



Marathon Petroleum Corp. (MPC)

Updated August 18th, 2022, by Aristofanis Papadatos

Key Metrics

| | | | | | |
|-----------------------------|-------|--|--------|----------------------------------|-----------|
| Current Price: | \$99 | 5 Year CAGR Estimate: | -4.7% | Market Cap: | \$49.2 B |
| Fair Value Price: | \$228 | 5 Year Growth Estimate: | -22.0% | Ex-Dividend Date: | 8/16/2022 |
| % Fair Value: | 43% | 5 Year Valuation Multiple Estimate: | 18.2% | Dividend Payment Date: | 9/12/2022 |
| Dividend Yield: | 2.3% | 5 Year Price Target | \$66 | Years Of Dividend Growth: | 0 |
| Dividend Risk Score: | C | Retirement Suitability Score: | D | Rating: | Sell |

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 \$49.2 billion.

In early August, Marathon Petroleum reported (8/2/22) financial results for the second quarter of fiscal 2022. Thanks to the recovery of demand for refined products from the pandemic and the extremely tight supply caused by the sanctions of western countries on Russia, refining margins more than tripled over last year's quarter, from \$12.45 to \$37.54, an unprecedented level. MPC also enhanced its refinery utilization from 94% to 100% and thus its refining segment grew its EBITDA from \$0.7 billion to a record \$7.7 billion. As a result, earnings-per-share jumped from \$0.67 to an all-time high of \$10.61. Given the blowout refining margins, which have remained in place in the running quarter due to the war in Ukraine, we have raised our forecast for the earnings-per-share from 8.00 to \$20.00.

MPC has returned 80% of the previously announced share repurchase program of \$15 billion to its shareholders so far and thus it has reduced its share count by 19% in the last 12 months. Therefore, MPC will repurchase approximately \$3.0 billion of its shares (~6% of the share count) until the end of 2023. 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 | \$20.00 | \$5.77 |
| 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 |
| Shares¹ | 666.0 | 594.0 | 548.0 | 531.0 | 528.0 | 486.0 | 704.0 | 653.0 | 650.0 | 609.0 | 500.0 | 450.0 |

MPC greatly benefits from the inland location of some of the refineries of Andeavor. Thanks to the oil supply glut under normal conditions, these refineries usually buy their crude oil at a deep discount to WTI, so they enjoy high margins. Furthermore, U.S. refiners 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 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. As long as the war in Ukraine does not come to an end, MPC will keep thriving thanks to the tight oil market. However, due to the blowout earnings this year and the sale of the Speedway business, we expect earnings-per-share to decline -22.0% per year on average over the next five years.

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 | 5.0 | 11.4 |
| Avg. Yld. | 2.6% | 2.0% | 2.1% | 2.3% | 3.4% | 2.8% | 2.5% | 3.6% | 6.2% | 4.0% | 2.3% | 3.7% |

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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Due to its blowout earnings this year, MPC is currently trading at just 5.0 times its expected earnings-per-share. This valuation level is much lower than its historical average of 11.4. If the stock reverts to its average earnings multiple, it will enjoy an 18.2% annualized gain 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% | 11.6% | 42.2% |

