TRANSCRIPT
Q1 2017 EARNINGS CONFERENCE CALL

PHILLIPS 66 (NYSE: PSX)
April 28, 2017 at 12 p.m. EDT

PHILLIPS 66 PARTICIPANTS

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Greg C. Garland, Chairman and Chief Executive Officer

Kevin J. Mitchell, Executive Vice President and Chief Financial Officer

Tim G. Taylor, President

MEETING PARTICIPANTS

Doug Terreson, *Evercore ISI*

Justin Jenkins, *Raymond James*

Phil Gresh, *JPMorgan*

Edward Westlake, *Credit Suisse*

Paul Cheng, *Barclays*

Neil Mehta, *Goldman Sachs*

Paul Sankey, *Wolfe Research*

Doug Leggate, *Bank of America Merrill Lynch*

Brad Heffern, *RBC Capital Markets*

Blake Fernandez, *Scotia Howard Weil*

TRANSCRIPT

Operator

Welcome to the First Quarter 2017 Phillips 66 Earnings Conference Call. My name is Krista and I will be your Operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. Please note that this conference is being recorded.

I will now turn the call over to Jeff Dietert, Vice President, Investor Relations. Jeff, you may begin.

Jeff Dietert - Phillips 66 - Vice President, Investor Relations

Good morning and welcome to the Phillips 66 First Quarter Earnings conference call. Participants on today's call will include Greg Garland, Chairman and CEO; Tim Taylor, President; and Kevin Mitchell, Executive Vice President and CFO. The presentation material we will be using during the call today can be found on the Investor Relations section of the Phillips 66 website along with supplemental financial and operating information.

Slide 2 contains our Safe Harbor statement. It is a reminder that we will be making forward-looking statements during the presentation and our question and answer session. Actual results may differ materially from today's comments. Factors that could cause actual results to differ are included here as well as in our SEC filings.

With that, I'll turn the call over to Greg Garland for some opening comments.

Greg C. Garland - Phillips 66 - Chairman and Chief Executive Officer

Thanks, Jeff. Good morning everyone. Thanks for joining us today. Before we get started I'd like to welcome Jeff Dietert to the Phillips 66 team. Jeff, we're really glad that you're with us today.

During the quarter, we successfully completed several major turnarounds in Refining and Chemicals. This represents our highest level of turnaround activity in a quarter since the formation of our company. Our first quarter earnings largely reflect the impact of this down time, but also highlight the benefit of our diversified and engraved portfolio.

Our Chemicals business had solid results on strong demand and improved margins. We continue to successfully execute our Midstream growth program. Several of the largest projects we've been investing in over the last few years have now been completed or are almost complete. The LPG Export Terminal at Freeport, Texas, which is part of our Sweeny Hub Complex, was completed late last year. The facility operated at design capacity in the first quarter and we're supplying customers in Europe, Latin America and Asia.

We're currently evaluating opportunities to build additional fractionation capacity at Sweeny and other Gulf Coast locations, and we expect to reach FID later this year.

Construction on the Dakota Access/ETCOP pipelines is complete. Line fill is nearly finished and we expect these pipelines to begin delivering Bakken crude to the Midwest and the Gulf Coast by June. Phillips 66 has a 25% interest in both of these lines.

Our Beaumont Terminal expansion is ongoing. Recently, we added 2 million barrels of contracted crude storage. This morning, we FID'd additional five crude tanks which will add another 2 million barrels of contracted crude storage by 2018. By mid-year, we expect to add another 1.2 million barrels of product storage. As crude and product exports grow, Beaumont is well positioned to generate additional earnings.

Phillips 66 Partners remains an important part of our Midstream growth strategy. We expect Partners to reach its growth goal of $1.1 billion in run rate EBITDA by the end of 2018. In addition to dropdowns to the Partnership, PSXP is pursuing a number of organic growth initiatives. Progress continues on Partners' Bayou Bridge JV pipeline, which currently runs from our Beaumont Terminal to Lake Charles, Louisiana. The line is also being extended from Lake Charles to St. James.

Earlier today, the development of a new isomerization unit was announced by Phillips 66 Partners. This project will provide fee-based earnings to the Partnership and will increase the Lake Charles Refinery's production of higher octane gasoline blend components.

DCP Midstream simplified its corporate structure in January. The new structure better positions DCP for growth and improved capital allocation. DCP has successfully reduced its operating cost and returned to profitability. We expect to see distributions from DCP in the second quarter.

In Chemicals, CPChem is advancing the U.S. Gulf Coast Petrochemicals Project. The polyethylene units are on track to complete midyear and the ethane cracker in the fourth quarter of 2017. We expect CPChem distributions to improve significantly with earnings contributions from these assets and reduced capital spending once the project is completed.

In Refining, we are pursuing high-return, quick payout projects. At the Billings Refinery, we are increasing heavy crude processing capability 100%. This project is expected to be finished later this quarter. At Bayway and Wood River refineries, we're modernizing FCC units to increase clean product yield. Both of these projects are expected to complete in the first half of 2018.

We continue to maintain our commitment to our distributions to our shareholders. During the first quarter we returned over $600 million to shareholders in the form of dividends and share buybacks. We remain committed to our strategy, executing our growth plans, enhancing returns and rewarding our shareholders. The projects we have coming online, they're well positioned to increase cash flow. We believe our integrated downstream portfolio remains a differentiating factor that provides upside in a rising U.S. production environment.

Before I turn the call over to Kevin to review the financial results, I'd just like to note that Monday will be our fifth year anniversary as a company. I want to thank all of our employees, contractors, business partners, the communities where we live and work as well as the owners of our company and our board who have all enabled us to accomplish so much in these first five years. Kevin?

Kevin J. Mitchell - Phillips 66 - Executive Vice President and Chief Financial Officer

Thanks, Greg. Good morning. Starting on Slide 4, first quarter earnings were $535 million. We had two special items that netted to a benefit of $241 million. In Refining, we recognized a $261 million gain from the consolidation of the Merey Sweeny LP coking venture following the resolution of an ownership dispute. In Chemicals, we had a $20 million charge related to an impairment of a CPChem joint venture. After removing these items, adjusted earnings were $294 million or $0.56 per share.

