Energy Sector: Oil & Gas Refining & Marketing

INITIATING COVERAGE REPORT

The Fox Fund

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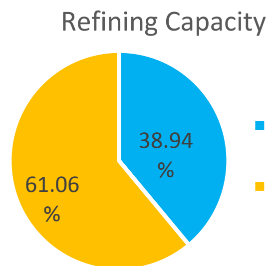
Marathon Petroleum Corp.

Exchange: NYSE **Ticker: MPC** **Target Price: $131.72**

COMPANY OVERVIEW

Marathon Petroleum Corporation is an oil refining, marketing, and transportation company based in Findlay, Ohio. It is the fourth largest oil refiner, and the largest in the Midwest U.S. It was spun off by Marathon Oil Corporation and began operating independently in July 2011. MPC owns and operates 7 refineries, 8,210 retail locations, and an extensive infrastructure of storage facilities and pipelines. MPC revenue is derived from three segments: refining, transportation, and retail (Marathon & Speedway stores). MPC's refineries are located in Petroleum Administration for Defense District ("PADD") II and PADD III, which consist of states in the Midwest and the Gulf Coast regions of the United States. MPC's refineries have the ability to procure crude oil from a variety of supply sources, including domestic, Canadian and other foreign sources, which provides the company with flexibility to optimize crude supply costs

Refining Capacity



INVESTMENT THESIS

MPC is currently trading at a 9.76% discount to its peers, Valero and HollyFrontier. MPC is undervalued due to the recent sell off in oil prices. Although MPC's EV/EBITDA multiple appreciated since beginning of 2015, the company faced further headwinds when workers at the Catlettsburg refinery went on a strike on February 1st. The strike expanded to nearly 12 sites and lasted for two months, causing uncertainty and thereby depressing MPC's EV/EBITDA multiple against its peers. However, the strike ended on April 7th and workers returned back to work the following week. In addition to its strategic presence in the merging Utica Shale, MPC has several ongoing projects that we believe will bring MPC back to fair value and allow it to trade in line with its peer group index. MPC is engaged in accelerating MPLX growth, growing its exports capacity in the Gulf Coast, enhancing its refining margins, and developing new pipelines. The combination of these catalysts and a favorable WTI-Brent spread will make MPC appreciate from its current EV/EBITDA multiple of 6.58x to that of its 3yr peer group average of 6.85x, resulting in a price target of $131.72, and a total return of 30.93% including dividends.

Sector Outperform
Recommendation: BUY

Key Statistics:

Price	$101.96	52 Week Low	$74.64
Return	30.93%	52 Week High	$108.32
Shares O/S (mm)	273	Yield	1.96%
Market Cap (mm)	$27836	Enterprise Value	$33623.8

1 Year Price Graph:

Earnings History:

Quarters	EPS	Δ Rev. YoY	Δ Price
1Q14	$0.81	-12.94%	5.11%
2Q14	$2.94	-3.29%	10.31%
3Q14	$2.36	4.83%	8.45%
4Q14	$2.86	-0.47%	13.00%

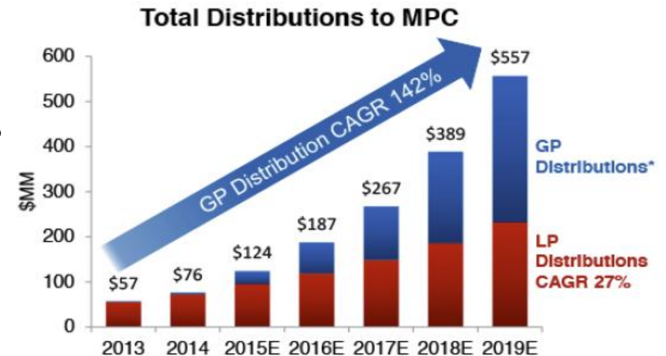
Earnings Projections:

Year	Q1	Q2	Q3	Q4	Total
2013	$2.17	$1.95	$0.59	$2.10	$6.84
2014	$0.81	$2.94	$2.36	$2.86	$8.78
2015e	$2.85	$3.33	$2.75	$1.63	$10.70
2016e	$1.26	$3.15	$2.70	$1.33	$9.70

All prices current at end of previous trading sessions from date of report. Data is sourced from local exchanges via CapIQ, Bloomberg and other vendors. The Fox Fund does and seeks to do business with companies covered in its research reports.

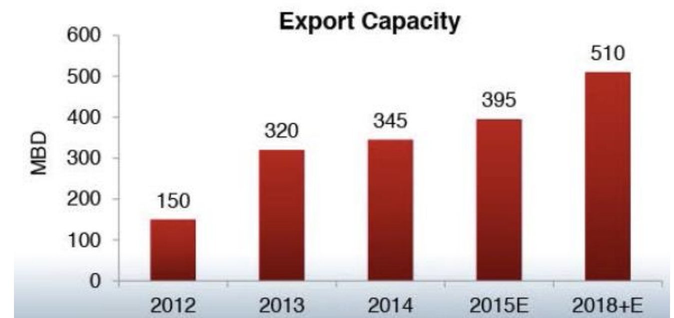
CATALYSTS

Accelerated MPLX Growth:



