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| **Company: Marathon Petroleum** | Ticker: MPC Current Price: $54.93 | Industry: Energy | Sub Industry: Oil & Gas Refining & Marketing |
| Target Price: $65  Stop Loss: $43.94  52 Week High/ Low: $37.62-60.38 | TTM P/E: 9.56  Forward P/E: 9.05  EPS: $5.89 | Beta: 1.31  Credit Rating: BBB  Rating Outlook: STABLE | Market Cap: $29.26(B)  Avg Vol (12 Month): 5.1 mil  Dividend Yield: 2.9% |

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| **Company Background:** |
| Marathon Petroleum is the nation's fourth largest refiner, with a crude oil refining capacity of 1.7 million barrels daily in its seven refinery systems. Its operations consist of three segments: Refining & Marketing; Speedway; and Pipeline Transportation. It operates 2,746 Speedway stations in 22 states and sells Marathon branded gasoline at 5,455 independent stations in 19 states. Also has interests in 8,300 miles of pipelines and in ethanol manufacturing. Owns 73.6% of MPLX LP. |
| **Industry Outlook:** |
| The fundamental outlook for the oil & gas refining & marketing (R&M) sub-industry for the next 12 months is positive, YTD through June 30, the R&M index has risen 16.3% versus a 0.6% gain in the S&P 1500 Composite Index. The increased domestic crude oil production helps to cut reliance on imported crude oil, and also excess industry supply weighs on pricing, which improves a refiner's cost of crude oil purchases. In addition, rising production of oil sands production from Canada, along with improved pipeline and rail capacity, should enable an increased supply of heavy oil making its way to the key Gulf Coast refining complex in the U.S. |
| **Investment Thesis:** |
| * Companies that refine petroleum tend to perform well during periods of low oil prices as lower costs aid earnings * Berkshire Hathaway raised its stake in refiner Phillips 66 a few months ago, improving the confidence of investors for this sub-industry * Marathon Petroleum reported a strong quarter, with earnings growth in all three of its segments, demonstrating why we should select it * A series of successful acquisitions nearly double its Speedway retail segment, and transforms it into primarily a Gulf Coast refiner (62% of capacity in the region), which leaves it a better position, because greater amounts of discount crude will become available on the Gulf Coast with the startup of new pipeline capacity * Marathon is investing to expand its midstream and retail businesses in an effort to diversify its earnings stream away from the more volatile refining business |
| **Investment Risks:** |
| * Marathon mainly benefits from the domestic crude discounts, so its risks depend on movements in the prices of crude oil and gasoline or diesel * Supply interruptions or increased demand may drive up oil prices, and demand destruction or economic slow-downs may depress refined product prices * With greater reliance on the export market, construction of over- seas refiners could pose a threat |
| **3-5 take away from last quarter investor call transcript:** |
| * The East Coast retail acquisition is performing well and the business is on track to more than double the $75 million in synergies they expected in this first year * Turning to the midstream business, Marathon looks forward to finalizing the combination of MPLX and MarkWest later this year and as MPLX's sponsor, they're committed to support its success * The crude oil market continues to illustrate that it’s going to be lower for longer, and they're finding some other supply sources, mainly Iraqi crudes * The demand has a slowdown in Asia, Brazil. But Europe continues to be robust, and the Latin American countries for the most part continue to be strong |