Cash from operations for the quarter was negative $549 million. This includes a negative $1.3 billion working capital impact. Excluding working capital, cash from operations was $748 million.

Capital spending for the quarter was $470 million with approximately $270 million spent on growth. Distributions to shareholders in the first quarter totaled $611 million, including $326 million in dividends and $285 million in share repurchases.

We finished the quarter with a net debt-to-capital ratio of 27%. Our adjusted effective income tax rate was 21%, reflecting a higher than typical proportion of our earnings from lower tax jurisdictions.

Slide 5 compares first quarter and fourth quarter adjusted earnings by segment. Quarter-over-quarter adjusted earnings increased by $211 million, driven by improvements across all of our operating segments.

Slide 6 shows our Midstream results. After removing noncontrolling interest of $35 million, Midstream's first quarter adjusted earnings were $77 million, $44 million higher than the fourth quarter. Transportation adjusted earnings for the quarter were $56 million, up $12 million from the prior quarter, driven primarily by lower seasonal maintenance spend and increased equity earnings. In NGL, we had adjusted earnings of $4 million. This represented a $9 million increase and was largely driven by increased earnings from the Sweeny Hub assets. DCP Midstream had adjusted earnings of $17 million in the first quarter. The improvement over the fourth quarter reflects the benefit from hedges and lower operating costs, partially offset by reduced volumes.

Turning to Chemicals on Slide 7, first quarter adjusted earnings for the segment were $201 million, $77 million higher than the fourth quarter. In olefins and polyolefins, adjusted earnings increased by $56 million primarily due to improved margins, higher volumes driven by strong polyethylene demand and lower operating costs. Global O&P utilization was 89%, 3% higher than the prior quarter. Both periods were impacted by significant turnaround activity. Adjusted earnings for SA&S increased by $21 million due to higher margins and a gain on CPChem's sale of its K-Resin business.

In Refining, crude utilization was 84% for the quarter, comparable with our low 80s guidance. Pre-tax turnaround costs were $299 million. During the quarter we had major turnarounds at the Ferndale, Bayway, Lake Charles and Wood River refineries. Clean product yield was 85%, down slightly from the previous quarter. Realized margin was $8.55 per barrel, up $2.08 from the fourth quarter.

The chart on Slide 8 provides a regional view of the change in adjusted earnings. In total, the Refining segment had an adjusted loss of $2 million, a $93 million improvement from last quarter. Adjusted earnings in the Atlantic Basin were lower by $148 million. Market cracks decreased by 25% during the first quarter and capacity utilization fell to 70% from 102% as Bayway completed a major turnaround. This decrease in Atlantic Basin earnings was more than offset by improvements in the other regions, primarily due to improved margin realizations. In the Gulf Coast, market cracks were slightly higher in the first quarter versus the fourth quarter and capture rates improved to 75% from 45%. The increase in capture is largely due to better Clean Product differentials. This includes pricing on cyclohexane, propylene and benzene, as well as the absence of negative impacts from timing of product shipments made last quarter during a rising price environment. The improvement in the West Coast reflects higher volumes due to the completion of fourth quarter turnaround activity at the Los Angeles Refinery, along with higher margins. This was partially offset by a major turnaround at the Ferndale Refinery this quarter.

Slide 9 covers market capture. The 3:2:1 market crack for the quarter was $12.24 per barrel, compared to $12.10 in the fourth quarter. Our realized margin for the first quarter was $8.55 per barrel, resulting in an overall market capture of 70%, significantly higher than the 53% achieved in the prior quarter. Market capture is impacted in part by the configuration of our refineries. This quarter we made less gasoline and slightly more distillate than premised in the 3:2:1 market crack. Losses from secondary products of $2.66 per barrel were in line with the previous quarter despite rising crude costs as NGL and fuel oil prices increased. Feedstock advantage improved realizations by $1.58 per barrel, $0.14 per barrel less than the fourth quarter. The Other category mainly includes costs associated with RINS, outgoing freight, product differentials and inventory impacts. This category improved by $2.49 per barrel from the prior quarter, primarily due to wider Clean Product differentials and lower RINS costs.

Let’s move to Marketing and Specialties on Slide 10. Adjusted earnings for M&S in the first quarter were $141 million, similar to the fourth quarter. In Marketing and Other, the $10 million increase in adjusted earnings was largely due to higher realized margins despite negative impacts from lower RIN prices. Higher margins were partially offset by lower volumes. Specialties adjusted earnings decreased by $9 million, primarily due to turnaround activity at the Excel Paralubes joint venture which continued into the second quarter.

On Slide 11, the Corporate and Other segment had adjusted after tax net costs of $123 million this quarter, compared to $119 million in the fourth quarter. The increase in net costs reflects higher interest expense and lower capitalized interest due to project start-ups, partially offset by lower environmental accruals.

Slide 12 shows the change in cash during the first quarter. We entered the quarter with $2.7 billion in cash on our balance sheet. Excluding working capital impacts, cash from operations for the first quarter were $748 million. Working capital changes decreased cash flow by $1.3 billion, largely due to a seasonal inventory build. We funded $470 million of capital expenditures and investments and distributed over $600 million to shareholders in dividends and share repurchases.

We ended the first quarter with 516 million shares outstanding. We had $500 million of Other cash flows. This category includes loan repayments from our WRB and DAPL joint ventures.

At the end of the quarter, our cash balance was $1.5 billion.

This concludes my review of the financial and operational results. Next I'll cover a few outlook items.

In the second quarter in Chemicals, we expect the global O&P utilization rate to be in the mid-90s. In Refining, we expect the worldwide crude utilization rate to be in the mid-90s and before tax turnaround expenses to be between $130 million and $160 million. We expect Corporate and Other costs to come in between $125 million and $140 million after tax.

With that, we'll now open the line for questions.

Operator

Thank you. We will now begin the question and answer session. If you have a question, please press star, then one on your touch-tone phone. If you wish to be removed from the queue, please press the pound key. If you are using a speakerphone, you may need to pick up the handset first before pressing the numbers. Once again, if you have a question, please press star, then one from your touch-tone phone.

Doug Terreson is online with a question. Your line is now open.

Doug Terreson - Evercore ISI

Good morning everybody and congratulations on your strong results.

Greg C. Garland - Phillips 66 - Chairman and Chief Executive Officer

Thanks, Doug.

