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Delek US Holdings, Inc.

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Earnings Call

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Call Participants

EXECUTIVES

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President, CEO & Director

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Mark Hobbs
Executive Vice President of Corporate Development

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Robert Wright
Senior VP & Deputy Chief Financial Officer

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Joseph Gregory Laetsch
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Neil Singhvi Mehta
Goldman Sachs Group, Inc., Research Division

Roger David Read
Wells Fargo Securities, LLC, Research Division

Presentation

Operator

Thank you for standing by. My name is [Jayel], and I'll be your conference operator today. At this time, I would like to welcome everyone to the DK Third Quarter Earnings Call. [Operator Instructions]

I would now like to turn the conference over to Robert Wright, Deputy Chief Financial Officer. You may begin.

Robert Wright
Senior VP & Deputy Chief Financial Officer

Good morning, and welcome to the Delek US Third Quarter Earnings Conference Call. Participants joining me on today's call will include Avigal Soreq, President and CEO; Joseph Israel, EVP, Operations; Reuven Spiegel, EVP and Chief Financial Officer; and Mark Hobbs, EVP, Corporate Development.

Today's presentation material can be found on the Investor Relations section of the Delek US website. Slide 2 contains our safe harbor statement regarding forward-looking comments. Any forward-looking statements made during today's call involve risks and uncertainties that may cause actual results to differ materially from today's comments. Factors that could cause actual results to differ are included here as well as in our SEC filings. The company assumes no obligation to update any forward-looking statements.

I will now turn the call over to Avigal for opening remarks. Avigal?

Avigal Soreq
President, CEO & Director

Thank you, Robert. Good morning, and thank you for joining us today. During the third quarter, our adjusted EBITDA was approximately $71 million. The current refining margin environment is $5 to $6 below mid-cycle. As refining margin remains below mid-cycle, we expect more refinery capacity to shut down. Refining product inventory remains low and oil demand continues to rise. This factor will help digest the recent additions in the global supply and balance the market over the next 6 to 12 months. In the meantime, we are making good progress on the things we can control: first, lowering our cost structure; second, executing on KSR turnaround; and third, prioritizing our balance sheet and opportunistic buyback to support our shares.

Now, turning to our strategic priorities, as I've outlined in our previous calls, Delek's key focus areas are: first, safe and reliable operations; second, unlocking the Sum of the Parts value; and third, being a shareholder-friendly and having a strong balance sheet. I will now discuss each of these key priorities in detail.

We had another strong operational quarter. I am proud of the progress the team is making in Big Spring. The Krotz Springs turnaround is progressing well. In El Dorado, we are actively working to fulfill the refinery potential. Joseph will provide more details on all of this.

Next, I would like to talk about the progress we have made on our Sum of the Parts efforts. On the second quarter earnings call, we announced a series of transactions related to our Sum of the Parts efforts. I am pleased to announce that we have closed all of these transactions. We closed the drop-down of Wink to Webster and other intercompany transactions between DK and DKL on August 5. These transactions make both DK and DKL stronger, and we are happy with the results. We closed the sale of our retail assets to FEMSA on September 30. We are pleased with the outcome and timing, which allow us to maintain a strong balance sheet as refining margins have turned below mid-cycle.

Delek Logistics closed its acquisition of H2O Midstream on September 11. The next step in our Sum of the Parts journey is to keep improving DKL, while actively continuing deconsolidation. We are making good progress on increasing the economic separation between DK and DKL. Recent amend and extend contract will bring additional $60 million on an annual cash flow back to DK in exchange for the contract extensions which benefit DKL. DK has taken significant steps towards deconsolidation by lowering its ownership interest in DKL from 79% to 66%, while maintaining its relative EBITDA. DK is also getting more cash flow from DKL through rising DKL distributions. DKL continued to improve its Permian Basin position by increasing third-party cash flow, seizing attractive growth opportunities and increasing scale. We will complete the DKL deconsolidation in a methodical manner and create value for both DK shareholders and DKL unitholders.

