



Marathon Petroleum Corp. (MPC)

Updated February 3rd, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$45	5 Year CAGR Estimate:	7.2%	Market Cap:	\$29.2 B
Fair Value Price:	\$49	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	2/16/2021
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.8%	Dividend Payment Date:	3/10/2021
Dividend Yield:	5.2%	5 Year Price Target	\$52	Years Of Dividend Growth:	9
Dividend Risk Score:	F	Retirement Suitability Score:	D	Last Dividend Increase:	9.4%

Overview & Current Events

Marathon Petroleum Corp. (MPC) was spun off from Marathon Oil Corp. (MRO) in 2011. After the acquisition of Andeavor Logistics in October of 2018, MPC has become the largest U.S. refiner, with 16 refineries and a refining capacity of 3.1 million barrels per day. It also has a marketing system that includes ~6,800 branded locations, ~3,900 convenience stores (~2,740 are Speedway), and ~1,000 direct dealer locations. In addition, MPC owns a midstream MLP, (MPLX), which has gathering and processing assets as well as pipelines for crude oil and light products. Marathon Petroleum Corp. has a market capitalization of \$29.2 billion.

In early February, Marathon Petroleum reported (2/2/21) financial results for the fourth quarter of fiscal 2020. The pandemic continued to severely hurt the business of MPC. The demand for refined products remained suppressed and hence it caused a -55% decrease in the refining margin and a refinery utilization of only 82%, excluding idled refineries. Notably the midstream segment grew its operating income 9% over the prior year's quarter thanks to stable, fee-based earnings and contribution from growth projects. However, the refining segment switched from a profit of \$1.1 billion in the prior year's quarter to a loss of -\$1.6 billion, equal to the loss in the third quarter. As a result, MPC switched from an adjusted profit of \$1.56 per share to a loss of -\$0.94 per share. We expect the pandemic to subside in the second half of the year, but we expect the company to lose -\$0.30 per share this year due to the impact of the pandemic on its business in the first half of the year.

On August 2nd, 2020, MPC announced the sale of its Speedway business to 7-Eleven for \$21 billion in cash. The deal is still expected to close in Q1-2021 and includes a 15-year fuel supply agreement for about 7.7 billion gallons of fuel per year. The after-tax proceeds are estimated around \$16.5 billion. As this amount is 57% of the market cap of the stock, it is of paramount importance. MPC will use the proceeds to reduce its debt pile and enhance its shareholder returns.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$3.34	\$4.95	\$3.32	\$4.39	\$5.26	\$2.21	\$3.77	\$6.78	\$4.94	-\$3.44	-\$0.30	\$4.82
DPS	\$0.23	\$0.60	\$0.77	\$0.92	\$1.14	\$1.36	\$1.52	\$1.84	\$2.12	\$2.32	\$2.32	\$2.44
Shares¹	714.0	666.0	594.0	548.0	531.0	528.0	486.0	704.0	653.0	650.0	648.0	610.0

MPC greatly benefits from the inland location of some of the refineries of Andeavor. Thanks to the oil supply glut, these refineries usually buy their crude oil at a deep discount to WTI, so they enjoy high margins. Furthermore, when the pandemic subsides, U.S. refiners will benefit from the new international marine rules, which have come into effect since January 1st, 2020. As per these rules, vessels that sail in international waters are forced to burn diesel or ultra-low sulfur fuel oil instead of heavy fuel oil. As the former are much more expensive than the latter, they should boost refiner earnings. MPC is properly positioned to benefit from the new marine rules. Thanks to a series of past investments, the refiner can upgrade about 600,000 barrels per day of low-value residue to diesel. We expect the pandemic to subside and the demand for oil products to recover in the second half of this year thanks to the massive vaccination program that is underway. However, due to the sale of the Speedway business, we expect MPC to grow its earnings-per-share only 1.0% per year on average off their mid-cycle level (average 2015-2019) of \$4.59.

