

Rating: Buy
S&P 500: 1446

Marathon Oil Corporation Emphasis on Refining

<i>Symbol</i>	MRO	<i>Ebitda Next Twelve Months ending 12/31/07 (US\$m)</i>	7,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	11
<i>Price (US\$/sh)</i>	90.91	<i>Natural Gas and Oil Production/Ebitda (%)</i>	51
<i>Pricing Date</i>	2/1/07	<i>Adjusted Reserves/Production NTM</i>	8.3
<i>Shares (mm)</i>	352	<i>EV/Ebitda</i>	5.2
<i>Market Capitalization (US\$m)</i>	32,000	<i>PV/Ebitda</i>	6.2
<i>Debt (US\$m)</i>	5,300	<i>Undeveloped Reserves (%)</i>	29
<i>Enterprise Value (EV) (US\$m)</i>	37,300	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	28.50
<i>Present Value (PV) (US\$m)</i>	44,100	<i>Present Value Proven Reserves(US\$/boe)</i>	18.00
<i>Net Present Value (US\$/share)</i>	110	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.00
<i>Debt/Present Value</i>	0.12	<i>Earnings Next Twelve Months (US\$/sh)</i>	9.59
<i>McDep Ratio - EV/PV</i>	0.85	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	1.5	<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.

Estimated present value presumes a long-term price for oil of US\$60 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

Buy the common shares of **Marathon Oil (MRO)** for appreciation potential of 21% to estimated net present value (NPV) of \$110 a share that depends first on refined products (43%), second on crude oil production (38%) and third on natural gas (18%). Fourth quarter 2006 results reported on February 1 reflect recent company and industry trends and came close to our projections. Volatile downstream cash flows are projected in 2007 at 80% of the level of the past four quarters (see table, Next Twelve Months Operating and Financial Estimates). Negotiations are underway to integrate refining more closely with a Canadian oil sands producer. Estimated NPV is close to that implied by correlation with about thirty producers (see table, Functional Cash flow and Present Value). Oil for delivery over the next six years priced currently at \$62 a barrel may resume an uptrend by crossing above the 40-week average later in 2007 (see chart, Six-Year Commodity Price Meter). We carry MRO stock at a half weighting in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean fuel for global growth.

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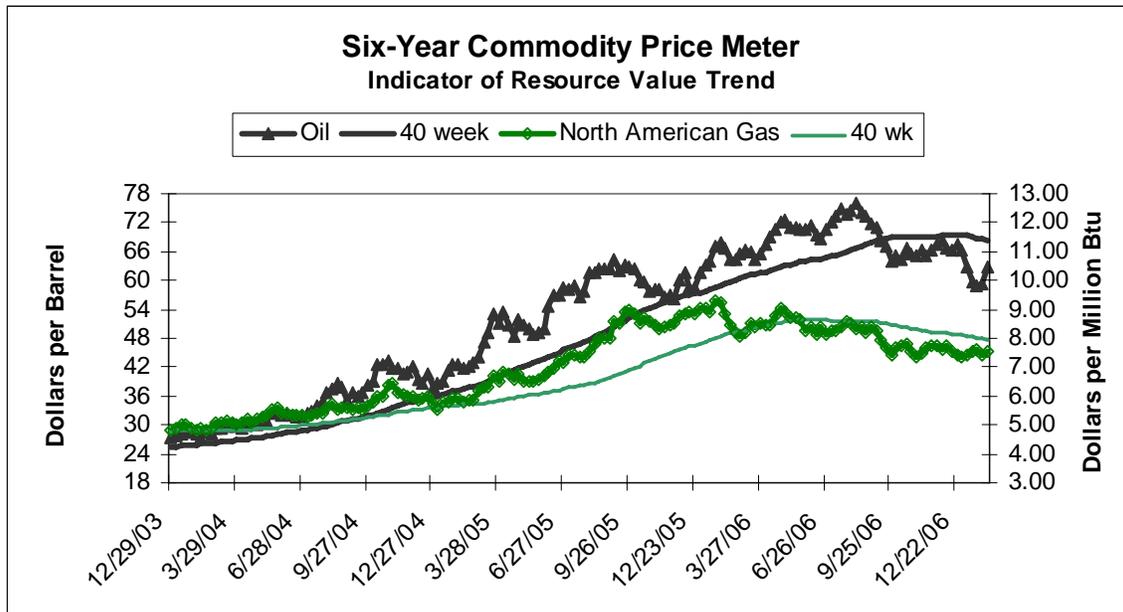
Marathon Oil Corporation
Next Twelve Months Operating and Financial Estimates