Doug Terreson - Evercore ISI

My question is on cash and specifically while there was a decline in the position in the quarter, seasonality is normally high in this area for you guys during the first quarter because of turnarounds and other factors too. So my question is do you expect the normal seasonal pattern of sources and uses of cash to repeat itself again in 2017 for the Company? Second, could you specify the factors that affected the change in working capital during the first quarter, which you showed one of the slides, and also just comment on whether or not they're going to recur in coming periods?

Kevin J. Mitchell - Phillips 66 - Executive Vice President and Chief Financial Officer

Yes, Doug. This is Kevin. You're right in terms of the seasonal comment. As we think about cash and working capital, where we ended the quarter, that $1.5 billion was actually right in line with our expectations. Our plan had us right at that level at the end of the first quarter. We typically have the seasonal inventory build in the first quarter and if you look back historically, typically the first quarter is a use of cash from a working capital standpoint and the normal kind of seasonal trends would apply. This time you had the increase in inventory which dominates that change in working capital and it's the normal seasonal effect, but also with a heavy maintenance turnaround schedule that we had you had some additional impact from that. We also had some DAPL line fill contributed to that also.

Then the other component from a working capital standpoint, because of the extent of the downtime which was weighted towards the end of the first quarter, so March was our highest downtime month, you actually had a bit of a rundown in payables over the course of the first quarter and so you expect that to come back. Actually, as we look at it, as of yesterday, sort of end of April, on an apples-to-apples basis, our cash balance is sitting at just over $2 billion so you've already seen some of that come back.

I wouldn't go so far as to say you can absolutely assume that the entire $1.3 billion comes back over the course of the year, but certainly some of it does.

Doug Terreson - Evercore ISI

Okay. Thanks a lot. That's very clear.

Operator

We have Justin Jenkins with Raymond James online with a question. Your line is open.

Justin Jenkins - Raymond James

Great, thanks. Good morning everyone. I guess I've got a couple on the Midstream front. Greg, you mentioned in your remarks that we've got a lot of assets at PSX that have recently reached completion or are about to, and all those look pretty attractive to move into PSXP, and then also presumably have a high tax basis making it attractive for PSX as well. I guess just from a high level, would those assets make sense as the next candidates for drop? Then would it also be reasonable to assume that a full quarter or two of operational data is maybe the hurdle before dropdowns?

Greg C. Garland - Phillips 66 - Chairman and Chief Executive Officer

Well, we like those assets obviously and they're certainly good candidates to drop at some point in time. We typically don't give guidance on what assets are coming next in terms of a drop, but certainly that's always the plan. Those assets someday will end up at PSXP in terms of the Midstream assets.

Justin Jenkins - Raymond James

Okay, great. That's helpful. Then on the Rodeo project proposed in the quarter, can we get a sense maybe on how that's progressing and maybe the strategy on building those type of Upstream-facing assets, whether at PSX or PSXP versus maybe looking at third party M&A opportunities?

Tim G. Taylor - Phillips 66 - President

This is Tim Taylor. Rodeo project is in the Permian and it's really a gathering system that we looked at, so we're already there operating and that with pipeline operations, so it's a nice way to extend what we have there. But it's also, as everyone knows, a very active basin now in terms of additional production so we're in those discussions with producers and I think there's a lot of opportunity with that and that will develop here over the next few months to see if it's a go-forward investment for us. I think it's just part of our extension of continuing to look for organic projects where we can in the growth basins or in the growth markets to build on our presence there.

Justin Jenkins - Raymond James

Great. Thanks, guys. Appreciate the color.

Operator

We have Phil Gresh with JPMorgan online with a question. Your line is open.

Phil Gresh - JPMorgan

Hey there, good afternoon. First question just on the Refining performance in the quarter. Kevin, you talked about the other bucket; which if I look at a couple of the regions of Atlantic Basin, Gulf Coast, it actually has been a positive contributor. Typically there's some amount of negative contribution there and you had mentioned RINs, so I'm just wondering if actually RINs was a positive in the quarter potentially?

Kevin J. Mitchell - Phillips 66 - Executive Vice President and Chief Financial Officer

No.

Phil Gresh - JPMorgan

One of your peers did mention this so I was just curious.

Kevin J. Mitchell - Phillips 66 - Executive Vice President and Chief Financial Officer

No, no, definitely not. RINs are still a reduction to the realized margin. It's just a less of a reduction with the RINs prices coming down over the period, but it is part of the improvement, the relative improvement quarter-over-quarter, and then the bigger items are the Clean Product differentials that I talked about, some of the non-gasoline distillate Clean Products, and also the absence of the timing effects on those product shipments from last quarter.

Phil Gresh - JPMorgan

Right, okay. Second question is just you're going to be running around 95% utilization in the second quarter, up from 84% in the first quarter. We're seeing several other companies in the industry talk similarly. Greg, I'm just wondering how you feel about the outlook for Refining margins as we move into the summer here? We're already starting to see build in product inventories and it just seems like these runs numbers are quite high, so curious what your view is.

Greg C. Garland - Phillips 66 - Chairman and Chief Executive Officer

Yes, I think we've always said that we felt like 2017 was going to look a lot like 2016, particularly in the front half of the year. We always had hope that the back half might clear and we'd see the opportunity for some margin improvement. I think you should also expect though, we've had significant turnaround activity in the industry and we always come up and everyone runs better. Assets are clean; they're ready to go and people are going to run. So, I think that coupled with—certainly through the first quarter and into early April on the demand side—it looks flattish to us at best on gasoline demand. Maybe distillate demand is going to be a little better.

I would say those are concerns for us as we think in the back half of the year. I think, Jeff, if you want to comment a little bit on the economy. I think we're getting more positive of an economy as we think about the back half of the year, maybe excluding the first quarter GDP results that came out this morning.

Jeff Dietert - Phillips 66 - Vice President, Investor Relations

Yes. GDP results were a little bit lower than the consensus, but there were a number of items worth highlighting. U.S. Consumer confidence was very high. The April number was the second highest since 2001. When you look at the U.S. manufacturing PMI statistics, they're at the high end of the five-year range. Business investment up 9% year-on-year; so some of the factors that drive gasoline demand and diesel demand have been strong domestically, and PMIs have been improving internationally across Europe and Asia as well.

