

Marathon Petroleum (MPC)

\$36.07 (As of 07/03/20)

Price Target (6-12 Months): **\$38.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/13/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: C

Momentum: C

Summary

Marathon Petroleum's 2018 acquisition with Andeavor bodes well for its future growth and revenue prospects. Apart from making Marathon Petroleum the top independent refiner in the U.S., the \$23.3 billion deal has created a nationwide refining giant in terms of geographic foothold with an enviable retail and marketing portfolio. In the Q1, 2020, the Ohio-based company showed impressive performance in its Retail segment. However, the refiner is experiencing an upswing in product cost that is reflected in higher total expenditures, which may dent its overall profits in the near-term. Further, Marathon is also grappling with weak refined products demand on account of the worldwide coronavirus-induced lockdown. As such, the stock warrants a cautious stance.

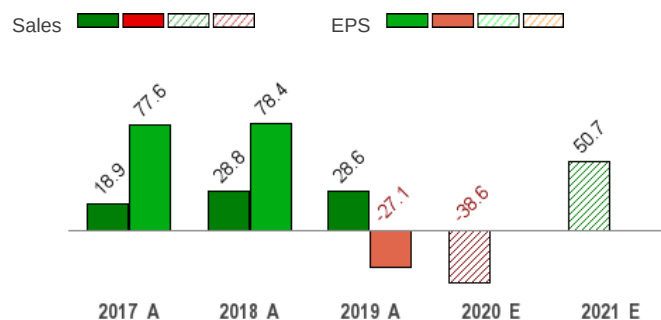
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$69.65 - \$15.26
20 Day Average Volume (sh)	9,234,108
Market Cap	\$23.5 B
YTD Price Change	-40.1%
Beta	2.22
Dividend / Div Yld	\$2.32 / 6.4%
Industry	Oil and Gas - Refining and Marketing
Zacks Industry Rank	Top 38% (96 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	33.3%
Last Sales Surprise	-7.0%
EPS F1 Est- 4 week change	1.8%
Expected Report Date	08/03/2020
Earnings ESP	6.1%
P/E TTM	7.6
P/E F1	NA
PEG F1	NA
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	25,064 E	31,165 E	32,248 E	31,721 E	115,612 E
2020	24,080 A	22,640 E	24,097 E	26,818 E	76,732 E
2019	28,615 A	33,688 A	31,202 A	31,375 A	124,880 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.43 E	\$0.92 E	\$1.44 E	\$0.26 E	\$2.03 E
2020	-\$0.16 A	-\$1.37 E	-\$0.39 E	-\$0.53 E	-\$2.08 E
2019	-\$0.09 A	\$1.73 A	\$1.63 A	\$1.56 A	\$4.94 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/03/2020. The reports text is as of 07/06/2020.

Overview

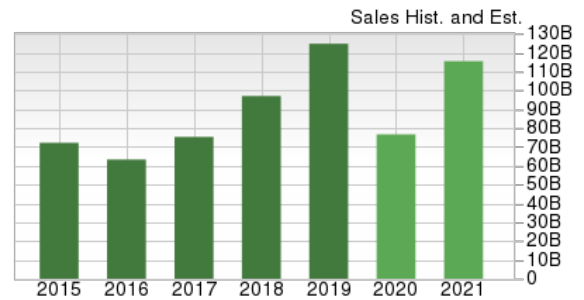
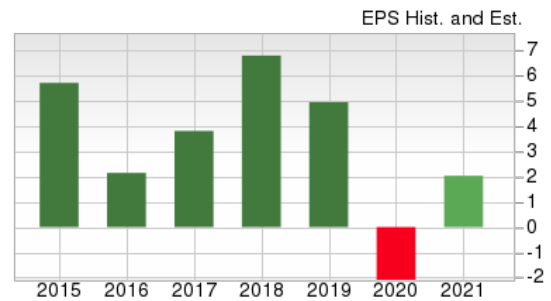
Findlay, OH-based Marathon Petroleum Corporation is a leading independent refiner, transporter and marketer of petroleum products. The company, in its current form, came into existence following the 2011 spin-off of Houston, TX-based Marathon Oil Corporation's refining/sales business into a separate, independent and publicly-traded entity. In October 2018, Marathon Oil completed the acquisition of its rival Andeavor in a \$23.3 billion deal, thereby becoming the nationwide largest refining company by market capitalization. The deal also made the company the largest U.S. refiner and the fifth largest in the world by capacity.

