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OEM/Lube News

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Valvoline to Build Lube Blending Plant in China

Valvoline last Wednesday announced plans to build its first plant in China. With expected investment of approximately $70 million (RMB 443 million), it will also represent Valvoline's single largest blending plant investment worldwide. "Capturing opportunities for volume and premium product growth in key international markets is an essential strategy for the company," said Sam Mitchell, chief executive officer. "This new plant is an investment in China and its rapidly growing demand for high-quality lubricants and coolants to meet the evolving needs of both passenger car and heavy-duty customers." Strategically located on approximately 20 acres (120 Mu) in Zhangjiagang within the Jiangsu province, the new 80,000-square-meter Valvoline plant is expected to begin production by the end of calendar 2020 with an annual production capacity in excess of 30 million gallons (115 million liters) of lubricants. "This is very exciting news for our customers and partners in China," said Craig Moughler, senior vice president, International and Product Supply. "This investment demonstrates our commitment to the growth and success of our distributors and OEM customers through a more efficient and effective local supply chain and faster-to-market new products and packaging." Established in 1866, Valvoline, which has sales in more than 140 countries and a heritage that spans over 150 years, ranks as the No. 3 passenger car motor oil brand in the DIY market by volume and the No. 2 quick-lube chain by number of stores in the United States. The company operates and franchises more than 1,100 Valvoline Instant Oil Change centers in the United States.

Cummins Issues New NGEO Specification CES 20092

A new mobile natural gas engine oil performance specification has been introduced for stoichiometric combustion Cummins Westport mid-range and heavy-duty engines. This new specification, referred to as Cummins Engineering Standard (CES) 20092, will provide significantly improved oxidation and thermal stability compared to previous natural gas oils. Cummins Westport (CWI) natural gas engines require specially formulated natural gas engine oil, which has different properties than most diesel engine oil. In addition to the new CES 20092, there are two natural gas engine oil specifications for use with CWI engines: CES 20074 oils, which are recommended for lean burn engines and CES 20085 oils, which are allowed but not recommended, for engines using stoichiometric combustion. Please click on the following links for more information on CES 20074 and CES 20085 oil specifications. All CWI engines using stoichiometric combustion are compatible with CES 20092 oils. According to Cummins, these platforms will benefit from a transition to CES 20092 oils, which require a more modern oil additive system than previously used for CES 20074 or CES 20085 oils. The new specification requires a much stronger antioxidant combination to provide protection at the high temperatures experienced in modern natural gas engines. The range of allowable ash levels for CES 20092 oils (0.7-0.9%) is similar to the CES 20085 specification. Lean burn legacy engines should continue to use CES 20074 oils until further notice. CES 20092 is completely backwards compatible with CES 20085. Cummins recommends all customers using CES 20085 oils should plan to transition to CES 20092 oils. Customers using stoichiometric burn engines with CES 20074 oils should also transition to CES 20092. The only oil presently meeting the CES 20092 specification is Valvoline Premium Blue One Solution 9200, available in SAE 10W-30 and 15W-40 viscosity grades. Valvoline introduced Valvoline™ Premium Blue One Solution™ 9200 this March as a “universal” engine oil approved for use in natural gas, API CK-4 application diesel and API SN application gas engines for fleets operating multiple truck engine types. In Addition to meeting the new Cummins CES 20092 spec for natural gas engines, as well as CES 20086 and CES 20085 approvals, Valvoline says it also meets Mack EOS-4.5, Volvo VDS-4.5, and Detroit Diesel DFS 93K222 specs.