Greg C. Garland - Phillips 66 - Chairman and Chief Executive Officer

Yes, I think our view—and the same thing in the petrochemicals business—we're seeing good, solid demand really globally in the petrochemicals business so you kind of factor in—we may actually have better economic conditions in '17 versus '16, and that should be a positive direction for us. You wanted to comment, Tim?

Tim G. Taylor - Phillips 66 - President

Yes. I just think on the demand side it's flattish. Our same side store sales when we look at the retail side of our business, the market side, we were down about 0.5% in the first quarter. I think we're really—what you have to see to balance the market is you've got to see some uptick now in the summer driving season and you've got to balance with some exports, and we've seen good demand there: but I think those are two key parts of how you get the demand to catch up with the supply piece, and that's going to be the critical variables that we watch going forward.

Phil Gresh - JPMorgan

Okay, thanks. Last question—go ahead.

Jeff Dietert - Phillips 66 - Vice President, Investor Relations

Also and then just—I just might mention the emphasis on exports as well. We had a very strong fourth quarter, 175,000 barrels a day of product exports. The first quarter number was 144,000 barrels a day, a little bit softer due to some maintenance at Alliance which is one of our major export facilities. But also, we're positioning the portfolio for continued export growth at Beaumont where we have 400,000 barrels a day going to 600,000 barrels a day of crude and product export capacity.

Phil Gresh - JPMorgan

Right, okay. Then just last question is just on the capital spending. The first quarter number was actually quite low and especially on Midstream, we haven't seen a number this low in a while. So, just curious how you're expecting that to progress. Do you expect the Midstream spend to start ramping up, or should we be thinking maybe that the guidance has some room to come down?

Greg C. Garland - Phillips 66 - Chairman and Chief Executive Officer

I wouldn't annualize that first quarter number, certainly. It's clear we finished the heavy lifting around the Sweeny Hub project, and I think purposely as we thought about the 2017 capital budget we built in quite a bit of flexibility. We had some concerns over margins and cash generation in 2017, so we left ourselves a lot of flexibility this year to adjust CAPEX if needed. But I do think that we're still guiding to the 2.7 today. Midyear we'll give you an update on that, but we have a lot of good opportunities. If you think about FID and the frac, but we've always thought that would be the back half of the year, and so I think you'll see things pick up, Phil.

Phil Gresh - JPMorgan

Okay. Thanks a lot, Greg.

Greg C. Garland - Phillips 66 - Chairman and Chief Executive Officer

You bet.

Operator

Ed Westlake is online with a question with Credit Suisse. Your line is open.

Ed Westlake - Credit Suisse

Yes, good morning. Thanks for your time this morning. Just on the Chemicals, obviously one of the big, big drivers of the improvement in cash flow as you look into 2018 is going to be not spending on the cracker and getting your share of the EBITDA and then distributions. Maybe just a reminder of just sort of the latest thoughts on CAPEX in '17 and then '18 at CPChem, and then a question on how the process is of distributions. Presumably there will be a board meeting at some point early next year and if the cracker is up and running you'll decide to increase distributions. Maybe some color there? Thank you.

Greg C. Garland - Phillips 66 - Chairman and Chief Executive Officer

CPChem's budget this year is $1.375 billion, and I think they're probably going to be right on top of that number it looks like to us at this point in time, but that's down quite a bit, about $600 million from last year. So, certainly we're finishing up the polyethylene unit; the cracker will be towards the end of the year as we finish that up.

That should generate between $1.2 billion and $1.4 billion midcycle at the CPChem level, so we're anxious to see that. I mean, the policy of CPChem is essentially to distribute the cash. I mean, we pay all the expenses but then most of the cash gets distributed. I think the—I mean the question a lot of people have is when's the second cracker coming, and I suspect that we would not FID the second cracker in 2018. It could be towards the end, or 2019 is what we're looking at right now.

Our expectation is we'll have a full year of 2018 cash flow out on the new project, and Tim, you may want to comment on timing.

Tim G. Taylor - Phillips 66 - President

Yes. So, as we look at the Gulf Coast project, as Greg alluded to in his comments, the polyethylene unit completes this summer. We should start to see the earnings impact on those derivatives in the third and fourth quarters; you've got to get through the start-up piece of that. Then the cracker completing late in the year in the fourth quarter we'll really see the earnings for the full stream really come on in the first half of '18 to hit that run rate EBITDA, but I think we've got a very strong possibility that we've got much increased cash flow that translates back to distributions to the owners.

Kevin J. Mitchell - Phillips 66 - Executive Vice President and Chief Financial Officer

Yes. Ed, this is Kevin. I would just add we are expecting distributions from CPChem this year. We haven't had discretionary distributions in a little while but we are anticipating some of that starting this year. Obviously that will increase quite a bit next year with the combination of capital coming down and the EBITDA from the new project.

Ed Westlake - Credit Suisse

Then one for Tim. Just on, always good color on the NGL on exports. Maybe we just need higher prices, but it does feel like there's going to be a wall of NGLs coming and so there should be some excess return from the infrastructure you're putting in, but any comment on the current market conditions would be helpful.

Tim G. Taylor - Phillips 66 - President

Yes. Look, it's been interesting. In the first quarter the LPG markets in general, whether it be ethane, propane, butane, have really entered into the cracking slate so fairly—some variability during the quarter in each of those components being favored, so that kind of added some demand on the propane/butane side. We've continued to export very heavily as an industry, almost a million barrels a day of propane, and so we've seen inventories fall; and so I think the demand side has been really strong. The challenge is we need more supply from our perspective to really load that; but the high propane price has narrowed the ARB into the various markets so that continues, but we need to see more volume supply side to really widen that and a little bit higher crude price.

I think as we look forward, we think NGLs will continue to come onstream, based on what we see, building into '18, but we think in front of that in '17 we would expect the international ARB to be a bit narrower until we get that piece sorted out. But overall, we're seeing a lot of production opportunity developing and that's why it still gives us a very bullish case we believe long term on the NGL supply Chemicals production here, as well as exports out of the U.S.

Edward Westlake - Credit Suisse

Very helpful. Thank you.

Operator

Paul Cheng with Barclays is online with a question. Your line is open.