Next, I would like to highlight our new cost reduction and margin improvement plan. Our new plan expects to achieve a run rate of at least $100 million in incremental annual cost savings and margin increase by the second half of 2025, which is above and beyond the $60 million we expect to come back to DK through intercompany transactions. The plan currently has $30 million to $40 million in G&A and cost efficiencies, along with $50 million to $80 million of margin improvement through commercial optimization and process improvement. Over the last 3 years, we have been investing in system, which will allow us to further tighten our G&A and run efficient company.

We recently started the execution phase on our market optionality plan. This strategy will allow us to produce and sell the right product from our refineries in the right markets in order to maximize value. These commercial efforts, along with incremental cost efficiencies, will increase our bottom line by at least $100 million per year. Our aim through these efforts is to ensure we can generate significant free cash flow in a mid-cycle condition.

The final piece of our strategy is our commitment to shareholder return and maintaining strong balance sheet. During the quarter, we paid $16 million in dividend and bought back $20 million of our shares. We remain committed to a disciplined and balanced approach to capital allocation.

In closing, I would like to thank our entire team for their hard work and dedication. Now, I will turn the call over to Joseph, who will provide additional color on our operations.

Joseph Israel
Executive Vice President of Operations

Thank you, Avigal. We operated well in a low-margin environment and remain focused on our strategic initiatives to support future capture and cash flow generation across our system.

In Tyler, total throughput in the third quarter was approximately 75,000 barrels per day. Production margin in the quarter was $7.48 per barrel and operating expenses were $4.61 per barrel. For the fourth quarter, the estimated total throughput in Tyler is in the 67,000 to 69,000 barrels per day range.

In El Dorado, total throughput in the quarter was approximately 78,000 barrels per day. Our production margin was $0.66 per barrel, including an unfavorable estimated $0.65 per barrel impact from outages in the FCC and Penex units. Operating expenses were $5.01 per barrel, including approximately $0.35 per barrel of unfavorable impact related to those outages. Estimated throughput for the fourth quarter is in the 77,000 to 80,000 barrels per day range. On a strategic level, the El Dorado refinery is well positioned from a configuration standpoint to compete. And operationally, the team has demonstrated safe and reliable operations on a consistent basis.

As Avigal mentioned, the $100 million run rate benefits generated by the self-help initiatives include $50 million to $80 million contribution in the refining segment. These initiatives are mostly around process optimization, product offering, as well as expanding our market footprint. All related upgrades are planned with minimal capital outlay. Approximately $50 million of the expected benefits are in the El Dorado system with an estimated $20 million in the refinery gross margin level, leaving approximately $30 million for the products and commercial optimization. An incremental $2 per barrel of net margin will support El Dorado cash flow generation through the cycles. Timing, as Avigal mentioned, we are expecting the improvements to be in place by mid-next year.

In Big Spring, total throughput for the quarter was approximately 73,000 barrels per day. Our production margin was $6.82 per barrel and operating expenses were $6.08 per barrel. We are proud with our progress in Big Spring as we achieve our goals, and as importantly, build this improvement in a sustainable manner. Estimated throughput for the fourth quarter is in the 71,000 to 74,000 barrels per day range.

In Krotz Springs, total throughput was approximately 82,000 barrels per day. Our production margin was $4.80 per barrel and operating expenses in the quarter were $4.82 per barrel. We are executing our turnaround plan, and all units are scheduled to get back to normal operations by the end of the month. As a result, planned throughput for the fourth quarter is in the 50,000 to 53,000 barrels per day range. Our implied system throughput target for the fourth quarter is in the 265,000 to 276,000 barrels per day range.

Moving on to the commercial front, in the third quarter, supply and marketing's contribution was $11 million. Of that, approximately $13 million was generated by wholesale marketing, partially offset by asphalt with a $2 million loss.

In summary, we continue to execute well on the fundamentals of our business. After successfully addressing reliability gaps, our teams continue to focus on operational excellence and commercial optimization initiatives for each one of our sites.

I will now turn the call over to Robert for the financial [variance].

Robert Wright
Senior VP & Deputy Chief Financial Officer

Thank you, Joseph. I'll start by referring to Slide 13. For the second quarter, Delek had a net loss of $77 million or negative $1.20 per share. Adjusted net loss was $93 million or negative $1.45 per share, and adjusted EBITDA was $71 million.

