



Marathon Petroleum Corp. (MPC)

Updated January 31st, 2024, by Aristofanis Papadatos

Key Metrics

Current Price:	\$170	5 Year CAGR Estimate:	-7.0%	Market Cap:	\$64.1 B
Fair Value Price:	\$171	5 Year Growth Estimate:	-10.0%	Ex-Dividend Date:	2/20/2024
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	0.1%	Dividend Payment Date:	3/11/2024
Dividend Yield:	1.9%	5 Year Price Target	\$101	Years Of Dividend Growth:	2
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 has a market capitalization of \$64.1 billion.

In late January, Marathon Petroleum reported (1/30/24) financial results for the fourth quarter of fiscal 2023. Refining margins moderated from a blowout level of \$28.82 per barrel in last year's quarter to \$17.79, but remained above average thanks to the tight global market of oil products caused by the sanctions of the U.S. and Europe on Russia. The refining segment saw its EBITDA decrease from \$4.6 billion to \$2.2 billion and earnings-per-share dipped -40%, from \$6.65 to \$3.98. However, MPC exceeded analysts' consensus by a massive \$1.76 and hence it has beaten analysts' estimates for 19 consecutive quarters. As refining margins have remained elevated amid the sanctions of western countries on Russia, we expect earnings-per-share of \$14.00 this year, far above the historical average of the company.

Thanks to its blowout earnings, MPC has reduced its share count by a massive 42% in the last three years and has another \$5.9 billion for share repurchases, which can reduce the share count by another 9%. Overall, MPC is thriving thanks to the aforementioned sanctions, 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$4.39	\$5.26	\$2.21	\$3.77	\$6.78	\$4.94	-\$3.44	\$2.45	\$26.16	\$23.63	\$14.00	\$8.27
DPS	\$0.92	\$1.14	\$1.36	\$1.52	\$1.84	\$2.12	\$2.32	\$2.32	\$2.49	\$3.08	\$3.30	\$3.64
Shares¹	548.0	531.0	528.0	486.0	704.0	653.0	650.0	609.0	465.0	377.0	340.0	300.0

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, 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 -10.0% per year on average until 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	10.0	9.6	18.2	14.4	10.8	11.8	---	23.6	3.6	5.6	12.1	12.2
Avg. Yld.	2.1%	2.3%	3.4%	2.8%	2.5%	3.6%	6.2%	4.0%	2.6%	2.3%	1.9%	3.6%

¹ In millions of shares

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MPC is currently trading at 12.1 times its expected earnings-per-share. This valuation level is nearly equal to the historical average of 12.2 of the stock. If the stock trades at its average earnings multiple in five years, it will enjoy a 0.1% annualized gain in its return.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	21.0%	21.7%	61.5%	40.3%	34.8%	42.9%	---	94.7%	9.5%	13.0%	23.6%	44.1%

