Marathon Petroleum Corp. (MPC)

Updated August 19th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	$56	**5 Year CAGR Estimate:**	2.6%	**Market Cap:**	$36.0 B
Fair Value Price:	$49	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date:**	8/17/2021
% Fair Value:	114%	**5 Year Valuation Multiple Estimate:**	-2.6%	**Dividend Payment Date:**	9/10/2021
Dividend Yield:	4.1%	**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. 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 $36.0 billion.

In early August, Marathon Petroleum reported (8/4/21) financial results for the second quarter of fiscal 2021. Thanks to the massive vaccine rollout and the resultant improvement in the demand for refined products, MPC began to recover from the pandemic. The refining segment switched from an operating loss of -$1.5 billion in last year's quarter to an operating profit of $224 million thanks to the expansion of its refining margin from $7.64 to $12.45. As a result, MPC switched from a loss of -$1.33 per share to a profit of $0.67 per share.

During the quarter, MPC completed the sale of its Speedway business to 7-Eleven for after-tax proceeds of $16.5 billion in cash. The deal includes a 15-year fuel supply agreement for about 7.7 billion gallons of fuel per year. MPC will use the proceeds to reduce its debt and will also return $9 billion to shareholders via share repurchases. The amount of share repurchases is massive, as it can reduce the share count by 25% at the current stock price. However, the market has already rewarded the stock with a premium for this buyback program.

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	***$0.60***	***$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***
Shares[1]	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 energy market to continue to recover from the pandemic 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 its mid-cycle level (average 2015-2019) of $4.59.

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	---	***12.2***	***10.7***
Avg. Yld.	1.3%	2.6%	2.0%	2.1%	2.3%	3.4%	2.8%	2.5%	3.6%	6.2%	***4.1%***	***4.7%***

[1] In millions of shares

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Marathon is currently trading at 12.2 times its mid-cycle earnings-per-share of $4.59. This valuation level is higher than its historical average of 10.7. If the stock reverts to its average earnings multiple, it will incur a -2.6% annualized drag 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%***

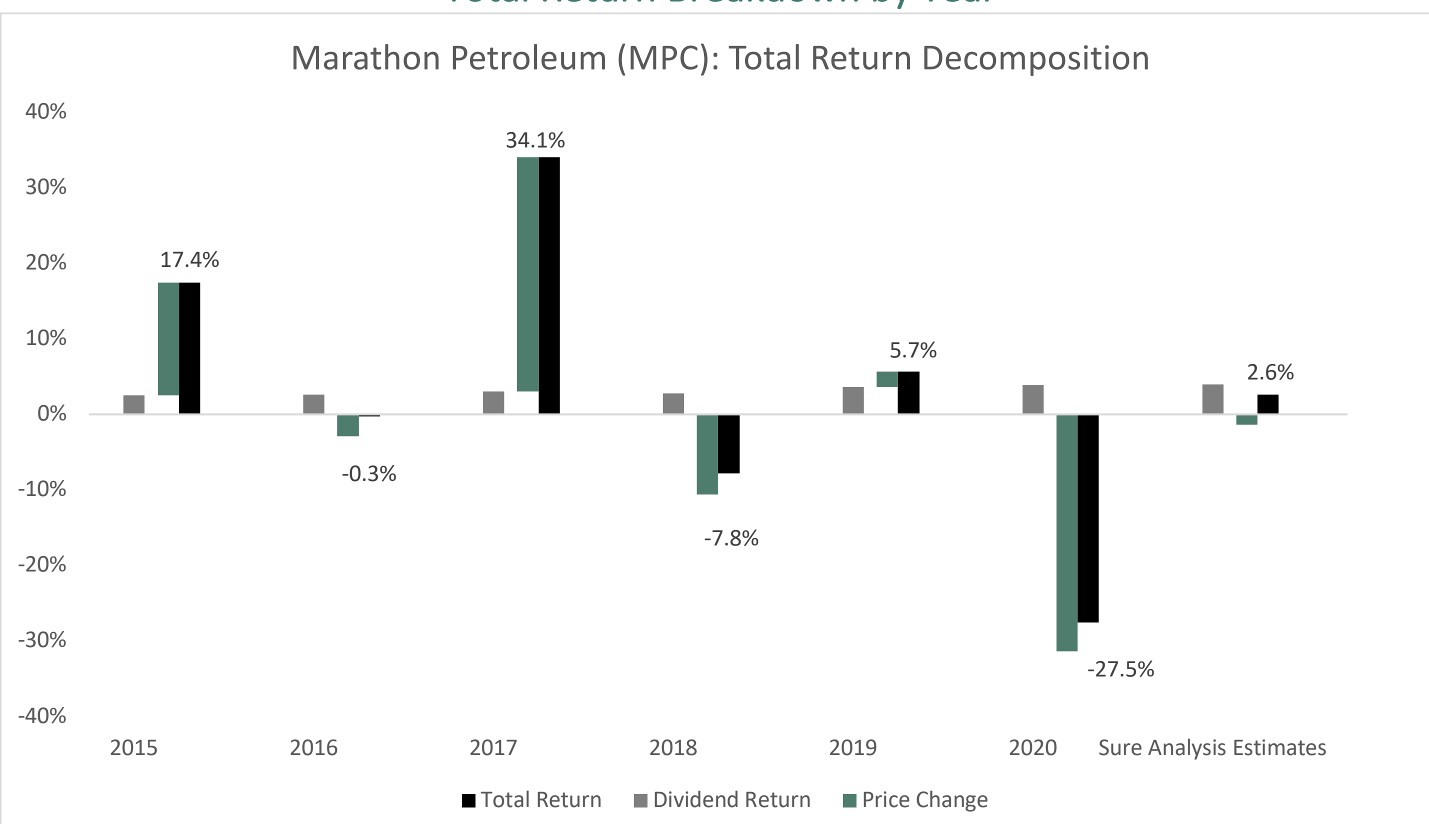
The acquisition of Andeavor has greatly enhanced the geographic diversification of Marathon and its potential to take advantage of fluctuations in price spreads among different types of crude oil and the dynamics of export markets. The acquisition will thus increase the earnings of the company and its 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 extends beyond this year.

