

Rating: Hold
 S&P 500: 1470
 Intraday

Marathon Oil Corporation Oil Sands Acquirer

<i>Symbol</i>	MRO	<i>Ebitda Next Twelve Months ending 6/30/08 (US\$m)</i>	9,800
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	7
<i>Price (US\$/sh)</i>	55.90	<i>Natural Gas and Oil Production/Ebitda (%)</i>	51
<i>Pricing Date</i>	7/31/07	<i>Adjusted Reserves/Production NTM</i>	9.1
<i>Shares (mm)</i>	713	<i>EV/Ebitda</i>	5.1
<i>Market Capitalization (US\$m)</i>	39,800	<i>PV/Ebitda</i>	5.5
<i>Debt (US\$m)</i>	10,000	<i>Undeveloped Reserves (%)</i>	27
<i>Enterprise Value (EV) (US\$m)</i>	49,800	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	35.30
<i>Present Value (PV) (US\$m)</i>	54,200	<i>Present Value Proven Reserves(US\$/boe)</i>	18.60
<i>Net Present Value (US\$/share)</i>	62	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.10
<i>Debt/Present Value</i>	0.18	<i>Earnings Next Twelve Months (US\$/sh)</i>	6.53
<i>McDep Ratio - EV/PV</i>	0.92	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	1.7	<i>Indicated Annual Dividend (US\$/sh)</i>	0.96

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.

Estimated present value presumes a long-term price for oil of US\$66 a barrel and natural gas, \$11 a million btu.

For historical research on Marathon since 2001 see <http://www.mcdep.com/3mro.htm>

Summary and Recommendation

Hold-rated **Marathon Oil (MRO)** offers unlevered appreciation potential of 9% to estimated net present value (NPV) of \$62 a share revised up from \$55 a share, split-adjusted, on May 29 when we raised long-term oil price to \$66 a barrel from \$60. The surprise announcement of the acquisition of Canadian producer, Western Oil Sands (WTO), accompanied the disclosure of second quarter results on July 31. Adding unlevered cash flow (Ebitda) from oil sands production restores a strategic balance with surging refining/marketing (Other) operations (see table [Next Twelve Months Operating and Financial Estimates](#)). Similarly the proposed acquisition would keep oil production ahead of downstream by 47% to 42% in the composition of NPV (see table [Functional Cash Flow and Present Value](#)). With no exploration risk and moderate political risk, oil sands value ought to continue rising along with oil price despite volatility of short-term quotes (see chart [Six-Year Commodity Price Meter](#)). More volatile refining margin has just completed a favorable cycle (see chart [One-Year Refining Crack Meter](#)). We keep Marathon stock as a potential restoration to buy should there be an unforeseen period of stock price weakness.

\$200,000 a Daily Barrel

Big acquisitions require confidence in the industry outlook and Marathon's latest is no exception. The purchase price of \$6.2 billion buys 31,000 barrels daily of current production implying a price of \$200,000 a daily barrel. Western Oil Sands holds 20% of the Athabasca Oil Sands Project (AOSP) operated by **Royal Dutch Shell (RDS)** (60%) and with **Chevron (CVX)** as the remaining 20% partner. AOSP is the third major mine/upgrader venture after **Suncor (SU)** and Syncrude, whose largest owner at 37% is **Canadian Oil Sands Trust (COSWF)**, the only pure publicly traded oil sands miner/upgrader. At latest stock price before the deal for Western was announced, COSWF had an enterprise value of \$15.9 billion for 129,000 barrels daily of current

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production implying a price of \$123,000 a daily barrel. Estimated present value of COSWF is about \$155,000 a daily barrel. Marathon may justify more because AOSP is at a lower percentage of ultimate capacity than Syncrude and the WTO properties include *in situ* oil sands leases in addition to mining leases. We like Marathon's enthusiasm for oil sands.