In 2012, MPC formed MPLX LP (MPLX), a master limited partnership that would own, operate, develop and acquire pipelines and other midstream assets related to the transportation and storage of crude oil, refined products and other hydrocarbon-based products. As of December 2014, MPC owned a 71.5% interest in MPLX including a 2% general partner interest (100% GP interests). Since MPLX's formation, MPC has "dropped down" assets to MPLX that have since given the MLP 99.5% ownership of Pipe Line Holdings. These drop-downs have given MPLX ownership of 962 miles of crude pipelines, 1,817 miles of refined product pipelines, a barge dock on the Mississippi River that has capacity of 78,000 barrels of crude and refined product per day, and storage facilities with capacity of 3.3 MMbbls of storage capacity, along with the capacity of the West Virginia cavern. Drop-downs increase MPLX's EBITDA, directly increasing distributable cash flow (DCF). MPLX's quarterly general partner distributions to MPC increase to a maximum of 50% marginal percentage interest in distributions, which are paid through DCF, once the distribution per unit target amount exceeds $0.393750. Thus, the more assets dropped down to MPLX by MPC, the higher GP Distribution MPC will receive. And, on April 20, MPLX announced a distribution unit of $0.41, surpassing its distribution unit's target threshold. MPC is committed to accelerating MPLX's growth; MPC has sources of $1.6B in EBITDA (Pipelines, Barges, Towboats, Terminals, Refineries, Fuels Distribution) that can be dropped down to MPLX, and by Dec. 2015, expects $450M in EBITDA for MPLX, a substantial increase from $170M in Q4 2014. MPLX's GP Distribution is to grow at a CAGR of 142% fromFY2013 to FY2019 and its LP Distribution to grow at 27%, due to drop-downs and also through planned investments, such as a $200M Cornerstone midstream pipeline growth project that will connect MPC's Canton, Ohio refinery to its Utica shale play.

Growing Gulf Coast Export Capabilities

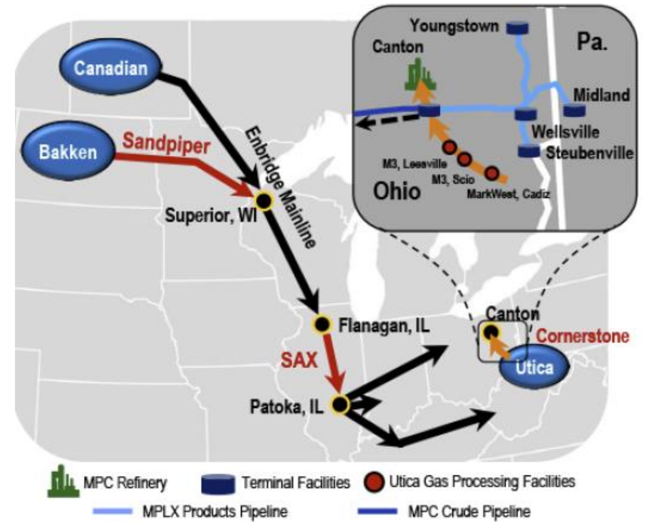


MPC has projects at its Galveston Bay and Garyville refineries to increase export capabilities by 165 mbpd by 2018. In 2015, MPC is projected to complete projects representing 50 mbpd of that total. $120M will be invested in an exports enhancement framework. An additional 30 mbpd exports capacity of ultra-low Sulphur diesel (ULSD) will be added to Galveston Bay in 2015, providing a return on investment of approximately 40% representing $48M. Furthermore, an additional 20 mbpd of Gasoline export capacity will be added, positioning for approximately a return on investment of 30%, representing $36M.

Refining Margin Enhancement:

The refining margin is the difference in value between the products produced by a refinery and the value of the crude oil used to produce them. Refining margins will vary from refinery to refinery and depend on the price and characteristics of the crude used. MPC is spending $370M in refining margin projects enhancement in order to increase its diesel production and to process light crude oil from the Utica Shale region. At the Galveston Bay refinery, a hydrocracker that is expected to increase USLD production by 9 mbpd by shifting yields from gasoline is expected to be completed and operational during FY2015. At the Robinson Refinery, the distillate hydrocracker will be revamped to improve margins by processing feedstock at a lower conversion and shifting approximately 5 mbpd of light products to ULSD production. The improvement in refining margin implies improvement in operational efficiency.

Colonial, Southern Access Extension, and Cornerstone Pipelines



Additionally, the Colonial Pipeline allocation received from Hess increases refined product transportation by 40,000 bpd. This will help MPC enter the northeastern market of the US more rapidly, and will expand MPC's volume of fuel distribution from 17 billion gallons a year to 20. Furthermore, beyond the Hess retail acquisition, MPC exercised a 35% ownership option in Enbridge Inc.'s Southern Access Extension Pipeline Project (SAX) in Q2 2014, and agreed to be the SAX's anchor shipper, opening up transportation capacity of 300,000 bpd of Crude Oil. MPC will begin using this investment in late 2015 to ship crude oil to its crude oil storage hub in Patoka, IL. Looking to increase efficiencies in the Utica Shale region of Eastern Ohio, MPC has also invested in a 25,000 bpd condensate splitter in its Canton, KY refinery, and plans on having a 35,000 bpd splitter completed by Q2 2015. Furthermore, the Cornerstone Pipelines which will be completed in FY2016 through an investment of $200M, and likely to lead into an additional $38M EBITDA for MPC. These midstream developments, paired with MPC's growth strategy for MPLX, will integrate Marathon's downstream system.