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ExxonMobil to Buy Indonesian Motorcycle Lubricant Blender, Marketer

ExxonMobil said Sunday April 29, 2018, it agreed to purchase PT Federal Karyatama (FKT), one of Indonesia's largest manufacturers and marketers of motorcycle lubricants, to enable expansion in an important international market. The acquisition includes the Federal Oil brand and a 700,000 barrel per year blending plant in Cilegon, Indonesia, a major coastal industrial city in Banten province, western end of Java. Pending shareholder, government and regulatory approvals, ExxonMobil will acquire 100 percent interest in the company from PT Mitra Pinasthika Mustika Tbk. and its affiliate. ExxonMobil expects the transaction to close in the third quarter of 2018, if not earlier. "Asia Pacific is one of the fastest growing lubricants markets in the world," said Bryan Milton, president of ExxonMobil Fuels & Lubricants Company. "This acquisition, combined with our existing premium Mobil lubricant brand, will help us continue to grow and better serve customers in Indonesia. The knowledge and experience of FKT employees and distributors will play a key role in achieving that objective." "Driven by strong economic development and an expanding middle class, Asia is expected to represent 70 percent of global lubricant demand growth over the next decade," said Nigel Searle, senior vice president of ExxonMobil Lubricants. "We continue to make strategic investments across our lubricant value chain to ensure ExxonMobil is well positioned to meet increasing global lubricant demand." George Morvey, Industry Manager Energy, Parsippany, NJ-based Kline consultancy told OEM/Lube News "Kline pegs Indonesia as the third largest country market for the consumption of lubricants for motorcycles, scooters and mopeds behind leader India, and #2, China. In terms of the global 2-wheeler parc, Indonesia is #2 at 17% behind #1 India at 33%. Overall lubricant demand in Indonesia is forecast to grow by a CAGR of 3% to 2022." According to Morvey, "OEM genuine oil demand is strong in Indonesia with 38% of supply being accounted for by the combination of Honda genuine and Yamaha genuine. Kline estimates Federal Oil at

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BP, Valvoline, FUCHS, HollyFrontier Report Earnings

BP, Valvoline, FUCHS Petrolub and HollyFrontier reported their most recent quarterly earnings. BP reported increased earnings and revenues. Valvoline reported an increase in adjusted net income. FUCHS reported a 4% revenue increase. HollyFrontier reported an earnings increase compared to a loss last year.

BP

BP reported first-quarter 2018 results last Tuesday. The company posted adjusted diluted earnings per American depositary share (ADS) of $0.78 on revenues of $68.17 billion. In the same period a year ago, the company reported earnings per ADS of $0.46 on revenues of $55.86 billion. One ADS is equal to six ordinary shares.

BP’s adjusted replacement cost profit (essentially the company’s adjusted net income/loss) in the first quarter totaled $2.59 billion, compared with $1.51 billion in the year-ago quarter, an increase of 71%. Unadjusted, BP posted a replacement cost profit of $2.47 billion, $0.72 per ADS, compared with a profit of $1.41 billion and a net profit per ADS of $0.43 in the first quarter of 2017.

After adjusting for non-operating items and fair value accounting effects, underlying replacement cost profit before interest and tax for the segment was $3,157 million, considerably higher than $1,370 million in the year-ago quarter.

The company’s upstream division posted its strongest quarter since the third-quarter of 2014. Unadjusted replacement cost profit totaled $3.16 billion, compared with $1.37 billion in the year-ago quarter. U.S. profit totaled $526 million, compared to $166 million in the first quarter of last year, and non-U.S. profit rose from $1.2 billion to $2.63 billion.

Downstream profits (Underlying RC profit before interest and tax) improved to $1,826 million from $1,742 million in the year-ago quarter. The lubricants business reported an underlying replacement cost profit before interest and tax of $331 million for the first
quarter, compared with $393 million for the same period in 2017. The result for the quarter reflects continued premium brand growth, more than offset by the adverse lag impact of increasing base oil prices.

The Rosneft segment recorded profits of $247 million, up from $99 million a year ago.

Cash flow from operations, excluding payments related to spill, was $5.4 billion in the first quarter. The company paid out $1.6 billion on a pretax basis for the Deepwater Horizon disaster, including a final $1.2 billion payment to the U.S. Department of Justice. Payments are expected to be just over $3 billion in 2018, weighted to the first half of the year.

