



# Independent Stock Idea

February 19, 2016

## Marathon Oil (MRO) Flexibility to Adapt

<i>Symbol</i>	MRO	<i>Ebitda Next Twelve Months ending 12/31/16 (US\$m)</i>	900
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	8
<i>Price (US\$/sh)</i>	6.93	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/18/16	<i>Adjusted Reserves/Production NTM</i>	12.9
<i>Shares (mm)</i>	678	<i>EV/Ebitda</i>	15.4
<i>Market Capitalization (US\$m)</i>	4,700	<i>PV/Ebitda</i>	25.5
<i>Debt (US\$m)</i>	8,800	<i>Undeveloped Reserves (%)</i>	33
<i>Enterprise Value (EV) (US\$m)</i>	13,500	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	6.20
<i>Present Value (PV) (US\$m)</i>	22,400	<i>Present Value Proven Reserves(US\$/boe)</i>	10.20
<i>Net Present Value (US\$/share)</i>	20	<i>Present Value Proven Reserves(US\$/mcf)</i>	1.70
<i>Debt/Present Value</i>	0.39	<i>Earnings Next Twelve Months (US\$/sh)</i>	-2.25
<i>McDep Ratio - EV/PV</i>	0.60	<i>Price/Earnings Next Twelve Months</i>	-3
<i>Dividend Yield (%/year)</i>	2.9	<i>Indicated Annual Dividend (US\$/sh)</i>	0.20
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 capped by unlevered cash flow multiple.			
For historical research on Marathon since 2001 see <a href="http://www.mcdep.com/3mro.htm">http://www.mcdep.com/3mro.htm</a>			

### Summary and Recommendation

Subject to volatility that has contributed to a drastically low price, the common stock of Large Cap Independent Producer **Marathon Oil (MRO)** looks attractive for appreciation on the basis of leverage to oil price, high quality shale oil prospects, continually improving operating efficiency and long-life conventional projects. The company has shown better flexibility to adapt to negative conditions than the stock price might suggest. A low current price of \$30 a barrel for crude oil squeezes cash margin. Lower price for natural gas liquids and natural gas reduces the average to \$18 an equivalent barrel, which is a slim \$3 a barrel above cash operating costs of \$15. To keep an investment grade debt rating, management reduced the dividend last month and is proceeding with the sale of up to a billion dollars of assets that would help finance a steeply reduced capital program. That would only be enough drilling to limit production decline to 7% in 2016. Such a decline at MRO and other producers would contribute to a balancing of the market that restores oil price to a sustaining level. Yet, to acknowledge low current cash flow, we reduce our estimate of Net Present Value (NPV) to \$20 a share from \$40 a share. McDep Ratio remains at a low 0.60 and financial leverage moves up to a ratio of Debt to Present Value at a high 0.39. Looking to the upside, oil price can take the stock price up just as fast as it took stock price down. MRO has a low cost operating position in the Texas Eagle Ford, Oklahoma Woodford and North Dakota Bakken shale oil trends. The productivity of new wells keeps improving even in the oil price downturn. Balancing out shale, MRO has a profitable long-life oil sands project in Canada, a long-life LNG project in Africa and rising production in the U.S. offshore and Kurdistan onshore. Financial risk can be managed by sizing stock owned on an unlevered basis.