Widening WTI-Brent and LLS 6-3-2-1 Spreads

The WTI-Brent spread has highly been compressed in 2015, with the exception of a period between Feb. 20 and March 3 in which the spread varied from -9.52 to -13.74. Since then the spread has gradually decreased, and throughout April, the spread has not gone above -6.60, and currently sits at -5.59. The increase in late February and early March is attributed to increased US supplies that caused the price of WTI to increase much less than that of Brent. In January the margin was highly compressed, as both Brent and WTI were trading nearly equivalently. Though domestic oil supplies are at all-time highs, in the beginning of April US WTI production decreased for the first time since January, dropping by 36,000. This drop can be attributed to decreased US rig activity, which has fallen 19 straight weeks. The EIA predicts that US crude outputs will steadily increase by roughly 0.5 mbbl/d in 2015, and the EIA has set the yearly average of the WTI-Brent spread at -6.84, with WTI coming in at $52.48, and Brent at $59.32. MPC will benefit from this larger margin despite the drop in US oil production growth, because the oil MPC refines is WTI. The larger the margin, the larger the discount of production when compared internationally, and the less cost per barrel produced. Additionally, due to the expected consistent growth of US crude oil production, the LLS 6-3-2-1 crack spread is expected to widen as well. This spread compares the cost of six barrels of LLS crude to price received for refining 3 barrels of unleaded regular gasoline, 2 barrels of distillate, and 1 barrel of residual fuel oil. Because of consistent production in the US, LLS will remain between $3 and $6 less per barrel than Brent in order to discourage imports of foreign light oil. The less the LLS costs, the less it will cost MPC to produce its refined products, which will widen the crack spread and positively affect MPC's bottom-line by increasing profit-per-sale of refined products.

TARGET PRICE

MPC is currently trading at an EV/EBITDA multiple of, 6.58x representing a discount of 9.76% to its peer group index's EV/EBITDA multiple of 6.85x over 3 years. Using NTM EBITDA projections of $6093.5mm and the target multiple of 6.85x, the investment will reach a target price of $131.72, representing a return of 30.93% including the 1.96% dividend yield.

Historical Average Target Price= $131.72

Historical Average Multiple = 6.85x
NTM EBITDA = $6093.5mm

PEER GROUP IDENTIFICATION

Valero Energy Corp (VLO): VLO is an international manufacturer and marketer of transportation fuels, petrochemical products and power. VLO produces conventional gasoline, distillates, jet fuel, asphalt, petrochemicals, lubricants, and other refined products,

HollyFrontier Corp (HFC): HFC is an independent petroleum refiner that produces refined products, such as gasoline, diesel fuel, jet fuel, lubricant products, and specialty and modified asphalt. HFC operates mainly in PADD II and maintains over 20% exposure to PADD III.

SEGMENT OVERVIEW

Refining & Marketing

MPC's primary business comes from refining crude oil and feedstocks at its 7 refineries located in the Midwest U.S. and along the Gulf Coast. These refineries' aggregate crude oil refining capacity of 1731million barrels per calendar day. During FY2014, MPC's refineries processed 1622 mbpd of crude oil. MPC refines crude oil into Gasoline, Distillates, Propane, Feedstocks and Special Products, Heavy fuel oil, and Asphalt. It also purchases a variety of refined products for resale to wholesale customers as well as retail customers through its Speedway and Marathon retail outlets. This segment accounted for approximately 83.96 % of 2014 revenue.

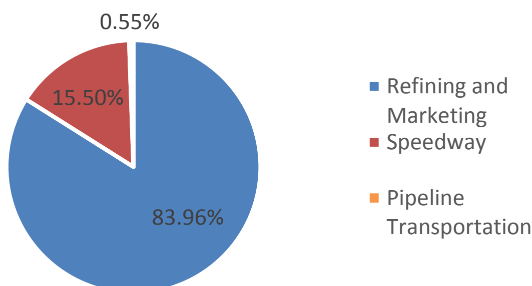
Refinery	Crude Oil Refining Capacity (*mbpcd*)[a]	Tank Storage Capacity (*million barrels*)	Number of Tanks
Garyville, Louisiana	522	16.8	78
Galveston Bay, Texas City, Texas	451	16.3	156
Catlettsburg, Kentucky	242	5.6	115
Robinson, Illinois	212	6.3	95
Detroit, Michigan	130	6.5	86
Canton, Ohio	90	3.0	75
Texas City, Texas	84	4.7	61
Total	1,731	59.2	666

Retail Sales (Speedway)

MPC's Speedway segment sells gasoline, diesel fuel, and merchandise through its own Speedway convenience stores and through recently acquired Hess convenience stores. In September 2014, MPC acquired the 1245 retail locations of Hess. This provides MPC with a larger retail presence on the East Coast. This segment accounted for 15.50% of 2014 revenue and is expected to grow at an increased rate in the next several years as a result of the Hess retail acquisition.

Pipeline Transportation

MPC transports crude oil and refined products through its extensive pipeline network. This segment transports crude oil and other feedstocks to MPC's refineries, and other locations, delivers refined products to wholesale and retail market areas, and includes the aggregated operations of MPLX. The Pipeline Transportation segment accounted for approximately 0.55% of 2014 revenue.