¹ In millions of shares

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	5.4	4.7	11.6	10.0	9.6	18.2	14.4	10.8	11.8	---	9.8	10.7
Avg. Yld.	1.3%	2.6%	2.0%	2.1%	2.3%	3.4%	2.8%	2.5%	3.6%	6.2%	5.2%	4.7%

Marathon is now trading at 9.8 times its mid-cycle earnings-per-share of \$4.59. This valuation level is lower than its historical average of 10.7. If the stock reverts to its average earnings multiple over the next five years, it will enjoy a 1.8% annualized gain in its return.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	6.9%	12.1%	23.2%	21.0%	21.7%	61.5%	40.3%	34.8%	42.9%	---	50.5%	50.5%

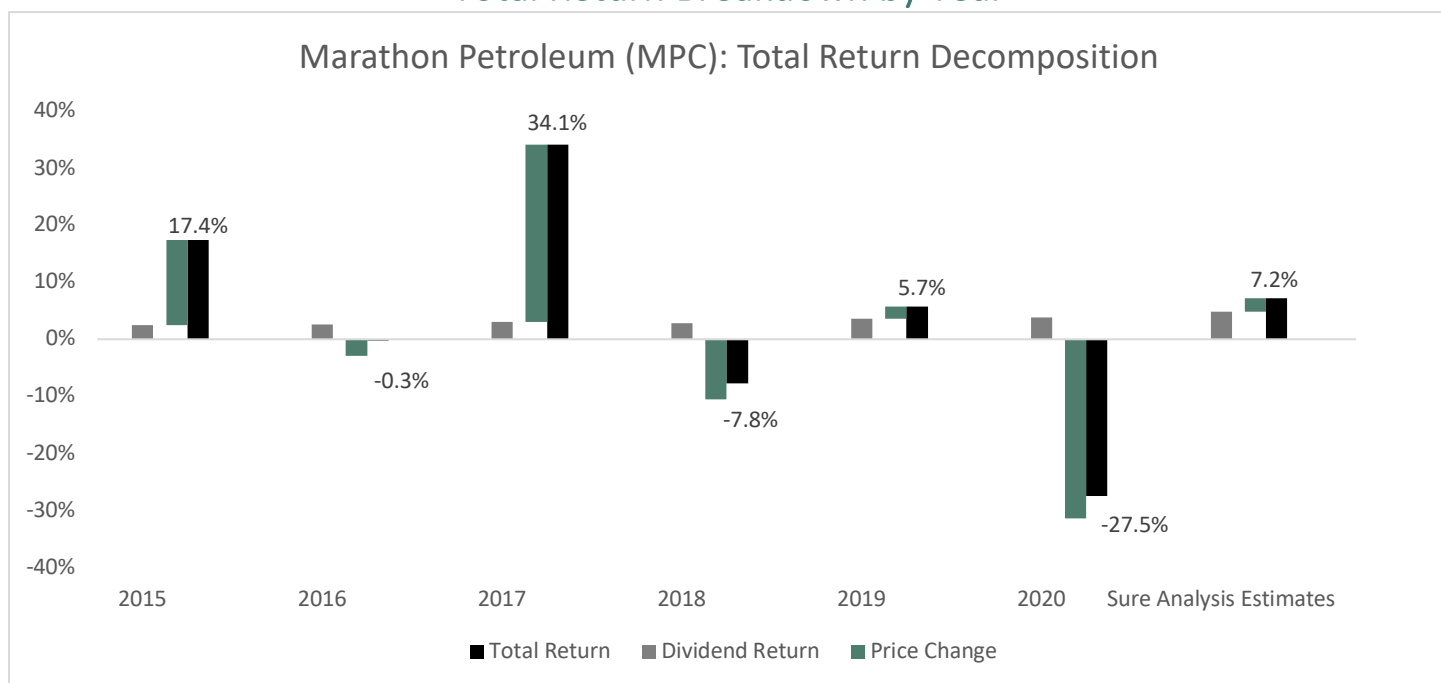
The acquisition of Andeavor has greatly enhanced the geographic diversification of Marathon and its potential to take advantage of fluctuations in price spreads among different types of crude oil and the dynamics of export markets. The acquisition will thus increase the earnings of the company and its resilience during downturns in the long run.

