



Marathon Petroleum Corp. (MPC)

Updated February 2nd, 2023, by Aristofanis Papadatos

Key Metrics

Current Price:	\$123	5 Year CAGR Estimate:	-5.9%	Market Cap:	\$58.4 B
Fair Value Price:	\$202	5 Year Growth Estimate:	-18.0%	Ex-Dividend Date:	2/15/2023
% Fair Value:	61%	5 Year Valuation Multiple Estimate:	10.5%	Dividend Payment Date:	3/10/2023
Dividend Yield:	2.4%	5 Year Price Target	\$75	Years Of Dividend Growth:	1
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 \$58.4 billion.

In late January, Marathon Petroleum reported (1/31/23) financial results for the fourth quarter of fiscal 2022. Thanks to the extremely tight supply caused by the sanctions of western countries on Russia, refining margins nearly doubled over the prior year's quarter, from \$15.88 to \$28.82. Therefore, despite flat utilization rate of 94%, the refining segment grew its EBITDA from \$1.5 billion to \$4.6 billion and thus the company more than quintupled its earnings-per-share, from \$1.30 to \$6.65. Refining margins have remained around all-time high levels due to the sanctions of western countries on Russia. We thus expect MPC to post its second-best earnings per share in its history this year.

Thanks to its unprecedented earnings, MPC raised its dividend by 30% and reduced its share count by a massive 24% last year. It also has another \$7.6 billion for share repurchases, which can reduce the share count by another 13%. Overall, MPC is currently thriving thanks to the sanctions of western countries on Russia, which have resulted in blowout refining margins. However, we are confident that refining margins will deflate in the upcoming years due to the cyclical nature of this industry.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.32	\$4.39	\$5.26	\$2.21	\$3.77	\$6.78	\$4.94	-\$3.44	\$2.45	\$26.16	\$17.00	\$6.30
DPS	\$0.77	\$0.92	\$1.14	\$1.36	\$1.52	\$1.84	\$2.12	\$2.32	\$2.32	\$2.49	\$3.00	\$3.32
Shares¹	594.0	548.0	531.0	528.0	486.0	704.0	653.0	650.0	609.0	465.0	430.0	380.0

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 expected this year and the sale of the Speedway business, we expect earnings-per-share to decline -18.0% per year on average until 2028.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	11.6	10.0	9.6	18.2	14.4	10.8	11.8	---	23.6	3.6	7.2	11.9
Avg. Yld.	2.0%	2.1%	2.3%	3.4%	2.8%	2.5%	3.6%	6.2%	4.0%	2.6%	2.4%	4.4%

¹ In millions of shares

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Due to its blowout earnings expected this year, MPC is currently trading at just 7.2 times its expected earnings-per-share. This valuation level is much lower than its historical average of 11.9. If the stock reverts to its average earnings multiple, it will enjoy a 10.5% annualized gain in its return.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	23.2%	21.0%	21.7%	61.5%	40.3%	34.8%	42.9%	---	94.7%	9.5%	17.6%	52.7%

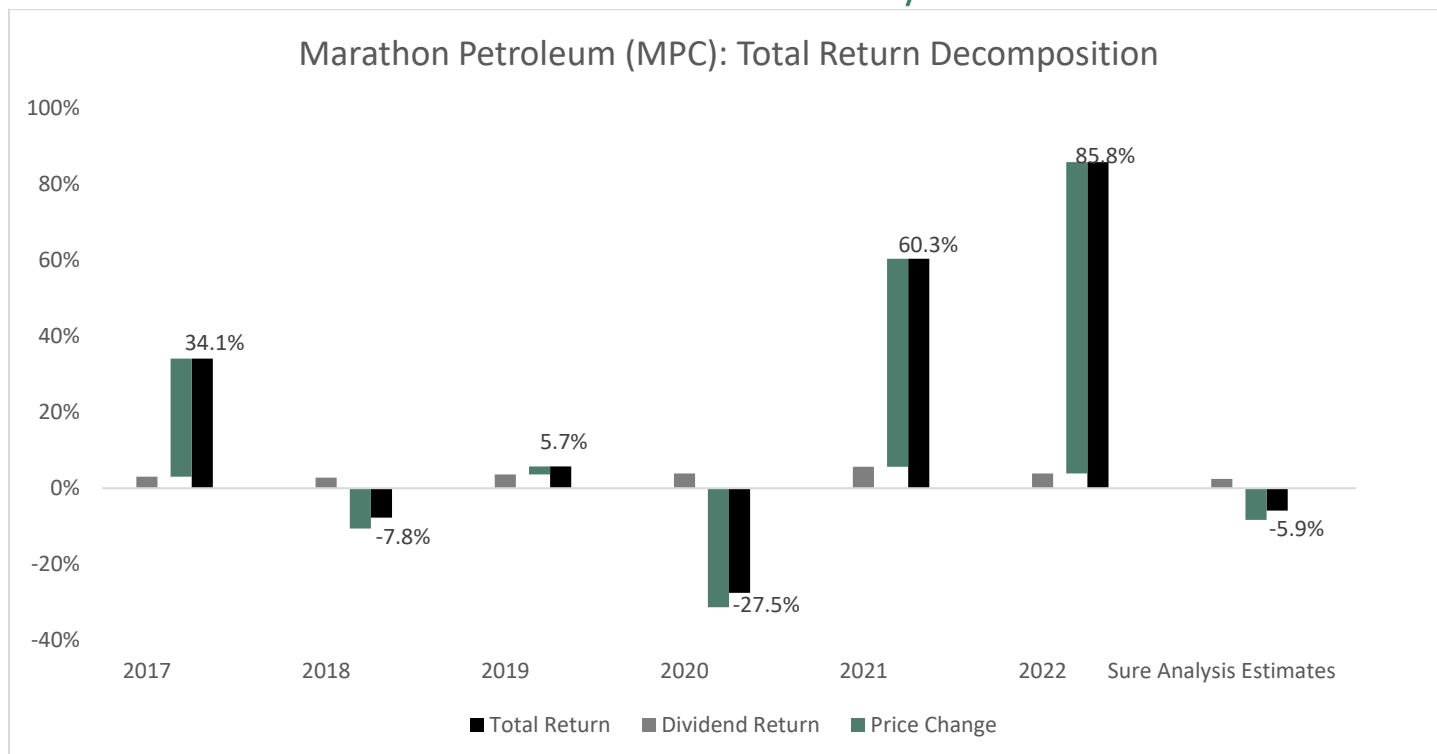
The acquisition of Andeavor has greatly enhanced the geographic diversification of Marathon and its potential to take advantage of fluctuations in price spreads among different types of crude oil and the dynamics of export markets. The acquisition will increase the earnings of the company and its resilience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

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 more than quadrupled off its bottom in 2020. As a result, we expect the stock to offer a -5.9% average annual return over the next five years, as its 2.4% dividend and a 10.5% valuation tailwind may be offset by a -18% 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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