Slide 14 shows a comparison of adjusted EBITDA in the third quarter of 2024 to the second quarter of 2024. The primary variance between the quarters was a $32 million decrease in refining, which is primarily due to a lower margin environment. As for the logistics segment, we had another strong quarter, delivering $106 million in adjusted EBITDA.

Moving to Slide 15 to discuss cash flow. Cash from operations was a use of $22 million. Within this amount is our net loss for the period, an inflow of $33 million relating to working capital movements and an outflow of $21 million tied to transaction-related expenses. Investing activities of $78 million includes the proceeds from the sale of retail, partially offset by the addition of capital expenditures for the period of $119 million and the acquisition of H2O. Financing activities of $323 million reflects the 2029 DKL [tack-on] offering and timing of accruals. This also includes $20 million in share repurchases, $16 million in dividend payments and $14 million in distribution payments.

On Slide 16, we have the actual results of the 2024 capital program and full year 2024 forecast. Third quarter capital expenditures were $78 million. Approximately half of the spend was in refining, primarily addressing sustaining and regulatory projects, including the KSR turnaround that commenced in the fourth quarter. For 2024, the original capital plan continues to track on plan at $330 million, excluding the Libby 2 gas plant construction, which was announced earlier this year after our current year's capital outlook was set.

Our net cash position is broken out between Delek and Delek Logistics on Slide 17. During the year, we built $215 million of cash, primarily due to the sale of retail, which occurred on September 30. Consolidated long-term debt increased during the year by $190 million, most of which was at the DKL level and was used to finance the H2O acquisition, which closed on September 11.

Moving now to Slide 18, where we cover outlook items. In addition to the guidance Joseph provided, for the fourth quarter of 2024, we expect operating expenses to be between $177 million and $188 million, G&A to be between $53 million and $58 million. D&A is expected to be between $95 million and $105 million and net interest expense to be between $75 million and $80 million.
We will now open the call for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Neil Mehta of Goldman Sachs.

Neil Singhvi Mehta
Goldman Sachs Group, Inc., Research Division

So the first question is really on El Dorado. And as you indicated, the margins did come in a little bit softer than expected. Is there anything more [one-timey] in nature? And can you talk -- spend more time talking about how you see this progressing from here and the path for improvement?

Avigal Soreq
President, CEO & Director

Neil, it's Avigal. Thank you for joining us today. So, yes, El Dorado will answer that specifically. First of all, it's a very good complexity refinery, and there is a lot of flexibility around that asset. I've been around that asset for a long time, and this is the best I've ever seen it done from an operational standpoint. And Joseph will provide more details about the exact specific actions we are doing to improve that over time. Please, Joseph.

Joseph Israel
Executive Vice President of Operations

Yes. Thank you. Like Avigal mentioned, the El Dorado refinery is well positioned from asset configuration and also operations excellence standpoint to compete. So having these 2, we feel now is the perfect time to address the market access gaps and take profitability really up to its potential. We have discussed those gaps in the past, and more importantly, took our time to plan and design solutions, which we are already in full execution mode. As mentioned in our remarks, by mid-next year, we will have in place new and robust process, logistics and marketing tools in our kit to support future cash flow contribution with an incremental $2 per barrel of net margins. And I want to be a little bit more specific. So, on the refinery level, we will connect to existing [tines] in our crude unit to draw approximately 3,000 barrels per day of jet fuel. We have yield and liquid recovery initiatives, mainly around the FCC, vacuum tower and asphalt. And then, on the commercial front, the team is working really contracts to utilize the new logistics capabilities and move our products to additional markets for better netbacks. I hope it helps.

Neil Singhvi Mehta
Goldman Sachs Group, Inc., Research Division

That's great color. The follow-up is, you guys have made a lot of progress since the last call in terms of getting cash in the door, the $390 million. And so, the question we get a lot is the pace of the share repurchase program and how aggressive can you guys be, especially if you believe the slide in here, I think Slide 8, that talks about the discount that you trade at relative to what your illustrative value. So just talk about how you think about the pacing of the buyback. And are you well positioned to take advantage of this dislocation? And what are some of the factors that could slow down that pace relative to some of the upside scenarios?

