Marathon Petroleum Corp. (MPC)

Updated February 7th, 2022, by Aristofanis Papadatos

Key Metrics

Current Price:	$78	**5 Year CAGR Estimate:**	-0.5%	**Market Cap:**	$45.3 B
Fair Value Price:	$58	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	2/15/2022
% Fair Value:	134%	**5 Year Valuation Multiple Estimate:**	-5.7%	**Dividend Payment Date:**	3/10/2022
Dividend Yield:	3.0%	**5 Year Price Target**	$64	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	N/A

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 ~7,100 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 $45.3 billion.

In early February, Marathon Petroleum reported (2/2/22) financial results for the fourth quarter of fiscal 2021. Thanks to the massive distribution of vaccines and the resultant improvement in the demand for refined products, MPC continued to recover from the pandemic. The refining segment switched from an operating loss of -$1.6 billion in the prior year's quarter to an operating profit of $0.9 billion thanks to the expansion of its refining margins in all regions and higher volumes. In addition, the midstream segment (MPLX) enjoyed strong volumes and thus it grew its operating income 13%. As a result, MPC switched from a loss of -$0.94 per share to a profit of $1.30 per share.

MPC has returned 55% of the previously announced share repurchase program of $10 billion to its shareholders so far. Moreover, thanks to its strong business momentum, the refiner recently expanded this buyback program by another $5 billion. Therefore, MPC will repurchase approximately $9.5 billion of its shares until the end of 2023. The amount of share repurchases can reduce the share count by 21% 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$4.95	$3.32	$4.39	$5.26	$2.21	$3.77	$6.78	$4.94	-$3.44	$2.45	***$5.10***	***$5.63***
DPS	$0.60	$0.77	$0.92	$1.14	$1.36	$1.52	$1.84	$2.12	$2.32	$2.32	***$2.32***	***$2.44***
Shares[1]	666.0	594.0	548.0	531.0	528.0	486.0	704.0	653.0	650.0	609.0	***570.0***	***500.0***

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. However, due to the sale of the Speedway business, we expect MPC to grow its earnings-per-share only 2.0% per year on average off this year's expected level of $5.10.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	4.7	11.6	10.0	9.6	18.2	14.4	10.8	11.8	---	23.6	***15.3***	***11.4***
Avg. Yld.	2.6%	2.0%	2.1%	2.3%	3.4%	2.8%	2.5%	3.6%	6.2%	4.0%	***3.0%***	***3.8%***

[1] In millions of shares

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Marathon is currently trading at 15.3 times its expected earnings-per-share of $5.10. This valuation level is higher than its historical average of 11.4. If the stock reverts to its average earnings multiple, it will incur a -5.7% annualized drag in its return.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	12.1%	23.2%	21.0%	21.7%	61.5%	40.3%	34.8%	42.9%	---	94.7%	***45.5%***	***43.3%***

