



Independent Stock Idea

October 30, 2008

rating: hold
s&p 500: 949

Marathon Oil (MRO) Gasoline and Diesel Demand Rebounding

<i>Symbol</i>	MRO	<i>Ebitda Next Twelve Months ending 9/30/09 (US\$m)</i>	7,000
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	8
<i>Price (US\$/sh)</i>	27.73	<i>Natural Gas and Oil Production/Ebitda (%)</i>	68
<i>Pricing Date</i>	10/30/08	<i>Adjusted Reserves/Production NTM</i>	8.5
<i>Shares (mm)</i>	711	<i>EV/Ebitda</i>	4.7
<i>Market Capitalization (US\$m)</i>	19,700	<i>PV/Ebitda</i>	6.7
<i>Debt (US\$m)</i>	13,000	<i>Undeveloped Reserves (%)</i>	24
<i>Enterprise Value (EV) (US\$m)</i>	32,700	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	32.00
<i>Present Value (PV) (US\$m)</i>	47,200	<i>Present Value Proven Reserves(US\$/boe)</i>	22.30
<i>Net Present Value (US\$/share)</i>	48	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.72
<i>Debt/Present Value</i>	0.28	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.90
<i>McDep Ratio - EV/PV</i>	0.69	<i>Price/Earnings Next Twelve Months</i>	7
<i>Dividend Yield (%/year)</i>	3.5	<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\$75 a barrel and natural gas, \$10 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 44% to estimated net present value (NPV) of \$48 a share. On October 28, we reset NPV from \$70 a share on the basis of a long-term oil price assumption of \$75 a barrel, down from \$100. Patience may be necessary as MRO stock price remains below the 200-day average of \$46. Released today, third quarter results displayed strength in unlevered cash flow (Ebitda) driven by crude oil and natural gas prices. Futures prices now look lower for the next four quarters (see table Next Twelve Months Operating and Financial Estimates). Downstream operations, 25% of NPV, are more volatile than the industry trend (see chart Oil and Gas Downstream Cash Flow). Projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) supports NPV (see table Functional Cash Flow and Present Value). On the quarterly conference call, Executive Vice President Gary Heminger explained that a 5% decline in gasoline demand at Marathon's convenience stores has been almost entirely restored in recent weeks. That is reassuring news for Marathon's \$3 billion Louisiana refinery expansion to be completed late in 2009.