BP said the outlook for the second quarter calls for seasonally higher industry refining margins but lower discounts for North American heavy crude oil. BP also expects a significantly higher level of turnaround activity.

Valvoline

Valvoline Inc. last Wednesday reported financial results for its second fiscal quarter ended March 31, 2018.

Reported second-quarter 2018 net income was $67 million. The results included after-tax income of $7 million related to non-service pension and other post-employment benefit (OPEB) income and after-tax expenses of $6 million for legacy and other separation-related costs and $2 million related to

U.S. tax reform.

Reported second-quarter 2017 net income was $71 million, which included after-tax income of $10 million related to non-service pension and OPEB income and after-tax expenses of $4 million for legacy and other separation-related costs.

Adjusted second-quarter 2018 net income, excluding the impact of tax reform, pension income and legacy and other separation-related costs, was $68 million, compared to adjusted net income of $65 million in the prior year period.

Second-quarter results were driven by the ongoing strength of SSS (same store sales) in VIOC and strong margin and joint venture performance in International, which were partially offset by weaker Core North America branded volumes and margin. Adjusted EBITDA of $122 million grew 6 percent compared to the prior year period.

Core North America's total lubricant volume at 24.6 million gallons. was flat in the quarter, resulting from gains in non-branded volume, offset by a modest decline in branded volume. The decline in branded volume was in the DIY channel. Branded premium mix continued to improve, increasing by 320 basis points to 49.7 percent. Benefits of premium mix and pricing actions were offset by transitory items, including the timing of promotional expenses, costs related to the transition to new packaging and negative price-cost lag. These factors, combined with unfavorable channel mix, led to the decline in segment profitability. Operating income declined 19% to $46 million, EBITDA declined 17% to $50 million.

Quick Lubes VIOC SSS increased 9.6% overall, 11.2% for company-owned stores and 8.5% for franchised stores. Operating income grew 23% to $38 million and EBITDA grew 28% to $46 million. VIOC ended the quarter with 1,141 total stores, a net increase of 2 during the period and 33 over the prior year. The Quick Lubes operating segment, a key growth engine for the company, had an exceptional quarter. Growth in SSS was the result of both increased transactions and average ticket. Transactions benefited from the strength of VIOC's ongoing customer acquisition and retention programs, while pricing and record premium mix in the quarter were the primary drivers of improvements in average ticket.

Sales and segment EBITDA growth were driven by increased SSS and the addition of 33 net new stores as compared to the prior year, as well as the acquisition of 56 franchise locations in the first quarter.

Innational Lubricant volume grew 1% to 15.0 million gallons, 3% including unconsolidated joint ventures. Lubricant volume from unconsolidated joint ventures grew 5%, to 9.6 million gallons. Operating income grew 33% to $24 million, EBITDA grew 37% to $26 million. International segment EBITDA grew $7 million in the quarter, with $5 million resulting from pricing actions, improved margins and strong performance from our joint ventures in India and China, along with a $2 million benefit from foreign exchange. Volume grew modestly compared to strong volume in the prior year period, although less than the company's long-term growth expectations. Valvoline anticipates stronger second-half volume, leading to mid-single digit volume growth for the full year.

FUCHS PETROLUB

FUCHS PETROLUB increased its sales revenues by 4% to EUR 643 million in the first quarter of 2018 compared with EUR 618 during the 2017 first quarter. The Group grew organically by 10%, mainly driven by volume. All three regions of the world contributed. As a result of the strong euro, there was a negative currency effect of -6% regarding translation into the Group currency.

The income statement for the first quarter was also significantly impacted by the effects of the exchange rate development. EBIT was therefore below previous year's level by 2% at EUR 92 million. Earnings after tax climbed to EUR 67 million compared with EUR 66 during the 2017 first quarter, due to a decrease in the tax rate.