Avigal Soreq
President, CEO & Director

Yes, absolutely, Neil, I will take it. So with your permission, I will answer the question more broad about capital allocation, right? So first, our priority is to maintain strong dividend throughout the cycle, and we are committed to that. We have demonstrated that. We will keep demonstrating that. That's something we are committed. We feel very comfortable with that. And we are very pleased, Neil, with the sale of the retail on the right timing and the right value. I think everyone understands those 2 points now more than ever. The third point I would like to make it come across, the EOP, which will bring us the $100 million with a combination of a relatively strong market condition, right -- we see the inventory low, we see demand relatively strong -- get us to a point that we are comfortable where we are. As I said in the past, we have a balanced approach between balance sheet and buyback, and we're going to stick to the balanced approach around buyback. We see tremendous amount of value in our equity, just to make it very clear. We did buyback in Q3, and we are doing -- actively doing buyback in Q4. And I will leave it to that.

Operator

Your next question comes from the line of Manav Gupta of UBS.

Manav Gupta
UBS Investment Bank, Research Division

Help us understand a little better, you are looking for multiple growth projects in the midstream space. So, as we look at DKL, in your opinion, some -- I'm not asking for exact guidance, but how should we look at exit rate EBITDA maybe year 2025 for something like DKL?

Avigal Soreq
President, CEO & Director

Manav, it's Avigal. So, we didn't give guidance on DKL for 2025. We obviously have exciting time. We think we can have good traction around the market, but we are not going to give guidance for the end of 2025. We're in a comfortable and great situation, and [Mohit] can give more color around that.

Mohit Bhardwaj
SVP, Strategy & Growth

So what we have said in the past, if you remember on our last earnings call, that based upon the investments that we are making, a net addition of $70 million in midstream EBITDA. And I think that should give you some color on how our EBITDA is today, and that net addition of $70 million in EBITDA, where that will take DKL to you. But as Avigal mentioned, DKL has not provided 2025 guidance just yet.

Manav Gupta
UBS Investment Bank, Research Division

Perfect. My follow-up is on Slide 7. Obviously, this $100 million target, it looks pretty good. I'm just trying to understand like, let's say, the margins remain depressed for some time. Using these $100 million benefits, would you be very close to cash breakeven even if margins are below mid-cycle because you're pushing through all these initiatives?

Avigal Soreq
President, CEO & Director

That's absolutely right. And I can give you some more color around what we call here EOP, the Enterprise Optimization Plan, Manav. So let me be very clear. The EOP plan is not related to market condition. It's self-help. It's an area that we feel that we can do better. And it's fronting few -- we have a few front lines with that project; one, on the G&A side. The team was doing a great job over the last 3 years in order to build system and processes around it. And now, we are basically taking that to the next level and bringing that to the bottom line. That's $30 million to $40 million of efficiencies we're going to create around all of those processes. Second is OpEx. Safe and reliable operation will bring and is bringing efficiencies on operation, and that's key. Once we are doing that, we see our ability to drive more value from there. And third is the margin. Once we have safe and reliable operation, we can move from defense to offense and to plan accordingly and to sell the right product on the right market. We believe that all of that will bring us at least $100 million on a combined basis, and all of that's going to go to the free cash flow. On the top of that, we reduced our CapEx guidance, as you probably see, for next year versus this year by around $80 million to $100 million. That's a huge number.

Operator

Your next question comes from the line of Matthew Blair of TPH.

Matthew Robert Lovseth Blair
Tudor, Pickering, Holt & Co. Securities, LLC, Research Division

Maybe we could stick on the CapEx cut for 2025. Could you talk about what's rolling off relative to this year? And then, that midpoint $160 million, should we think of that as your minimum level going forward? Or would you expect to have some catch-up in 2026?

Avigal Soreq
President, CEO & Director

No. So we are not going to change our overall guidance for the year. Obviously, we are [a prudent] management that we see the low-margin environment, and we have opportunity to have a low CapEx here on the refining side, and that's what we are doing. On a sustainable basis, the way I think about it, Matt, is that we are seeing around $25 million in each one of our refineries in a year that we don't have turnaround. Turnaround costs around $100 million, and we are doing that on our 4 assets every 5 years. So that's a good way to look about the long-term CapEx of refining.

