



# Independent Stock Idea

February 3, 2009

rating: hold  
s&p 500: 839

## Marathon Oil (MRO) Raise NPV to \$54 a Share

<i>Symbol</i>	MRO	<i>Ebitda Next Twelve Months ending 12/31/09 (US\$mm)</i>	5,700
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	7
<i>Price (US\$/sh)</i>	26.84	<i>Natural Gas and Oil Production/Ebitda (%)</i>	71
<i>Pricing Date</i>	2/3/09	<i>Adjusted Reserves/Production NTM</i>	7.8
<i>Shares (mm)</i>	707	<i>EV/Ebitda</i>	5.4
<i>Market Capitalization (US\$mm)</i>	19,000	<i>PV/Ebitda</i>	8.8
<i>Debt (US\$mm)</i>	11,700	<i>Undeveloped Reserves (%)</i>	24
<i>Enterprise Value (EV) (US\$mm)</i>	30,700	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	24.60
<i>Present Value (PV) (US\$mm)</i>	49,900	<i>Present Value Proven Reserves(US\$/boe)</i>	24.50
<i>Net Present Value (US\$/share)</i>	54	<i>Present Value Proven Reserves(US\$/mcf)</i>	4.08
<i>Debt/Present Value</i>	0.23	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.00
<i>McDep Ratio - EV/PV</i>	0.62	<i>Price/Earnings Next Twelve Months</i>	13
<i>Dividend Yield (%/year)</i>	3.6	<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\$75 a barrel and natural gas, \$10 a million btu.			
For historical research on Marathon since 2001 see <a href="http://www.mcdep.com/3mro.htm">http://www.mcdep.com/3mro.htm</a>			

### Summary and Recommendation

Estimated Net Present Value (NPV) of \$54 a share, revised up from \$48, is about double stock price for moderate-debt, hold-rated **Marathon Oil (MRO)**. Released today, fourth quarter results were better than our expectations from three months ago both in upstream production and downstream refining (see table [Next Twelve Months Operating and Financial Estimates](#)). As a result, we recognize that Marathon's business may be more valuable relative to peers. Our valuation capitalizes the future year's cash flow at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) for natural gas and oil, and to an industry multiple for downstream. Latest calculations result in NPV concentrated 13% on natural gas, 61% on oil and 26% on downstream (see table [Functional Cash Flow and Present Value](#)). Pointing to expected oil price recovery, futures prices for the next six years averaged \$60 a barrel recently (see charts [Six-Year Commodity Price Meter](#) and [Six-Year and One-Year Natural Gas and Oil Futures](#)).

