

Rating: Buy
 S&P 500: 1310

Marathon Oil Corporation Oil Sands Link

<i>Symbol</i>	MRO	<i>Ebitda Next Twelve Months ending 3/31/07 (US\$m)</i>	7,800
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	10
<i>Price (US\$/sh)</i>	78.58	<i>Natural Gas and Oil Production/Ebitda (%)</i>	59
<i>Pricing Date</i>	4/27/06	<i>Adjusted Reserves/Production NTM</i>	8.3
<i>Shares (mm)</i>	367	<i>EV/Ebitda</i>	4.6
<i>Market Capitalization (US\$m)</i>	28,900	<i>PV/Ebitda</i>	4.4
<i>Debt (US\$m)</i>	7,000	<i>Undeveloped Reserves (%)</i>	29
<i>Enterprise Value (EV) (US\$m)</i>	35,900	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	34.40
<i>Present Value (PV) (US\$m)</i>	34,500	<i>Present Value Proven Reserves(US\$/boe)</i>	15.70
<i>Net Present Value (US\$/share)</i>	75	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.62
<i>Debt/Present Value</i>	0.20	<i>Earnings Next Twelve Months (US\$/sh)</i>	10.20
<i>McDep Ratio - EV/PV</i>	1.04	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	1.7	<i>Indicated Annual Dividend (US\$/sh)</i>	1.32

Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Summary and Recommendation

A McDep Ratio of 1.07 for buy-recommended **Marathon Oil (MRO)** indicates that the stock price exceeds estimated net present value of \$75 a share. That estimate presumes a long-term oil price of \$50 a barrel compared to a futures price of \$71 for oil delivered over the next six years. Moreover, a correlation of present value with adjusted reserve life and next twelve months cash flow, taking account of first quarter 2006 results reported on April 27, points to potentially higher value, particularly in the downstream. Valuation is also the challenge as management mentioned on the quarterly call that it is giving much attention to a possible transaction that combines Marathon's processing capability with a partner's oil sands heavy crude production. Considering our vision of an oil price of \$150 in 2010, there should be a common basis for a mutually beneficial accord.

Functional Cash Flow and Present Value

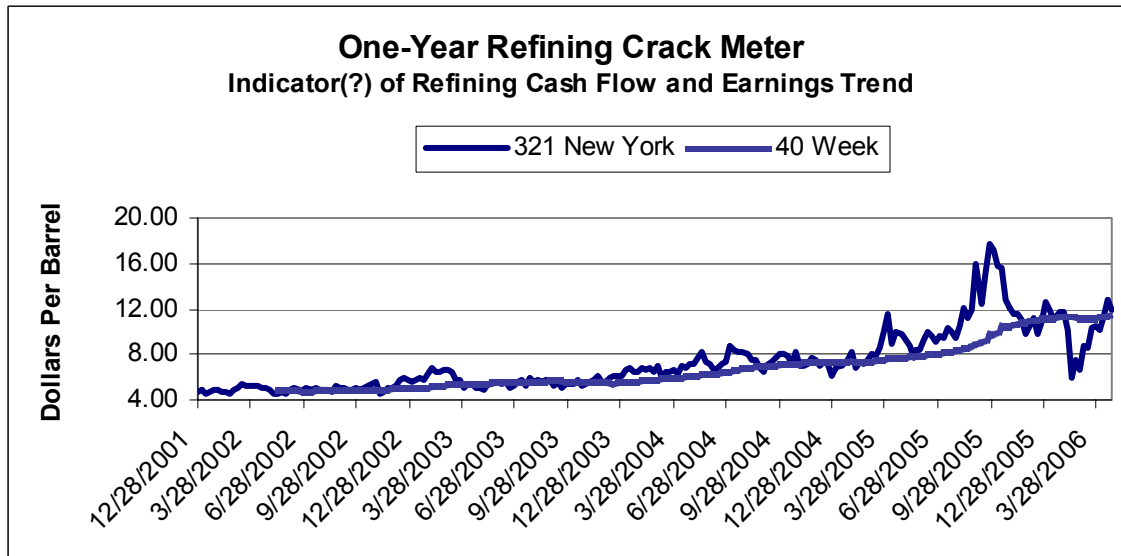
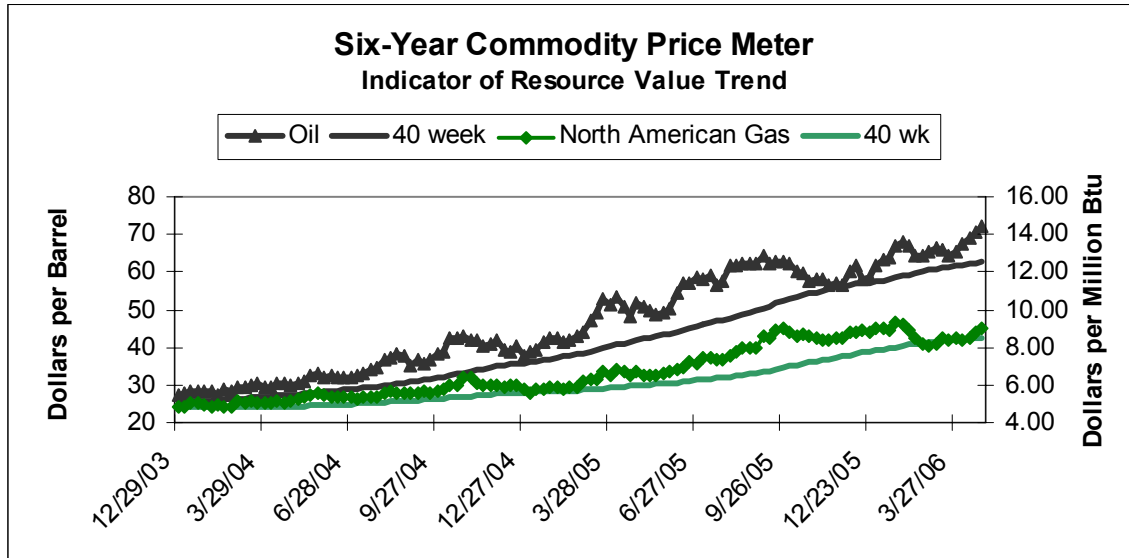
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<u><i>Ebitda</i></u>	<u><i>R/P</i></u>	<u><i>Ebitda</i></u>	<u><i>Value</i></u>	
North American Natural Gas	810	5.8	5.7	4,600	13%
Rest of World Natural Gas	380	18.1	6.6	2,500	7%
Oil	3,420	7.5	3.8	13,000	38%
Downstream	3,200		4.5	14,500	42%
	7,810	8.3	4.4	34,600	100%
Debt				7,000	
Net Present Value (\$mm)				27,600	
Shares				367	
Net Present Value - Standard Estimate (US\$/sh)				75	
Net Present Value - Approximation by Correlation (US\$/sh)				91	