RISKS

Crude Oil Price Instability: The recent fluctuation in crude oil prices creates a fair amount of doubt in how crack spreads will be affected. If crude prices jump back up more quickly than expected, refiners could potentially take a hit in the short to medium term

Slowed Economic Growth: Slower economic growth could cause a compression in gasoline prices which would negatively affect MPC's profitability. Petroleum product demand increasing slower than projected could cause an oversupply of products, driving price down and ultimately leading to lower margins for refiners

Threat to U.S. Crude Export Ban: Increased lobbying from Mexican state-owned refiner Pemex to allow a limited swap of lighter Texas crude oil for heavier Mexican oil could increase competition in the North American refining industry. The export ban on U.S. crude has historically been very strictly enforced, however a similar swap was executed in the late 1990s. A potential oil swap would give American oil producers the ability to trade up to 100,000 bbl/d of light sweet crude for heavier Mexican crude under company determined terms.

ECONOMIC MOATS: *Narrow*

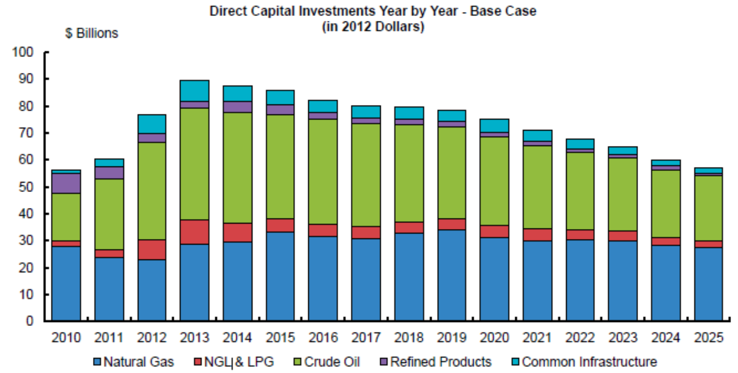
Location: MPC benefits from strategically located refineries in PAD II and PAD III. This geographic proximity allows MPC to access price-advantaged crude oils and lower transportation cost than some of its competitors. Furthermore, MPC is strategically positioned in one of the emerging Utica Shale.

Distribution Networks: MPC's assets gives it extensive flexibility and optionality to respond promptly to dynamic market conditions. The relative scale of its transportation and distribution assets and operations distinguishes it from other refining and marketing companies. MPC is one of the largest petroleum pipeline companies in the US, and MPC also owns one of the largest private domestic fleets and inland petroleum barges, and terminal operations in the US.

INDUSTRY OVERVIEW

US Oil/Refinery Downstream CAPEX Spending

With many projects currently in progress to the construction phase, and a full backlog of projects under development, the majority of U.S oil and gas infrastructure sectors are experiencing a period of booming investment and construction. The HIS analysis from the chart shows that between 2015 to 2025, roughly $30 to $40 billion of direct capital will go towards annual crude oil investment, and approximately $3 to $5 billion towards CAPEX in refined products.

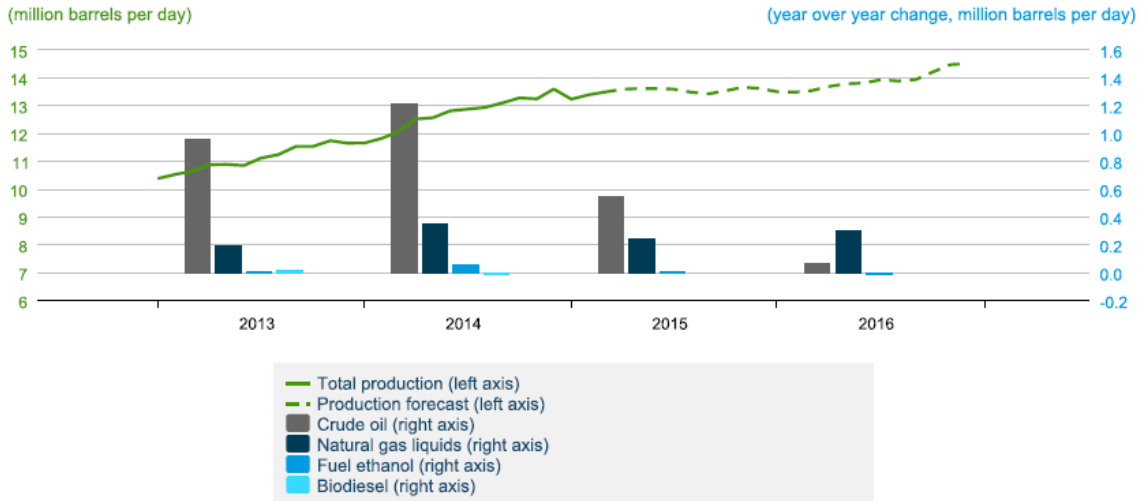


Utica Shale

The Utica Shale extends across most of Ohio and ranges in thickness from 87 feet to 350 feet. The play also appears to have several thick pockets of recoverable oil and natural gas trapped in the reservoir rocks. It is believed that the Utica Shale play in Ohio will be a "liquids" play. This means that the Ohio Utica Shale is believed to hold more crude oil and wet gas. The Utica Shale might house approximately 5.5 Billion barrels of Crude Oil. Marathon Petroleum's assets are located close to this shale.