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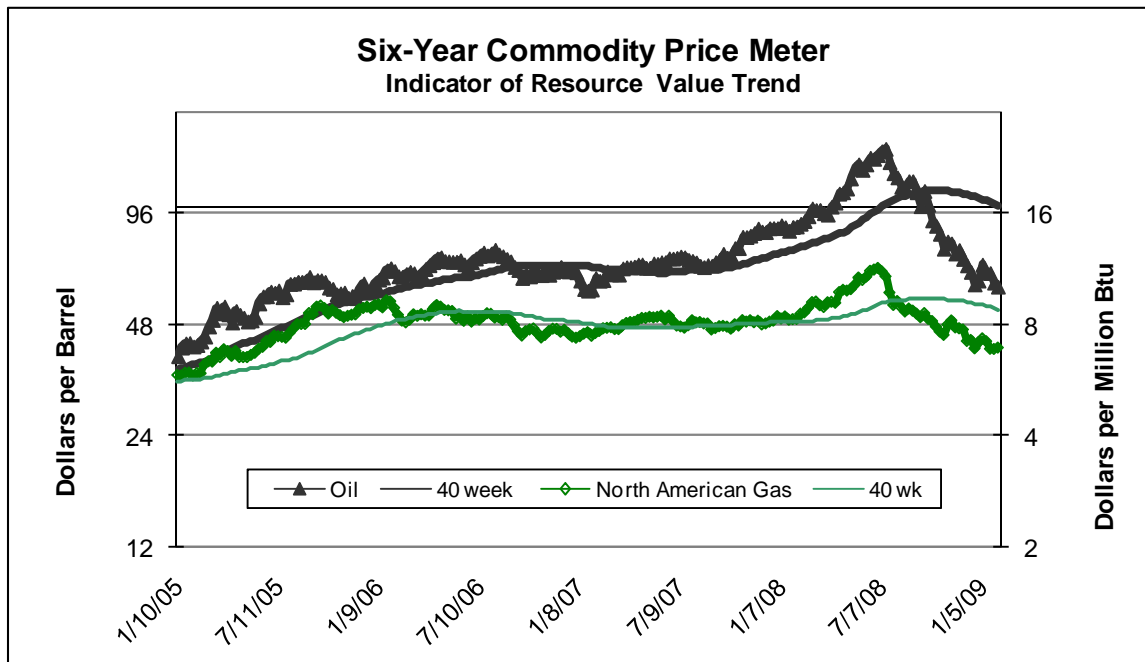
Marathon Oil Corporation									
Next Twelve Months Operating and Financial Estimates									
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	12/31/07	9/30/08	12/31/08	2008	3/31/09	6/30/09	9/30/09	12/31/09	12/31/09
<b>Volume</b>									
Natural Gas (mmcf)									
U.S. (or North America)	474	426	454	<b>449</b>	454	454	454	454	<b>454</b>
Overseas (or Int'l)	510	502	552	<b>570</b>	552	552	552	552	<b>552</b>
Total	984	928	1,006	<b>1,019</b>	1,006	1,006	1,006	1,006	<b>1,006</b>
Days	92	92	92	<b>366</b>	90	91	92	92	<b>365</b>
Oil (mbd)	205	256	281	<b>245</b>	281	281	281	281	<b>281</b>
Total gas & oil (bcf)	204	227	248	<b>910</b>	242	245	248	248	<b>983</b>
Total gas & oil (mbd))	369	411	449	<b>415</b>	449	449	449	449	<b>449</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.97	10.25	6.95	<b>9.04</b>	5.06	4.70	5.00	5.72	<b>5.12</b>
U.S. (or North America)	5.70	7.70	5.00	<b>7.01</b>	3.64	3.38	3.60	4.11	<b>3.68</b>
Overseas (or Int'l)	3.96	2.92	3.14	<b>2.96</b>	3.19	2.57	3.14	3.14	<b>3.01</b>
Total	4.80	5.11	3.98	<b>4.75</b>	3.39	2.94	3.35	3.58	<b>3.31</b>
Oil (\$/bbl)									
WTI Cushing	90.67	117.99	58.45	<b>99.59</b>	40.97	45.90	49.75	52.08	<b>47.18</b>
Worldwide	80.58	111.59	57.89	<b>90.86</b>	40.59	45.47	49.28	51.58	<b>46.77</b>
Total gas & oil (\$/mcf)	9.59	13.52	7.53	<b>10.89</b>	5.50	5.84	6.39	6.72	<b>6.12</b>
NY Harbor 3-2-1 (\$/bbl)	8.19	11.84	5.10	<b>9.86</b>	8.63	8.34	5.90	5.39	<b>7.06</b>
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S. (or North America)	249	302	209	<b>1,150</b>	149	140	150	172	<b>610</b>
Overseas (or Int'l)	186	135	159	<b>616</b>	158	129	159	159	<b>607</b>
Total	434	437	368	<b>1,766</b>	307	269	310	331	<b>1,217</b>
Oil	1,520	2,628	1,497	<b>8,151</b>	1,026	1,163	1,274	1,334	<b>4,797</b>
Other	16,410	20,381	12,933	<b>68,651</b>	12,933	12,933	12,933	12,933	<b>51,732</b>
Total	18,364	23,446	14,798	<b>78,569</b>	14,267	14,365	14,517	14,598	<b>57,746</b>
<b>Expense (\$mm)</b>									
Exploration and Production	1,185	2,162	1,477	<b>7,131</b>	893	959	1,061	1,115	<b>4,029</b>
Other	288	1,131	819	<b>2,755</b>	215	562	529	347	<b>1,653</b>
Total Ebitda	1,473	3,293	2,296	<b>9,886</b>	1,108	1,521	1,590	1,463	<b>5,682</b>
Exploration	190	109	122	<b>490</b>	150	150	150	150	<b>600</b>
Deprec., Deplet., & Amort.	415	597	626	<b>2,178</b>	626	626	626	626	<b>2,504</b>
Other non cash									
<b>Ebit</b>	868	2,587	1,548	<b>7,218</b>	332	745	814	687	<b>2,578</b>
Interest	100	100	100	<b>400</b>	100	100	100	100	<b>400</b>
<b>Ebt</b>	768	2,487	1,448	<b>6,818</b>	232	645	714	587	<b>2,178</b>
Income Tax	269	870	430	<b>2,309</b>	81	226	250	205	<b>762</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	402	1,037	364	<b>3,033</b>					
Other	53	680	361	<b>1,325</b>					
Unallocated	44	(101)	293	<b>150</b>					
Total	499	1,616	1,018	<b>4,508</b>	151	419	464	381	<b>1,416</b>
<b>Shares (millions)</b>									
Per share (\$)	0.70	2.27	1.44	<b>6.33</b>	0.21	0.59	0.66	0.54	<b>2.00</b>
Ebitda Margin (E&P)	61%	71%	79%	<b>72%</b>	67%	67%	67%	67%	<b>67%</b>
Tax Rate	35%	35%	30%	<b>34%</b>	35%	35%	35%	35%	<b>35%</b>