At EUR 21 million (compared with EUR 42 million during the 2017 first quarter), free cash flow before acquisitions was lower than in the previous year as expected. Main reason is the higher amount of funds tied up in working capital as a result of increased business volume.

The Europe region posted organic growth in almost all countries. Sales revenues rose by 8% to EUR 396 million (compared with EUR 368 million during the 2017 first quarter). With organic growth in sales revenues of 18%, the Asia-Pacific, Africa region saw the strongest growth in relative terms.

This was countered by a significant negative currency translation effect of -8%. Overall, the region therefore grew by 10% to EUR 199 million (compared with EUR 181 million during the 2017 first quarter). The North and South America region posted pleasing organic growth (+7%), particularly in North America. Sales revenues in the region declined by 9% overall to EUR 95 million (compared with EUR 104 million during the 2017 first quarter) due to currency impacts.

The EBIT development was also impacted by negative currency translation effects outside Europe. EBIT in the Europe region increased by EUR 3 million to EUR 49 million (compared with EUR 46 million during the 2017 first quarter). By contrast, EBIT in the Asia-Pacific, Africa region fell by EUR 1 million to EUR 33 million (compared with EUR 34 million during the 2017 first quarter) and in the North and South America region it declined by EUR 3 million to EUR 14 million compared with EUR 17 million during the 2017 first quarter.

"Operationally, we started good in the year 2018. We generated significant increases in sales volumes and sales revenues and exceeded the previous year's EBIT after adjusting for currency effects. Sales revenues and earnings were significantly negatively impacted by the exchange rate development in the first quarter. This effect will diminish most likely over the course of 2018. In the coming quarters, we continue to expect strong growth in sales revenues and a positive earnings development. We confirm our forecast for the full year for sales and earnings growth," states Stefan Fuchs, Chairman of the Executive Board of FUCHS PETROLUB SE.

The outlook for the entire year is confirmed. FUCHS PETROLUB is anticipating growth in sales revenues of between 3% and 6% and an increase in EBIT of between 2% and 4%. The Group expects the negative currency effect to weaken over the course of the year. With investments of around EUR 140 million, the planned expansion of capacities will be continued.

HollyFrontier

HollyFrontier last Thursday reported first quarter net income attributable to HollyFrontier stockholders of $268.1 million for the quarter ended March 31, 2018, compared to a net loss of $45.5 million for the quarter ended March 31, 2017.

The first quarter results reflect special items that collectively increased net income by a total of $130.8 million. These items include a lower of cost or market inventory valuation adjustment that increased pre-tax earnings by $103.8 million, a $71.7 million reduction to RINs costs as a result of our Cheyenne refinery's small refinery exemptions for the 2015 and 2017 calendar years and a charge of $3.6 million for integration costs related to the 2017 Petro-Canada Lubricants Inc. acquisition.

Excluding these items, net income for the current quarter was $137.3 million compared to a net loss of $33.4 million for the first quarter of 2017, which excludes an inventory valuation adjustment, PCLI acquisition and integration costs, incremental cost of products sold attributable to our PCLI inventory value step-up, a gain on foreign currency swap contracts that fixed the USD/CAD conversion rate on our PCLI purchase price and a loss on early extinguishment of debt. Collectively, these items decreased prior year earnings by $12.0 million. Adjusted for these items, net income increased $170.7 million compared to the same period of 2017 due to higher sales volumes and margins in the company's refining business as well as a full quarter contribution from its PCLI acquisition. Total operating expenses for the quarter were $320.3 million compared to $307.7 million for the first quarter of last year.

Lubes and Specialty Products segment reported EBITDA of $41.7 million, driven by strong Rack Forward sales volumes and margins. Rack Forward EBITDA was $56.0 million for the quarter and HollyFrontier continues to expect Rack Forward EBITDA in the $180.0 million to $200.0 million range for 2018.