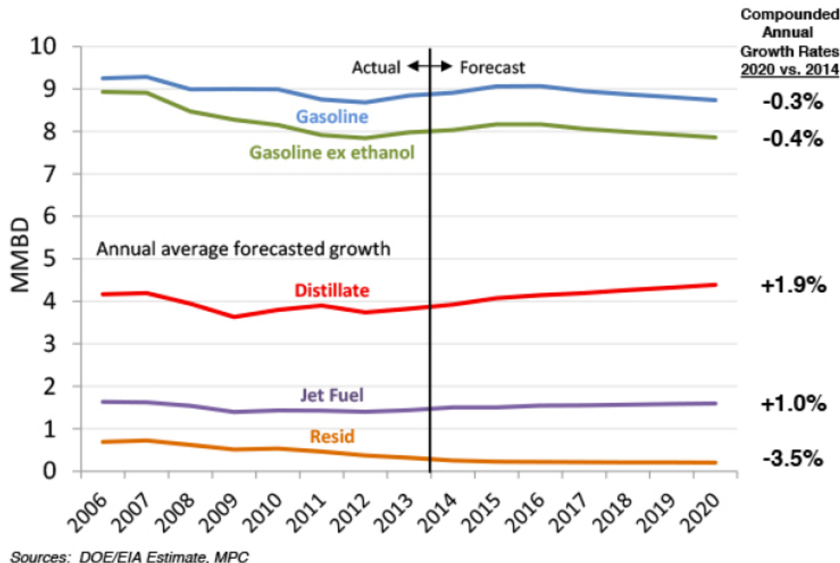
Petroleum & Distillates Supply

Global production of petroleum and distillates continues to outstrip demand; the current inventory build of 1.7 million bbl/d is expected to wane down to near 1.0 million bbl/d as 2016 approaches. Non-OPEC production is expected to grow by .7 million bbl/d in 2015, .4 million bbl/d in 2016, vs. 2.2 million bbl/d in 2014. Production growth is contingent upon low crude prices and price-stimulated consumption in the petroleum & distillates market.



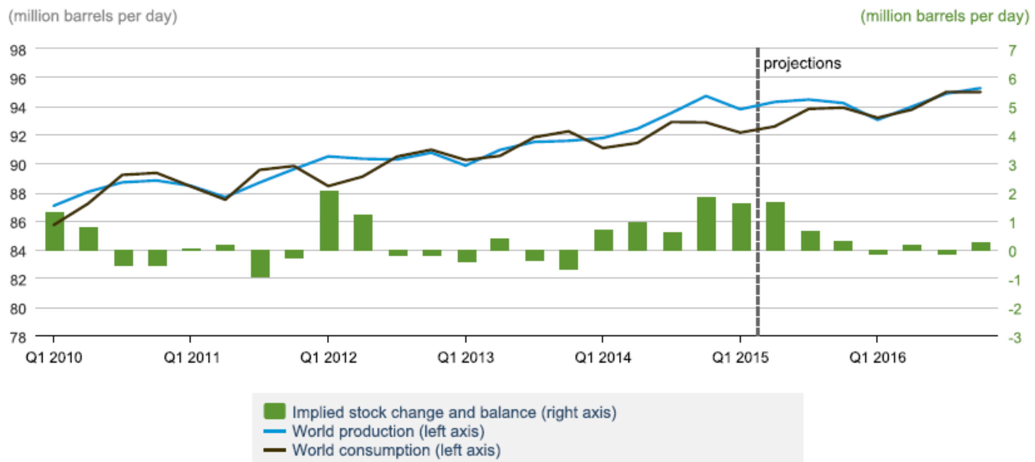
Petroleum & Distillates Demand

Estimates of 2015 motor gasoline and diesel consumption are positive; a 1.6% increase in gasoline consumption and a 3.0% increase in diesel consumption YoY for 2015 bode well for refiners in the short term, however, the less gradual retail gas price increases in 2016 will likely douse any demand growth moving forward. EIA estimates gasoline prices to average $2.40/gal in FY2015 and $2.73/gal in FY2016, vs. an average of $3.36/gal in 2014. Diesel prices are expected to follow a similar pattern, with projections at $2.86/gal in FY2015 and $3.24/gal in FY2016, vs. $3.83/gal in FY2014.