Paul Cheng - Barclays

Hey, guys, good morning, or good afternoon from New York.

Greg C. Garland - Phillips 66 – Chairman and Chief Executive Officer

Yes. Hey, Paul.

Paul Cheng - Barclays

Tim, or Greg, you mentioned that the new cracker, once that is fully operational, the $1.2 billion to $1.4 billion in EBITDA mid-cycle. How you define is mid-cycle, and if you can tell us maybe the other way, is that you if base it on first quarter market conditions, what that EBITDA contribution may look like?

Tim G. Taylor - Phillips 66 - President

Yes. So, that cracker is about 3.3 billion pounds a year of ethylene. So, very simply, if you think that the first quarter cash margins in that low 30 cents per pound range. So, when you multiply that out, you get about a billion dollars at today's conditions, maybe slightly more; and as we think longer term, we think, with continued low ethane pricing, improvements strengthening crude, that that comes up another, you know, into the mid-cycle range, in the mid-30s, which drives the 1.2 to 1.4.

Paul Cheng - Barclays

So, based on the first quarter, it's about a billion dollars, and that's the ethylene and polyethylene?

Tim G. Taylor - Phillips 66 - President

Yes, that's the full chain. So, that's polyethylene plus the ethylene.

Paul Cheng - Barclays

Mm-hmm, okay. Tim, do you have maybe some number you can share about the LPG export terminal and the NGL fractionator? What's the run rate in the first quarter, and what kind of EBITDA contribution they may be?

Tim G. Taylor - Phillips 66 - President

So, the LPG export terminal, we ran it—eight cargoes a month is kind of what we define as capacity, we hit that, but overall utilization was in the 90% range, a little bit higher. The fractionator, we were still running in the mid-80s, 80,000 barrels a day, and 100,000 barrels a day. We've just recently been successful optimizing that unit with right around 100,000 barrels a day at capacity. So, I think we continue to find ways to improve and optimize around the asset. I think the run rate EBITDA, I'd still say, you know, very definitive on ARB, but we're somewhere in the range—if you look at the total, we're probably still in the range of around $200 million for the year, I would say, in these current market conditions, just because the differentials between the U.S. and Asia and Europe are expected to remain pretty narrow.

Paul Cheng - Barclays

Mm-hmm. Kevin, the first quarter turnaround costs ended up to be lower than your previous guidance. Does it mean that for the full year we should correspondingly assume it is going to be lower by the same amount, or that the full year turnaround costs will still be about the same?

Kevin J. Mitchell - Phillips 66 - Executive Vice President and Chief Financial Officer

Paul, we haven't revised the full year guidance number, but it probably pushes you more to the lower end. We gave a pretty big range, $625 million to $675 million, and so realistically, it probably pushes you more to the lower end of that range.

Paul Cheng - Barclays

Or maybe let me ask it in this way. I mean, the lower in the first quarter turnaround costs is just because you guys have been doing a better job and coming in below the budget, and maybe even a little bit faster, not because that you had pushed some of the activity in the other quarters, right? Everything equal, you don't have costs overrun in the remaining of the year, that we should see the same amount of that come down in the full year, in theory?

Kevin J. Mitchell - Phillips 66 - Executive Vice President and Chief Financial Officer

Right.

Paul Cheng - Barclays

Final question. Tim, for DAPL, with that up and running, does the pipeline operation in any shape or form change the way how you source your refinery crude or how you run your refinery, or that doesn't really impact you because that is not going all the way to Louisiana yet?

Tim G. Taylor - Phillips 66 - President

I didn't catch the last part of that, Paul, not going all the way?

Paul Cheng - Barclays

To Louisiana. Your refinery in the Gulf Coast is in Louisiana.

Tim G. Taylor - Phillips 66 - President

Well, you know, we've seen recently the disruption in heavy Canadian crude, that's put a call on the Bakken crude in the Norther Tier, so I think, as we think about DAPL start-up, we see pretty good pull on that supply generally. Certainly for some of our refining operation, that remains a very viable supply. You bring it to the Gulf Coast, you get to Beaumont. We've got the opportunity to get to Lake Charles. We're working on an extension to St. James. So I think then you now see light crude from North Dakota landing in the Gulf Coast, and you're going to see some rebalancing. So, I think, as we look at it, it all depends on the yield and the pricing, but we think Bakken will be an attractive supply crude within our system, particularly in Louisiana and Wood River, and some of our Mid-Con refineries. So I think from our standpoint, it's always good to have that extra option. And in the end, I think it helps rebalance the light sweet crudes on the Gulf Coast.

Paul Cheng - Barclays

But have you made any changes to your operations yet, or not really?

Tim G. Taylor - Phillips 66 - President

No. When we look at the Bakken, it's just really nothing required much there different from what we've run traditionally in a light crude unit.

Paul Cheng - Barclays

Okay. Thank you.

Operator

Neil Mehta with Goldman Sachs is online with a question. Your line is open.

Neil Mehta - Goldman Sachs

Hey guys, and Jeff, congratulations on the new role. It's great to have you on the other side.

Jeff Dietert - Phillips 66 – Vice President, Investor Relations

Thank you, Neil.

Neil Mehta – Goldman Sachs

I have a couple of questions on the crude side of the equation, and I guess the first is related to the OPEC cut and the potential extension later in May, and your thoughts on the impact of the reduction in OPEC supply on the light, heavy and the medium sour barrels for your coastal refineries.

Tim G. Taylor - Phillips 66 - President

Yes, on the OPEC, we're still seeing evidence of good compliance from the standpoint of OPEC reducing that. It's certainly impacted the supply of medium and heavy sour crudes. Then you've had the Canadian crude outage, as well. So, that alone has kind of bid up, if you will, the price of the heavy medium sours, and then you put increased production of light crudes in the U.S. on top of that, and you've seen that narrow. So, our expectation is that this tightness lasts until Canadian crude comes back on, widens out a bit, but depending on how much OPEC continues with the cut, that could continue to keep that differential tighter, but maybe widening a bit with Canadian supply coming back. But I think generally, our view is it's still going to remain tighter than what it has been, say, for the last several years just because of the increased light and decreased supply of heavy sour.

Greg C. Garland – Chairman and Chief Executive Officer

I think our base case, though, assumes that there's extension on May 25, in terms of OPEC.