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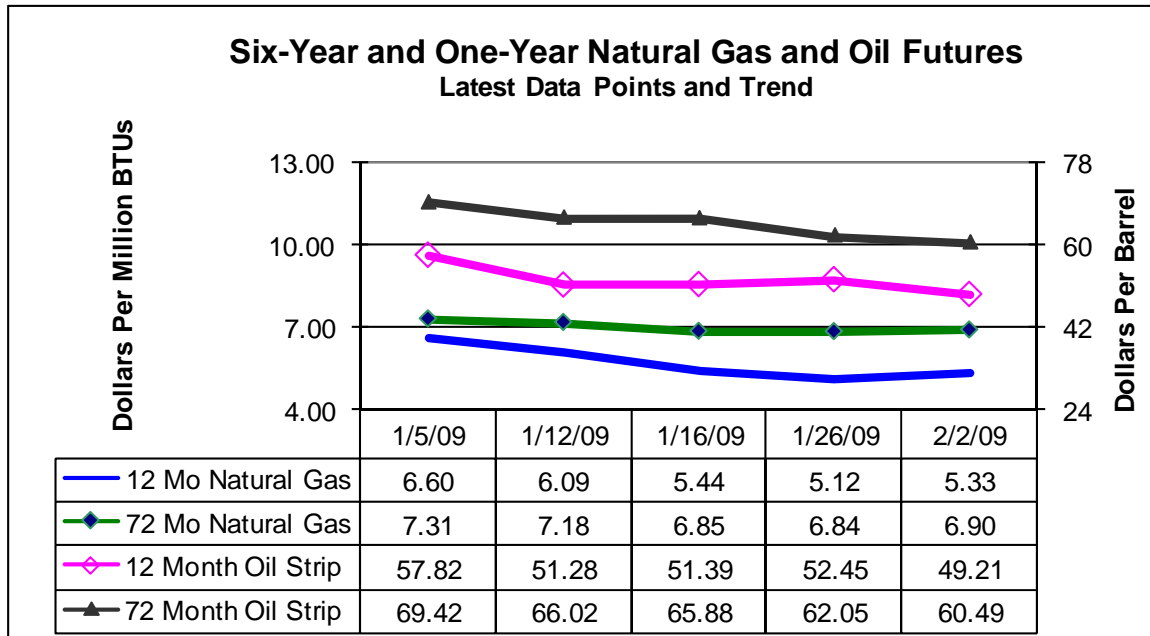
Marathon Oil Corporation					
Functional Cash Flow and Present Value					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>Ebitda</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
North American Natural Gas	410	5.3	8.3	3,400	7%
Rest of World Natural Gas	410	10.3	7.6	3,100	6%
Oil	3,210	7.6	9.5	30,400	61%
Downstream	1,650		7.9	13,000	26%
	5,680	7.8	8.8	49,900	100%
Debt					11,700
Net Present Value (\$mm)					38,200
Shares					707
Net Present Value - Standard Estimate (US\$/sh)					54
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					59





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