Marathon Petroleum operates in three segments: Refining and Marketing, Retail, and Pipeline Transportation.

Refining and Marketing: The unit's operations include 16 refineries, located in the West Coast, Gulf Coast and the Mid-Continent regions of the United States, having a combined crude processing capacity of more than 3 million barrels per day. Additionally, Marathon Petroleum – through its marketing organization – sells transportation fuels, asphalt and specialty products throughout the country to support commercial, industrial and retail operations. This segment contributed 31% of the company's 2019 earnings.

Retail: Marathon Petroleum has a retail footprint in Enon, OH, known as Speedway LLC, which is the second largest chain of company-owned and -operated gasoline and convenience stations in the United States. The retail segment consists of approximately 3,923 stores in the United States. The unit also includes contribution from the acquired retail assets of Andeavor. The 'Retail' segment contributed around 21% of the company's total earnings in 2019.

Midstream: This unit mainly reflects Marathon Petroleum's general partner and majority limited partner interests in MPLX LP and Andeavor Logistics LP - publicly-traded master limited partnerships that own and operate gathering and processing assets along with crude transportation and logistics infrastructure. As of Dec 31, Marathon Petroleum owned 63.6% each of MPLX's and ANDX's common units. The 'Midstream' segment contributed around 48% of the company's 2019 earnings.



Reasons To Buy:

- ▲ Marathon Petroleum's \$23.3 billion acquisition of Andeavor has integrated the premier assets of both the companies, bolstering the scale and leadership position of the combined entity in the United States. As it is, Marathon Petroleum's access to lower cost crude in the Permian, Bakken, and Canada helps it to benefit from the large differentials.
- ▲ Marathon Petroleum's diversified portfolio of refining, retail and midstream operations bode well, somewhat reducing its exposure to volatile commodity price fluctuations. While the company's refining profitability continue to be adversely affected amid lowering crack spreads, Marathon Petroleum's midstream arm MPLX did provide the necessary cushion. MPLX's robust portfolio of projects in the Permian, Marcellus and STACK shale plays offers significant growth opportunities along with fee-based stable revenue stream which is reflected in the parent's company overall results.
- ▲ Marathon Petroleum's Retail segment showed strong performance in the first-quarter. Income from the Retail segment totaled \$519 million, more than tripling from the year-ago period as a result of higher fuel margins. In particular, the company's retail fuel margin surged from 17.15 cents per gallon in the first quarter of 2019 to 32.91 cents per gallon in the quarter under review. Meanwhile, same-store merchandise sales edged up by 0.7% year over year.

Marathon Petroleum's acquisition of Andeavor has expanded its foothold in the Permian Basin, thereby creating an enviable retail and marketing portfolio.

Reasons To Sell:

- ▼ The economic disruption caused by the coronavirus outbreak and the associated demand destruction for refined products and transportation fuels on account of widespread lockdown is set to hurt earnings and cash flows of downstream operators like Marathon Petroleum over the next few quarters. As it is, the company has drastically reduced processing capacity to cope with the demand erosion caused by efforts to stem the spread of the coronavirus.
- ▼ Marathon Petroleum has been constantly bearing the brunt of increasing costs and expenses over the past few quarters, adversely affecting the income. It reported expenses of \$35.9 billion in first-quarter 2020, up 28.5% from the year-ago quarter. Moreover, turnaround activities in certain projects might also hamper the company's revenues in the near term. During 2020, Marathon Petroleum is likely to incur around \$1.1-\$1.2 billion as planned turnaround costs, which apart from elevating the operating expense per throughput barrel, also affects volumes.
- ▼ As of Mar 31, Marathon Petroleum had cash and cash equivalents of \$1.7 billion and a total debt of \$31.6 billion higher than the \$28.8 billion in the last quarter. The company has a debt-to-capitalization of 50.3%, reflecting a weak balance sheet. While the company recently entered into a \$1 billion, 364-day revolving credit facility to bolster its finances, investors are worried over the fact that the company has already \$3.5 million drawn on its \$5 billion line of credit.

Elevated expenses, together with turnaround costs, are likely to weigh on the earnings of Marathon Petroleum.

Last Earnings Report

Marathon Petroleum Posts Narrower-Than-Expected Q1 Loss

Independent oil refiner and marketer Marathon Petroleum Corporation reported adjusted loss per share of 16 cents, narrower than the Zacks Consensus Estimate of a loss of 24 cents. The company's bottom line was favorably impacted by strong performance by the Retail segment. Operating income from the unit totaled \$519 million, breezing past the Zacks Consensus Estimate of \$336 million.

