



Independent Stock Idea

April 30, 2009

rating: hold
s&p 500: 873

Marathon Oil (MRO) Refining Helping Performance

<i>Symbol</i>	MRO	<i>Ebitda Next Twelve Months ending 3/31/10 (US\$mm)</i>	5,600
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	7
<i>Price (US\$/sh)</i>	29.70	<i>Natural Gas and Oil Production/Ebitda (%)</i>	70
<i>Pricing Date</i>	4/30/09	<i>Adjusted Reserves/Production NTM</i>	9.2
<i>Shares (mm)</i>	712	<i>EV/Ebitda</i>	5.7
<i>Market Capitalization (US\$mm)</i>	21,100	<i>PV/Ebitda</i>	8.8
<i>Debt (US\$mm)</i>	10,700	<i>Undeveloped Reserves (%)</i>	31
<i>Enterprise Value (EV) (US\$mm)</i>	31,900	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	25.80
<i>Present Value (PV) (US\$mm)</i>	49,200	<i>Present Value Proven Reserves(US\$/boe)</i>	20.90
<i>Net Present Value (US\$/share)</i>	54	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.48
<i>Debt/Present Value</i>	0.22	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.89
<i>McDep Ratio - EV/PV</i>	0.65	<i>Price/Earnings Next Twelve Months</i>	16
<i>Dividend Yield (%/year)</i>	3.2	<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 http://www.mcdep.com/3mro.htm			

Summary and Recommendation

Hold-rated **Marathon Oil (MRO)** offers unlevered appreciation potential of 54% to a McDep Ratio of 1.0 and levered appreciation potential of 82% to Net Present Value (NPV) of \$54 a share. During the first quarter, according to results released today, MRO generated cash from oil and gas production of about US\$20 a barrel of oil equivalent as the difference between price of about US\$40 and cash operating costs of about US\$20. Unlevered cash flow (Ebitda) was better than our expectations from three months ago in downstream refining by more than enough to offset lower than projected Ebitda in upstream production (see table Next Twelve Months Operating and Financial Estimates). 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 (see table Functional Cash Flow and Present Value). By latest disclosures, oil and gas reserves, weighted by development, are concentrated 51% by heating value in Africa (see table Production and Reserves, 2008). African oil is concentrated in Libya and natural gas in West Africa. Pointing to expected oil price recovery, futures prices for the next six years averaged \$66 a barrel recently (see chart Six-Year Commodity Price Meter).

Kurt H. Wulff, CFA



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Marathon Oil Corporation									
Next Twelve Months Operating and Financial Estimates									
	Q1	Q4	Year	Q1	Q2E	Q3E	Q4E	Year	Next
	3/31/08	12/31/08	2008	3/31/09	6/30/09	9/30/09	12/31/09	2009E	Twelve
									Months
									3/31/10
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	482	454	449	425	425	425	425	425	425
Overseas (or Int'l)	647	552	570	656	540	540	540	569	540
Total	1,129	1,006	1,019	1,081	965	965	965	994	965
Days	91	92	366	90	91	92	92	365	365
Oil (mbd)	230	281	245	256	256	256	256	256	256
Total gas & oil (bcf)	228	248	910	236	228	230	230	923	913
Total gas & oil (mbd)	418	449	415	436	417	417	417	422	417
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.02	6.95	9.04	4.90	3.42	3.62	4.57	4.13	4.30
U.S. (or North America)	6.83	5.00	7.01	4.49	3.13	3.32	4.19	3.78	3.94
Overseas (or Int'l)	3.19	3.14	2.96	2.30	2.57	3.14	3.14	2.77	2.79
Total	4.74	3.98	4.75	3.16	2.82	3.22	3.60	3.20	3.30
Oil (\$/bbl)									
WTI Cushing	97.94	58.45	99.59	42.96	49.97	52.66	55.70	50.32	54.12
Worldwide	88.75	57.89	90.86	39.99	46.51	49.02	51.85	46.88	50.37
Total gas & oil (\$/mcf)	10.27	7.53	10.89	5.22	5.85	6.26	6.70	6.00	6.43
NY Harbor 3-2-1 (\$/bbl)	7.57	5.10	9.86	9.18	8.11	6.98	3.00	6.82	5.74
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	300	209	1,150	172	121	130	164	586	612
Overseas (or Int'l)	188	159	616	136	126	156	156	574	550
Total	487	368	1,766	308	248	286	320	1,161	1,162
Oil	1,857	1,497	8,151	921	1,084	1,154	1,221	4,380	4,706
Other	15,755	12,933	68,651	9,128	9,128	9,128	9,128	36,513	36,513
Total	18,100	14,798	78,569	10,357	10,459	10,568	10,669	42,054	42,381
Expense	16,240	12,502	68,683	9,158	9,005	9,075	9,290	36,527	36,796
Ebitda (\$mm)									
Exploration and Production	1,610	1,477	7,131	786	892	965	1,032	3,675	3,932
Other	250	819	2,755	413	562	529	347	1,851	1,653
Total Ebitda	1,860	2,296	9,886	1,199	1,454	1,494	1,379	5,527	5,585
Exploration	129	122	490	62	100	100	100	362	450
Deprec., Deplet., & Amort.	451	626	2,178	665	665	665	665	2,660	2,660
Other non cash									
Ebit	1,280	1,548	7,218	472	689	729	614	2,505	2,475
Interest	100	100	400	100	100	100	100	400	400
Ebt	1,180	1,448	6,818	372	589	629	514	2,105	2,075
Income Tax	413	430	2,309	130	206	220	180	737	726
Net Income (\$mm)									
Exploration and Production	711	364	3,033	76					
Other	24	361	1,325	186					
Unallocated	32	293	150	(20)					
Total	767	1,018	4,508	242	383	409	334	1,368	1,348
Shares (millions)	717	707	712	712	712	712	712	712	712
Per share (\$)	1.07	1.44	6.33	0.34	0.54	0.57	0.47	1.92	1.89
Ebitda Margin (E&P)	69%	79%	72%	64%	67%	67%	67%	66%	67%
Tax Rate	35%	30%	34%	35%	35%	35%	35%	35%	35%