Matthew Robert Lovseth Blair
Tudor, Pickering, Holt & Co. Securities, LLC, Research Division

Sounds good. And then, I wanted to touch on the improvement in supply and marketing in the third quarter relative to the second quarter. It looks like a lot of this came from the wholesale marketing. You mentioned it was up $13 million in Q3. I believe it was down $17 million in Q2. What exactly changed there? Was that just a function of falling crude prices? Or was there some, like, regional product basis differentials that helped you out? And also, what's the outlook for supply and marketing into the fourth quarter?

Avigal Soreq
President, CEO & Director

Absolutely. So, first of all, I'm pleased with the progress we are making with the commercial team. We see the -- we saw the benefit in Q3 in some of our actions. We also had some seasonal benefit over the quarter. And what we saw in Q3 is a good combination of those 2. I expect to see more progress in the future. And I'm going to let Joseph give some more comments around that.

Joseph Israel
Executive Vice President of Operations

Yes. Thank you, Avigal, and thank you, Matt. We have shifted gears with new strategies to enhance our commercial business and leverage some new tools in our kit, right? So the improved reliability from refining will help to eliminate some of the noise. The new logistics optionality is helping us accessing brand-new markets, mainly from El Dorado and Tyler, with improved netbacks, and then product offering. We now have jet fuel in El Dorado to work with, and we have some great ideas around the high-octane products, mainly in Big Spring and Tyler, that we can work with. So we believe, this strong momentum and improved positioning will help us to reduce volatility and improve future netbacks through the cycles and seasonal trends. We also think it's sustainable. We can't control, obviously, the market impact, but we are confident, the controllable piece of our improvement will remain there.

Operator

Your next question comes from the line of Joe Laetsch of Morgan Stanley.

Joseph Gregory Laetsch
Morgan Stanley, Research Division

So I wanted to ask, on Slide 8, which is the mid-cycle EBITDA slide, can you just unpack the path to achieving that around $550 million of mid-cycle refining EBITDA number? Cracks are, of course, a driver, and it looks like a piece of that is also running better. I'm getting to an implied throughput of around 315,000 barrels a day. So if you could just touch on some of the steps to realize that uplift, that would be great.

Avigal Soreq
President, CEO & Director

Yes, absolutely, Joe. Thank you for joining us today. So obviously, a key part of that -- understanding that slide that we are wanting to demonstrate the cash flow generated on DK solo and to show the combination between Delek solo and DKL and enhance our great position. EOP is going to be a key part of that. We gave some color around EOP. EOP is a combination of what we can control, which is market agnostic. We got the team behind this idea, and we are well in the execution phase, and we are very optimistic about that. Around exactly modeling and et cetera, I would like maybe you have a post call with Mohit and go over the details that you can model all of that to your benefit. But that's the essence of that slide.

Joseph Gregory Laetsch
Morgan Stanley, Research Division

Great. And then, I just wanted to ask on Big Spring. So it looked like it ran well during the quarter from a throughput margin and OpEx standpoint. Could you just remind us what's left to execute on to reach that $5.50 per barrel OpEx target, recognizing that it's close to being achieved here?

Avigal Soreq
President, CEO & Director

Yes. Thank you, Joe. And I'm very pleased with Joseph and his team of the progress they are doing there. And maybe, Joseph, you want to give some more color around that.

Joseph Israel
Executive Vice President of Operations

Yes. We told you last year, it's going to be a journey, and recovery is going very well. We have done what we said in the past year, and the results have been very consistent with the guidance. Operating expenses are trending down toward the $5.50 per barrel target in the fourth quarter with improved reliability and throughput consistently in our guidance range really all year long. The focus now is ensuring sustainability of the improved positioning and optimize from here profitability.

Operator

Your next question comes from the line of Doug Leggate of Wolfe Research.