Kurt H. Wulff, CFA



Independent Stock Idea

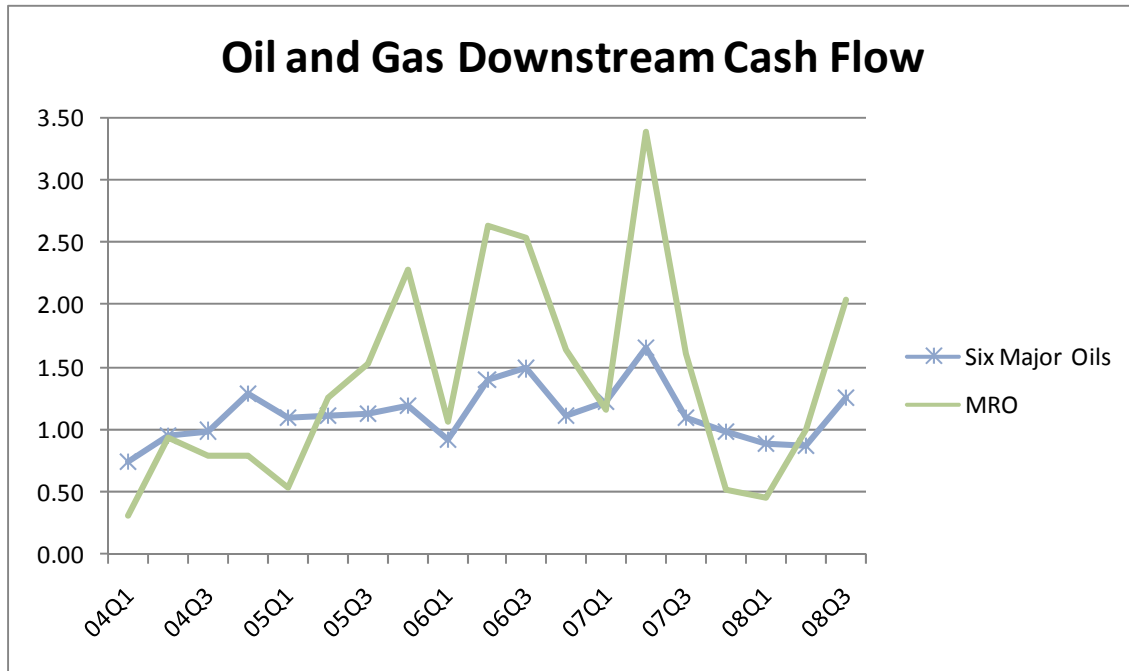
October 30, 2008

Marathon Oil Corporation									
Next Twelve Months Operating and Financial Estimates									
	Q3	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	9/30/07	6/30/08	9/30/08	12/31/08	2008E	3/31/09	6/30/09	9/30/09	9/30/09
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	464	431	426	426	442	426	426	426	426
Overseas (or Int'l)	567	573	502	502	557	502	502	502	502
Total	1,031	1,004	928	928	1,000	928	928	928	928
Days	92	91	92	92	366	90	91	92	365
Oil (mbd)	199	213	256	256	239	256	256	256	256
Total gas & oil (bcf)	205	208	227	227	889	222	224	227	899
Total gas & oil (mbd)	371	380	411	411	405	411	411	411	411
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.16	10.93	10.25	6.65	8.96	6.65	6.67	6.97	6.73
U.S. (or North America)	5.14	8.66	7.70	4.99	7.04	5.00	5.01	5.24	5.06
Overseas (or Int'l)	2.38	2.57	2.92	2.92	2.91	3.19	2.57	2.92	2.90
Total	3.62	5.19	5.11	3.87	4.74	4.02	3.69	3.98	3.89
Oil (\$/bbl)									
WTI Cushing	75.48	123.97	117.99	67.52	101.86	64.23	65.80	67.22	66.19
Worldwide	68.21	111.90	111.59	63.86	93.33	60.75	62.24	63.58	62.62
Total gas & oil (\$/mcf)	7.78	12.73	13.52	8.09	11.12	7.83	7.86	8.11	7.97
NY Harbor 3-2-1 (\$/bbl)	12.64	14.94	11.84	5.71	10.02	5.31	10.44	8.40	7.47
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	219	340	302	196	1,137	192	194	205	787
Overseas (or Int'l)	124	134	135	135	592	144	118	135	531
Total	344	474	437	331	1,729	336	312	340	1,318
Oil	1,249	2,169	2,628	1,504	8,159	1,400	1,450	1,497	5,851
Other	15,362	19,582	20,381	20,381	76,100	20,381	20,381	20,381	81,525
Total	16,954	22,225	23,446	22,216	85,987	22,117	22,143	22,219	88,694
Expense (\$mm)									
Exploration and Production	1,165	1,882	2,162	1,229	6,883	1,163	1,180	1,231	4,803
Other	891	555	1,131	288	2,223	250	555	1,131	2,223
Total Ebitda	2,057	2,437	3,293	1,517	9,107	1,413	1,735	2,362	7,027
Exploration	88	130	109	109	477	150	150	150	559
Deprec., Deplet., & Amort.	409	504	597	453	2,005	444	448	453	1,799
Other non cash									
Ebit	1,560	1,803	2,587	955	6,624	819	1,136	1,759	4,669
Interest		100	100	100	400	100	100	100	400
Ebt	1,560	1,703	2,487	855	6,224	719	1,036	1,659	4,269
Income Tax	546	596	870	299	2,179	252	363	580	1,494
Net Income (\$mm)									
Exploration and Production	479	921	1,037						
Other	534	260	680						
Unallocated	1	(74)	(101)						
Total	1,014	1,107	1,616	556	4,046	468	674	1,078	2,775
Shares (millions)									
Per share (\$)	1.48	1.55	2.27	0.78	5.67	0.66	0.95	1.52	3.90
Ebitda Margin (E&P)	73%	71%	71%	67%	70%	67%	67%	67%	67%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



