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Aug 14, 2020

Marathon Petroleum (MPC)

$37.26 (As of 08/13/20)

Price Target (6-12 Months): **$40.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/13/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:B
	Value: A | Growth: B | Momentum: F	

Summary

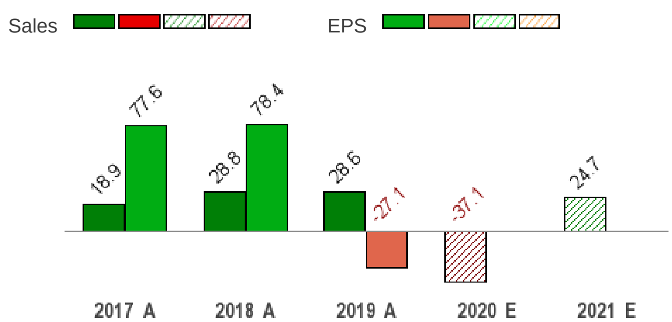
Marathon Petroleum's sale of its Speedway business for $21 billion is expected to provide the downstream operator with a much-needed cash infusion. Another positive aspect of the deal is a 15-year fuel supply agreement per which Marathon Petroleum will supply about 7.7 billion gallons of gasoline per year to 7-Eleven, thus ensuring a steady revenue stream. However, Marathon Petroleum has been bogged down by the coronavirus-induced oil products demand destruction. As a proof of the challenging environment, Marathon Petroleum's key Refining & Marketing segment reported second-quarter operating loss of $1.6 million, as against income of $906 million in the year-ago quarter, with margins down significantly. A deteriorating debt profile is another negative in the Marathon Petroleum story. 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)	8,224,559
Market Cap	$24.2 B
YTD Price Change	-38.2%
Beta	2.18
Dividend / Div Yld	$2.32 / 6.2%
Industry	[Oil and Gas - Refining and Marketing]
Zacks Industry Rank	Bottom 31% (173 out of 252)
Last EPS Surprise	28.5%
Last Sales Surprise	-6.3%
EPS F1 Est- 4 week change	-31.0%
Expected Report Date	10/29/2020
Earnings ESP	0.0%
P/E TTM	21.9
P/E F1	NA
PEG F1	NA
P/S TTM	0.2

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	25,254 E	21,961 E	25,979 E	25,310 E	98,029 E
2020	24,080 A	15,198 A	19,898 E	23,670 E	78,610 E
2019	28,615 A	33,688 A	31,202 A	31,375 A	124,880 A

EPS Estimates

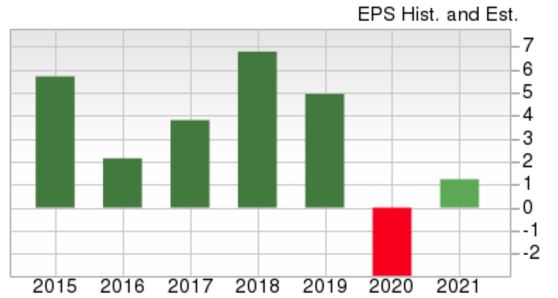
	Q1	Q2	Q3	Q4	Annual*
2021	-$0.24 E	$0.78 E	$1.09 E	$0.13 E	$1.23 E
2020	-$0.16 A	-$1.33 A	-$0.81 E	-$0.67 E	-$2.96 E
2019	-$0.09 A	$1.73 A	$1.63 A	$1.56 A	$4.94 A

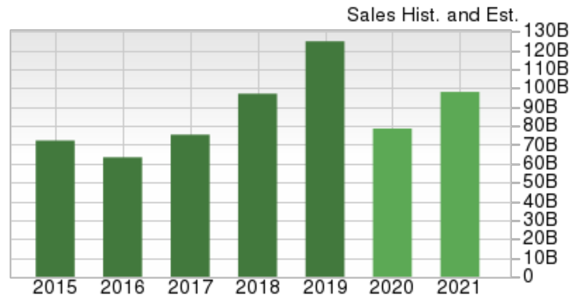
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/13/2020. The reports text is as of 08/14/2020.

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

- 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 recently announced the sale of its Speedway business to Japanese retail group Seven & i Holdings – owner of the 7-Eleven convenience store chain – for $21 billion. Apart from providing Marathon Petroleum with a much-needed cash infusion, the disposal of its Speedway-branded gas stations at a premium price is expected to enhance value for shareholders. Another positive aspect of the deal is a 15-year fuel supply agreement per which Marathon Petroleum will supply about 7.7 billion gallons of gasoline per year to 7-Eleven thus ensuring a steady revenue stream.

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.

Investors are worried over the fact that the company has already $3.5 million drawn on its $5 billion line of credit.