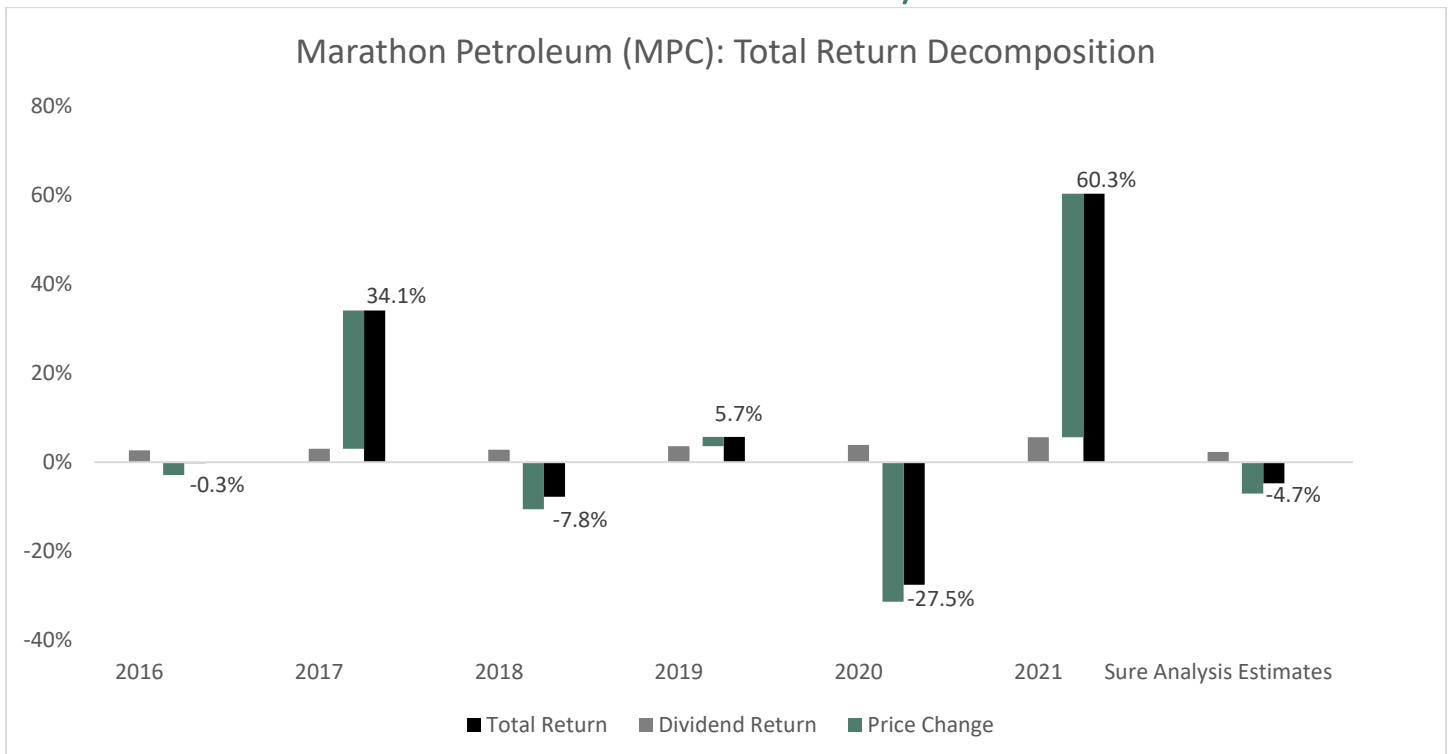
The acquisition of Andeavor has greatly enhanced the geographic diversification of Marathon and its potential to take advantage of fluctuations in price spreads among different types of crude oil and the dynamics of export markets. The acquisition will increase the earnings of the company and its resilience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

On the other hand, refining is a highly cyclical business and 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 safe for the foreseeable future.