Kurt H. Wulff, CFA

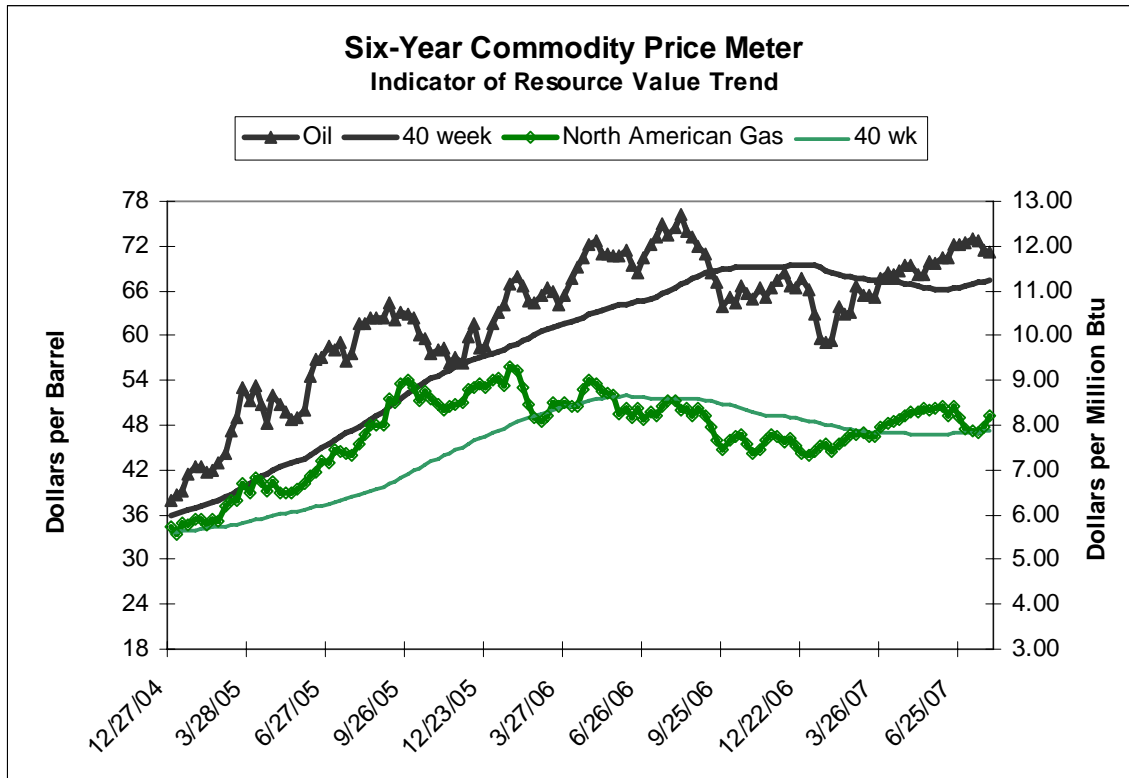
Marathon Oil Corporation
Next Twelve Months Operating and Financial Estimates

	Q2	Q3	Year	Q1	Q2	Q3E	Q4E	Year	Next Twelve Months
	6/30/06	9/30/06	2006	3/31/07	6/30/07	9/30/07	12/31/07	2007E	6/30/08
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	523	522	532	512	460	460	460	473	460
Overseas (or Int'l)	277	197	315	337	374	374	374	365	374
Total	800	719	847	849	834	834	834	838	834
Oil (mbd)	258	242	231	198	199	199	230	207	247
Total gas & oil (bcf)	214	200	814	183	185	187	204	758	845
Total gas & oil (mbd)	391	362	372	340	338	338	369	346	386
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.81	6.58	7.23	6.81	7.56	6.64	7.64	7.16	7.83
U.S. (or North America)	5.35	5.62	5.76	5.91	6.16	5.41	6.23	5.93	6.38
Overseas (or Int'l)	5.19	4.10	5.27	4.91	2.27	2.27	2.27	2.87	2.70
Total	5.29	5.20	5.58	5.51	4.42	4.00	4.45	4.60	4.73
Oil (\$/bbl)									
WTI Cushing	70.47	70.42	66.05	58.08	64.91	75.91	75.47	68.59	74.50
Worldwide	63.95	62.96	57.96	51.07	59.11	69.13	68.73	62.34	67.71
Total gas & oil (\$/mcf)	8.83	8.74	8.11	7.26	7.62	8.43	8.82	8.05	8.92
NY Harbor 3-2-1 (\$/bbl)	15.39	11.67	10.50	11.68	24.96	12.67	8.80	14.53	12.12
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	255	270	1,118	272	258	229	264	1,023	1,071
Overseas (or Int'l)	131	74	605	149	77	78	78	382	368
Total	385	344	1,723	421	335	307	342	1,405	1,439
Oil	1,501	1,402	4,882	910	1,070	1,266	1,454	4,700	6,104
Other	16,403	14,888	58,943	11,671	15,481	15,481	15,481	58,115	61,926
Total	18,290	16,634	65,548	13,002	16,887	17,054	17,277	64,221	69,469
Expense (\$mm)									
Ebitda (\$mm)									
Exploration and Production	1,305	1,073	4,338	904	1,013	1,038	1,185	4,141	4,978
Other	1,460	1,409	4,367	639	1,879	1,409	909	4,837	4,837
Total Ebitda	2,765	2,483	8,705	1,543	2,893	2,448	2,095	8,978	9,815
Exploration	66	97	365	61	115	115	115	406	435
Deprec., Deplet., & Amort.	369	361	1,533	393	396	410	448	1,648	1,860
Other non cash		(350)	(350)						
Ebit	2,330	2,375	7,157	1,089	2,382	1,922	1,531	6,924	7,521
Interest			24				120	120	360
Ebt	2,330	2,375	7,133	1,089	2,382	1,922	1,411	6,804	7,161
Income Tax	815	831	2,496	381	834	673	494	2,381	2,506
Net Income (\$mm)									
Exploration and Production	659	572	2,015	385	400				
Other	934	1,024	2,811	364	1,258				
Unallocated	(79)	(52)	(190)	(41)	(110)				
Total	1,514	1,544	4,636	708	1,548	1,249	917	4,423	4,654
Shares (millions)									
Per share (\$)	2.08	2.15	6.43	1.02	2.25	1.82	1.27	6.36	6.53
Ebitda Margin (E&P)	69%	61%	66%	68%	72%	66%	66%	68%	66%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