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Marathon Oil Corporation										
Next Twelve Months Operating and Financial Estimates										
	Q4	Year	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	12/31/14	2014	9/30/15	12/31/15	2015	3/31/16	6/30/16	9/30/16	12/31/16	12/31/16
<b>Volume</b>										
Natural Gas (mmcf)										
U.S. (or North America)	331	<b>311</b>	338	345	<b>351</b>	336	327	318	309	<b>322</b>
Overseas (or Int'l)	491	<b>480</b>	441	467	<b>439</b>	300	450	438	426	<b>404</b>
Total	822	<b>791</b>	779	812	<b>789</b>	636	777	756	735	<b>726</b>
Oil (mbd)	314	<b>291</b>	308	292	<b>298</b>	272	275	268	260	<b>269</b>
Total gas & oil (bcf)	249	<b>926</b>	242	236	<b>942</b>	204	221	217	211	<b>853</b>
Total gas & oil (mbd)	451	<b>423</b>	438	427	<b>430</b>	378	404	394	383	<b>390</b>
<b>Price</b>										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	4.02	<b>4.43</b>	2.76	2.28	<b>2.67</b>	2.18	2.10	2.26	2.44	<b>2.24</b>
U.S. (or North America)	3.90	<b>4.57</b>	2.75	2.12	<b>2.66</b>	2.03	1.95	2.10	2.27	<b>2.09</b>
Overseas (or Int'l)	0.71	<b>1.01</b>	0.59	0.58	<b>0.68</b>	0.58	0.58	0.58	0.58	<b>0.58</b>
Total	1.99	<b>2.41</b>	1.53	1.23	<b>1.56</b>	1.35	1.16	1.22	1.29	<b>1.25</b>
Oil (\$/bbl)										
WTI Cushing	73.18	<b>93.04</b>	46.39	42.21	<b>48.79</b>	30.22	33.67	36.98	38.92	<b>34.95</b>
Worldwide	60.55	<b>78.46</b>	37.13	32.35	<b>38.21</b>	23.67	26.37	28.96	30.48	<b>27.35</b>
Total gas & oil (\$/mcf)	7.63	<b>9.75</b>	4.81	4.08	<b>4.90</b>	3.22	3.36	3.67	3.87	<b>3.53</b>
<b>Revenue (\$mm)</b>										
Natural Gas										
U.S. (or North America)	119	<b>518</b>	86	67	<b>341</b>	61	58	62	65	<b>245</b>
Overseas (or Int'l)	32	<b>177</b>	24	25	<b>109</b>	16	24	23	23	<b>86</b>
Total	151	<b>695</b>	109	92	<b>449</b>	77	82	85	87	<b>331</b>
Oil	1,749	<b>8,341</b>	1,052	869	<b>4,162</b>	579	660	713	730	<b>2,682</b>
Other	597	<b>2,903</b>	162	514	<b>1,249</b>	-	-	-	-	<b>-</b>
Total	2,497	<b>11,938</b>	1,323	1,475	<b>5,861</b>	656	742	798	817	<b>3,013</b>
<b>Expense</b>	1,159	<b>5,321</b>	630	1,010	<b>3,449</b>	534	534	534	534	<b>2,136</b>
<b>Ebitda (\$mm)</b>	1,338	<b>6,617</b>	693	465	<b>2,412</b>	122	208	264	283	<b>877</b>
Exploration	479	<b>796</b>	230	312	<b>743</b>	50	50	50	50	<b>200</b>
Deprec., Deplet., & Amort.	801	<b>2,915</b>	717	668	<b>2,957</b>	668	668	668	668	<b>2,672</b>
Other non cash			(121)	(101)						
<b>Ebit</b>	58	<b>2,906</b>	(133)	(414)	<b>(1,066)</b>	(596)	(510)	(454)	(435)	<b>(1,995)</b>
Interest	58	<b>241</b>	75	87	<b>267</b>	87	87	87	87	<b>348</b>
<b>Ebt</b>	-	<b>2,665</b>	(208)	(501)	<b>(1,333)</b>	(683)	(597)	(541)	(522)	<b>(2,343)</b>
Income Tax	-	<b>933</b>	(73)	(175)	<b>(466)</b>	(239)	(209)	(189)	(183)	<b>(820)</b>
<b>Net Income (\$mm)</b>	-	<b>1,732</b>	(135)	(325)	<b>(866)</b>	(444)	(388)	(352)	(339)	<b>(1,523)</b>
<b>Shares (millions)</b>	677	<b>685</b>	677	678	<b>677</b>	678	678	678	678	<b>678</b>
Per share (\$)	-	<b>2.53</b>	(0.20)	(0.48)	<b>(1.28)</b>	(0.65)	(0.57)	(0.52)	(0.50)	<b>(2.25)</b>
Ebitda Margin (E&P)	70%	<b>73%</b>	60%	48%	<b>52%</b>	19%	28%	33%	35%	<b>29%</b>



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<b>Marathon Oil Corporation</b>					
<b>Functional Cash Flow and Present Value</b>					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>Ebitda</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
North American Natural Gas	70	7.3	21.4	1,500	7%
Rest of World Natural Gas	20	7.5	20.0	400	2%
Oil	720	10.3	26.8	19,300	86%
Synthetic Crude Oil	70	44	17.1	1,200	5%
	880	12.9	25.5	22,400	100%
Debt					8,800
Net Present Value (\$mm)					13,600
Shares					678
Net Present Value - Standard Estimate (US\$/sh)					20
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					18

**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.

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