

Exceptional Margins Strengthen the Near-Term Outlook; Duration Decides the Rest

1 | KEY RESULTS VS. CONSENSUS

Metric	Reported	Consensus	vs. Cons.
Revenue	\$46.10B	\$47.22B	-2.4%
Adjusted EPS	\$23.90	\$21.61	+10.6%
Total Throughput	2.972M b/d	2.880M b/d	+3.2%
Refining Margin per Barrel	\$39.24	\$36.56	+7.3%
Cash Flow from Operations	\$6.93B	\$6.89B	+0.6%
SEGMENT REFINING MARGIN			
Gulf Coast Refining Margin	\$6.47B	\$6.21B	+4.2%
North Atlantic Refining Margin	\$2.13B	\$1.68B	+26.8%
Mid-Continent Refining Margin	\$1.71B	\$1.52B	+12.5%
West Coast Refining Margin	\$425M	\$432.3M	-1.7%
U.S. Gulf Coast Margin per Barrel	\$37.55	\$36.91	+1.7%

2 | GUIDANCE AND OUTLOOK

Q4 refining throughput is guided to 2.875 million to 2.975 million barrels per day, a midpoint about 1.6% below Q3 actual, with refining cash operating expenses guided to about \$4.85 per barrel. The Port Arthur distillate hydrotreater is not in the guidance, with mechanical completion expected around the end of Q4. Full-year capital guidance is unchanged at about \$2 billion. The clear adverse revision: full-year G&A guidance rose from about \$960 million to \$1.1 billion. No Q4 EPS or refining-margin guidance was provided.

3 | EARNINGS ANALYSIS

A REFINING-LED BEAT. Adjusted EPS of \$23.90 beat the \$21.61 consensus by 10.6% on volume and unit economics: throughput of 2.972 million barrels per day beat the 2.880 million consensus by 3.2%, and realized refining margin of \$39.24 per barrel beat \$36.56 by 7.3%. North Atlantic supplied about 50% of the combined regional margin beat and the Gulf Coast about 30%. Revenue of \$46.098 billion missed consensus by 2.4%, and West Coast margin fell modestly short of its estimate.

CLEAN ADJUSTMENTS, SOFTER CASH CONVERSION. GAAP and adjusted results were nearly identical (net income of \$6.828 billion against adjusted net income of \$6.831 billion; EPS of \$23.89 against \$23.90), so the beat was not created by adjustments. Cash conversion was softer: operating cash flow beat consensus by only 0.6% as working capital absorbed \$526 million, and a 7.8% lower share count amplified the gain, with adjusted net income up 502.4% against 553.0% for EPS. Refining cash operating expenses of \$5.03 per barrel missed the \$4.75 guide by 5.9%.

REFINING CARRIES THE RESULT. Refining operating income of \$8.782 billion supplied about 93.4% of the three segments' combined operating income. Renewable diesel operating income fell 50.8% sequentially to \$353 million as Q2's recoveries, true-ups, and pricing lags reversed, and ethanol operating income fell 14.5% to \$272 million despite record production. Management's framework has high-cost marginal capacity setting product prices while it is needed; the \$30 to \$35 per barrel freight rate behind the feedstock advantage is not a perpetual assumption, and a crude run-up could compress cracks, as management conceded.

HOLD, WITH A CONSTRUCTIVE BIAS. Cash reached \$9.840 billion against an unchanged \$4 billion to \$5 billion long-term target, an excess of about \$4.840 billion to \$5.840 billion that management said will ultimately be directed to shareholders; the payout ratio was 52% of adjusted operating cash flow. The stance is Hold with a constructive near-term bias: annualizing Q3 EPS gives \$95.60, an arithmetic run rate rather than mid-cycle earnings. The duration of exceptional margins, not the size of the beat, decides the conclusion.

4 | KEY READ-THROUGHS

GULF COAST REFINERS CAPTURE THE FREIGHT DISLOCATION
Marathon Petroleum (MPC), Phillips 66 (PSX) | Strongly Positive | Substantial earnings sensitivity

Gulf Coast to Asia VLCC freight of \$30 to \$35 per barrel, against about \$5 in 2025, has forced wider crude discounts at the Gulf Coast, with Canadian crude at \$27 to \$30 under Brent, while raising rival refiners' delivered costs. Marathon and Phillips 66 hold the geography and conversion capacity to capture that dislocation.

MORE OIL MOVING THROUGH THE STRAIT CAN REMAIN BULLISH FOR TANKERS WHEN EACH BARREL REQUIRES MORE VESSEL TIME
Frontline (FRO), DHT Holdings (DHT) | Strongly Positive | High earnings and distribution sensitivity

Ship-to-ship transfers, insurance premiums, delays, and higher bunker costs require more tankers to move the same oil, so effective vessel supply stays tight even as flows rise. Freight can stay elevated without a bullish crude view. Frontline's VLCC and Suezmax exposure and DHT's VLCC fleet participate directly, though term coverage limits spot exposure.

DARLING HAS THE MOST DIRECT EARNINGS READ-THROUGH
Darling Ingredients (DAR) | Mixed | Materially negative Q3 vs. Q2; Q4 recovery positive
Darling owns 50% of Diamond Green Diesel and supplies its feedstocks, so DGD's swing from \$717 million in Q2 to \$353 million in Q3 cuts Darling's attributable earnings; Darling reported DGD adjusted EBITDA of \$1.30 per gallon, about \$204 million attributable. The signal is sequential recovery: Q4 sales are guided to 325 million gallons, with positive margins and cash flow.

JET-FUEL SCARCITY REMAINS AN AIRLINE COST HEADWIND, WHILE DELTA'S REFINERY PROVIDES A RELATIVE OFFSET
American Airlines (AAL), United Airlines (UAL) | Negative | High fuel-cost sensitivity
Jet regrades are turning positive, and Russian diesel exports remain about 600,000 to 700,000 barrels per day below year-earlier levels: middle-distillate scarcity persists. Airlines can face expensive jet fuel even when crude improves: each added \$0.10 per gallon costs \$100 million per billion gallons. Delta's Monroe refinery earns part of the crack back; American and United have no offset.