Neil Mehta - Barclays

Yes, it seems like we're lining up that way. The follow-up is just on U.S. oil production. As it continues to tick up, it feels like more of this light crude is coming down from the Gulf Coast, and there's increasing questions we're getting from investors about crude export capacity, and so it's more of a macro question for you guys. If the U.S. continues to grow at this 800,000 to 900,000 barrel a day annual pace, do you think we have enough crude export capacity on the Gulf Coast to clear the base and ultimately there's more crude export capacity to be built?

Tim G. Taylor - Phillips 66 - President

I think there's capacity today. We talked about Beaumont, Greg talked about that going to 600,000 barrels a day. You can always look at additional capacity there as well, and then you look around the system and, you know, as you start to get beyond that utilization, perhaps there's an opportunity. So, I think everyone is looking in the Texas Gulf Coast, Louisiana Gulf Coast, at ways to increase export capability. Our view would be, is you may get some shorter term tightness, but we'll probably find ways to continue to export should that continue to grow; but it's also an infrastructure opportunity, like what we're seeing around the Beaumont terminal.

Greg C. Garland - Phillips 66 - Chairman and Chief Executive Officer

I think our view—certainly, we've demonstrated we can export as an industry over a million barrels a day pretty efficiently. I think, you know, as you start approaching that 2 million barrel a day mark, though, I think there's going to be additional investment required is our view. The other issue is, I think we're probably the only facility that could really handle the big ones.

Tim G. Taylor - Phillips 66 - President

Correct.

Greg C. Garland - Phillips 66 - Chairman and Chief Executive Officer

Very large crude carriers. To my knowledge, I don't think there's any work going on there, thinking about turning that around and going the other way. So, I think there's going to be some additional infrastructure opportunities around crude exports out of the U.S. in the next couple of years, particularly as we see Permian light sweet ramping up, and all that's going to hit on the Gulf Coast.

Neil Mehta - Goldman Sachs

Thanks, Greg. Thanks, Tim.

Greg C. Garland - Phillips 66 – Chairman and Chief Executive Officer

Take care.

Operator

Paul Sankey with Wolfe Research is online with a question. Your line is open.

Paul Sankey - Wolfe Research

Hi everyone, and welcome to Jeff. Greg, excellent decision to hire a sell side oil analyst, probably wildly overpaid. If I could ask you a long-term strategy question, Greg. We know your view on refining. I'm certain that hasn't changed. When we think beyond the major project startups over the next year, where do you think the growth in the business—what's your view of how you'll generate growth? Is there going to be second major project that's been alluded to on this call? Thanks.

Greg C. Garland - Phillips 66 - Chairman and Chief Executive Officer

Yes, I think there'll be certainly opportunities. You're starting to see the second wave of crackers being planned in the U.S., and certainly we think that the feedstock will be there for another additional wave of crackers, and we want to be in that lineup ultimately with CPChem. I think there'll be continued opportunity for infrastructure around the crude and the product side, so I think midstream will certainly continue to be a growth vehicle for us and we'll continue to use the Master Limited Partnership to help fund that and be a part of that growth as we move forward, but I think in refining—I think refining is a good business. It's just long term, I just don't see it growing. I think that we've seen some decent gasoline demand growth over the last two years in the U.S., but ultimately I think there's just too many factors that are going to hit you, in terms of efficiencies of vehicles trending, in terms of vehicle ownership in the U.S., and how we do that. So, I actually think demand rolls at some point in the next couple of years in the U.S. and that we're going need less transportation fuels. So, I think exports are a really important part of that equation and you see us and many others gearing up to try and handle that, as we think a little differently about where our markets are going to be in the future. But really to invest in refining to add capacity still doesn't make sense to us. I think to invest to reduce your cost structure, gain access to advantaged crudes, improve some yields, those are all good investments that we should be making, and you'll see us continue to do that around refining.

Paul Sankey - Wolfe Research

Yes, that was where it started, where you finished, Greg, which is the export story. The U.S. exports on every level are way exceeding overall market growth. Where are we taking market share? I know part of it is poor refining operations in certain parts of the world, but I just wonder how we should think about the long-term potential of the market, when we must be making someone lose out somewhere, right?

Tim G. Taylor - Phillips 66 - President

Paul, it's Tim. I think, when you think about the Gulf Coast, with the types of assets they are, with access both inbound/outbound on product and crude, it's going to be really the place where you see the exports. That puts you naturally into Latin America, and you're right, there's been operating issues within that, but we're also competing directly, if you will, then, with the European refineries, and I think with the cost position that we have and the proximity to the market, I think that's where we continue to see it, and then West Africa continues to be a developing market, and growing that Atlantic Basin and the Gulf Coast will continue to serve. It's just a question of how much can those grow and where do the—who supplies the Asian demand, but it still feels to us like the Middle East and Northeast Asia are still going to be the big suppliers into Asia. That's quite a haul from the U.S. So I think logically the trade patterns start to sort out, that the export markets in U.S. will likely, largely, be in the Atlantic Basin.

Greg C. Garland - Phillips 66 - Chairman and Chief Executive Officer

The other thing, just not long-term, Paul, but maybe near-term, mid-term, probably 2018, certainly 2017, we see less refining capacity coming on globally than what we've seen in the past few years, and I think, in our balances, we've about 800 a day coming on in '17 and '18.

Paul Sankey - Wolfe Research

Yes, it's just interesting because ever since the export trend started, it's been surprising us to the upside and I'm slightly struggling to know how far it can go. It's obviously outright positive for you guys.

Just, if I could ask a follow-up. You had a bit stronger Chemicals results than some of the other results we've seen—perhaps Dow and Exxon, would be what I'm thinking about here. Was there anything particularly differentiated about why your results were that bit better in terms of relative to your competitors? Thanks.

Tim G. Taylor - Phillips 66 - President

I think first of all the demand, regardless of the chemicals, we think about aromatics and plastics, it's all been really strong, and so I think we were obviously benefiting, the industry did, from a really good market condition, and then it comes to back, Paul, your advantage feedstock, where we produce the Middle East, where we produce the North American off of that, so we continue to have an advantaged feedstock. Then fourth quarter results were probably weaker than we would have expected. The quarter-on-quarter improvement sequentially somewhat reflected better operating, less turnaround activity, et cetera, but then fundamentally, margins were better, and that's really how you capture those, you've got to have access to markets and you like to work on that competitive advantage on the feedstock, and so I think those two showed up.