In the fourth quarter of 2017, HollyFrontier revised its reportable segments to align with certain changes in how its chief operating decision maker manages and allocates resources to its business. Accordingly, the company's Tulsa refineries' lubricants operations, previously reported in the Refining segment, are now combined with the operations of its Petro-Canada Lubricants business (acquired February 1, 2017) and reported in the Lubricants and Specialty Products segment. Segment information for the three months ended March 31, 2017 has been retrospectively adjusted to reflect the current segment presentation.

Our operations are organized into three reportable segments, Refining, Lubricants and Specialty Products and HEP. Our operations that are not included in the Refining, Lubricants and Specialty Products and HEP segments are included in Corporate and Other.

HollyFrontier's Lubricants and Specialty Products segment involves PCLI's production operations, located in Mississauga, Ontario, that include lubricant products such as base oils, white oils, specialty products and finished lubricants and the operations of its Petro-Canada Lubricants business that includes the marketing of products to both retail and wholesale outlets through a global sales network with locations in Canada, the United States, Europe and China. Additionally, the Lubricants and Specialty Products segment includes specialty lubricant products produced at theTulsa Refineries that are marketed throughout North America and are distributed in Central and South America.

Marathon Petroleum Acquires Andeavor, Becomes Largest U.S. Crude Oil Refiner

Marathon Petroleum Corp. and Andeavor (previously Tesoro) last Wednesday announced that they have entered into a definitive merger agreement under which MPC will acquire all of Andeavor's outstanding shares, representing a total equity value of $23.3 billion and total enterprise value of $35.6 billion, based on MPC's April 27, 2018, closing price of $81.43. This deal makes the combined company the largest crude oil refiner in the United States with a refining capacity of 2.9 million barrels per calendar day. Prior to this acquisition, Valero was the largest crude oil refiner, with Marathon second. Tesoro Corp. changed its name to Andeavor on August 1, 2017, following the completion of its acquisition of Western Refining last year. The Western Refining acquisition added 246,015 bpcd of oil refining capacity to Tesoro, raising its total oil refining capacity to 1.109 million bpcd. Andeavor operates 10 refineries in the mid-continent and western United States. The headquarters will be located in Findlay, Ohio, and the combined business will maintain an office in San Antonio, Texas. At closing, Greg Goff, Andeavor chairman and chief executive officer, will join MPC as executive vice chairman. The transaction was unanimously approved by the board of directors of both companies and is expected to close in the second half of 2018, subject to regulatory and other customary closing conditions, including approvals from both MPC and Andeavor shareholders. "This transaction combines two strong, complementary companies to create a leading U.S. refining, marketing, and midstream company, building a platform that is well-positioned for long-term growth and shareholder value creation," said Gary R. Heminger, MPC chairman and chief executive officer. "Each of our operating segments are strengthened through this transaction, as it geographically diversifies our refining portfolio into attractive markets, increases access to advantaged feedstocks, enhances our midstream footprint in the Permian basin, and creates a nationwide retail and marketing portfolio that will substantially improve efficiencies and enhance our ability to serve customers." "Importantly, we expect this transaction will be meaningfully accretive for shareholders, generating approximately $1 billion of tangible annual run-rate synergies within the first three years and significantly enhancing our long-term cash flow generation profile," said Heminger. "Given the confidence in the robust cash flow expected to be generated by the combined business, our board also authorized an incremental $5 billion of share repurchases. As a combined company, we will continue our balanced approach to investing in the business and returning cash to our investors, while maintaining our commitment to an investment-grade credit profile." At closing, Greg Goff, Andeavor chairman and chief executive officer, will join MPC as executive vice chairman. As executive vice chairman and an executive of MPC following closing, Goff will provide leadership and be integrally involved in the strategy for the combined company. Goff, along with three other Andeavor directors, will also join the board of directors of Marathon Petroleum. "With significantly increased scale, a strong platform for our midstream businesses and a leading nationwide retail and marketing distribution portfolio, the combined company presents tremendous value enhancement and growth opportunities for all shareholders," said Goff. "This strategic combination provides our shareholders with a premium for their shares and the opportunity to benefit from substantial future value creation at MPC. As the largest refiner by capacity in the U.S., with a best-in-class operating capability and a strong capital structure, the combined company will be exceptionally well-positioned to deliver on its synergy and earnings targets. We look forward to working together to deliver on the full potential of this powerful combination." According to the Energy Information Administration, the official energy statistics from the U.S. Government, the below lists the largest U.S. crude oil refining companies and their total refining capacities in bpcd as of January 1, 2017. VALERO ENERGY CORP 2,180,300 MARATHON PETROLEUM CORP 1,817,000 EXXON MOBIL CORP 1,725,400 PHILLIPS 66 COMPANY 1,615,200 MOTIVA ENTERPRISES LLC 1,056,386 CHEVRON CORP 908,771 TESORO CORP 863,600* (named Andeavor as of August 1, 2017) PBF ENERGY CO LLC 843,100 PDV AMERICA INC 758,440 BP PLC 647,000 *The Western Refining acquisition added 246,015 bpcd of oil refining capacity to Tesoro, raising its total oil refining capacity to 1.109 million bpcd, making it the fifth largest refiner.

