



Independent Stock Idea

August 3, 2009

rating: buy
s&p 500: 996 intraday

Marathon Oil (MRO) Favorable Trends for Future Profit

<i>Symbol</i>	MRO	<i>Ebitda Next Twelve Months ending 6/30/10 (US\$mm)</i>	7,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	6
<i>Price (US\$/sh)</i>	32.94	<i>Natural Gas and Oil Production/Ebitda (%)</i>	76
<i>Pricing Date</i>	8/3/09	<i>Adjusted Reserves/Production NTM</i>	8.3
<i>Shares (mm)</i>	711	<i>EV/Ebitda</i>	4.9
<i>Market Capitalization (US\$mm)</i>	23,400	<i>PV/Ebitda</i>	6.9
<i>Debt (US\$mm)</i>	11,300	<i>Undeveloped Reserves (%)</i>	31
<i>Enterprise Value (EV) (US\$mm)</i>	34,700	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	31.60
<i>Present Value (PV) (US\$mm)</i>	49,000	<i>Present Value Proven Reserves(US\$/boe)</i>	22.40
<i>Net Present Value (US\$/share)</i>	53	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.73
<i>Debt/Present Value</i>	0.23	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.19
<i>McDep Ratio - EV/PV</i>	0.71	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	2.9	<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, \$8 a million btu.			
For historical research on Marathon since 2001 see http://www.mcdep.com/3mro.htm			

Summary and Recommendation

Buy-recommended **Marathon Oil (MRO)** offers unlevered appreciation potential of 41% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$53 a share. On July 14 we reduced NPV from \$54 when we reduced estimated Present Value of North American Natural Gas by 20%. Released today, second quarter results were modestly below our estimate for unlevered cash flow (Ebitda) from three months ago. Higher upstream volume was offset by lower cash flow margin (see table Next Twelve Months Operating and Financial Estimates). Compared to peers, downstream was a star by not declining much recently (see chart Downstream Cash Flow). After fourth quarter startup, a \$3.7 billion dollar expansion of the Garyville, Louisiana refinery will boost Marathon's efficiency in an improving outlook for industry margins. Meanwhile, the oil production segment drives 60% of NPV (see table Functional Cash Flow and Present Value). Latest results cement a positive upstream volume trend (see chart Volume per Share, Adjusted for Debt and Dividends). Production cash flow generally tracks the industry (see chart Cash Flow per Barrel). Pointing to possible further gains, futures prices for the next six years for oil crossed the 40-week average into an uptrend at the end of May (see chart Six-Year Commodity Price Meter). Shortly after, on June 2, we restored our buy rating on Marathon to profit from an improving outlook for energy growth.