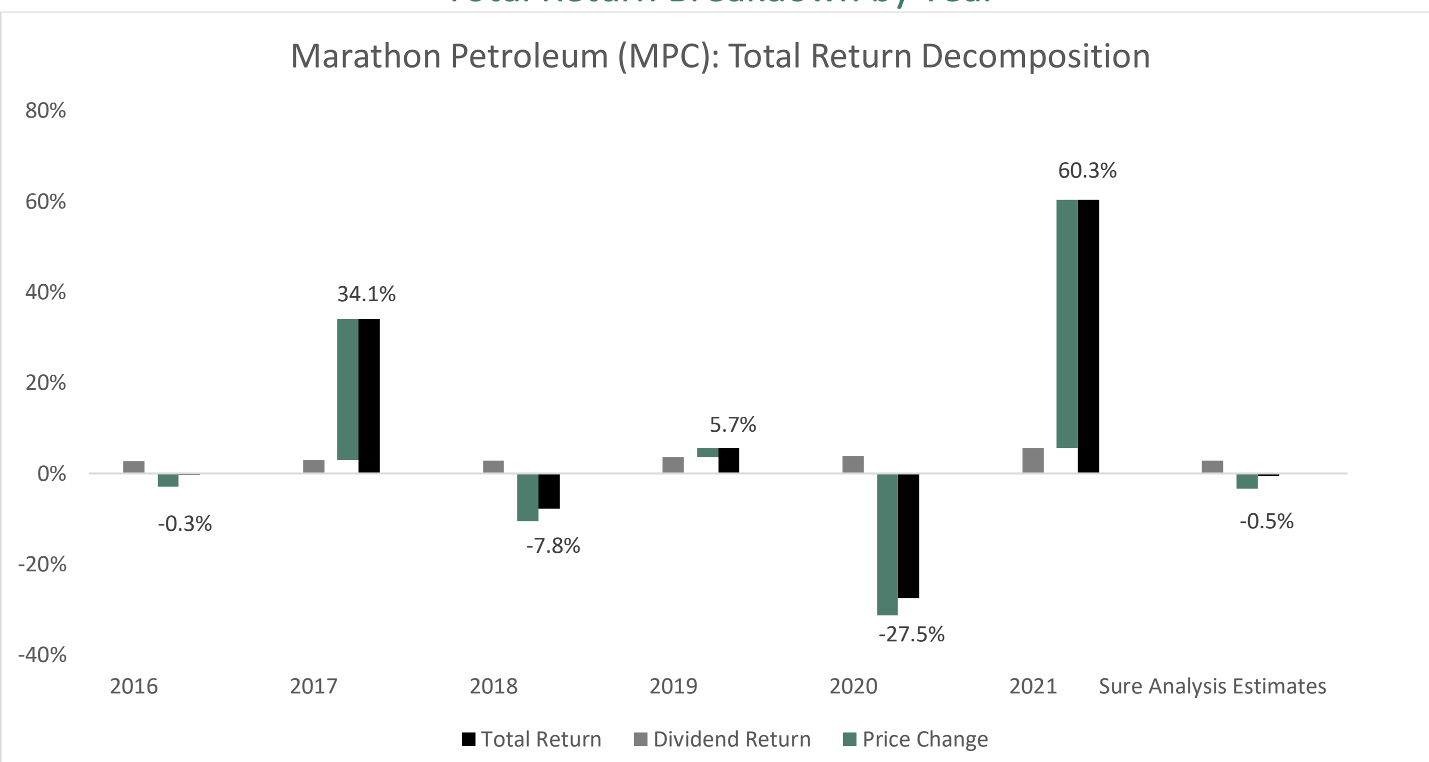
The acquisition of Andeavor has greatly enhanced the geographic diversification of Marathon and its potential to take advantage of fluctuations in price spreads among different types of crude oil and the dynamics of export markets. The acquisition will increase the earnings of the company and its resilience 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 downturn caused by the pandemic due to its acquisition of Andeavor. The company solved the problem with the sale of Speedway. Also given the ongoing recovery of global demand for refined products, the dividend has become fairly safe for the foreseeable future.

Final Thoughts & Recommendation

The energy market has begun to recover strongly from the pandemic thanks to the massive vaccine rollout. However, the rally of the price of oil to 8-year highs amid tight supply may cause some pressure on refining margins if demand growth for refined products decelerates. Moreover, the stock of MPC has doubled in the last 15 months thanks to the enthusiasm of the market over the recovery and the aggressive share repurchase program of the company. As a result, we expect the stock to offer a poor 5-year average return and thus rate it as a sell. MPC is thriving right now, but investors should keep the highly cyclical nature of the refining business in mind.

Total Return Breakdown by Year



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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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Income Statement Metrics

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

Balance Sheet Metrics

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

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	12.8%	7.6%	8.6%	7.8%	2.7%	7.3%	3.9%	2.8%	-10.7%
Return on Equity	32.0%	18.7%	23.3%	23.8%	8.8%	24.9%	11.3%	7.7%	-35.2%
ROIC	24.0%	14.0%	15.4%	11.5%	3.8%	10.6%	5.3%	3.7%	-14.9%
Shares Out.	666.0	594.0	548.0	531.0	528.0	486.0	704.0	653.0	650.0
Revenue/Share	120.24	157.98	170.41	132.94	119.51	145.96	163.66	167.39	107.52
FCF/Share	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.