTON (AP) — Oil refiner Valero Energy said Tuesday it lost $254 million in the normally robust second quarter, as summer travelers and cargo-hauling truckers hit the road less and contributed to slumping demand for gasoline, diesel and other refined products like jet fuel.

Declining consumption forced the company to shut down or slow production at some of its refineries, a direct hit to the bottom line.

San Antonio-based Valero, the nation's largest independent refiner, said net income for the April-June period amounted to a loss of 48 cents per share. In the second quarter a year ago, Valero earned $734 million, or $1.37 per share.

Revenue fell 51 percent to $17.9 billion from a year ago.

On average, analysts surveyed by Thomson Reuters were expecting a loss of 50 cents per share and revenue of $15.2 billion. Valero signaled in early June how tough the second quarter would be when it unexpectedly announced it would likely post a loss of about 50 cents a share. Wall Street analysts were looking for a profit closer to 74 cents a share.

Valero Energy Corp. shares fell 46 cents, or 2.5 percent, to $18.31 in early trading. Their 52-week range is $13.94 to $36.22.

Refiners have been hard hit by a significant downturn in demand for all types of fuels, which has led to bloated inventories. People are flying and driving less and businesses are shipping fewer goods via 18-wheelers.

Retail gasoline prices are down 14 cents in the past month and remain far lower than they were a year ago. The average national price for unleaded gasoline was $2.505 a gallon on Tuesday, according to auto club AAA, Wright Express and Oil Price Information Service. A year ago the price of unleaded stood at $3.95.

The average national retail price for diesel is about $2.56 a gallon, down nearly 46 percent from a year ago.

Valero said its operating loss in the April-June period was $317 million, versus $1.2 billion of operating income a year ago. The refining giant pegged the huge swing to lower diesel and jet fuel margins and depressed sour crude oil differentials.

"This is a very challenging environment for sour crude oil refiners," Bill Klesse, Valero's chairman and CEO, said in a statement. "The downturn in the global economy has sharply reduced demand for refined products at a time when new refining capacity is coming online around the world."

Primarily because of poor margins, Valero shut down its Aruba refinery in mid-July and said Tuesday it would decide in September whether to resume production. Valero owns 16 refineries throughout the U.S., Canada and the Caribbean.

Klesse said the company would monitor its other refineries "for situations in which it makes economic sense to slow or shut down specific units or the entire plant."

For the first six months of 2009, Valero said net income dropped to $55 million, or 11 cents a share, from $995 million, or $1.85 a share, a year earlier. Sales fell to $31.7 billion from $64.6 billion.

On a positive note, Valero said its ethanol business was off to a good start. The company, which this spring bought seven plants from bankrupt ethanol producer Verasun Energy Corp., said that segment of its business earned $22 million of operating income in the second quarter, despite startup costs.

After several years of strong results, the refining industry is in for a shake-up as it faces reduced demand for its products, a glut of capacity and higher operating costs tied in part to climate-change legislation making its way through Congress.

In June, the Democratic-controlled House narrowly passed sweeping legislation that calls for the nation's first limits on pollution linked to global warming and aims to usher in a new era of cleaner, yet more costly energy. The Senate is expected to begin debating the measure this fall.

Oil and gas companies have spent record amounts of money lobbying Congress as they try to blunt the impact of the bill. Refiners, in particular, say the inherent costs in the legislation could shift some fuel production outside the U.S., where refiners would not be bound by its provisions.

In a recent report, the consulting firm Deloitte LLP said the proposed legislation's creation of a cap-and-trade system is going to increase refining costs and, in turn, likely result in higher pump prices — further diminishing consumer demand.

Klesse urged Valero investors to contact their representatives in Congress and President Barack Obama to oppose the legislation.