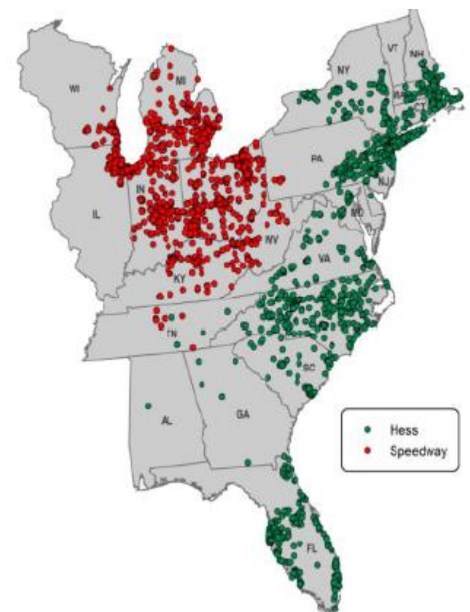


Oil Prices & Production

The EIA projects falling crude prices through Q2 2015, with a long awaited price climb beginning in Q3. Estimates for average 2016 WTI & Brent crude spot prices are $70/bbl and $75/bbl, respectively, representing an aggregated 29.9% increase in crude oil price from 2015-2016. The uncertainty in EIA estimates remains moderately high as Iran's ability to produce remains unclear. As of 2015Q1, world production of liquid fuel exceeds world consumption by 1.26% representing a difference of 1.16million barrels per day. The excess supply is primarily due to OPEC's decision to maintain its production ceiling with the intention to protect OPEC market share and not the oil price. Steadily increasing demand should nevertheless help the oil price to recover over the medium term. Looking forward the demand for oil is expected to grow at an average rate of 0.32% over the next 3 quarters while the supply of oil is expected to grow at an average rate of -0.08%. The difference between supply and demand is expected to contract by the end of 2015, and demand is projected to exceed supply by 0.16%. Furthermore, the UN Security council reached an agreement on April 2, 2015 that could potentially lift sanctions on Iranian crude production. If Iran were able to utilize its estimated 30 million bbl in storage and ramp up crude production, prices could continue to drop through 2015 and remain below 2016 estimates.



Gas Stations and Convenience Stores

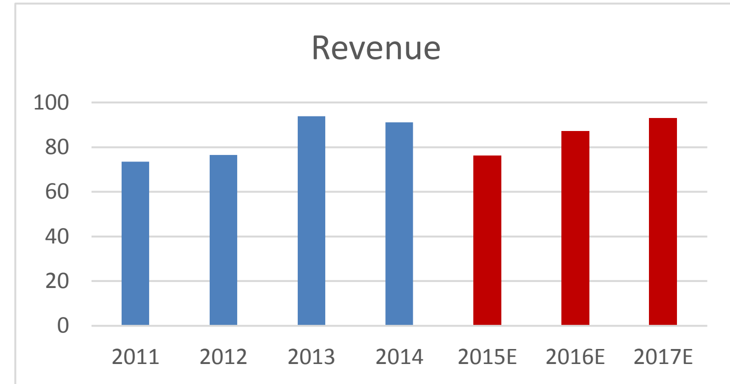


The U.S. convenience store count increased to a record of 152,794 stores as of December 31, 2014, a nearly 1% increase (1,512 stores) from the year prior, according to the 2015 NACS/Nielsen Convenience Industry Store Count. The link between fuels and convenience retailing continues to grow. Overall, 83.5% of convenience stores (127,588 total) sell motor fuels, a .7% increase (930 stores) over 2013. The growth of convenience stores selling motor fuels is double the overall growth in the industry, as fuel retailers add convenience operations and convenience retailers add fueling operations. The convenience retailing industry continues to be dominated by single-store operators, which account for 63% of all convenience stores (96,318 stores total)." Convenience store growth is projected to continue at 1% for FY 2015. Over the past five years, fuel retailer gross margins have averaged 5.7% (18.9 cents per gallon).

FINANCIALS

Revenue

In Q4 of FY2014, MPC reported revenue of 20.28B, representing a decrease of 14.8% QoQ and a decrease of 13.03% YoY. This consequential decrease in revenue is largely attributed is to decrease in crude oil prices leading into lower refined product sales prices. By the end of 2014Q4, crude oil prices had decline by approximately 50% from $105/bbl in June 2014. Since its spinoff from Marathon Oil Corporation (MRO) in 2011, MPC's revenue has grown at a CAGR of 7.42% from $73.52B to $91.13B. Moving forward from 2014 to 2017, revenue is expected to increase by a CAGR of 10.44% from $76.23B to $92.98B. This increase is attributed to the potential stabilization of crude oil prices between $65 to $75 in 2016 and 2014. Additionally the remodeling and marketing of HESS while simultaneously expanding export capacity will improve revenue figures. It should be noted that revenue for FY2015 is expected to decline mainly because of the lower prices of refined products given the current macroeconomic headwinds with low oil prices.



Segments

Refining and Marketing Segment

Revenues from the refining and marketing segment decreased by 23.37% QoQ from $23.82B in 2014Q3 to $20.3B in 2014Q4, and decreased by 3.35% YoY from $94.91B in FY2013 to $91.73B in FY2014. The decrease in revenue in 2014 is primarily due to lower refined product sales prices in 2014 due to the decline in crude oil prices. The refining and marketing segment also comprises of intersegment sales to Speedway. These intersegment sales increased by $1.62B in FY2014, represented an increase of 17.41%. This increase in intersegment sales revenue is attributed to an increase in refined products sales volume due to the acquisition of convenience stores from Hess. Moving forward (if possible to find more information)

