

Rating: Buy  
S&P 500: 1486

## Marathon Oil Corporation Stock Split Declared

<i>Symbol</i>	MRO	<i>Ebitda Next Twelve Months ending 3/31/08 (US\$mm)</i>	7,900
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	11
<i>Price (US\$/sh)</i>	101.55	<i>Natural Gas and Oil Production/Ebitda (%)</i>	54
<i>Pricing Date</i>	4/30/07	<i>Adjusted Reserves/Production NTM</i>	8.1
<i>Shares (mm)</i>	347	<i>EV/Ebitda</i>	5.2
<i>Market Capitalization (US\$mm)</i>	35,200	<i>PV/Ebitda</i>	5.6
<i>Debt (US\$mm)</i>	6,000	<i>Undeveloped Reserves (%)</i>	32
<i>Enterprise Value (EV) (US\$mm)</i>	41,300	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	32.80
<i>Present Value (PV) (US\$mm)</i>	44,200	<i>Present Value Proven Reserves(US\$/boe)</i>	19.00
<i>Net Present Value (US\$/share)</i>	110	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.17
<i>Debt/Present Value</i>	0.14	<i>Earnings Next Twelve Months (US\$/sh)</i>	11.25
<i>McDep Ratio - EV/PV</i>	0.93	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	1.9	<i>Indicated Annual Dividend (US\$/sh)</i>	1.92

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

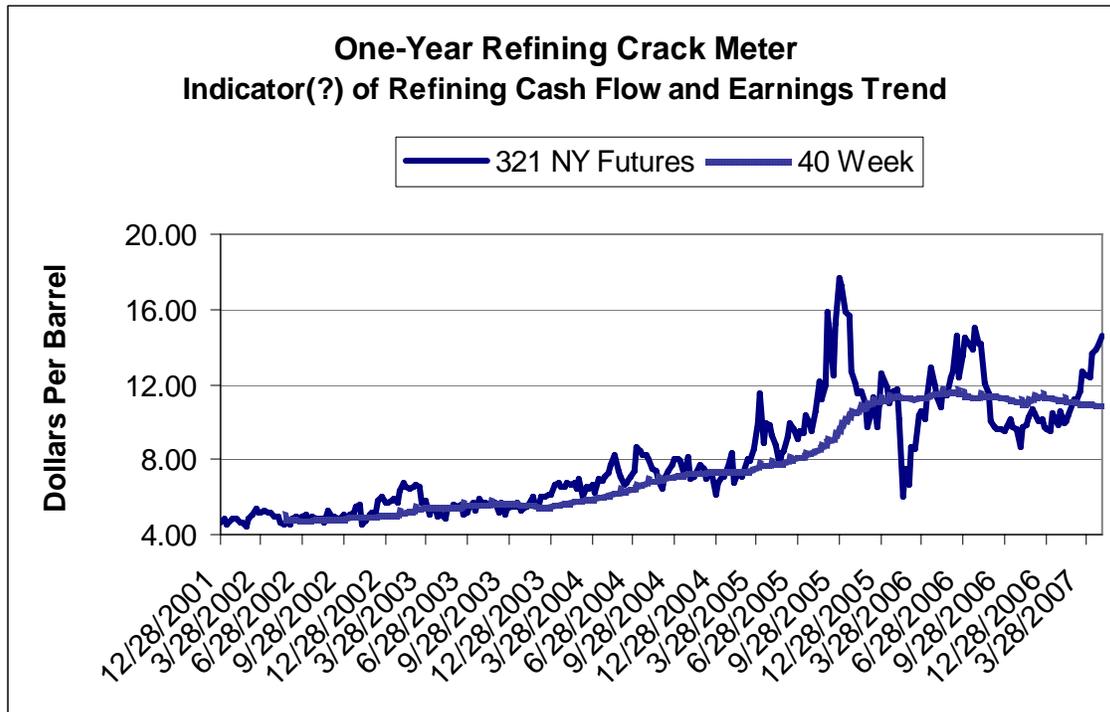
A few days after management declared a 2-for-1 stock split, buy-recommended **Marathon Oil (MRO)** reported results for the first quarter 2007 on May 1 reinforcing estimated net present value (NPV) of \$110 a share. The estimate exceeds that implied by a correlation with reserve life and cash flow for some thirty companies despite our projection of downstream cash flow for Marathon at just 80% of recent records (see table [Functional Cash Flow and Present Value](#)). The trend in expected refiner's margin points to higher levels in downstream cash flow though that indicator can be volatile (see chart [One-Year Refining Crack Meter](#)). Upstream, the company may see sharp production gains offshore Norway from reserves that may have short life (see table [Production and Reserves, 2006](#)). Concentrated 41% by value on oil production, the stock should benefit as oil price for delivery over the next six years, currently about \$69 a barrel, has resumed an uptrend by crossing above the 40-week average (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**  
**Functional Cash Flow and Present Value**