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Marathon Oil Corporation
Next Twelve Months Operating and Financial Estimates

	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next Twelve Months</i>
	<i>3/31/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>3/31/07</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	570	599	578	561	510	510	510	523	510
Overseas (or Int'l)	455	406	354	435	250	250	250	296	250
Total	1,025	1,005	932	996	760	760	760	818	760
Oil (mbd)	163	224	191	211	240	240	240	233	240
Total gas & oil (bcf)	180	216	758	204	200	202	202	809	803
Total gas & oil (mbd)	334	392	346	377	367	367	367	369	367
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.27	13.00	8.65	8.97	6.95	7.29	9.26	8.12	8.74
U.S. (or North America)	4.95	8.30	6.42	6.66	5.16	5.41	6.88	6.04	6.48
Overseas (or Int'l)	4.17	5.92	4.28	6.16	6.16	6.16	6.16	6.16	6.16
Total	4.60	7.34	5.61	6.44	5.49	5.66	6.64	6.08	6.37
Oil (\$/bbl)									
WTI Cushing	49.65	60.02	56.31	63.33	70.48	73.18	74.36	70.34	73.16
Worldwide	38.82	47.98	45.32	50.16	55.82	57.96	58.90	55.91	57.94
Total gas & oil (\$/mcf)	5.52	7.72	6.68	7.52	7.99	8.28	8.72	8.12	8.52
NY Harbor 3-2-1 (\$/bbl)	6.17	9.06	10.63	7.40	15.98	12.44	9.24	11.27	11.99
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	254	457	1,354	336	240	254	323	1,152	1,206
Overseas (or Int'l)	171	221	554	241	140	142	142	665	562
Total	425	679	1,908	577	380	396	464	1,817	1,768
Oil	570	989	3,156	953	1,219	1,280	1,300	4,752	5,076
Other	12,016	15,647	58,609	15,108	15,108	15,108	15,108	60,432	60,432
Total	13,010	17,314	63,673	16,638	16,707	16,783	16,873	67,001	67,276
Expense									
Fixed	90	96	365	117	117	117	117	469	469
Variable	269	287	1,095	352	386	424	469	1,631	1,769
Other	11,716	14,385	55,504	14,520	14,308	14,308	14,308	57,444	57,232
Ebitda (\$mm)									
Exploration and Production	636	1,285	3,604	1,061	1,096	1,134	1,178	4,469	4,607
Other	300	1,261	3,104	588	800	800	800	2,988	3,200
Total Ebitda	936	2,546	6,708	1,649	1,896	1,934	1,978	7,457	7,807
Exploration	34	87	222	71	71	71	71	284	284
Deprec., Deplet., & Amort.	323	365	1,358	415	415	415	415	1,660	1,660
Other non cash			-					-	-
Ebit	579	2,094	5,128	1,163	1,410	1,448	1,492	5,513	5,863
Interest	32	46	145	24	24	24	24	96	96
Ebt	547	2,048	4,983	1,139	1,386	1,424	1,468	5,417	5,767
Income Tax	191	717	1,744	399	485	498	514	1,896	2,018
Net Income (\$mm)									
Exploration and Production	555	1,030	2,988	477					
Other	217	1,185	2,735	327					
Unallocated	(416)	(884)	(2,484)	(64)					
Total	356	1,331	3,239	740	901	925	955	3,521	3,748
Shares (millions)	349	369	362	368	368	367	367	368	367
Per share (\$)	1.02	3.61	8.95	2.01	2.44	2.52	2.60	9.58	10.20
Ebitda Margin (E&P)	64%	77%	71%	69%	69%	68%	67%	68%	67%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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