However, the bottom line loss was wider than the year-earlier quarter's loss of 9 cents due to weak showing from the Refining & Marketing segment. The unit's results were dragged down by lower-than-expected throughput. Total throughput of 2,994 thousand barrels per day (mbpd) came below the Zacks Consensus Estimate of 3,053 mbpd, respectively.

Marathon Petroleum reported revenues of \$24.1 billion that missed the Zacks Consensus Estimate of \$27.9 billion and declined 15.8% year over year.

Forced by the historic oil market crash and the coronavirus-induced demand destruction for the fuel, Marathon Petroleum announced a cut to its 2020 capital spending plan by \$1.4 billion, or 30%, to \$3 billion. The company is also targeting a reduction in its operating expenses to \$950 million and said it would temporarily its stock repurchase program.

As part of Marathon Petroleum's efforts to shore up its financial strength, the company issued senior notes worth \$2.5 billion in April, apart from securing \$1 billion in additional revolving credit facility.

Y/Y Segmental Performance

Refining & Marketing: The Refining & Marketing segment reported operating loss of \$622 million, widening from the \$334 million loss in the year-ago quarter. The deterioration reflects lower y/y throughputs.

Specifically, refining margin of \$11.30 per barrel increased slightly versus \$11.17 a year ago. Total refined product sales volumes were 3,588 mbpd, down from the 3,669 mbpd in the year-ago quarter. Moreover, throughput fell from 3,084 mbpd in the year-ago quarter to 2,994 mbpd. Capacity utilization during the quarter was down 4% year over year to 91%.

Retail: Income from the Retail segment totaled \$519 million, more than tripling from the year-ago period as a result of higher fuel margins. In particular, the company's retail fuel margin surged from 17.15 cents per gallon in the first quarter of 2019 to 32.91 cents per gallon in the quarter under review. Meanwhile, same-store merchandise sales edged up by 0.7% year over year. However, same-store gasoline fuel volume fell 8.3% from the year-ago period.

Midstream: This unit mainly reflects Marathon Petroleum's general partner and majority limited partner interests in MPLX LP – a publicly-traded master limited partnerships that own, operate, develop and acquire pipelines and other midstream assets.

Segment profitability was \$905 million, essentially same as the fourth quarter of 2018. Earnings were buoyed by strong overall growth across MPLX's businesses, plus contribution from organic growth projects.

Costs, Capex & Balance Sheet

Marathon Petroleum – which spun off from Marathon Oil Corporation in 2011 – reported expenses of \$35.9 billion in first-quarter 2020, up 28.5% from the year-ago quarter.

In the reported quarter, Marathon Petroleum spent \$1.1 billion on capital programs (43% on Refining & Marketing and 45% on the Midstream segment). As of Mar 31, the company had cash and cash equivalents of \$1.7 billion and a total debt of \$31.6 billion, with a debt-to-capitalization ratio of 50.3%.

Quarter Ending 03/2020

Report Date	May 05, 2020
Sales Surprise	-7.04%
EPS Surprise	33.33%
Quarterly EPS	-0.16
Annual EPS (TTM)	4.76

Valuation

Shares of Marathon Petroleum are down 38.5% and 30.5% on year-to-date basis and over the trailing 12-month period, respectively. Stocks in the Zacks Oil and Gas-Refining and Marketing and the Zacks Oil-Energy sector are down 40% and 35% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 33.4% and 36.6%, respectively.

The S&P 500 index is down 1.8% in the year-to-date period but up 7.7% in the past year.

The stock is currently trading at 9.45X trailing 12-month EV/EBITDA, compared with 5.21X for the Zacks sub-industry, 3.76X for the Zacks sector and 11.51X for the S&P 500 index.

Over the past five years, the stock has traded as high as 12.33X and as low as 4.17X, with a 5-year median of 7.72X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$38 price target reflects 0.25X F12M sales.