Douglas George Blyth Leggate
Wolfe Research, LLC

I've got 2, if I may. One, I'm sorry to beat up on the Slide 8, but I have some clarification questions around this just to make sure we understand what's going on. So the $100 million EOP, it looks like that's the entirety of the stand-alone mid-cycle free cash flow. In other words, without the EOP, there is no free cash flow. I just want to make sure that we're interpreting that correctly because ultimately, if we look at the equity value, you're putting a 4x to 5x EBITDA multiple. $100 million of free cash flow at a 10% annuity discount rate is $1 billion. So I'm curious how you get the valuation that you're showing on this slide for $100 million of free cash flow. That's my first question.

And my second question is, at least on our numbers, the entirety of a large part of your value is your interest in Delek Logistics. And as you know, there's been some transactions, particularly around sour gas injection wells, amongst other things. It seems there's a lot of embedded value potentially in DKL that could be released. And I'm just curious, strategically, I think you've talked about it as the [indiscernible] option. What are your options to release value from DKL? So 2 questions, please.

Avigal Soreq
President, CEO & Director

Yes. So I will start with the first one. Then I will -- Mohit will give some more color around that page, and then Mark and I will give you some more understanding of the market. So we see a lot of value in our assets. You can see the capture rate that we have demonstrated relative to our peers is improving on a relative basis, and we are very optimistic around that. EOP is a key part of what we are doing and EOP is going to happen, just to make it very clear. On the G&A side, we are well into the execution phase, and also in the OpEx and the commercial. So the EOP plan is going to execute. And as I said on my prepared remarks, and you probably saw that, Doug, that the $100 million is at least. I expect to see a higher number than that. So you can expect to see a higher free cash flow than that while we are on the execution phase, so more to come. And some of that is already coming in place very quickly. So we are optimistic around our action, and we are confident around the market. So we are very optimistic about the ability of DK solo to generate significant free cash flow on a mid-cycle basis.

Regarding the question of the midstream, we obviously are very encouraged by the transaction we've seen around us. That's put a very high mark on our asset. I know that Mark is very close to that. S I will have Mark maybe give you some more color.

Mark Hobbs
Executive Vice President of Corporate Development

Yes, sure. Thanks, Avigal, and thanks, Doug, for the question. Deconsolidation, we spoke about deconsolidation quite a bit over the past year plus, and that remains our top strategic priority. And we are actively pursuing that as a key component of our Sum of the Parts efforts. And you mentioned, appropriately so, the recent transactions and the acquisitions on the midstream side, specifically targeting the Permian Basin. And look, we see that as well, and those have been going for, in our estimation, very attractive and premium valuations. And as you know, at Delek Logistics, we've -- over the years, we've built a strong third-party midstream business in both the Midland Basin via DPG and our recent H2O transaction, as well as in the Delaware Basin, where we continue to see attractive growth opportunities, given significant activity of our upstream customers. And so, we are in a good position. We think that we've built a very attractive and valuable midstream business, as you duly noted, through Delek Logistics. And we think this market backdrop really supports the value that we've built. And as we pursue deconsolidation efforts, on Slide 5, we put a list of what we see those options potentially available to us and available to us in the market. We believe that this market backdrop really positions us well to maximize value for really all our stakeholders. And what I would say about the actual actions that we might take and look at, all options are on the table, and we continue to evaluate all those options.

Operator

Your next question comes from the line of Roger Read of Wells Fargo.

Roger David Read
Wells Fargo Securities, LLC, Research Division

Can we come back to the $100 million of the EOP? Like how did you come up with that number? And what I'm curious is, was it top-down, bottom-up, combination of the 2? You've talked obviously about some additional flexibility in it. So if you were to think of a low level of, hey, this would be successful at $80 million over the next 18 to 24 months or it could be $140 million. Should we think about it as a percentage of total costs is one of the ways to think about success here? I'm just curious, kind of in the end, $100 million is a nice round number, but how do we know it's a solid number based on a real solid foundation?

