

Marathon Petroleum (MPC)

\$59.39 (As of 01/09/20)

Price Target (6-12 Months): **\$63.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/14/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: A

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. Recently, the Ohio-based company gave investors another reason to cheer after it announced an increase to its dividend payout. 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 Petroleum is also grappling with planned turnaround schedules which apart from lowering gasoline production will also raise costs. As such, the stock warrants a cautious stance from the investors at the moment.

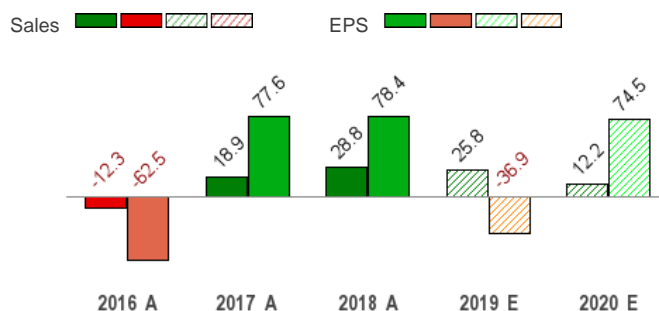
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$69.65 - \$43.96
20 Day Average Volume (sh)	4,993,600
Market Cap	\$38.6 B
YTD Price Change	-1.4%
Beta	1.66
Dividend / Div Yld	\$2.12 / 3.6%
Industry	Oil and Gas - Refining and Marketing
Zacks Industry Rank	Bottom 28% (182 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	25.4%
Last Sales Surprise	-0.9%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	01/29/2020
Earnings ESP	-5.0%
P/E TTM	10.5
P/E F1	8.0
PEG F1	0.9
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	32,153 E	39,336 E	41,769 E	32,206 E	137,152 E
2019	28,615 A	33,688 A	31,202 A	29,595 E	122,194 E
2018	18,984 A	22,445 A	23,132 A	32,541 A	97,102 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.06 E	\$2.50 E	\$2.58 E	\$1.12 E	\$7.47 E
2019	-\$0.09 A	\$1.73 A	\$1.63 A	\$1.00 E	\$4.28 E
2018	\$0.08 A	\$2.27 A	\$1.70 A	\$2.41 A	\$6.78 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 01/09/2020. The reports text is as of 01/10/2020.

Overview

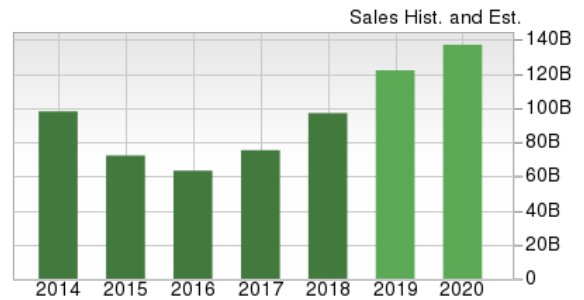
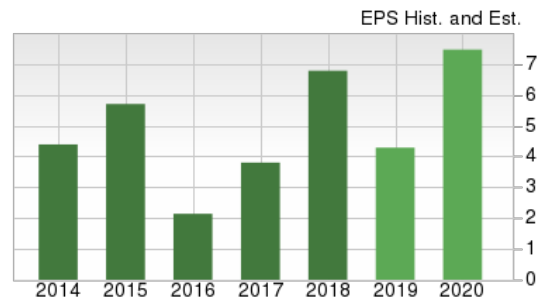
Findlay, OH-based Marathon Petroleum Corporation is a leading independent refiner, transporter and marketer of petroleum products. The company, in its current form, came into existence following the 2011 spin-off of Houston, TX-based Marathon Oil Corporation's refining/sales business into a separate, 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 40% of the company's 2018 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 16% of the company's total earnings in 2018.

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 44% of the company's 2018 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 financial flexibility and a strong balance sheet are real assets. Importantly, Marathon Petroleum is known for raising dividends and has an active share repurchase program. These highlight the company's commitment to return more value to shareholders. Notably, the company returned \$848 million capital to its shareholders in the latest reported quarter. As a show of confidence in its cash flow generating abilities going forward, Marathon Petroleum recently announced a 15% hike in its quarterly dividend.

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:

- ▼ Marathon Petroleum has been constantly bearing the brunt of increasing costs and expenses over the past few quarters, adversely affecting the income. In the latest reported quarter, the total costs rose to \$29.2 billion, more than 34.3% higher than the year-ago quarter.
- ▼ Unfavorable changes in environmental/regulatory policies may lead to considerable rise in capital expenditures and operating costs, which could affect Marathon Petroleum's revenues, earnings and cash flows.
- ▼ Moreover, turnaround activities in certain projects might also hamper the company's revenues in the near term. During the fourth quarter, Marathon Petroleum is likely to have incurred around \$185 million as planned turnaround costs, which apart from elevating the operating expense per throughput barrel, also affects volumes.

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

Last Earnings Report

Marathon Petroleum Q3 Earnings Beat, Revenues Miss Estimates

Independent oil refiner and marketer Marathon Petroleum Corporation reported adjusted earnings per share of \$1.63, above the Zacks Consensus Estimate of \$1.30. The beat was driven by strong throughput, which increased 55% from the third quarter of 2018.

