



Rating: Hold
 S&P 500: 1358
 Intraday

Marathon Oil Corporation Downstream Surprise

<i>Symbol</i>	MRO	<i>Ebitda Next Twelve Months ending 12/31/08 (US\$m)</i>	9,400
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	8
<i>Price (US\$/sh)</i>	48.82	<i>Natural Gas and Oil Production/Ebitda (%)</i>	61
<i>Pricing Date</i>	1/31/08	<i>Adjusted Reserves/Production NTM</i>	8.9
<i>Shares (mm)</i>	713	<i>EV/Ebitda</i>	4.9
<i>Market Capitalization (US\$m)</i>	34,800	<i>PV/Ebitda</i>	6.3
<i>Debt (US\$m)</i>	11,000	<i>Undeveloped Reserves (%)</i>	27
<i>Enterprise Value (EV) (US\$m)</i>	45,800	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	39.50
<i>Present Value (PV) (US\$m)</i>	59,500	<i>Present Value Proven Reserves(US\$/boe)</i>	24.40
<i>Net Present Value (US\$/share)</i>	68	<i>Present Value Proven Reserves(US\$/mcf)</i>	4.07
<i>Debt/Present Value</i>	0.18	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.07
<i>McDep Ratio - EV/PV</i>	0.77	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	2.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.96
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$80 a barrel and natural gas, \$11 a million btu.			
For historical research on Marathon since 2001 see http://www.mcdep.com/3mro.htm			

Summary and Recommendation

Net Present Value (NPV) of \$68 a share for Hold-rated **Marathon Oil Corporation (MRO)** depends 35% on downstream refining and marketing of oil products where profits are volatile. Indeed results for the fourth quarter reported today included sharply lower cash flow for that segment. The surprise may erode somewhat the increase we made to NPV on December 18 from \$62 share. That change was prompted by an increase in long-term oil price for calculating present value to \$80 from \$66 a barrel. In any event, Marathon stock has a low unlevered cash flow multiple of 4.9 times. The company has ambitious plans to expand its refineries and to invest in oil sands through its recently acquired share of a joint venture in Canada with our buy recommendations **Royal Dutch Shell (RDSA)** and **Chevron (CVX)**.

Kurt H. Wulff, CFA



Marathon Oil Corporation										
Next Twelve Months Operating and Financial Estimates										
									Next	
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Twelve	
	12/31/06	9/30/07	12/31/07	2007	3/31/08	6/30/08	9/30/08	12/31/08	Months	
									12/31/08	
Volume										
Natural Gas (mmcf)										
U.S. (or North America)	522	464	474	477	474	474	474	474	475	
Overseas (or Int'l)	352	567	510	448	510	510	510	510	511	
Total	874	1,031	984	925	984	984	984	984	987	
Oil (mbd)	212	199	205	200	230	230	230	230	230	
Total gas & oil (bcf)	197	205	204	776	215	215	217	217	865	
Total gas & oil (mbd))	358	371	369	354	394	394	394	394	394	
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	6.57	6.16	6.97	6.87	7.76	8.07	8.28	8.63	8.18	
U.S. (or North America)	5.36	5.14	5.70	5.73	6.34	6.60	6.76	7.05	6.69	
Overseas (or Int'l)	4.90	2.38	3.96	3.28	4.91	2.27	3.96	3.96	3.78	
Total	5.17	3.62	4.80	4.54	5.60	4.36	5.31	5.45	5.18	
Oil (\$/bbl)										
WTI Cushing	59.99	75.48	90.67	72.28	91.62	90.56	89.92	89.34	90.36	
Worldwide	52.63	68.21	80.58	64.97	81.42	80.48	79.91	79.39	80.30	
Total gas & oil (\$/mcf)	7.31	7.78	9.59	8.09	10.25	9.64	9.99	9.99	9.97	
NY Harbor 3-2-1 (\$/bbl)	7.54	12.64	8.19	14.37	9.18	14.37	13.89	9.82	11.81	
Revenue (\$mm)										
Natural Gas										
U.S. (or North America)	257	219	249	998	273	285	295	307	1,161	
Overseas (or Int'l)	159	124	186	536	228	105	186	186	705	
Total	416	344	434	1,534	501	390	481	493	1,865	
Oil	1,026	1,249	1,520	4,749	1,704	1,684	1,691	1,680	6,759	
Other	12,543	15,362	16,410	58,924	16,410	16,410	16,410	16,410	65,640	
Total	13,986	16,954	18,364	65,207	18,615	18,484	18,582	18,583	74,264	
Expense	12,178	14,897	16,891	57,242	16,521	15,236	16,257	16,861	64,875	
Ebitda (\$mm)										
Exploration and Production	899	1,165	1,185	4,268	1,456	1,369	1,433	1,434	5,692	
Other	909	891	288	3,697	639	1,879	891	288	3,697	
Total Ebitda	1,808	2,057	1,473	7,965	2,094	3,248	2,325	1,722	9,390	
Exploration	131	88	190	454	150	150	150	150	600	
Deprec., Deplet., & Amort.	388	409	415	1,613	430	430	435	435	1,730	
Other non cash										
Ebit	1,289	1,560	868	5,898	1,514	2,668	1,740	1,137	7,059	
Interest			100	100	100	100	100	100	400	
Ebt	1,289	1,560	768	5,798	1,414	2,568	1,640	1,037	6,659	
Income Tax	451	546	269	2,029	495	899	574	363	2,331	
Net Income (\$mm)										
Exploration and Production	307	479	402							
Other	526	534	53							
Unallocated	5	1	44							
Total	838	1,014	499	3,769	919	1,669	1,066	674	4,329	
Shares (millions)										
Per share (\$)	1.19	1.48	0.70	5.45	1.29	2.34	1.49	0.95	6.07	
Ebitda Margin (E&P)	62%	73%	61%	68%	66%	66%	66%	66%	66%	
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	



Marathon Oil Corporation					
Functional Cash Flow and Present Value					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>Ebitda</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
North American Natural Gas	770	5.6	5.2	4,000	7%
Rest of World Natural Gas	470	8.9	4.9	2,300	4%
Oil	4,460	10.0	7.2	32,200	54%
Downstream	3,700		5.7	21,000	35%
	9,400	8.9	6.3	59,500	100%
Debt					11,000
Net Present Value (\$mm)					48,500
Shares					713
Net Present Value - Standard Estimate (US\$/sh)					68
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					65

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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