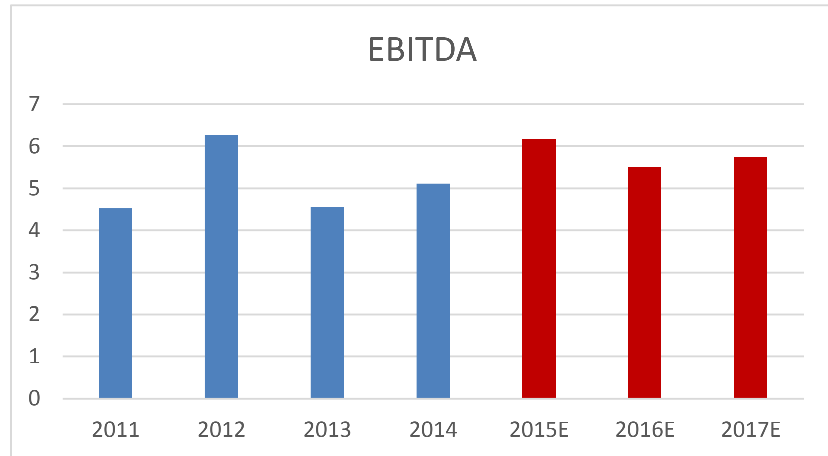
Speedway Segment

Revenue from the speedway segment increased by 48.01% QoQ from $3.85B in 2014Q3 to $5.71B in 2014Q4, and increased by 16.97% YoY from $14.47B in FY2013 to $16.93B in FY2014. This was primarily due to an increase in gasoline and distillate sales of $1.98B, and an increase in merchandise sales of of $0.48B. The increase in gasoline and distillate sales were primarily due to volume increases of $796 million gallons resulting from the increase in convenience stores. Higher merchandise sales are primarily due to increases in the number of convenience stores and higher same store sales of 5%. The dramatic increase in the number of convenience stores for 2014 was primarily due to the acquisition of convenience stores from Hess.

Pipeline Transportation

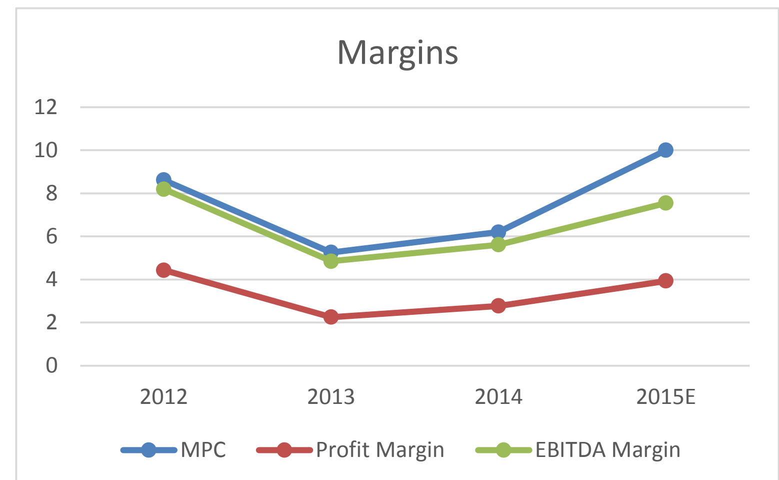
Revenue from Pipeline transportation increased segment increased by 10.95% QoQ from $0.137B in 2014Q3 to $0.152B in 2014Q4, and increased by 11.17% YoY from $0.537B in FY2013 to $0.597B in FY2014. The increase in 2014 is largely due to an increase in revenue related to volume deficiency credits and higher average tariffs received on crude oil and products shipped. Management expects an expansion in revenue from Pipeline Transportation in the upcoming years namely through the different pipelines under development Southern Access Extension, and Cornerstone Pipelines as well as through the Colonial pipeline obtained through the Hess acquisition.

EBITDA



Since FY2011, MPC's EBITDA has grown at a CAGR of 4.14%. The decrease in 2013 was largely attributed to a decrease of EBITDA in the refining segment from 2013 to 2012. The decrease in 2013 was primarily due to narrower crude oil differentials and lower net product price realizations. The USGC LLS crack spread was partly responsible as it experienced a decrease of $0.43 per barrel in 2013 compared to 2012. Furthermore, the LLS-WTI crude oil differential narrowed $8.19 per barrel in 2013, and the sweet/sour crude oil differential narrowed $3.94 per barrel impacting refining and marketing's EBITDA by $0.978B and $0.273B respectively. MPC reported EBITDA of $1.532B in 2014Q4 representing an increase of 14.07% QoQ. Overall for the FY2014, EBITDA was $5.113B and was subject to a YoY increase of 12.2%. The increase in EBITDA can be largely attributed the refining and marketing segment. For instance, EBITDA from Refining and marketing increased by 8.68% YoY primarily due to more favorable product price realizations and higher USGC and Chicago crack spreads. The Chicago LLS crack spread increased $1.40 per barrel in 2014 compared to 2013, which resulted into positive impacts on EBITDA from refining and marketing of $354 million. Furthermore the USGC LLS crack spread increased $0.99 per barrel in FY2014 compared to FY2013 which brought in a positive impact of $407 million on EBITDA from refining and marketing. Moving forward EBITDA growth expected to come mostly from favorable crack spread.