On the other hand, refining is a highly cyclical business, hence refiners are vulnerable to recessions. This was evident in the Great Recession, when the demand for oil products deteriorated and refining margins plunged. MPC was caught with a significant amount of debt in the current downturn due to its acquisition of Andeavor. The company solved the problem with the sale of Speedway, but its dividend could be cut if the pandemic does not subside this year.

Final Thoughts & Recommendation

We expect the pandemic to subside and the energy market to recover later this year. However, MPC has rallied 40% since our last research report, in November, and hence it has become less attractive. It could now offer a 7.2% average annual return over the next five years and hence we have lowered our rating from “buy” to “hold”. Investors who are afraid that the pandemic may last beyond this year may prefer a stock like HollyFrontier, which has a stronger balance sheet than MPC, or Phillips 66, which is more diversified than MPC.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	62487	78638	82243	100160	97817	72051	63339	74733	96504	123949
Gross Profit	7,222	10,036	12,300	11,182	12,216	14,288	4,523	5,530	7,948	10,068
Gross Margin	11.6%	12.8%	15.0%	11.2%	12.5%	19.8%	7.1%	7.4%	8.2%	8.1%
SG&A Exp.	874	1,059	1,223	1,248	1,375	1,576	1,597	1,694	2,418	3,408
D&A Exp.	941	891	995	1,220	1,326	1,502	2,001	2,114	2,490	3,638
Operating Profit	930	3,683	5,144	3,383	3,877	4,741	2,669	3,702	5,175	6,072
Op. Margin	1.5%	4.7%	6.3%	3.4%	4.0%	6.6%	4.2%	5.0%	5.4%	4.9%
Net Profit	623	2,389	3,389	2,112	2,524	2,852	1,174	3,432	2,780	2,637
Net Margin	1.0%	3.0%	4.1%	2.1%	2.6%	4.0%	1.9%	4.6%	2.9%	2.1%
Free Cash Flow	1,000	2,124	3,123	2,199	1,630	2,075	1,125	3,880	2,580	4,067
Income Tax	400	1,330	1,845	1,113	1,280	1,506	609	(460)	962	1,074

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	23232	25745	27223	28385	30425	43115	44413	49047	92940	98,556
Cash & Equivalents	118	3079	4860	2292	1494	1127	887	3011	1687	1,527
Acc. Receivable	N/A	5461	4610	5559	4058	2927	3617	4695	5853	7,872
Inventories	3071	3320	3449	4689	5642	5225	5656	5550	9837	10,243
Goodwill & Int.	837	842	930	938	1566	4019	3587	4217	23498	22,968
Total Liabilities	14988	16240	15118	17053	19035	23440	24210	28219	48891	56,417
Accounts Payable	6453	8189	6785	8234	6661	4743	5593	8297	9366	11,623
Long-Term Debt	3897	3307	3361	3396	6602	11925	10572	12946	27524	28,838
Total Equity	8244	9505	11694	10920	10751	13237	13557	14033	35175	33,694
D/E Ratio	0.47	0.35	0.29	0.31	0.61	0.90	0.78	0.92	0.78	0.86

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	2.8%	9.8%	12.8%	7.6%	8.6%	7.8%	2.7%	7.3%	3.9%	2.8%
Return on Equity	7.2%	26.9%	32.0%	18.7%	23.3%	23.8%	8.8%	24.9%	11.3%	7.7%
ROIC	5.2%	19.1%	24.0%	14.0%	15.4%	11.5%	3.8%	10.6%	5.3%	3.7%
Shares Out.	---	714.0	666.0	594.0	548.0	531.0	528.0	486.0	704.0	653.0
Revenue/Share	87.27	110.14	120.24	157.98	170.41	132.94	119.51	145.96	183.47	186.67
FCF/Share	1.40	2.97	4.57	3.47	2.84	3.83	2.12	7.58	4.90	6.13

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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