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Lube Base Oil Price Report

During this past week, Calumet, Excel Paralubes, ExxonMobil, HollyFrontier, Petro-Canada, Flint Hills Resources and Kleen Performance Products announced paraffinic lube base oil price increases, while San Joaquin Refining announced a price increase of its naphthenic base oil.

Details are as follows:

Paraffinic

- Calumet to Increase Prices of All Calpar Group I and II Base Oils up to 325 SUS by 20 CPG and Those Heavier Than 325 SUS by 10 CPG Effective May 9, 2018
- Excel Paralubes Increased Posted Prices of Its Group II Pure Performance 70N and 80N by 19 CPG, Its 110N by 21 CPG, Its 225N by 20 CPG, and Its 600N by 10 CPG Effective May 3, 2018
- HollyFrontier Increased Its SN 70 – SN 350 by 20 CPG and SN 500 - SN 150 BS by 15 CPG, Effective May 2, 2018
- Petro-Canada Increased Its Group II Postings; 70-200N by 20 CPG by 20 CPG and 350-600N by 15 CPG Effective May 2, 2018
- ExxonMobil to Increase Its Group I and Group II/II+ Light and Mid-Viscosity Grades by 15 CPG and Its Heavy-Viscosity Grades and Bright Stock by 10 CPG Effective May 14, 2018
- Flint Hills Resources Increased Prices of Its (API Group II) 70/75-HC by 19 CPG, 100-HC by 21 CPG, 230-HC by 20 CPG and 600-HC by 10 CPG Effective May 3, 2018
- Kleen Performance Products Increased Its RHT70, RHT120 and RHT240 Group II/II+ Base Oils by 20 CPG Effective May 7, 2018

Naphthenic

San Joaquin Refining to Increase Its Naphthenic Base Oils by Up to 20-25 CPG Depending on Location Effective May 8, 2018

During the previous week, the following base oil producers announced price adjustments as follows:

- Chevron Increased Prices of Its USGC 100R and 220R by 20 CPG and 600R by 10 CPG, Effective April 25, 2018
- Ergon Increased Prices of All Viscosities of Naphthenic Oils in North American by 20 CPG, Effective May 2
- Cross Oil Increased All Naphthenic Base Oil Prices by 20 CPG Effective May 7, 2018
- Calumet Increased All Its Naphthenic Base Oil Prices by 20 CPG, Effective May 9,

West Texas Intermediate futures settled at $69.72 per barrel on the CME/Nymex on Friday, May 4, 2018, while Brent settled at $74.87/bbl on the CME on May 4, 2018.

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