However, the bottom line was 4.1% below the year-earlier quarter's earnings due to higher costs and expenses.

Marathon Petroleum's revenues of \$31.2 billion missed the Zacks Consensus Estimate of \$31.5 billion but surged 34.9% year over year.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	-0.91%
EPS Surprise	25.38%
Quarterly EPS	1.63
Annual EPS (TTM)	5.68

Other Developments

Concurrent with the earnings release, the company announced plans to separate its Speedway (or the retail) business and said that CEO Gary Heminger is set to retire. Finally, the Findlay, OH-based downstream operator – under pressure from billionaire activist investor Paul Singer's Elliott Management Corp.– promised the formation of a special committee to look into potential strategic alternatives for its midstream unit.

Segmental Performance

Refining & Marketing: The Refining & Marketing segment reported operating income of \$883 million, higher than \$666 million in the year-ago quarter and ahead of the Zacks Consensus Estimate of \$708 million. The improvement reflects higher y/y refining margins and rising throughputs (primarily on account of last year's Andeavor acquisition).

Specifically, refining margin of \$14.66 per barrel increased versus \$14.25 a year ago. Total refined product sales volumes were 3,706 thousand barrels per day (mbpd), up from the 2,382 mbpd in the year-ago quarter. Moreover, throughput increased from 2,032 mbpd in the year-ago quarter to 3,156 mbpd following the addition of the legacy Andeavor refineries. Capacity utilization during the quarter was 98%.

Retail: Income from the Retail segment totaled \$442 million, surging 174.5% from the year-ago period. In addition to strong performance at Marathon Petroleum's former Speedway unit, the segment's results were buoyed by contribution from the acquired retail assets of Andeavor. Across the board, the Retail segment benefitted from higher fuel margins and merchandise sales. In particular, the company's retail fuel margin rose from 16.5 cents per gallon in the third quarter of 2018 to 24.5 cents per gallon in the quarter under review. Meanwhile, same-store merchandise sales were up by 5.2% year over year.

Midstream: This unit mainly reflects Marathon Petroleum's the 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 \$919 million, up from \$679 million in the third quarter of 2018 and ahead of the Zacks Consensus Estimate of \$912 million. Earnings were buoyed by strong overall growth across MPLX's businesses, supported by contributions from legacy Andeavor Logistics assets.

Costs, Capex & Balance Sheet

Marathon Petroleum – which spun off from Marathon Oil Corporation in 2011 – reported expenses of \$29.2 billion in third-quarter 2019, 34.3% higher than the year-ago quarter.

In the reported quarter, Marathon Petroleum spent \$1.6 billion on capital programs (50% on the Midstream segment). As of Sep 30, the company had cash and cash equivalents of \$1.5 billion and a total debt of \$28.8 billion, with a debt-to-capitalization ratio of 40.3%.

During the third quarter, Marathon Petroleum returned \$848 million of capital to shareholders, including \$500 million in share buybacks.

Recent News

Marathon Names New Director, Provides Strategy Update

On **Dec 16** Marathon Petroleum Corporation announced that it has entered into an agreement with activist investor Elliott Management wherein the former appointed Jonathan Cohen as a board member. The incumbent director Greg Goff, who will retire by this year-end, will hand over his duties officially to his successor thereafter.

Jonathan Cohen, the former founder and executive of multiple energy-related businesses in the E&P and midstream sectors including Atlas Pipeline Partners LP and the general partner of Arc Logistics Partners LP will shortly join the special committee of the Marathon Petroleum board. He will undertake responsibilities like evaluating options for the midstream business and oversee the Marathon Petroleum CEO search process, which is already on track. Management earlier informed that Gary R. Heminger, chairman and CEO, is planning to quit in 2020.

Additionally, appointment of an independent advisor in Marathon Petroleum's special committee for evaluating midstream options in a non-voting capacity was announced. Further updates on the formation of the special midstream committee will be provided in early 2020.

Claiming that the company suffered a long-term undervaluation in the equity market, Elliott had earlier this year, recommended a split to help the company better its business scale while enhancing its shareholder value.

In this proposal, Elliott had advised the company to disintegrate into three distinct independent concerns, namely RetailCo turning into an autonomous Speedway, MidstreamCo converting to MPLX LP and RefiningCO transforming into New Marathon.

Elliott, which holds nearly 2.5% stake in Marathon Petroleum, believes that with this split, the latter will be able to achieve a \$22-billion boost to its shareholder value as well as a \$17-billion incentive to enable the company to develop its refining, retailing and marketing businesses. Further, the same could drive its stock value by almost 61% from the current levels.

Notably, this Findlay, OH-based leading independent refiner, transporter and marketer of petroleum products is working on forming the largest U.S. listed convenience store operator by separating Speedway from its parent platform into an independent publicly traded company. The transaction, contingent upon pending approvals, is scheduled to close by the end of 2020.