Kurt H. Wulff, CFA



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Marathon Oil Corporation									
Next Twelve Months Operating and Financial Estimates									
	Q2	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Next
	6/30/08	3/31/09	6/30/09	9/30/09	12/31/09	2009E	3/31/10	6/30/10	Twelve
									Months
									6/30/10
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	431	425	365	365	365	380	365	365	365
Overseas (or Int'l)	573	656	593	593	593	609	593	540	580
Total	1,004	1,081	958	958	958	988	958	905	945
Days	91	90	91	92	92	365	90	91	365
Oil (mbd)	213	256	307	307	307	294	307	307	307
Total gas & oil (bcf)	208	236	255	258	258	1,006	252	250	1,017
Total gas & oil (mbd))	380	436	467	467	467	459	467	458	464
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	10.93	4.90	3.50	3.70	4.69	4.20	5.65	5.61	4.91
U.S. (or North America)	8.66	4.49	3.60	3.81	4.83	4.20	5.81	5.77	5.05
Overseas (or Int'l)	2.57	2.30	1.32	1.50	2.00	1.79	2.50	3.00	2.23
Total	5.19	3.16	2.19	2.38	3.08	2.72	3.76	4.12	3.32
Oil (\$/bbl)									
WTI Cushing	123.97	42.96	59.52	67.06	71.33	60.22	73.86	75.58	71.96
Worldwide	111.90	39.99	55.44	62.46	66.45	56.87	68.80	70.41	67.01
Total gas & oil (\$/mcf)	12.73	5.22	6.83	7.66	8.34	7.05	8.83	9.23	8.51
NY Harbor 3-2-1 (\$/bbl)	14.94	9.18	9.49	9.14	5.49	8.32	5.38	8.52	7.13
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	340	172	120	128	162	582	191	192	673
Overseas (or Int'l)	134	136	71	82	109	398	133	147	472
Total	474	308	191	210	271	980	324	339	1,145
Oil	2,169	921	1,549	1,764	1,877	6,111	1,901	1,967	7,509
Other	19,582	9,128	11,618	11,618	11,618	43,983	11,618	11,618	46,473
Total	22,225	10,357	13,358	13,592	13,766	51,074	13,844	13,924	55,127
Expense (\$mm)	19,788	9,158	12,110	11,839	12,087	45,195	12,051	12,074	48,051
Ebitda (\$mm)									
Exploration and Production	1,882	786	827	1,224	1,332	4,169	1,380	1,430	5,365
Other	555	413	421	529	347	1,710	413	421	1,710
Total Ebitda	2,437	1,199	1,248	1,753	1,679	5,879	1,793	1,851	7,076
Exploration	130	62	64	64	64	254	150	100	378
Deprec., Deplet., & Amort.	504	665	701	701	701	2,768	701	701	2,804
Other non cash									
Ebit	1,803	472	483	988	914	2,857	942	1,050	3,894
Interest	100	100	100	100	100	400	100	100	400
Ebt	1,703	372	383	888	814	2,457	842	950	3,494
Income Tax	596	130	134	311	285	860	295	332	1,223
Net Income (\$mm)									
Exploration and Production	921	76	60						
Other	260	186	178						
Unallocated	(74)	(20)	11						
Total	1,107	242	249	577	529	1,597	547	617	2,271
Shares (millions)	714	712	711	711	711	711	711	711	711
Per share (\$)	1.55	0.34	0.35	0.81	0.74	2.25	0.77	0.87	3.19
Ebitda Margin (E&P)	71%	64%	48%	62%	62%	59%	62%	62%	62%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