Greg C. Garland - Phillips 66 - Chairman and Chief Executive Officer

Yes, we saw good strength, though, in both ethylene and polyethylene. We saw good strength coming out of our Middle East joint ventures. Our aromatics business did much better quarter-over-quarter. Then, I think the other thing that is kind of lost in the conversation maybe is we had quite a bit of turnaround activity at CPChem. Unit 33, which is the large ethylene cracker at Sweeny, was down through most of the quarter. Q-Chem I was down for turnaround. AmSty had a big turnaround. So in spite of pretty substantial turnaround activity at CPChem, they had a really solid quarter.

Paul Sankey – Wolfe Research

Yes, okay. Thanks, guys.

Operator

Doug Leggate with Bank of America Merrill Lynch is online with a question. Your line is open.

Doug Leggate - Bank of America Merrill Lynch

Thank you, and good—it's still morning, good morning, everybody. Jeff, we're going to miss you around the halls over here. Congratulations on your move.

Jeff Dietert - Vice President, Investor Relations

Thank you, Doug.

Doug Leggate - Bank of America Merrill Lynch

I'm not sure if this for Kevin or Greg, but last quarter I think, Greg, you talked about having $500 million to $750 million of discretion in your capital budget. I'm trying to wrap everything together in your comments about softer refining—or, I guess, similar to last year, and then the trend, or the cash burn trend, and then all the visibility of the dropdowns that you have, so there's a lot of flexibility, but then I'm looking at the trend in net debt to cap for your balance sheet. Where do you want that balance sheet to be and how long do you think you can extend the buybacks beyond your commitments to 2017? I think you talked about a couple of billion dollars for this year.

Greg C. Garland - Phillips 66 - Chairman and Chief Executive Officer

Maybe start with capex. I think we said $500 million to $700 million of flexibility in capital this year, in 2017 that we built in the plan. Obviously, the further you get into the year, the harder it is to adjust that, as we FID projects and kind of move forward, and I think we'll continue to look at where margins are and save some ability to adjust capital, certainly through mid-year, let's say, Doug. We continue to think about the business on this cycle basis. We should generate $4 billion to $5 billion of cash kind of mid-cycle. So, we still expect that we'll be able to generate $2 billion out of the MLP through drops, and with that we can certainly afford a billion dollars of sustaining capital, a $1.3 billion dividend, growing that dividend, and then you think about—we have a choice, do we buy shares, do we reinvest in the business, and I think we can certainly afford kind of a $1 billion to $2 billion growth program and a $1 billion to $2 billion share repurchase program. That's kind of how we think about the business.

I think the first quarter, certainly—I probably wouldn't use the word "cash burn" in terms of that. I think we certainly planned to bring cash down to this level, given all the things that we had going on. We did not have a drop in the first quarter. As we move through 2017, you'd expect that we're going to—we're going to do something around growing PSXP. We're at a 630-ish million dollars run rate EBITDA. We're committing to get to $1.1 billion run rate by the end of 2018. So this year and next year, we're going to have to be moving directionally to do that. So, I think we can make it all balance in terms of a strong share repurchase program, strong dividend program, and continue to fund both our sustaining and growth cap ex.

Doug Leggate - Bank of America Merrill Lynch

So, Greg, I guess what I was getting at is, looking at the trend, the Slide 17 trend, is there a kind of a range that you would have or expect your balance sheet to live within over time? Not necessarily this year, but longer term, where would we expect your balance sheet to sit through the cycle?

Greg C. Garland – Chairman and Chief Executive Officer

Yes, I think we'll continue to target 20% to 30% debt to cap, and, of course, we're at the upper end of that range today. I think, Kevin, you may want to talk about the debt, the restructuring of the debt, and the ability to draw from the MLP. But, you should expect that we'll pull PSX debt down and that you'll see the debt at PSXP grow.

Kevin J. Mitchell - Phillips 66 - Executive Vice President and Chief Financial Officer

Yes, I think that's an important point, Doug, that as you—with the growth in the MLP, debt will increase at the MLP, that's going to happen, and our expectation is that over time—and it may not be a perfect match, but generally, at the PSX level debt will come down, so that such, that on a consolidated basis, we're staying about flat. We just recently issued about $1.5 billion of short-term debt that is prefunding for a maturity—we have a $1.5 billion maturity that will be taken care of next week. That is all at the PSX level, but we've structured that debt in such a way that we can move it down into the MLP as part of a dropdown transaction, and that way you're kind of part funding the drop by moving debt from the parent company into the MLP, and so we're managing leverage that way.

Doug Leggate - Bank of America Merrill Lynch

That is extremely helpful. I appreciate the full answer, guys. My follow-up, and maybe it's a quick one, maybe not, but I wanted to go back to the operating result on Refining. Versus our numbers at least, it was particularly strong in the Gulf Coast. What's really behind my question is I'm trying to understand was there anything unusual about this particular quarter that caused that? I guess one of the other questions was alluding to the RIN issue. I realize, Kevin, you were pretty assertive in your answer to this, but there's still seems to be a debate as to whether RINs are in the crack or not. Obviously, as it relates to things like moving the point of obligation and so on, I'm just curious if the collapse in RIN prices in Q1 was one of the reasons that refining did a little bit better. If you've answered the question already, I apologize, but I just wanted to get some clarity around that.

Kevin J. Mitchell - Phillips 66 - Executive Vice President and Chief Financial Officer

Yes, certainly. The reduction in the RIN cost is a component on the improved—it really shows up in capture, right? The improvement in the capture rate, which was pretty significant for us, especially on the Gulf Coast. The other component, which I touched on, are some of those other Clean Products and I don't know how sustainable that is. There's always some degree of benefit from those sort of chemical-grade products, but you saw a spike in the relative margin on those products, and so that was part of it as well, and that benefit was concentrated in the Gulf Coast, also.

Tim G. Taylor - Phillips 66 - President

Yes, maybe, Doug, just to comment on the Chemicals piece, so that's really aromatics out of Alliance; it's solvents and cyclohexane, for instance, out of Sweeny. So, we have pretty good exposure on those two refineries into that, and the strength in the Chemicals business was evident, really, across that. So, I think, as we think about the Chemicals business, we believe that in the aromatics and the solvents businesses that that strength is going to continue.