Valuation

Shares of Marathon Petroleum are down 4.9% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are down 2.1% and 0.4%, respectively.

The S&P 500 index is up 27.1% over the past year.

The stock is currently trading at 6.77 trailing 12-month EV/EBITDA, compared with 7.14X for the Zacks sub-industry, 5.09X for the Zacks sector and 11.99X for the S&P 500 index.

Over the past five years, the stock has traded as high as 11.49X and as low as 4.21X, with a 5-year median of 7.59X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$63 price target reflects 8.28X F12M earnings.

The table below shows summary valuation data for MPC

Valuation Multiples - MPC					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	6.77	7.14	5.09	11.99
	5-Year High	11.49	16.37	10.22	12.86
	5-Year Low	4.21	4.44	4.55	8.48
	5-Year Median	7.59	7.4	6.5	10.67
P/E F12M	Current	7.81	9.51	15.03	18.82
	5-Year High	24.11	15.83	32.45	19.34
	5-Year Low	6.41	8.59	11.28	15.17
	5-Year Median	10.81	11.09	18.7	17.44
P/S F12M	Current	0.28	0.29	0.9	3.49
	5-Year High	0.62	0.37	1.44	3.49
	5-Year Low	0.21	0.24	0.66	2.54
	5-Year Median	0.34	0.29	0.99	3

As of 01/09/2020

Industry Analysis Zacks Industry Rank: Bottom 28% (182 out of 254)



Top Peers

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

Industry Comparison Industry: Oil And Gas - Refining And Marketing				Industry Peers		
	MPC Neutral	X Industry	S&P 500	HFC Neutral	PSX Neutral	VLO Neutral
VGM Score	A	-	-	A	A	A
Market Cap	38.56 B	2.70 B	23.84 B	7.77 B	46.93 B	39.09 B
# of Analysts	9	4	13	8	9	7
Dividend Yield	3.57%	0.47%	1.79%	2.91%	3.41%	3.78%
Value Score	A	-	-	A	A	A
Cash/Price	0.04	0.08	0.04	0.13	0.05	0.06
EV/EBITDA	9.44	7.46	13.88	4.57	5.98	6.81
PEG Ratio	0.90	1.54	2.02	0.94	1.54	1.24
Price/Book (P/B)	0.92	1.77	3.33	1.19	1.73	1.81
Price/Cash Flow (P/CF)	6.69	8.20	13.76	5.29	7.03	7.61
P/E (F1)	7.95	11.18	18.76	9.58	10.03	9.91
Price/Sales (P/S)	0.31	0.36	2.63	0.45	0.43	0.36
Earnings Yield	12.58%	8.82%	5.32%	10.44%	9.97%	10.10%
Debt/Equity	0.71	0.62	0.72	0.43	0.41	0.42
Cash Flow (\$/share)	8.87	3.93	6.94	9.11	15.03	12.51
Growth Score	A	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	3.48%	7.18%	10.56%	17.90%	9.90%	-5.51%
Proj. EPS Growth (F1/F0)	74.24%	20.05%	7.46%	0.30%	20.05%	93.24%
Curr. Cash Flow Growth	48.56%	14.29%	14.83%	89.45%	91.99%	24.76%
Hist. Cash Flow Growth (3-5 yrs)	12.55%	9.89%	9.00%	8.42%	8.47%	4.78%
Current Ratio	1.25	1.29	1.23	2.07	1.29	1.40
Debt/Capital	42.25%	38.21%	42.99%	29.83%	29.03%	29.81%
Net Margin	2.50%	1.93%	11.08%	4.89%	4.17%	2.12%
Return on Equity	8.94%	9.55%	17.16%	17.42%	19.31%	10.37%
Sales/Assets	1.31	1.68	0.55	1.47	1.92	2.13
Proj. Sales Growth (F1/F0)	12.24%	7.99%	4.16%	-0.11%	13.07%	14.67%
Momentum Score	A	-	-	D	C	D
Daily Price Chg	1.49%	0.00%	0.39%	0.94%	1.46%	2.25%
1 Week Price Chg	-3.56%	-1.63%	-0.30%	-5.49%	-1.91%	-1.80%
4 Week Price Chg	0.66%	-1.23%	2.38%	-4.54%	-7.13%	0.69%
12 Week Price Chg	-7.35%	-1.78%	6.40%	-12.60%	-1.48%	5.64%
52 Week Price Chg	-6.66%	0.00%	22.97%	-9.68%	13.64%	22.94%
20 Day Average Volume	4,993,600	473,225	1,610,101	1,415,182	2,103,183	2,601,765
(F1) EPS Est 1 week change	-2.32%	0.00%	0.00%	-3.57%	-0.45%	-0.93%
(F1) EPS Est 4 week change	0.11%	-2.24%	0.00%	-3.53%	-1.03%	-0.84%
(F1) EPS Est 12 week change	3.11%	-2.69%	-0.50%	-3.01%	3.47%	4.03%
(Q1) EPS Est Mthly Chg	0.38%	-3.67%	0.00%	-3.67%	-5.64%	-9.48%

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	A
Growth Score	A
Momentum Score	A
VGM Score	A

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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