Independent Stock Idea

October 30, 2008

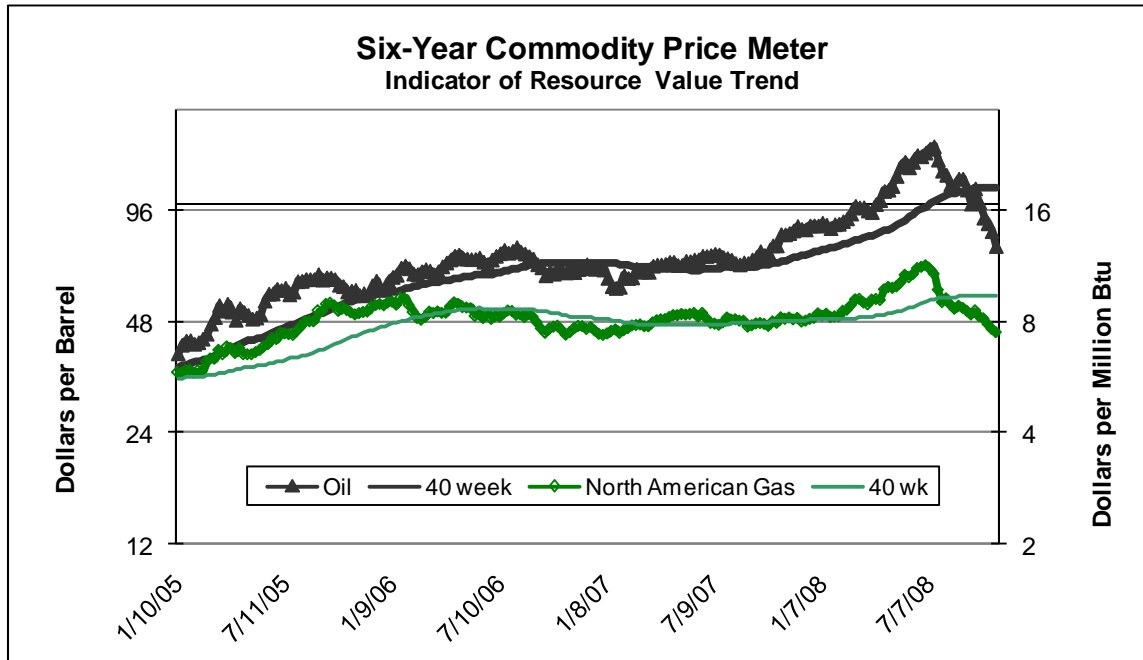


Marathon Oil Corporation					
Functional Cash Flow and Present Value					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<u><i>Ebitda</i></u>	<u><i>R/P</i></u>	<u><i>Ebitda</i></u>	<u><i>Value</i></u>	
North American Natural Gas	530	5.7	6.4	3,400	7%
Rest of World Natural Gas	360	11.3	8.6	3,100	7%
Oil	3,920	8.3	7.3	28,600	61%
Downstream	2,220		5.4	12,000	25%
	7,030	8.5	6.7	47,100	100%
Debt					13,000
Net Present Value (\$mm)					34,100
Shares					711
Net Present Value - Standard Estimate (US\$/sh)					48
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					50



Independent Stock Idea

October 30, 2008



Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

Research Methodology/Ratings Description: McDep LLC is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.