



Independent Stock Idea

July 31, 2008

rating: hold
s&p 500: 1280 intraday

Marathon Oil (MRO) May Form Two Independent Companies

<i>Symbol</i>	MRO	<i>Ebitda Next Twelve Months ending 6/30/09 (US\$mm)</i>	9,700
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	9
<i>Price (US\$/sh)</i>	47.04	<i>Natural Gas and Oil Production/Ebitda (%)</i>	80
<i>Pricing Date</i>	7/31/08	<i>Adjusted Reserves/Production NTM</i>	8.8
<i>Shares (mm)</i>	714	<i>EV/Ebitda</i>	4.7
<i>Market Capitalization (US\$mm)</i>	33,600	<i>PV/Ebitda</i>	6.4
<i>Debt (US\$mm)</i>	12,200	<i>Undeveloped Reserves (%)</i>	24
<i>Enterprise Value (EV) (US\$mm)</i>	45,800	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	53.20
<i>Present Value (PV) (US\$mm)</i>	62,200	<i>Present Value Proven Reserves(US\$/boe)</i>	34.30
<i>Net Present Value (US\$/share)</i>	70	<i>Present Value Proven Reserves(US\$/mcf)</i>	5.72
<i>Debt/Present Value</i>	0.20	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.46
<i>McDep Ratio - EV/PV</i>	0.74	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	2.0	<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\$100 a barrel and natural gas, \$14 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 36% to estimated net present value (NPV) of \$70 a share. Today we lower NPV from \$75 on the basis of high volatility in refining. On May 13 we raised NPV to \$75 from \$68 a share on the basis of a long-term oil price assumption of \$100 a barrel, up from \$80. Recognizing that the stock could perform better, management announced today that Marathon's board of directors will decide during the fourth quarter of 2008 whether to split the company in two. An independent producer would have oil and gas production and an independent refiner/marketer would have the downstream operations. Also released today, second quarter results displayed the diverging current trends in producing margins compared to processing margins. Projected volumes along with current futures prices promise a continuing high level of unlevered cash flow (Ebitda) (see table [Next Twelve Months Operating and Financial Estimates](#)). 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](#)). Meanwhile long-term crude oil price continues in an uptrend where the latest quote of \$123 a barrel for delivery over the next six years is above the 40-week average of \$104 (see chart [Six-Year Commodity Price Meter](#)).