	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Next Twelve Months</i>
	<i>12/31/05</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>12/31/07</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	599	522	522	532	522	522	522	522	522
Overseas (or Int'l)	406	197	352	315	435	277	197	352	315
Total	1,005	719	874	847	957	799	719	874	837
Oil (mbd)	224	242	212	231	212	212	212	212	212
Total gas & oil (bcf)	216	200	197	814	201	188	183	197	770
Total gas & oil (mbd)	392	362	358	372	372	345	332	358	351
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	13.00	6.58	6.57	7.23	7.06	7.70	7.90	8.56	7.81
U.S. (or North America)	8.30	5.62	5.36	5.76	5.76	6.29	6.45	6.99	6.38
Overseas (or Int'l)	5.92	4.10	4.90	5.27	6.16	5.19	4.10	4.90	5.27
Total	7.34	5.20	5.17	5.58	5.94	5.91	5.81	6.15	5.96
Oil (\$/bbl)									
WTI Cushing	60.02	70.42	59.99	66.05	56.84	59.51	61.14	62.33	59.95
Worldwide	47.98	62.96	52.63	57.96	49.86	52.21	53.64	54.68	52.61
Total gas & oil (\$/mcf)	7.72	8.74	7.31	8.11	7.29	7.62	7.81	7.90	7.65
NY Harbor 3-2-1 (\$/bbl)	9.06	11.67	7.54	10.50	8.01	11.89	12.22	8.06	10.05
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	457	270	257	1,118	271	299	310	336	1,215
Overseas (or Int'l)	221	74	159	605	241	131	74	159	605
Total	679	344	416	1,723	512	430	384	494	1,820
Oil	989	1,402	1,026	4,882	951	1,007	1,046	1,066	4,071
Other	15,647	14,888	12,543	58,943	12,543	12,543	12,543	12,543	50,174
Total	17,314	16,634	13,986	65,548	14,007	13,980	13,974	14,104	56,064
Expense (\$mm)									
Fixed	96	168	136	567	136	136	136	136	544
Variable	287	504	408	1,701	418	405	402	467	1,692
Other	14,385	13,479	11,634	54,576	12,073	11,375	11,416	11,816	46,680
Ebitda (\$mm)									
Exploration and Production	1,285	1,073	899	4,338	909	896	892	958	3,655
Other	1,261	1,409	909	4,367	470	1,168	1,128	727	3,493
Total Ebitda	2,546	2,483	1,808	8,705	1,379	2,064	2,020	1,685	7,148
Exploration	87	97	131	365	100	100	100	100	400
Deprec., Deplet., & Amort.	365	361	388	1,533	388	388	388	388	1,552
Other non cash		(350)		(350)					-
Ebit	2,094	2,375	1,289	7,157	891	1,576	1,532	1,197	5,196
Interest	46			24	-	-	-	-	-
Ebt	2,048	2,375	1,289	7,133	891	1,576	1,532	1,197	5,196
Income Tax	717	831	451	2,496	312	551	536	419	1,819
Net Income (\$mm)									
Exploration and Production	1,030	572	307	2,015					
Other	1,185	1,024	526	2,811					
Unallocated	(884)	(52)	5	(190)					
Total	1,331	1,544	838	4,636	579	1,024	996	778	3,377
Shares (millions)	369	359	352	361	352	352	352	352	352
Per share (\$)	3.61	4.30	2.38	12.85	1.65	2.91	2.83	2.21	9.59
Ebitda Margin (E&P)	77%	61%	62%	66%	62%	62%	62%	61%	62%
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>Ebitda</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i>	
North American Natural Gas	750	5.6	6.1	4,600	10%
Rest of World Natural Gas	380	14.4	9.5	3,600	8%
Oil	2,530	8.0	6.6	16,800	38%
Downstream	3,490		5.4	19,000	43%
	7,150	8.3	6.2	44,000	100%
Debt					5,300
Net Present Value (\$mm)					38,700
Shares					352
Net Present Value - Standard Estimate (US\$/sh)					110
Net Present Value - Approximation by Correlation (US\$/sh)					113



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