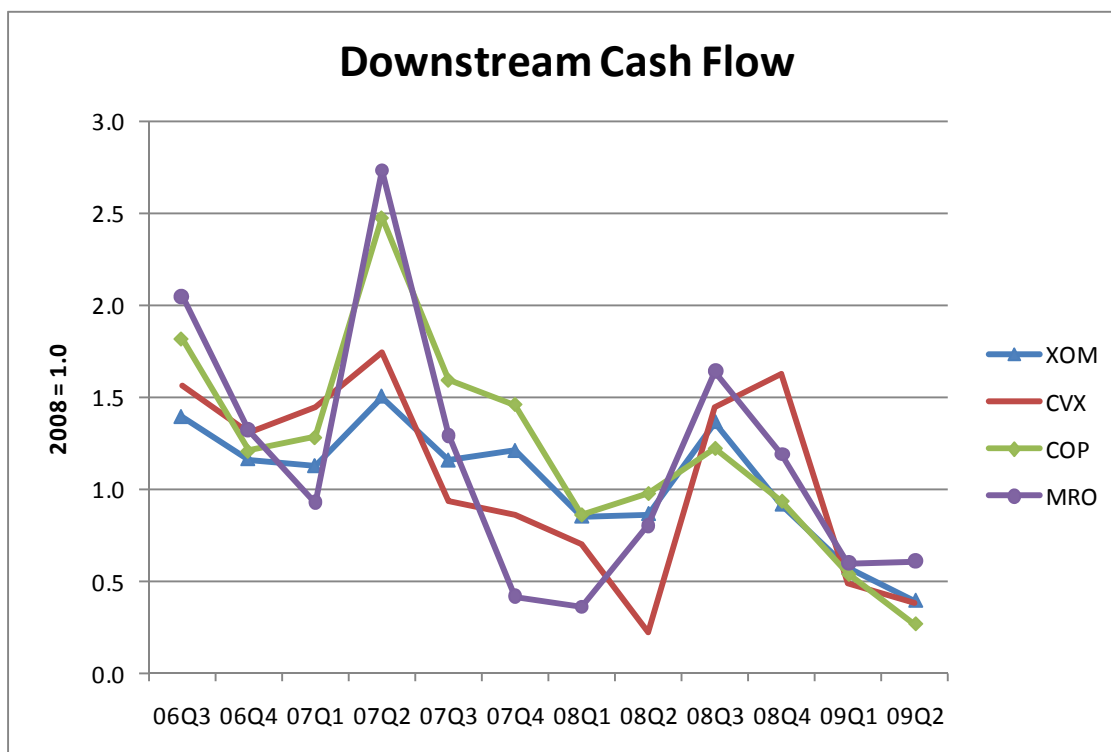
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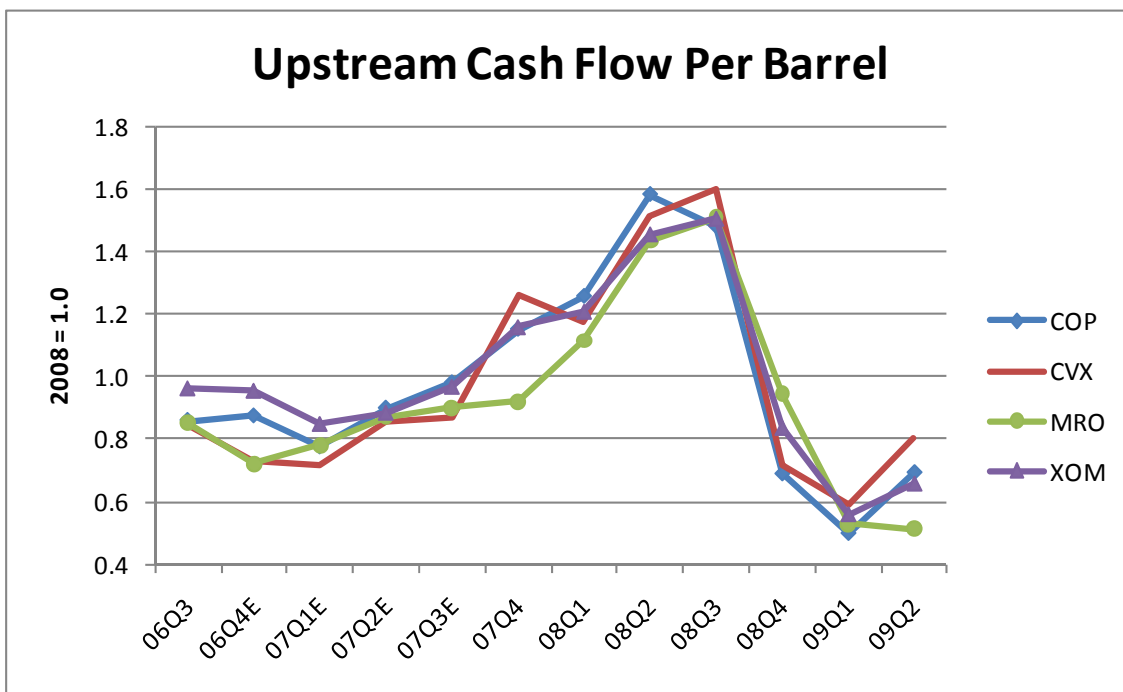
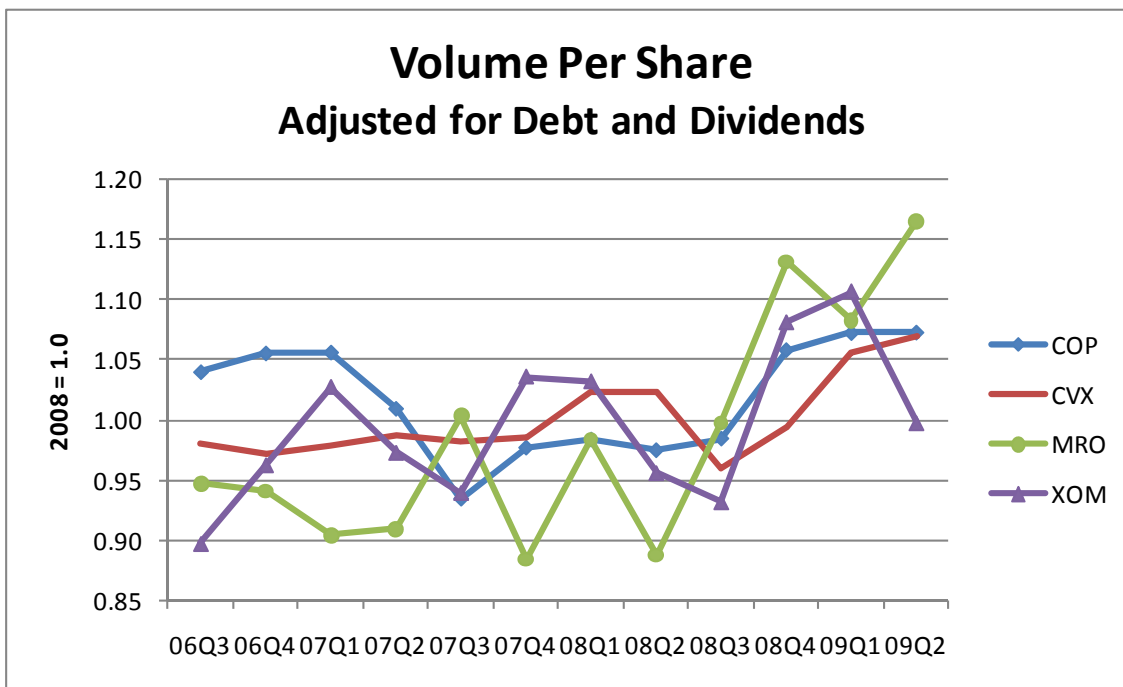