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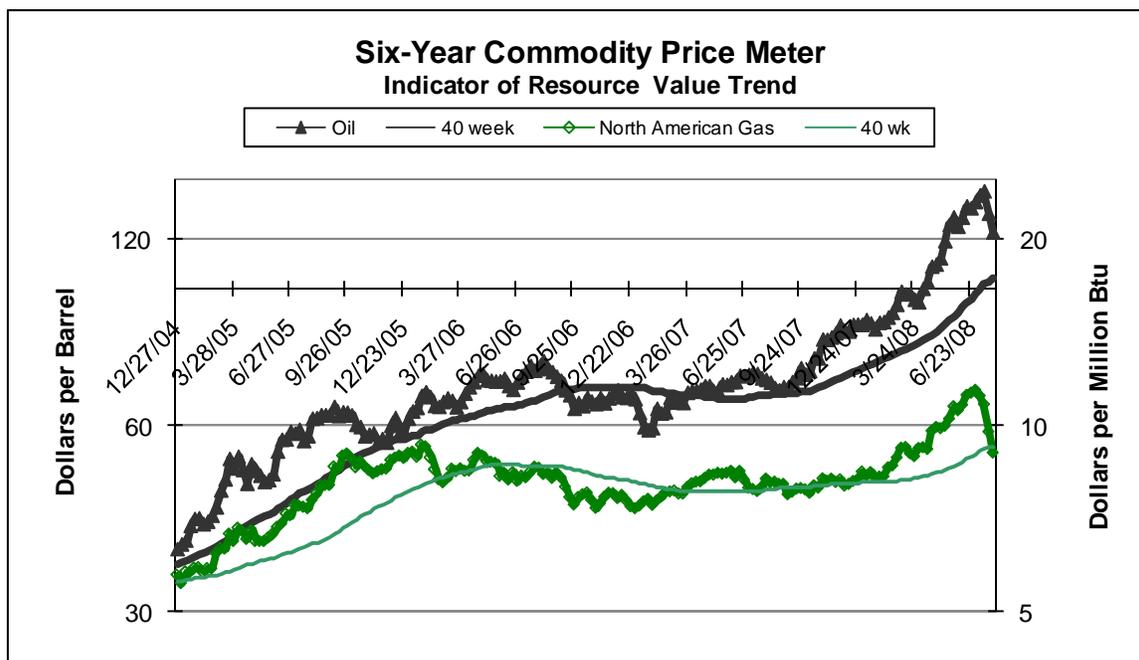
Marathon Oil Corporation									
Next Twelve Months Operating and Financial Estimates									
	Q2	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Next Twelve Months
	6/30/07	3/31/08	6/30/08	9/30/08	12/31/08	2008E	3/31/09	6/30/09	6/30/09
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	460	482	431	431	431	445	431	431	431
Overseas (or Int'l)	374	647	573	573	573	593	573	573	573
Total	834	1,129	1,004	1,004	1,004	1,038	1,004	1,004	1,004
Days	91	91	91	92	92	366	90	91	365
Oil (mbd)	199	230	230	230	230	230	230	230	230
Total gas & oil (bcf)	185	228	217	219	219	884	215	217	870
Total gas & oil (mbd))	338	418	397	397	397	403	397	397	397
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	7.56	8.02	10.93	10.49	9.66	9.78	10.19	9.38	9.93
U.S. (or North America)	6.16	6.83	8.66	8.31	7.65	7.83	8.07	7.43	7.87
Overseas (or Int'l)	2.27	3.19	2.57	3.96	3.96	3.42	3.19	2.57	3.42
Total	4.42	4.74	5.19	5.83	5.55	5.31	5.28	4.66	5.33
Oil (\$/bbl)									
WTI Cushing	64.91	97.94	123.97	127.56	125.71	118.80	126.45	125.26	126.25
Worldwide	59.11	88.75	111.90	115.14	113.47	107.35	114.14	113.06	113.95
Total gas & oil (\$/mcf)	7.62	10.27	12.98	13.56	13.28	12.50	13.24	12.87	13.24
NY Harbor 3-2-1 (\$/bbl)	24.96	7.57	14.94	12.32	9.19	11.00	11.65	15.15	12.08
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	258	300	340	329	303	1,272	313	291	1,237
Overseas (or Int'l)	77	188	134	209	209	740	165	134	716
Total	335	487	474	538	512	2,012	477	426	1,954
Oil	1,070	1,857	2,342	2,436	2,401	9,037	2,363	2,366	9,566
Other	15,481	15,755	19,409	19,409	19,409	73,982	19,409	19,409	77,636
Total	16,887	18,100	22,225	22,384	22,322	85,031	22,249	22,201	89,156
Expense (\$mm)									
Exploration and Production	1,013	1,610	1,882	1,993	1,952	7,437	1,903	1,871	7,718
Other	1,879	250	555	891	288	1,984	250	555	1,984
Total Ebitda	2,893	1,860	2,437	2,884	2,240	9,421	2,153	2,425	9,702
Exploration	115	129	130	130	130	519	150	150	560
Deprec., Deplet., & Amort.	396	451	504	439	439	1,832	429	434	1,740
Other non cash								1,000	
Ebit	2,382	1,280	1,803	2,316	1,671	7,070	1,574	841	6,402
Interest		100	100	100	100	400	100	100	400
Ebt	2,382	1,180	1,703	2,216	1,571	6,670	1,474	741	6,002
Income Tax	834	413	596	775	550	2,334	516	259	2,101
Net Income (\$mm)									
Exploration and Production	400	711	921						
Other	1,258	24	260						
Unallocated	(110)	32	(74)						
Total	1,548	767	1,107	1,440	1,021	4,335	958	482	3,901
Shares (millions)	688	717	714	714	714	715	714	714	714
Per share (\$)	2.25	1.07	1.55	2.02	1.43	6.07	1.34	0.67	5.46
Ebitda Margin (E&P)	72%	69%	67%	67%	67%	67%	67%	67%	67%
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>	
	<i>Ebitda</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
North American Natural Gas	830	5.6	6.0	5,000	8%
Rest of World Natural Gas	480	9.9	8.3	4,000	6%
Oil	6,410	9.3	6.1	39,200	63%
Downstream	1,980		7.1	14,000	23%
	9,700	8.8	6.4	62,200	100%
Debt					12,200
Net Present Value (\$mm)					50,000
Shares					714
Net Present Value - Standard Estimate (US\$/sh)					70
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					65





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