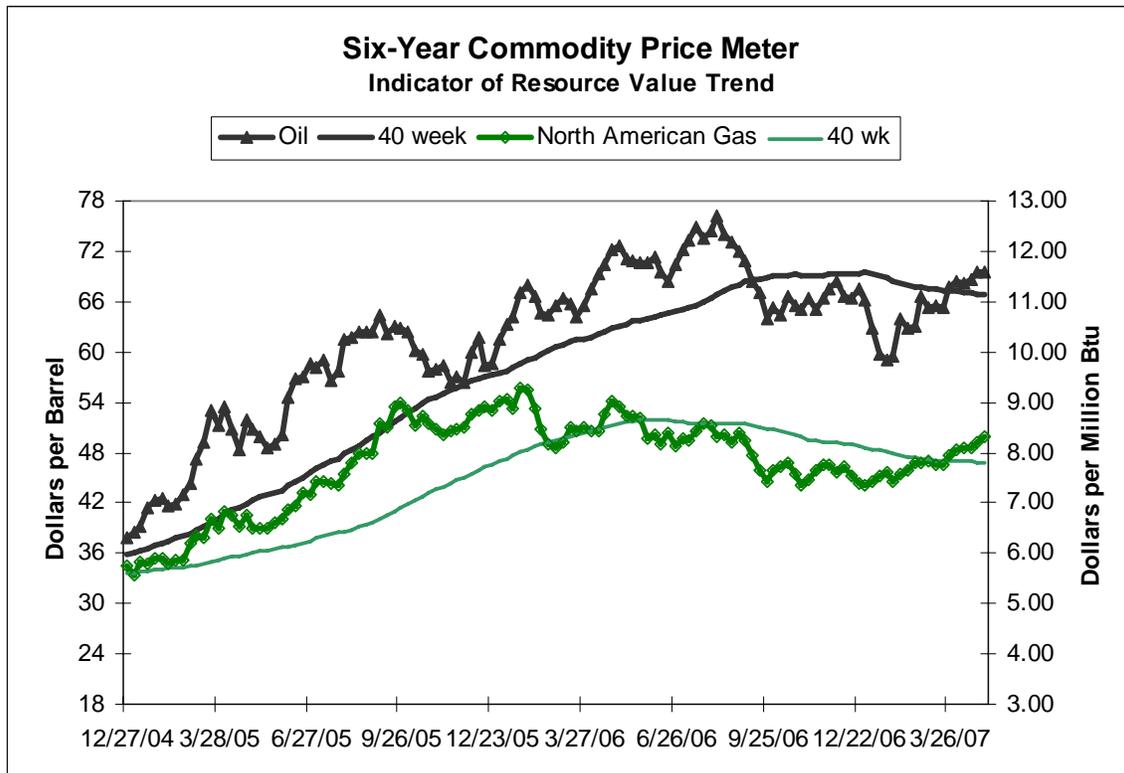
	<i>NTM</i> <u>Ebitda</u>	<i>Adjusted</i> <u>R/P</u>	<i>PV/</i> <u>Ebitda</u>	<i>Present</i> <u>Value</u>	
North American Natural Gas	880	5.2	5.2	4,600	10%
Rest of World Natural Gas	320	15.7	8.1	2,600	6%
Oil	3,080	7.5	5.8	18,000	41%
Downstream	3,660		5.2	19,000	43%
	7,940	8.1	5.6	44,200	100%
Debt					6,000
Net Present Value (\$mm)					38,200
Shares					347
Net Present Value - Standard Estimate (US\$/sh)					110
Net Present Value - Approximation by Correlation (US\$/sh)					114



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**Marathon Oil**  
**Production and Reserves, 2006**

	2006 Production		12/31/2006 Proven Reserves			Weighted Life Index (years)	NTM Adjusted R/P (years)
	(daily)	(annual)	Developed (bcf or mmb)	Undeveloped (bcf or mmb)	Weighted (bcf or mmb)		
U.S. Natural Gas	532	194	857	212	963	5.0	5.2
Rest of World Natural Gas							
Europe	192	70	238	206	341	4.9	
Africa	71	26	648	1,349	1,323	50.9	
Total	263	96	886	1,555	1,664	17.3	15.7
Oil							
U.S.	77	28	150	22	161	5.8	
Europe	36	13	35	63	73	5.6	
Africa	112	41	381	16	389	9.5	
Total	225	82	566	101	617	7.5	7.5
Total Oil Equivalent	357	130	857	396	1,054	8.1	8.1



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**Marathon Oil Corporation**  
**Next Twelve Months Operating and Financial Estimates**

