FOUNDATION INVESTING

LONG PARR – 11/20/15

PAR PACIFIC HOLDINGS, INC.

SUMMARY

Par Pacific Holdings (PARR) is a great long term value play in this weakening oil environment. As an oil and natural gas refiner, PARR is one of the few in the energy space that actually benefits from declining oil prices. It also helps that most of its business comes from Hawaii, where refinery products fetch the highest prices in the country. On top of that, PARR is sitting on a goldmine of tax shelters that will shield its profits for years to come. Its story is compelling enough to have some of the biggest names in the hedge fund world backing it, including the legendary Sam Zell. We plan to buy and hold PARR until its price action says otherwise.

Total Risk: 45 BPS	**Target 1: $33.84**
Entry Point: $28.00	**Risk Point: $25.00**

MACRO VIEW

Our view on the oil situation has not changed. We still believe prices will fall another 50% this year. The massive deleveraging in emerging markets (especially China) and a strengthening dollar support this. Oil will likely return to its long term average in the $15-35/bbl range. For more on our thoughts on oil, check out our recent crude oil report here.

Why does a refiner like PARR enjoy lower oil prices?

It's because their inputs become cheaper. Refiners are in the business of buying raw oil and turning it into products consumers can use. These products include gas, diesel, and many others. Lower oil prices result in cheaper inputs for PARR. Cheaper inputs mean a lower cost of production. And of course lower costs lead to a fatter bottom line.

PARR is able to take this cheap oil, refine it, and then sell its products (like gas) for a high price. But at this point you're likely wondering: don’t things like gas prices drop along with the price of oil? Well, yes. They do. But not as fast.

To get a bit technical, the difference between the price of raw oil and its refined products is called the crack spread. The bigger the difference in prices, the wider the crack spread. Now normally the price of refined products like gas lag behind the price of oil. So when oil prices drop, gas prices don't follow right away. They take some time to adjust. And this time lag is enough for refiners to profit from the price differential.

This is especially true for PARR, whose main business is in Hawaii. PARR is the largest fuel supplier in Hawaii and derives a majority of its revenues from there.

Hawaii is special for a few reasons. One, they have the highest gas prices in the U.S. This is due to their tourism based economy. Hawaii has multiple "peak seasons" because of the inflow of tourists many times a year. And as you know, tourists are always willing to spend more money on vacation. So this gives gas stations in Hawaii the pricing power to charge whatever they want. And of course they choose to keep their prices high.

The state of Hawaii itself also generates a majority of its power from refinery products. Couple this with the military bases in the region and you have demand coming from every which way. This type of environment keeps PARR's personal crack spread even wider than other refiners. And a wider crack spread equals wider profits margins.

CONVICTION LEVEL: **LOW = 15 BPS**

FUNDAMENTAL VIEW

PARR is backed by multiple hedge fund titans who together hold more than half the company's shares. Sam Zell is the largest holder. Zell is a billionaire value investor who has made a habit of finding beaten down companies, cleaning them up, and then investing in them for decades at a time. PARR has also been taken under the wing of Whitebox Advisors, PARR's second largest holders. They, like Zell, have been extremely successful in the past.

One of the main reasons the big boys are in this play is because of PARR's massive NOLs. An NOL is a Net Operating Loss. These losses can be carried from quarter to quarter to offset any profits a company generates. This means PARR can use its NOLs to hide its profits from the taxing hands of Uncle Sam. NOLs are basically a tax shelter.

As we said before, PARR has a massive amount of NOLs. Well, massive may be an understatement because PARR has $1.4 billion worth of them! PARR's entire market cap is only about $1 billion which means they have more NOLs than what they are even worth. Talk about hidden value…. PARR will be able to make tax free profits for years to come. And we all know there's nothing sweeter than (legally) avoiding the tax man.

PARR's more recent earnings report also shows it beating estimates. Most of this was due to a strong performance in its refinery margins (thanks to lower oil prices). PARR was also able to increase the amount of refinery products produced and sold. This helped add to its bottom line. Clearly Zell and friends are driving PARR in the right direction in the wake of the oil collapse.

CONVICTION LEVEL: **LOW = 15 BPS**

TECHNICAL VIEW

PARR is breaking out of a rounding bottom dating back to April of this year. The volume on the day of the breakout (11/18) was 72% above the average 50 day volume. This is a strong breakout and an extended move up is highly probable.

CONVICTION LEVEL: **LOW = 15 BPS**

RED TEAM

There is a possibility that oil prices rebound. If this happens, the crack spread will tighten. This will result in PARR losing some of its advantages from declining oil prices. But even if this does occur, a rally in oil will likely be short lived. The long term trajectory of oil is still down. PARR's stock price may react to higher oil prices by falling, but even so, both the recent breakout and our risk point are strategic enough to protect us. We shouldn't be knocked out of our position if there is indeed a temporary pullback in price.