Avigal Soreq
President, CEO & Director

Yes. So thank you, Roger, for the question. Obviously, the EOP is a bottom-up project. It's not something that -- obviously, we rounded. It didn't end up $100 million exactly, just to be clear. And as I said in my prepared remarks, the number [is saying] at least. So, that gave you the comfort level around that. EOP is market agnostic. As I said in the previous -- one of the questions, the G&A is $30 million to $40 million of that, and it's based upon systems that we already did in the past. And the other $50 million to $80 million is a combination of OpEx and commercial optimization. The idea -- basic idea of EOP is the free cash flow and how to generate more free cash flow and agnostic to market condition. That's the essence of that. And obviously, if you need some more help about modeling that, I'm sure that Mohit would love to help you on that, but we have those combination of those 2.

Reuven, do you want to add into that more?

Reuven Avraham Spiegel
Executive VP & CFO

Just one clarification that the EOP projects are -- do not include the initiatives or the benefits that we got from other initiatives like the net initiatives, operation initiatives, G&A initiatives, and they do not include other benefits like intercompany transactions. Thank you for your question, Roger.

Roger David Read
Wells Fargo Securities, LLC, Research Division

Well, could I ask a quick clarification on that? One, is the retail -- retail just closed, right? Is any part of this $100 million related to retail? And then, as we think about the commercial synergy part, is there a CapEx component? Or is that all pretty much with just using the existing system better?

Avigal Soreq
President, CEO & Director

Yes. So 2 easy questions. Retail, it's not related to that. We are not trying to do a left pocket, right pocket exercise. We are trying to make our company better in free cash flow. And the second question, there is no capital-intensive project here. Everything is in the numbers.

Operator

Your next question comes from the line of Jason Gabelman of TD Cowen.

Jason Daniel Gabelman
TD Cowen, Research Division

My first one is on the balance sheet. I just wanted to get an updated view of what your target net debt and cash balances are at the parent, following the divestment of the retail sale and all the other recent transactions that you've done.

Avigal Soreq
President, CEO & Director

Yes. So, Jason, thank you for the question. Again, our capital strategy is very simple, right? We want to maintain a strong dividend throughout the cycle. We want to make sure that we have a balanced approach between buyback and improving the balance sheet. We have mentioned in previous calls that our target is around $600 million, if memory serves me right. But that's a longer-term view, and we're going to stick to the capital allocation program that we outlined.

Jason Daniel Gabelman
TD Cowen, Research Division

Okay. So, I guess the heart of the question is I would think you'd want to have higher cash balances moving forward if you -- than prior target if you got rid of the steady retail earnings stream. But it doesn't seem like there's much of a change.

Avigal Soreq
President, CEO & Director

Yes. So Jason, the EBITDA of the retail over the quarter was around $8 million. I don't think it's moved the needle significantly, and we are sticking to -- over time on a long-term basis to what we had.

Jason Daniel Gabelman
TD Cowen, Research Division

Okay. And then, my other question on Slide 16, where you provided an update on CapEx. You've excluded capital spending related to the gas processing plant. So, is that $330 million for full year '24 really supposed to be closer to $430 million?

Avigal Soreq
President, CEO & Director

No, we have not finished spending the capital on the gas plant. The gas plant was something that was done over the years, as Robert said on his prepared remarks. The gas plant is extremely good project, and we're starting to look at the DKL CapEx and the DK CapEx separately. That's the reason we gave guidance on the DK CapEx now, and we'll give more guidance about the DKL CapEx in the Q4 earnings call.

Jason Daniel Gabelman
TD Cowen, Research Division

Okay. So, is that gas processing plant CapEx that's not necessarily all spent in 2024?

Mohit Bhardwaj
SVP, Strategy & Growth

So, Jason, this is Mohit. So you are right. So our $330 million does not include the $90 million to $100 million of spending on the gas processing plant for 2024.

Operator

This concludes our Q&A session. I will now turn the conference back over to President and CEO, Avigal Soreq, for closing remarks.

Avigal Soreq
President, CEO & Director

Yes. Thank you for my colleagues around the room for a great quarter. Thanks for the execution of our strategy, the deconsolidation, the EOP, the return to shareholders. Thank you to the entire -- the investors that joined the call, our Board of Directors, and mostly our employees that make our company what it is. We'll see you again in the next quarter. Thank you.

Operator
This concludes today's conference call. You may now disconnect.