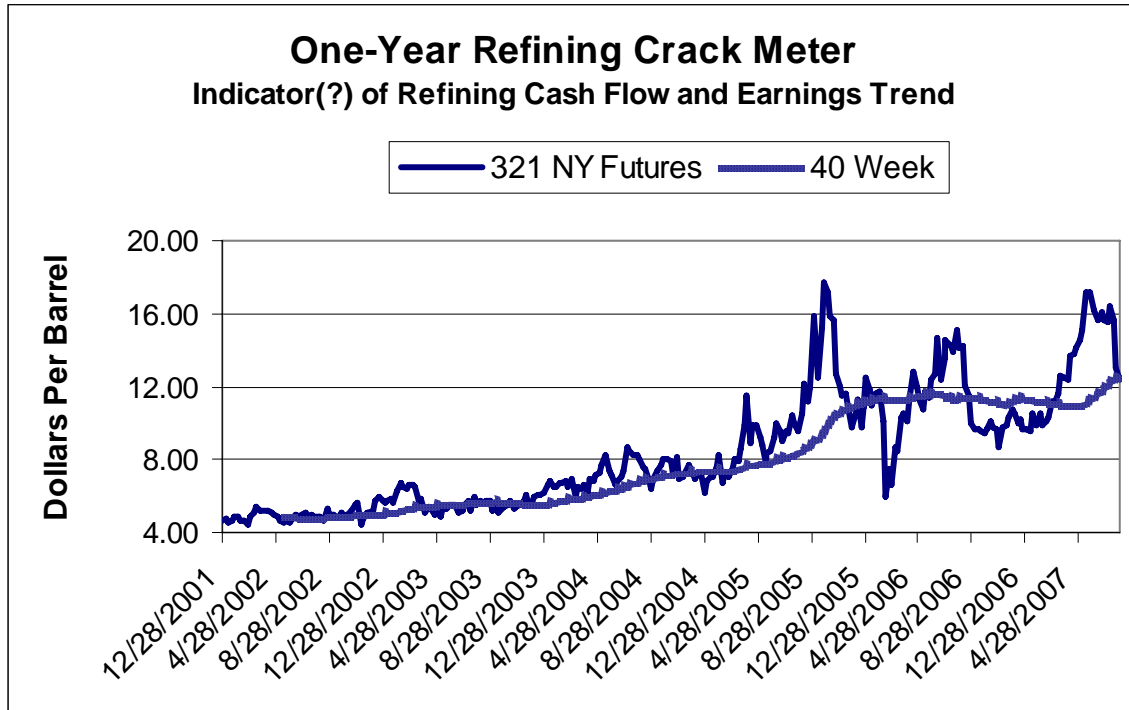
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Marathon Oil Corporation
Functional Cash Flow and Present Value

	<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	710	5.7	5.6	4,000	7%
Rest of World Natural Gas	240	12.2	6.7	1,600	3%
Oil	4,030	9.3	6.4	25,600	47%
Downstream	4,840		4.8	23,000	42%
	9,820	9.1	5.5	54,200	100%
Debt					10,000
Net Present Value (\$mm)					44,200
Shares					713
Net Present Value - Standard Estimate (US\$/sh)					62
Net Present Value - Approximation by Correlation (US\$/sh)					68



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