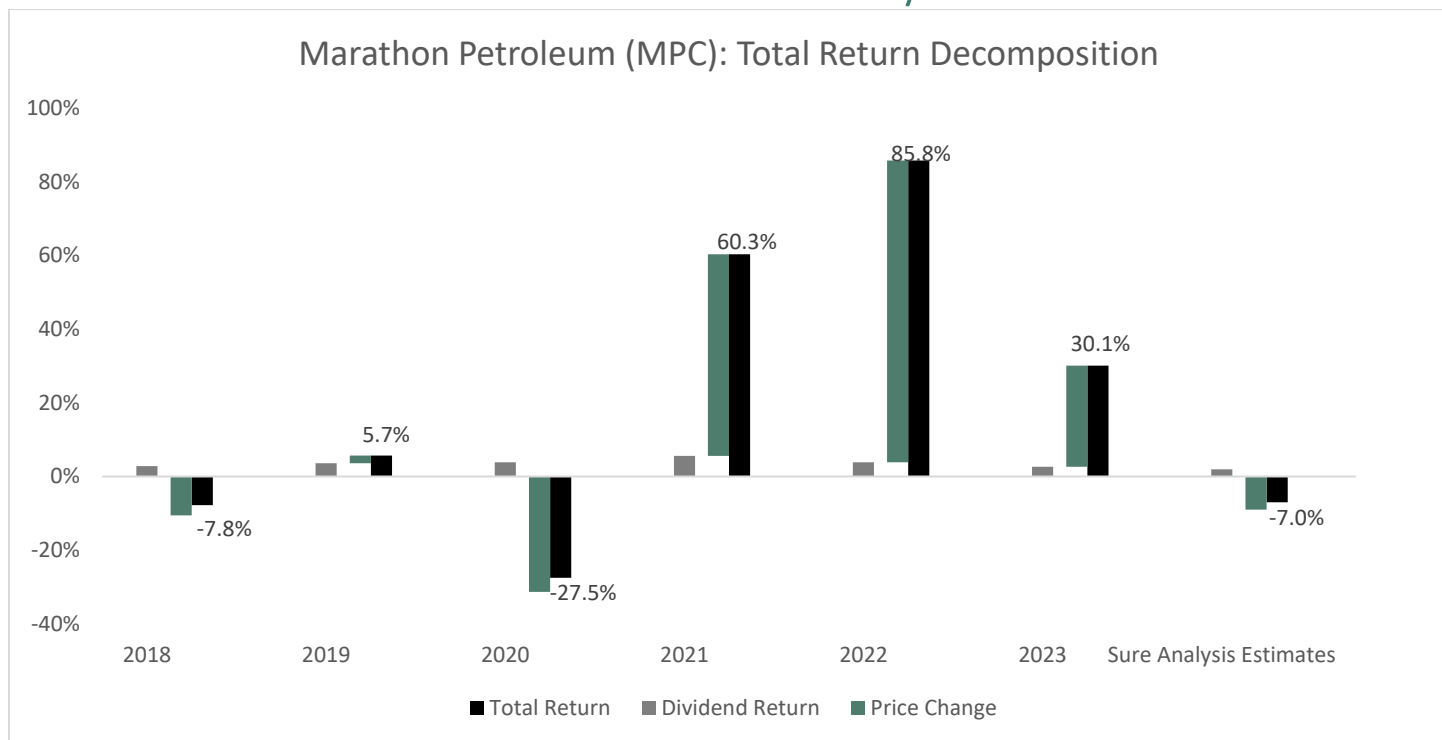
The acquisition of Andeavor has greatly enhanced the geographic diversification of Marathon and its potential to take advantage of fluctuations in price spreads among different types of crude oil and the dynamics of export markets. The acquisition will increase the earnings of the company and its resilience 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 rallied nearly 10-fold off its bottom in 2020. As a result, we expect the stock to offer a -7.0% average annual return over the next five years, as its 1.9% dividend and a 0.1% valuation tailwind may be offset by a -10% 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 level.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	97,817	72,051	63,339	74,733	86,086	111,148	69,779	119,983	177,453	148,379
Gross Profit	12,216	14,288	4,523	5,530	6,869	8,695	671	6,611	22,567	16,506
Gross Margin	12.5%	19.8%	7.1%	7.4%	8.0%	7.8%	1.0%	5.5%	12.7%	11.1%
SG&A Exp.	1,375	1,576	1,597	1,694	2,276	3,192	2,710	2,537	2,772	3,039
D&A Exp.	1,326	1,502	2,001	2,114	2,170	3,225	3,375	3,364	3,215	---
Operating Profit	3,877	4,741	2,669	3,702	4,385	5,069	(2,589)	3,821	18,970	12,586
Op. Margin	4.0%	6.6%	4.2%	5.0%	5.1%	4.6%	-3.7%	3.2%	10.7%	8.5%
Net Profit	2,524	2,852	1,174	3,432	2,780	2,637	(9,826)	9,738	14,516	9,681
Net Margin	2.6%	4.0%	1.9%	4.6%	3.2%	2.4%	-14.1%	8.1%	8.2%	6.5%
Free Cash Flow	1,630	2,075	1,125	3,880	2,979	4,631	(368)	2,896	13,941	---
Income Tax	1,280	1,506	609	(460)	764	784	(2,430)	264	4,491	2,817

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	30,425	43,115	44,413	49,047	92,940	98,556	85,158	85,373	89,904	---
Cash & Equivalents	1,494	1,127	887	3,011	1,687	1,393	415	5,291	8,625	5,443
Acc. Receivable	4,058	2,927	3,617	4,695	5,853	7,233	5,760	11,034	13,477	---
Inventories	5,642	5,225	5,656	5,550	9,837	9,804	7,999	8,055	8,827	---
Goodwill & Int.	1,566	4,019	3,587	4,217	23,498	18,456	10,616	10,391	8,244	---
Total Liabilities	19,035	23,440	24,210	28,219	48,891	56,417	55,906	51,792	54,817	---
Accounts Payable	6,661	4,743	5,593	8,297	9,366	11,222	7,803	13,700	15,312	---
Long-Term Debt	6,602	11,925	10,572	12,946	27,524	28,724	31,584	25,539	26,700	---
Total Equity	10,751	13,237	13,557	14,033	35,175	33,694	22,199	26,206	27,715	---
LTD/E Ratio	0.61	0.90	0.78	0.92	0.78	0.85	1.42	0.97	0.96	---

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	8.6%	7.8%	2.7%	7.3%	3.9%	2.8%	-10.7%	11.4%	16.6%	---
Return on Equity	23.3%	23.8%	8.8%	24.9%	11.3%	7.7%	-35.2%	40.2%	53.8%	---
ROIC	15.4%	11.5%	3.8%	10.6%	5.3%	3.7%	-14.9%	16.1%	24.0%	---
Shares Out.	548.0	531.0	528.0	486.0	704.0	653.0	650.0	609.0	516.0	409.0
Revenue/Share	170.41	132.94	119.51	145.96	163.66	167.39	107.52	188.06	343.90	362.78
FCF/Share	2.84	3.83	2.12	7.58	5.66	6.97	(0.57)	4.54	27.02	---

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

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