Marathon Oil Corporation					
Functional Cash Flow and Present Value					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>Ebitda</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
North American Natural Gas	420	7.2	9.0	3,800	8%
Rest of World Natural Gas	290	12.2	9.0	2,600	5%
Oil	4,660	7.2	6.4	29,600	60%
Downstream	1,710		7.6	13,000	27%
	7,080	8.3	6.9	49,000	100%
Debt					11,300
Net Present Value (\$mm)					37,700
Shares					711
Net Present Value - Standard Estimate (US\$/sh)					53
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					55



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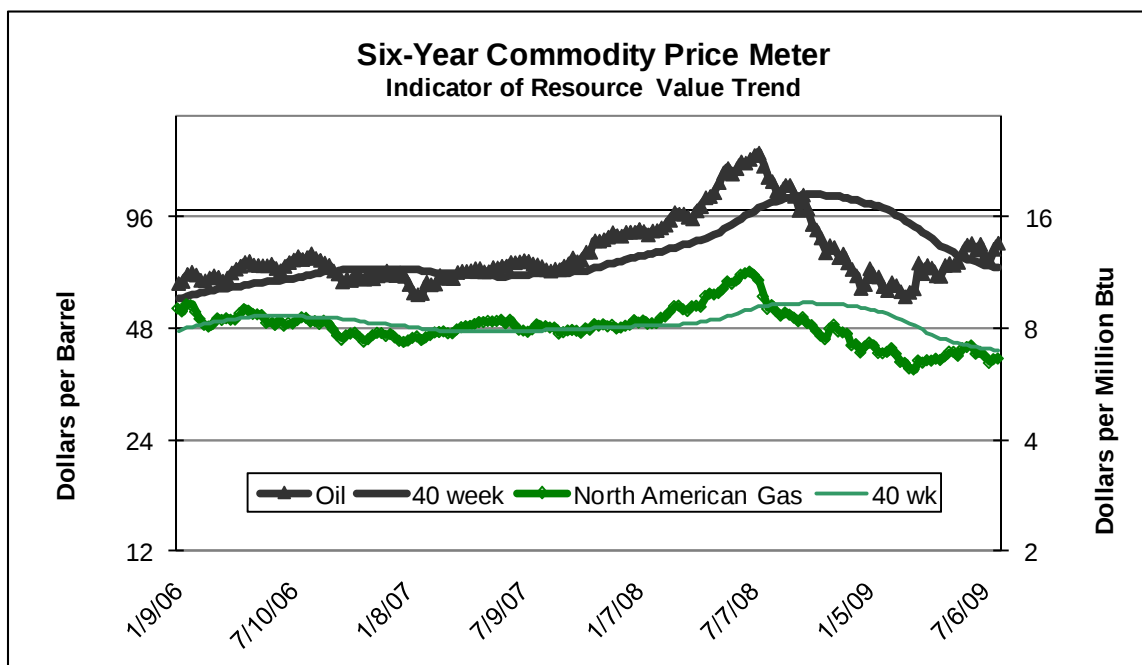
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