Doug Leggate - Bank of America Merrill Lynch

That was really my follow-up. So, that has continued so far, both on the RIN side and on the derivative petrochemical side, those two trends have continued into Q2 so far?

Tim G. Taylor - Phillips 66 - President

Yes, so far, it's positive. There's obviously volatility in those Chemicals prices, but when you look back at the results across the various value chains in Chemicals, it feels like a pretty good pull on all those, and then you're right, the RINs prices being lower does impact and improve the capture rate.

Doug Leggate - Bank of America Merrill Lynch

That is really helpful.

Greg C. Garland - Phillips 66 - Chairman and Chief Executive Officer

Yes, we continue to believe that the RIN is essentially captured in the crack, though. I think it's hard to see sometimes, but I think our view is that it is.

Tim G. Taylor - Phillips 66 - President

Yes, you know, I think we're kind of in between. We actually believe it's in the crack, largely, and we also believe there's an element of that that you see in the market side as well, but largely, to us, we think it's in the market crack.

Doug Leggate - Bank of America Merrill Lynch

I appreciate the answers, guys. Thanks so much.

Greg C. Garland - Phillips 66 - Chairman and Chief Executive Officer

Take care, Doug.

Operator

Brad Heffern with RBC Capital Markets is online with a question. Your line is open.

Brad Heffern - RBC Capital Markets

Hi, everyone. I was wondering if we could dig into the Frac 2 potential FID that you mentioned for later this year. Obviously Frac 1 hasn't contributed, I think, the EBITDA that you had anticipated, so what gives the confidence to potential FID it later? Is it just that the economies of scale are so overwhelmingly attractive there?

Tim G. Taylor - Phillips 66 - President

Yes, I think the next tranche of capital investment will be lower, which is always a good thing from a project standpoint. Second of all, the first frac in terms of the frac fees and everything is still a very attractive piece. Now, we're leveraging lower CAPEX to improve that, and now we're able to run closer to that design capacity which impacts things as well. For us, a second frac based on NGL, helps us with our costs around the export terminal, and some other things. So, as we build out more, you actually start to leverage up across that entire hub, in terms of incremental EBITDA and in terms of improved costs. Again, we're still looking long term and saying, this is what's needed from an industry standpoint, and it ties back with things like what we're doing with Sand Hills to expand its capacity. We're just seeing increased NGL need eventually for more fracs as ethane comes back into the mix more out of rejection, and then that strong demand that we see on exports.

Brad Heffern - RBC Capital Markets

Okay, understood. Then I guess kind of along the same lines I was wondering if we could talk about something that hasn't been brought up in a couple years I think, which is the condensate splitter. I think maybe in '14 that was something that seemed like it might make sense for you guys. Is there any chance that that project comes back to life? I'm thinking particularly about how light some of these Delaware Basin crudes are.

Tim G. Taylor - Phillips 66 - President

I think we have to see that supply, but we're watching that and some of those gravities that we're seeing around that 50 degree mark, that kind of revives that whole discussion I think around what exactly would be produced. So I think that that's one where you've got to see the supply come in before you would go down that path, but it will be interesting to see if the Permian comes back and that light fraction, if there's sufficient volumes there to really say that the best way to manage that is a splitter versus blending or direct export.

So, that's just an option that we're watching. Nothing planned right now but it's one that we are aware of and thinking about.

Brad Heffern - RBC Capital Markets

Okay, thanks.

Operator

Blake Fernandez with Scotia Howard Weil is online with a question. Your line is open.

Blake Fernandez - Scotia Howard Weil

Folks, good morning. Jeff, I would also congratulate you for escaping the purgatory of energy sell side these days. I just wanted to revisit a couple of items that came up. Beaumont, I realize we're expanding the storage capacity and the opportunity to export. Is that oil export ARB open today? I'm just wondering are you maxing out your capability there or is this really a kind of second half of the year event once all the pipelines are up and running and bringing crude down?

Tim G. Taylor - Phillips 66 - President

Well, as an industry you've certainly seen it and those differentials drive that. What we're seeing is—I'll frame it this way. We're seeing a lot of interest in the storage to be able to create that option. So we have done oil exports out of Beaumont already in this year, and so I think we look at it and say as long as those new pipelines get connected, the volumes are coming via from North Dakota to Mid-Con and the Permian, et cetera, then that will continue to build.

I think right now you see it very volatile as those differentials come in and out of play, but longer term if you believe light oil production is going to increase we see that as a continuing need.

Blake Fernandez - Scotia Howard Weil

All right, okay.

Greg C. Garland - Phillips 66 - Chairman and Chief Executive Officer

Just tactically I think once you see that TI Brent get about $2.50 a barrel people get a lot more interested in exporting.

Blake Fernandez - Scotia Howard Weil

Sure, okay. Tim, I think earlier you had mentioned Canadian outages and my question is pretty simple. Just into 2Q, with the outage of Syncrude, are you seeing any meaningful impact on the system, whether it be direct or indirect?

Tim G. Taylor - Phillips 66 - President

Well, obviously the availability has caused us to look at other crudes to run. We've not seen a problem from a supply standpoint; there's plenty of crude options available, but it does cause us to re-jigger across some of our system because we are not bringing down as much Canadian crude as we were. So I think from our viewpoint operationally it's been a minimal impact but it has created different options for us around the system.

Blake Fernandez - Scotia Howard Weil

Right. So, think about it more in terms of capture rate, I suppose? Like paying out for crude rather than lack of throughput, I suppose?

Tim G. Taylor - Phillips 66 - President

Yes. We go back to the economic optimization of what's the best thing to run.

Blake Fernandez - Scotia Howard Weil

Got it. Okay, thanks.

Greg C. Garland - Phillips 66 - Chairman and Chief Executive Officer

You bet.

Operator

Thank you. We have now reached the time limit available for questions. I will now turn the call back over to Jeff.

Jeff Dietert - Phillips 66 - Vice President, Investor Relations

Thank you, Krista, and thank you all for your interest in Phillips 66. If you have additional questions, please call Rosy, CW or me. Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference. You may now disconnect.