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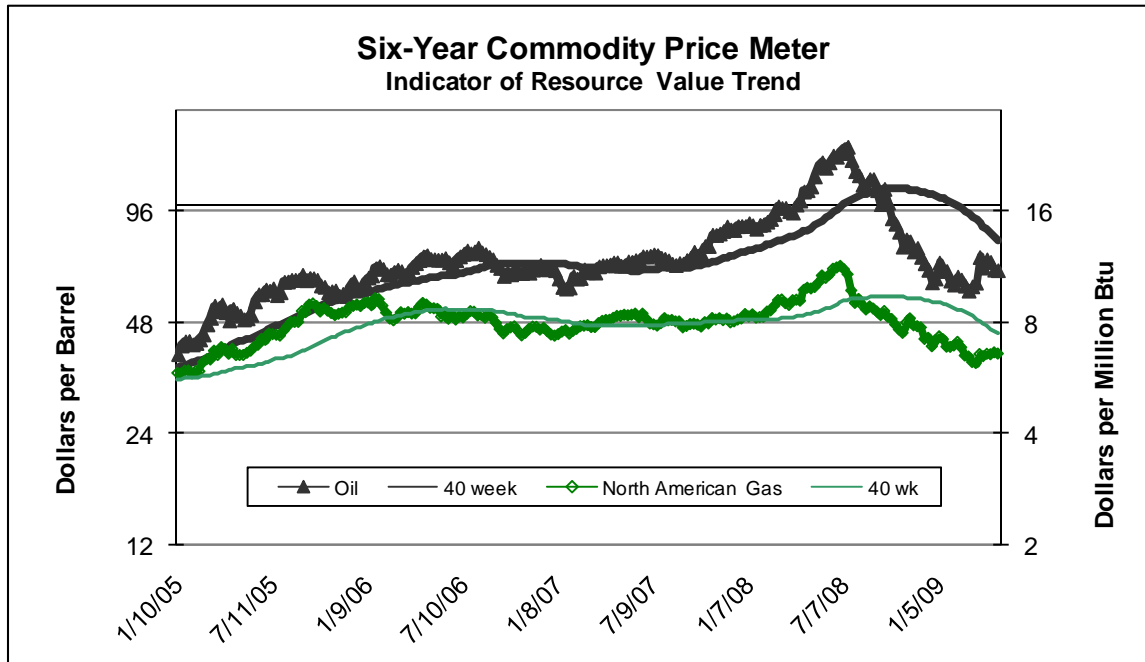
Marathon Oil Corporation					
Functional Cash Flow and Present Value					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>Ebitda</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
North American Natural Gas	410	6.2	11.7	4,800	10%
Rest of World Natural Gas	370	13.1	9.5	3,500	7%
Oil	3,150	8.7	8.8	27,800	57%
Downstream	1,650		7.9	13,000	26%
	5,580	9.2	8.8	49,100	100%
Debt					10,700
Net Present Value (\$mm)					38,400
Shares					712
Net Present Value - Standard Estimate (US\$/sh)					54
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					60

Marathon Oil								
Production and Reserves, 2008								
				12/31/2008 Proven Reserves			<i>Weighted</i>	<i>Adjusted</i>
		2008 Production		<i>Developed</i>	<i>Undeveloped</i>	<i>Weighted</i>	<i>Life Index</i>	<i>R/P</i>
		<i>(daily)</i>	<i>(annual)</i>	<i>(bcf or mmb)</i>	<i>(bcf or mmb)</i>	<i>(bcf or mmb)</i>	<i>(years)</i>	<i>(years)</i>
U.S. Natural Gas		449	164	839	246	962	5.9	6.2
Rest of World Natural Gas								
	Europe	164	60	129	162	210	3.5	
	Africa	370	135	1,382	1,975	2,370	17.6	
	Total	534	195	1,511	2,137	2,580	13.2	13.1
Oil								
	U.S.	63	23	137	41	158	6.8	
	Canada	32	12	234		234	20	
	Europe	55	20	81	23	73	3.7	
	Africa	93	34	296	58	325	9.6	
	Total	243	89	748	122	809	9.1	8.7
Total Oil Equivalent		407	149	1,139	519	1,399	9.4	9.2



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