Final Thoughts & Recommendation

The energy market has begun to recover this year thanks to the massive distribution of vaccines. However, MPC has doubled in about ten months thanks to the enthusiasm of the market over the recovery and the major sale of the Speedway business. As a result, we expect the stock to offer a mediocre 5-year average return and thus rate it as a sell. We also note that the stock will be vulnerable in the adverse scenario of a prolonged pandemic, which might result from the propagation of the delta variant of the coronavirus.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	78,638	82,243	100,160	97,817	72,051	63,339	74,733	86,086	111,148	69,779
Gross Profit	10,036	12,300	11,182	12,216	14,288	4,523	5,530	6,869	8,695	671
Gross Margin	12.8%	15.0%	11.2%	12.5%	19.8%	7.1%	7.4%	8.0%	7.8%	1.0%
SG&A Exp.	1,059	1,223	1,248	1,375	1,576	1,597	1,694	2,276	3,192	2,710
D&A Exp.	891	995	1,220	1,326	1,502	2,001	2,114	2,170	3,225	3,375
Operating Profit	3,683	5,144	3,383	3,877	4,741	2,669	3,702	4,385	5,069	(2,589)
Op. Margin	4.7%	6.3%	3.4%	4.0%	6.6%	4.2%	5.0%	5.1%	4.6%	-3.7%
Net Profit	2,389	3,389	2,112	2,524	2,852	1,174	3,432	2,780	2,637	(9,826)
Net Margin	3.0%	4.1%	2.1%	2.6%	4.0%	1.9%	4.6%	3.2%	2.4%	-14.1%
Free Cash Flow	2,124	3,123	2,199	1,630	2,075	1,125	3,880	2,979	4,631	(368)
Income Tax	1,330	1,845	1,113	1,280	1,506	609	(460)	764	784	(2,430)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	25,745	27,223	28,385	30,425	43,115	44,413	49,047	92,940	98,556	85,158
Cash & Equivalents	3,079	4,860	2,292	1,494	1,127	887	3,011	1,687	1,393	415
Acc. Receivable	5,461	4,610	5,559	4,058	2,927	3,617	4,695	5,853	7,233	5,760
Inventories	3,320	3,449	4,689	5,642	5,225	5,656	5,550	9,837	9,804	7,999
Goodwill & Int.	842	930	938	1,566	4,019	3,587	4,217	23,498	18,456	10,616
Total Liabilities	16,240	15,118	17,053	19,035	23,440	24,210	28,219	48,891	56,417	55,906
Accounts Payable	8,189	6,785	8,234	6,661	4,743	5,593	8,297	9,366	11,222	7,803
Long-Term Debt	3,307	3,361	3,396	6,602	11,925	10,572	12,946	27,524	28,724	31,584
Total Equity	9,505	11,694	10,920	10,751	13,237	13,557	14,033	35,175	33,694	22,199
D/E Ratio	0.35	0.29	0.31	0.61	0.90	0.78	0.92	0.78	0.85	1.42

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	9.8%	12.8%	7.6%	8.6%	7.8%	2.7%	7.3%	3.9%	2.8%	-10.7%
Return on Equity	26.9%	32.0%	18.7%	23.3%	23.8%	8.8%	24.9%	11.3%	7.7%	-35.2%
ROIC	19.1%	24.0%	14.0%	15.4%	11.5%	3.8%	10.6%	5.3%	3.7%	-14.9%
Shares Out.	714.0	666.0	594.0	548.0	531.0	528.0	486.0	704.0	653.0	650.0
Revenue/Share	110.14	120.24	157.98	170.41	132.94	119.51	145.96	163.66	167.39	107.52
FCF/Share	2.97	4.57	3.47	2.84	3.83	2.12	7.58	5.66	6.97	(0.57)

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