- As a proof of the challenging environment, Marathon Petroleum's Refining & Marketing segment reported second-quarter operating loss of $1.6 million, as against income of $906 million in the year-ago quarter. The deterioration reflects lower y/y margins. Specifically, refining margin of $7.13 per barrel decreased significantly versus $15.24 a year ago. Total refined product sales volumes were 2,878 thousand barrels per day (mbpd), down from the 3,814 mbpd in the year-ago quarter. Moreover, capacity utilization during the quarter was down 26% year over year to 71%. So much so that in response to the collapsing product demand, Marathon Petroleum has announced plans to indefinitely stop production at its Gallup and Martinez refineries.
- As of Jun 30, Marathon Petroleum had cash and cash equivalents of $1.1 billion and a total debt of $34.6 billion higher than the $34.2 billion in the last quarter. The company has a debt-to-capitalization of 52.9%, 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.

Last Earnings Report

Marathon Petroleum Posts Narrower-Than-Expected Q2 Loss

Quarter Ending	06/2020
Report Date	Aug 03, 2020
Sales Surprise	-6.34%
EPS Surprise	28.49%
Quarterly EPS	-1.33
Annual EPS (TTM)	1.70

Marathon Petroleum reported adjusted loss of $1.33 per share, narrower than the Zacks Consensus Estimate of a loss of $1.86. The company's bottom line was favorably impacted by strong-than-expected performance from the Retail and Midstream segments. Operating income from the units totaled $494 million and $869 million, ahead of the respective Zacks Consensus Estimates of $403 million and $807 million, respectively.

However, the bottom line compared unfavorably the year-earlier quarter's earnings of $1.73 due to weak showing from the Refining & Marketing segment. The unit's results were dragged down by sharply lower refining margins.

Marathon Petroleum reported revenues of $15.2 billion that missed the Zacks Consensus Estimate of $16.2 billion and declined 54.9% year over year.

Forced by the historic oil market crash and the coronavirus-induced demand destruction for the fuel, Marathon Petroleum has already 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.

Speedway Sale

Ahead of its earnings release, Marathon Petroleum announced the sale of its Speedway business to Japanese retail group Seven & i Holdings – owner of the 7-Eleven convenience store chain – for $21 billion. The deal is the biggest in the coronavirus-hit energy space this year and dwarfs Chevron's $5 billion buyout of Noble Energy. With the sale of its Speedway-branded gas stations the company is expected to enhance value for shareholders – a longstanding demand from activist investor Elliott Management.

Moreover, in response to the collapsing product demand, Marathon Petroleum has announced plans to indefinitely stop production at its Gallup and Martinez refineries.

Y/Y Segmental Performance

Refining & Marketing: The Refining & Marketing segment reported operating loss of $1.6 million, as against income of $906 million in the year-ago quarter. The deterioration reflects lower y/y margins.

Specifically, refining margin of $7.13 per barrel decreased significantly versus $15.24 a year ago. Total refined product sales volumes were 2,878 thousand barrels per day (mbpd), down from the 3,814 mbpd in the year-ago quarter. Moreover, throughput fell from 3,135 mbpd in the year-ago quarter to 2,276 mbpd. Capacity utilization during the quarter was down 26% year over year to 71%.

Retail: Income from the Retail segment totaled $494 million, essentially unchanged from the year-ago period as a result of higher fuel margins, offset by lower volumes. In particular, the company's retail fuel margin surged from 26.66 cents per gallon in the second quarter of 2019 to 39.60 cents per gallon in the quarter under review. Meanwhile, same-store merchandise sales fell by 4% year over year while same-store gasoline fuel volume plunged 36.6% 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 $869 million, flat with the second quarter of 2019. Earnings were supported by lower operating expenses, plus contribution from organic growth projects.

Costs, Capex & Balance Sheet

Marathon Petroleum reported expenses of $14.2 billion in second-quarter 2020, down 55% from the year-ago quarter.

In the reported quarter, Marathon Petroleum spent $807 million on capital programs (33% on Refining & Marketing and 53% on the Midstream segment) compared to $1.4 billion in the year-ago period. As of Jun 30, the company had cash and cash equivalents of $1.1 billion and a total debt of $32.2 billion, with a debt-to-capitalization ratio of 51%.

Recent News

Marathon Petroleum Declares Dividend

On **Jul 29**, Marathon Petroleum declared quarterly dividend of 58 cents per share, payable on Sep 10, to the shareholders of record as of Aug 19.

Valuation

Shares of Marathon Petroleum are down 38.1% and 17.9% 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 43.4% and 34.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 32.4% and 27.6%, respectively.

The S&P 500 index is up 4.8% in the year-to-date period and 18.8% in the past year.

The stock is currently trading at 11.02X trailing 12-month EV/EBITDA, compared with 10.08X for the Zacks sub-industry, 4.78X for the Zacks sector and 12.75X for the S&P 500 index.