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| **Financial Performance:** | **Discounted Cash Flow** |
| |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | |  | 2012 | 2013 | 2014 | Q1-2015 | Q2-2015 | Q3-2015 | | Revenue | 76,534.00 | 93,897.00 | 91,132.00 | 15,359.00 | 18,598.00 | 16,728.00 | | Operating Profit | 5,275.00 | 3,337.00 | 3,787.00 | 1,426.00 | 1,290.00 | 1,509.00 | | Operating Margin | 6.89 | 3.55 | 4.16 | 9.28 | 6.94 | 9.02 | | Net Income | 3,389.00 | 2,112.00 | 2,524.00 | 891.00 | 826.00 | 948.00 | | Revenue Growth % | 4.09 | 22.69 | (2.94) | (29.45) | (26.33) | (29.76) | | EBITDA% | 8.19 | 4.85 | 5.61 | 11.65 | 8.88 | 12.06 | | Operating Profit % | 6.89 | 3.55 | 4.16 | 9.28 | 6.94 | 9.02 | | Net Income Margin | 4.43 | 2.25 | 2.77 | 5.80 | 4.44 | 5.67 | | D/E | 27.77 | 29.97 | 58.27 | 56.29 | 54.50 | 51.78 | | Interest Coverage | -- | -- | -- | -- | -- | -- | | EPS | 4.98 | 3.35 | 4.42 | 1.63 | 1.52 | 1.77 | | PE Ratio | 6.69 | 13.10 | 11.80 | 10.26 | 10.48 | 8.06 | | Current Ratio | 1.59 | 1.30 | 1.32 | 1.32 | 1.31 | 1.41 | | ROE | 31.97 | 18.68 | 23.29 | 29.67 | 28.63 | 29.95 | | ROA | 12.80 | 7.60 | 8.58 | 10.84 | 10.62 | 11.20 | | Dividend Per Share | 0.60 | 0.77 | 0.92 | 0.25 | 0.25 | 0.32 | | |  |  |  | | --- | --- | --- | |  | 2001-14 | 2015-19 | | Avg Revenue growth | 12.73% | 6.24% | | Avg EBITDA Margin | 5.59% | 7.36% | | Avg Net Income Margin | 2.65% | 3.97% | | Avg Debt/Equity | 20.7% | 27.06% | | Avg Interest / EBITDA | 4.28% | 4.36% | | Cost of Debt | | 2.0% | | Tax Rate | | 35% | | Cost of Equity | | 11.7% | | WACC | | 9.6% | | Perpetuity Growth Rate (Terminal) | | 4.1% |   Analyst Opinion   |  |  |  | | --- | --- | --- | | Buy: 5 | Hold: 3 | Sell: 1 |  |  |  |  | | --- | --- | --- | |  | Rating | Target | | S&P Net Advantage | 3 star | $54 | | Morning Star | 4 star | $65 | | Value Line | Timeliness2 | $55-85 | |

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| **Relative Valuation** | **Total Return** |
| |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | FY2014 | Phillips 66 | Valero | Tesoro | Industry | Marathon | | P/E | 13.31 | 8.03 | 8.56 | 11.20 | 9.67 | | P/B | 2.13 | 1.60 | 2.55 | 2.35 | 2.42 | | Dividend Yield | 2.29 | 2.09 | 1.45 | 5.29 | 1.93 | | PEG Ratio | 2.27 | 2.94 | 0.50 | 1.74 | 3.50 | | EPS | 8.64 | 9.55 | 13.15 | 4.99 | 6.36 | | Rev Growth (1 Yr) | (7.11) | (5.24) | 8.06 | 4.52 | (2.94) | | NI Growth (1 Yrs) | 27.80 | 33.46 | 104.61 | 32.78 | 19.51 | | Operating Margin | 8.21 | 9.47 | 16.69 | 9.10 | 9.02 | | Debt / Equity | 37.25 | 33.75 | 48.24 | 51.36 | 51.78 | | Market Cap | 49,343.23 | 34,008.59 | 13,653.49 | 13,813.42 | 29,606.39 |   **Sources: Bloomberg, S&P NetAdvantage, VLIS, Morningstar** | |  |  |  |  | | --- | --- | --- | --- | |  | MPC | Sector | S&P 500 | | YTD | 29.8% | -13.48% | 3.44% | | Last 3 Years | 29.81% | 1.73% | 17.67% | | Last 5 Years | 29.76% | 0.86% | 14.01% |   **CSR Characteristics**   |  |  |  | | --- | --- | --- | |  | MPC | Industry | | ESG Disclosure Score | 31.41 | 19.97 | | Governance Disclosure Score | 55.36 | 51.39 | | Social Disclosure Score | 24.56 | 22.22 | | Environmental Disclosure Score | 24.03 | 16.28 |   **Prepared By: Jifeng Hu, 11/18/2015** |