The table below shows summary valuation data for MPC

Valuation Multiples - MPC					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	9.45	5.21	3.76	11.51
	5-Year High	12.33	16.34	10.48	12.81
	5-Year Low	4.17	4.32	3.76	8.24
	5-Year Median	7.72	7.54	6.67	10.75
P/S F12M	Current	0.24	0.25	0.73	3.48
	5-Year High	0.62	0.37	1.44	3.48
	5-Year Low	0.08	0.24	0.66	2.54
	5-Year Median	0.34	0.29	0.99	3.01
P/B TTM	Current	0.75	0.7	0.81	4.38
	5-Year High	2.43	1.82	1.55	4.52
	5-Year Low	0.35	0.7	0.81	2.82
	5-Year Median	1.21	1.25	1.33	3.63

As of 07/02/2020

Industry Analysis Zacks Industry Rank: Top 38% (96 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Royal Dutch Shell PLC (RDS.A)	Outperform	2
Chevron Corporation (CVX)	Neutral	2
Delek US Holdings, Inc. (DK)	Neutral	3
HollyFrontier Corporation (HFC)	Neutral	3
PBF Energy Inc. (PBF)	Neutral	3
Phillips 66 (PSX)	Neutral	3
Valero Energy Corporation (VLO)	Neutral	3
Exxon Mobil Corporation (XOM)	Neutral	3

Industry Comparison Industry: Oil And Gas - Refining And Marketing				Industry Peers		
	MPC	X Industry	S&P 500	HFC	PSX	VLO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	A	A	C
Market Cap	23.45 B	1.21 B	21.98 B	4.41 B	29.88 B	22.97 B
# of Analysts	9	5	14	8	9	9
Dividend Yield	6.43%	0.00%	1.91%	5.14%	5.26%	6.96%
Value Score	D	-	-	A	B	C
Cash/Price	0.07	0.20	0.07	0.20	0.04	0.07
EV/EBITDA	6.70	3.95	12.74	3.20	6.56	5.17
PEG Ratio	NA	5.08	2.89	NA	5.08	NA
Price/Book (P/B)	0.75	1.08	2.98	0.72	1.26	1.17
Price/Cash Flow (P/CF)	3.37	4.18	11.75	2.96	6.06	5.00
P/E (F1)	NA	20.57	21.41	NA	26.51	NA
Price/Sales (P/S)	0.19	0.22	2.30	0.26	0.28	0.22
Earnings Yield	-5.77%	-1.36%	4.42%	-1.36%	3.77%	-2.82%
Debt/Equity	1.02	1.02	0.76	0.46	0.45	0.54
Cash Flow (\$/share)	10.70	4.65	6.94	9.20	11.30	11.28
Growth Score	C	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	7.22%	9.39%	10.93%	26.05%	15.26%	-4.81%
Proj. EPS Growth (F1/F0)	-142.19%	-68.33%	-9.56%	-107.55%	-67.94%	-127.84%
Curr. Cash Flow Growth	13.40%	2.05%	5.51%	-5.96%	-27.54%	-11.67%
Hist. Cash Flow Growth (3-5 yrs)	12.38%	10.33%	8.62%	10.80%	0.90%	-2.48%
Current Ratio	1.16	1.20	1.30	1.92	1.11	1.31
Debt/Capital	51.24%	52.20%	44.46%	31.66%	31.20%	34.94%
Net Margin	-5.48%	-0.06%	10.62%	1.26%	0.35%	0.41%
Return on Equity	7.88%	9.91%	15.75%	12.69%	14.90%	10.51%
Sales/Assets	1.27	1.70	0.55	1.43	1.87	2.07
Proj. Sales Growth (F1/F0)	-38.56%	-18.62%	-2.54%	-34.84%	-29.48%	-32.42%
Momentum Score	C	-	-	D	A	F
Daily Price Chg	1.09%	-0.16%	0.47%	-1.77%	-1.00%	-0.18%
1 Week Price Chg	-7.38%	-9.48%	-3.90%	-12.50%	-8.88%	-10.83%
4 Week Price Chg	-5.18%	-12.74%	-3.77%	-20.92%	-17.70%	-19.57%
12 Week Price Chg	40.73%	8.70%	8.02%	3.03%	11.22%	12.45%
52 Week Price Chg	-33.60%	-36.79%	-7.59%	-39.98%	-29.48%	-31.28%
20 Day Average Volume	9,234,108	733,642	2,649,865	2,155,645	3,507,432	4,667,469
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-1.37%	0.00%	0.00%
(F1) EPS Est 4 week change	1.78%	0.00%	0.00%	-796.97%	12.93%	-0.63%
(F1) EPS Est 12 week change	-209.32%	-55.07%	-9.53%	-120.07%	-47.42%	-145.51%
(Q1) EPS Est Mthly Chg	-6.33%	0.00%	0.00%	-114.29%	40.23%	8.84%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	C
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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