Final Thoughts & Recommendation

MPC is thriving thanks to the recovery of global demand for oil products and the war in Ukraine, which has greatly reduced the global supply of these products, thus resulting in unprecedented refining margins. With that said, the stock of MPC has nearly doubled in the last 12 months. As a result, we expect the stock to offer a -4.7% average annual return over the next five years, as its 2.3% dividend and an 18.2% valuation tailwind may be offset by a -22% annual decline of earnings-per-share. We thus rate the stock as a sell. MPC is thriving right now, but investors should keep the highly cyclical nature of the refining business in mind. Whenever the war in Ukraine comes to an end, MPC will have material downside from its current all-time high level.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------|--------|---------|--------|--------|--------|--------|--------|---------|---------|---------|
| Revenue | 82,243 | 100,160 | 97,817 | 72,051 | 63,339 | 74,733 | 86,086 | 111,148 | 69,779 | 119,983 |
| Gross Profit | 12,300 | 11,182 | 12,216 | 14,288 | 4,523 | 5,530 | 6,869 | 8,695 | 671 | 6,611 |
| Gross Margin | 15.0% | 11.2% | 12.5% | 19.8% | 7.1% | 7.4% | 8.0% | 7.8% | 1.0% | 5.5% |
| SG&A Exp. | 1,223 | 1,248 | 1,375 | 1,576 | 1,597 | 1,694 | 2,276 | 3,192 | 2,710 | 2,537 |
| D&A Exp. | 995 | 1,220 | 1,326 | 1,502 | 2,001 | 2,114 | 2,170 | 3,225 | 3,375 | 3,364 |
| Operating Profit | 5,144 | 3,383 | 3,877 | 4,741 | 2,669 | 3,702 | 4,385 | 5,069 | (2,589) | 3,821 |
| Op. Margin | 6.3% | 3.4% | 4.0% | 6.6% | 4.2% | 5.0% | 5.1% | 4.6% | -3.7% | 3.2% |
| Net Profit | 3,389 | 2,112 | 2,524 | 2,852 | 1,174 | 3,432 | 2,780 | 2,637 | (9,826) | 9,738 |
| Net Margin | 4.1% | 2.1% | 2.6% | 4.0% | 1.9% | 4.6% | 3.2% | 2.4% | -14.1% | 8.1% |
| Free Cash Flow | 3,123 | 2,199 | 1,630 | 2,075 | 1,125 | 3,880 | 2,979 | 4,631 | (368) | 2,896 |
| Income Tax | 1,845 | 1,113 | 1,280 | 1,506 | 609 | (460) | 764 | 784 | (2,430) | 264 |

Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets | 27,223 | 28,385 | 30,425 | 43,115 | 44,413 | 49,047 | 92,940 | 98,556 | 85,158 | 85,373 |
| Cash & Equivalents | 4,860 | 2,292 | 1,494 | 1,127 | 887 | 3,011 | 1,687 | 1,393 | 415 | 5,291 |
| Acc. Receivable | 4,610 | 5,559 | 4,058 | 2,927 | 3,617 | 4,695 | 5,853 | 7,233 | 5,760 | 11,034 |
| Inventories | 3,449 | 4,689 | 5,642 | 5,225 | 5,656 | 5,550 | 9,837 | 9,804 | 7,999 | 8,055 |
| Goodwill & Int. | 930 | 938 | 1,566 | 4,019 | 3,587 | 4,217 | 23,498 | 18,456 | 10,616 | 10,391 |
| Total Liabilities | 15,118 | 17,053 | 19,035 | 23,440 | 24,210 | 28,219 | 48,891 | 56,417 | 55,906 | 51,792 |
| Accounts Payable | 6,785 | 8,234 | 6,661 | 4,743 | 5,593 | 8,297 | 9,366 | 11,222 | 7,803 | 13,700 |
| Long-Term Debt | 3,361 | 3,396 | 6,602 | 11,925 | 10,572 | 12,946 | 27,524 | 28,724 | 31,584 | 25,539 |
| Total Equity | 11,694 | 10,920 | 10,751 | 13,237 | 13,557 | 14,033 | 35,175 | 33,694 | 22,199 | 26,206 |
| LTD/E Ratio | 0.29 | 0.31 | 0.61 | 0.90 | 0.78 | 0.92 | 0.78 | 0.85 | 1.42 | 0.97 |

Profitability & Per Share Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Return on Assets | 12.8% | 7.6% | 8.6% | 7.8% | 2.7% | 7.3% | 3.9% | 2.8% | -10.7% | 11.4% |
| Return on Equity | 32.0% | 18.7% | 23.3% | 23.8% | 8.8% | 24.9% | 11.3% | 7.7% | -35.2% | 40.2% |
| ROIC | 24.0% | 14.0% | 15.4% | 11.5% | 3.8% | 10.6% | 5.3% | 3.7% | -14.9% | 16.1% |
| Shares Out. | 666.0 | 594.0 | 548.0 | 531.0 | 528.0 | 486.0 | 704.0 | 653.0 | 650.0 | 609.0 |
| Revenue/Share | 120.24 | 157.98 | 170.41 | 132.94 | 119.51 | 145.96 | 163.66 | 167.39 | 107.52 | 188.06 |
| FCF/Share | 4.57 | 3.47 | 2.84 | 3.83 | 2.12 | 7.58 | 5.66 | 6.97 | (0.57) | 4.54 |

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

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