	<i>Q1</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next Twelve Months</i>
	<i>3/31/06</i>	<i>12/31/06</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>3/31/08</i>	<i>3/31/08</i>
<b>Volume</b>									
Natural Gas (mmcf)									
U.S. (or North America)	561	522	512	512	512	512	<b>512</b>	512	<b>512</b>
Overseas (or Int'l)	435	352	337	277	197	352	<b>291</b>	337	<b>291</b>
Total	996	874	849	789	709	864	<b>803</b>	849	<b>803</b>
Oil (mbd)	211	212	198	198	198	250	<b>211</b>	250	<b>224</b>
Total gas & oil (bcf)	204	197	183	180	175	217	<b>755</b>	211	<b>783</b>
Total gas & oil (mbd))	377	358	340	330	316	394	<b>345</b>	392	<b>358</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	8.97	6.57	6.81	7.66	8.11	8.98	<b>7.89</b>	9.90	<b>8.66</b>
U.S. (or North America)	6.66	5.36	5.91	6.65	7.04	7.79	<b>6.85</b>	8.59	<b>7.52</b>
Overseas (or Int'l)	6.16	4.90	4.91	5.19	4.10	4.90	<b>4.84</b>	4.91	<b>4.84</b>
Total	6.44	5.17	5.51	6.14	6.22	6.62	<b>6.12</b>	7.13	<b>6.55</b>
Oil (\$/bbl)									
WTI Cushing	63.33	59.99	58.08	65.07	67.85	69.47	<b>65.12</b>	70.42	<b>68.20</b>
Worldwide	50.16	52.63	51.07	57.22	59.66	61.09	<b>57.53</b>	61.92	<b>60.15</b>
Total gas & oil (\$/mcf)	7.52	7.31	7.26	8.18	8.55	8.88	<b>8.24</b>	9.17	<b>8.72</b>
NY Harbor 3-2-1 (\$/bbl)	7.40	7.54	11.68	20.08	19.62	11.69	<b>15.77</b>	10.75	<b>15.54</b>
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S. (or North America)	336	257	272	310	332	367	<b>1,281</b>	396	<b>1,405</b>
Overseas (or Int'l)	241	159	149	131	74	159	<b>513</b>	149	<b>513</b>
Total	577	416	421	441	406	526	<b>1,794</b>	545	<b>1,917</b>
Oil	953	1,026	910	1,031	1,087	1,405	<b>4,433</b>	1,393	<b>4,916</b>
Other	15,108	12,543	11,671	11,671	11,671	11,671	<b>46,683</b>	11,671	<b>46,683</b>
Total	16,638	13,986	13,002	13,142	13,164	13,602	<b>52,909</b>	13,609	<b>53,516</b>
<b>Expense</b>	<b>14,989</b>	<b>12,178</b>	<b>11,459</b>	<b>11,003</b>	<b>11,051</b>	<b>11,716</b>	<b>45,228</b>	<b>11,807</b>	<b>45,576</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	1,061	899	904	971	985	1,159	<b>4,019</b>	1,163	<b>4,278</b>
Other	588	909	639	1,168	1,128	727	<b>3,662</b>	639	<b>3,662</b>
Total Ebitda	1,649	1,808	1,543	2,139	2,113	1,886	<b>7,681</b>	1,802	<b>7,940</b>
Exploration	71	131	61	90	90	90	<b>331</b>	90	<b>360</b>
Deprec., Deplet., & Amort.	415	388	393	393	393	393	<b>1,572</b>	393	<b>1,572</b>
Other non cash									
<b>Ebit</b>	<b>1,163</b>	<b>1,289</b>	<b>1,089</b>	<b>1,656</b>	<b>1,630</b>	<b>1,403</b>	<b>5,778</b>	<b>1,319</b>	<b>6,008</b>
Interest	24								
<b>Ebt</b>	<b>1,139</b>	<b>1,289</b>	<b>1,089</b>	<b>1,656</b>	<b>1,630</b>	<b>1,403</b>	<b>5,778</b>	<b>1,319</b>	<b>6,008</b>
Income Tax	399	451	381	580	570	491	<b>2,022</b>	462	<b>2,103</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	477	307	385						
Other	327	526	364						
Unallocated	(64)	5	(41)						
Total	740	838	708	1,077	1,059	912	<b>3,756</b>	857	<b>3,905</b>
<b>Shares (millions)</b>	<b>368</b>	<b>352</b>	<b>347</b>	<b>347</b>	<b>347</b>	<b>347</b>	<b>347</b>	<b>347</b>	<b>347</b>
Per share (\$)	2.01	2.38	2.04	3.10	3.05	2.63	<b>10.82</b>	2.47	<b>11.25</b>
Ebitda Margin (E&P)	69%	62%	68%	66%	66%	60%	<b>65%</b>	60%	<b>63%</b>
Tax Rate	35%	35%	35%	35%	35%	35%	<b>35%</b>	35%	<b>35%</b>

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