Over the past five years, the stock has traded as high as 11.6X and as low as 4.1X, with a 5-year median of 7.85X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $40 price target reflects 0.27X 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	11.02	10.08	4.78	12.75
	5-Year High	11.6	16.51	10.47	12.84
	5-Year Low	4.1	4.15	3.04	8.24
	5-Year Median	7.85	7.34	6.49	10.9
P/S F12M	Current	0.25	0.25	0.75	3.7
	5-Year High	0.62	0.37	1.46	3.7
	5-Year Low	0.08	0.17	0.59	2.53
	5-Year Median	0.33	0.29	0.99	3.05
P/B TTM	Current	0.79	0.7	0.93	4.7
	5-Year High	2.47	1.83	1.54	4.71
	5-Year Low	0.26	0.42	0.52	2.83
	5-Year Median	1.25	1.23	1.31	3.74

As of 08/13/2020

Industry Analysis **Zacks Industry Rank:** Bottom 31% (173 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Chevron Corporation **(CVX)**	Outperform	3
Royal Dutch Shell PLC **(RDS.A)**	Outperform	2
Delek US Holdings, Inc. **(DK)**	Neutral	4
HollyFrontier Corporation **(HFC)**	Neutral	4
PBF Energy Inc. **(PBF)**	Neutral	4
Phillips 66 **(PSX)**	Neutral	4
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)	4	-	-	4	4	3
VGM Score	B	-	-	A	B	B
Market Cap	24.24 B	1.32 B	23.58 B	4.13 B	27.35 B	21.69 B
# of Analysts	9	4	14	8	9	9
Dividend Yield	6.23%	0.00%	1.68%	5.49%	5.75%	7.37%
Value Score	A	-	-	A	A	A
Cash/Price	0.05	0.23	0.07	0.22	0.07	0.11
EV/EBITDA	6.93	4.52	13.34	3.05	6.35	5.08
PEG Ratio	NA	8.36	2.99	NA	11.22	NA
Price/Book (P/B)	0.79	1.05	3.20	0.70	1.17	1.05
Price/Cash Flow (P/CF)	3.48	4.01	12.83	2.78	5.54	4.72
P/E (F1)	NA	19.41	21.99	NA	58.35	NA
Price/Sales (P/S)	0.24	0.29	2.53	0.29	0.30	0.25
Earnings Yield	-7.94%	-5.06%	4.35%	-1.80%	1.71%	-3.74%
Debt/Equity	1.05	1.05	0.77	0.47	0.54	0.59
Cash Flow ($/share)	10.70	4.65	6.94	9.20	11.30	11.28
Growth Score	B	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	3.82%	13.95%	10.41%	26.59%	14.62%	-6.80%
Proj. EPS Growth (F1/F0)	-160.01%	-86.83%	-6.32%	-109.36%	-86.67%	-134.85%
Curr. Cash Flow Growth	13.40%	2.05%	5.20%	-5.96%	-27.54%	-11.67%
Hist. Cash Flow Growth (3-5 yrs)	12.38%	6.45%	8.55%	10.80%	0.90%	-2.48%
Current Ratio	1.27	1.44	1.33	2.10	1.25	1.75
Debt/Capital	51.89%	51.89%	44.59%	32.13%	35.22%	36.94%
Net Margin	-7.55%	-1.32%	10.13%	-1.11%	-1.32%	1.22%
Return on Equity	3.04%	5.30%	14.51%	6.41%	8.76%	5.30%
Sales/Assets	1.11	1.26	0.51	1.22	1.59	1.74
Proj. Sales Growth (F1/F0)	-37.05%	-30.83%	-1.43%	-37.69%	-31.92%	-31.13%
Momentum Score	F	-	-	D	F	F
Daily Price Chg	-2.28%	-1.28%	-0.44%	-6.25%	-2.76%	-3.50%
1 Week Price Chg	-4.01%	2.43%	2.30%	-7.27%	1.37%	-6.35%
4 Week Price Chg	-0.35%	-0.90%	4.38%	-10.17%	-3.45%	-5.99%
12 Week Price Chg	4.40%	-8.08%	13.59%	-17.65%	-18.76%	-19.08%
52 Week Price Chg	-17.93%	-40.00%	5.75%	-41.82%	-35.74%	-30.67%
20 Day Average Volume	8,224,559	623,647	1,984,154	2,405,837	3,075,942	4,076,763
(F1) EPS Est 1 week change	-4.26%	-0.19%	0.00%	15.44%	-6.03%	-1.19%
(F1) EPS Est 4 week change	-31.04%	-12.90%	2.08%	-8.26%	-54.39%	-34.94%
(F1) EPS Est 12 week change	-43.29%	-28.91%	2.66%	-536.91%	-57.12%	-28.91%
(Q1) EPS Est Mthly Chg	-109.32%	-63.21%	0.94%	-602.20%	-63.21%	-206.94%

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	B
Momentum Score	F
VGM Score	B

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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