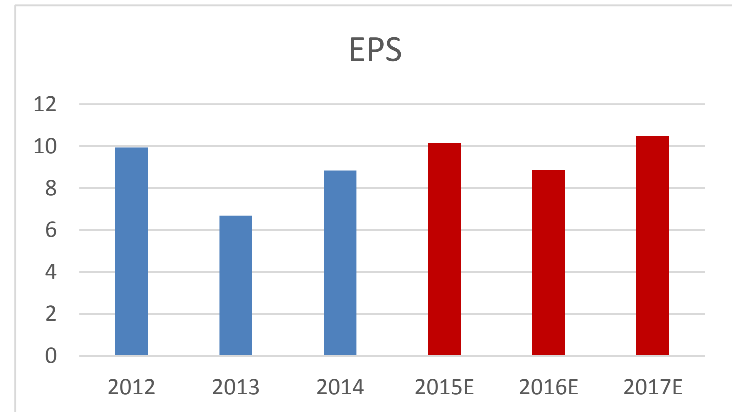
Margins



MPC has experienced Margin expansion since FY2013. Gross Margin for the company has grown slightly from 5.26% in FY2013 to 6.2% in FY2014. Gross Margin is expected to continue to grow to 6.2% by the end of FY2015, largely due to the projected widening in the WTI and Brent spread from $6.19 per barrel to $7 per barrel. It should however be noted that MPC's Gross Margin have been slightly lower than the comp group average over the last 3 years. In FY 2014, average gross margin of the comp group stood at $6.37%. MPC also experienced a slight expansion in its EBITDA Margin from 4.85% in FY2013 to 5.61% in FY2014. EBITDA margin is projected to increase to 7.55% in FY2015. EBITDA Margin is expected to improve largely due to use of MPLX activities in the future. Historically, MPC's EBITDA margin was always higher than the comp group average. In FY2014, comp group average stood at 4.67%. This demonstrates better and ongoing operational efficiency from MPC compared to its competitors. Likewise MPC also experience a slight increase in its Profit Margin in FY2014 compared to FY2013. Profit margin in FY2014 was 2.77%, higher than the comp group average of 2.38%. Moving forward, profit margin is expected to increase to 3.93% in FY2015. MPC's refining margin per barrel of oil has expanded from 13.24% in FY2013 to 15.05% in FY2014. This has impacted MPC's margins in general as it demonstrates that MPC is refining oil more efficiently. MPC is expected to see continuous improvements if refining margin in FY2015 due to the various investments in refining enhancement projects.

Earnings

MPC has beaten earnings 11 times out of the last 14 quarters at an average of 26.6%. It should be noted that this average is heavily skewed by the earnings surprise of 2014Q4, whereby MPC beat earnings by 107.70%. Such a surprise was mainly driven by the record earnings of the Speedway segment given the Hess Retail Operations acquisition in September 2014. The Speedway segment recorded $0.273B earnings for 2014Q4, compared to only $0.083B in 2013Q4. The three misses that occurred in earnings occurred in 2011Q4, 2013Q3, and 2014Q1. The 2011Q4 miss was primarily driven by a sharp increase in WTI. The 2013Q3 missed was caused by unfavorable crack spread, and narrowing crude oil differentials. Finally, the last and most recent miss of 2014Q1 were also caused by narrowing crude oil differentials.



Cash Flow

Operating Cash Flow

Cash provided from operations (OCF) was $3.11B in FY2014, and declined at a 3-yr CAGR of 2.05%. YoY, OCF declined 8.66%. This decline in OCF was primarily due to unfavorable changes in working capital of $0.89B compared to FY 2013. For FY2014, changes in net working capital were $0.694 due to a decrease in accounts payable and accrued liabilities, and an increase in inventories partially offset by a decrease in accounts receivables. Accounts payables decreased $1.65B due to lower crude oil payable prices, partially offset by higher crude oil payable volumes. Inventories increased $0.796B from FY2013 due to higher refined product and crude oil inventory volumes. Finally, accounts receivables decreased $1.63B from FY2013 largely due to lower refined product and crude oil receivable prices.

Free Cash Flow

Free cash flow (FCF) stood at $1.63B in FY2014, and declined at a 3-yr CAGR of 8.45%. YoY, FCF declined 25.88%. The decline in FCF is largely due the $2.87B acquisition of HESS operations. $2.37B of the acquisition was funded by cash. MPC uses its FCF to perform share buyback, pay dividends and repay debt. Moving forward into FY2015, FCF is expected to decrease by 7% YoY largely due to the increased in CAPEX to $2.5B (excluding possible acquisitions) compared to FY2014 where CAPEX stood at $1.4B only excluding the HESS retail operations acquisitions.

Cash Flow from investing activities

Cash flow from investing activities were -$4.54B, subject to a significant YoY increase of 64.84%. Once more, this increase is largely attributable to the $2.37B cash commitment involved in the acquisition of Hess Retail Operations. The acquisition of Hess Retail Operations represents 58% of MPC's total capital spending in 2014. Furthermore, the increase in cash from investing activities was partially attributed to the net investment of $0.4B (made in cash) due to increases in contributions to the Sandpiper and SAX pipeline projects of $0.29B and $0.07B in Explorer.

Cash Flow from financing activities

Cash flow from Financing activities stood at $0.635B in FY2014 compared to -$3.22B in FY2013. The sources of cash primarily consisted of net long term debt borrowings in FY2014, and proceeds from the issuance of MPLX common units. The uses of cash were mainly for stock repurchases, and dividend payments. Long term debt borrowing were a net of $3.25B source of cash in FY2014 compared to a $0.02B use of cash in FY2013. It should be highlighted that in FY2014, MPC borrowed $0.7B to fund the acquisition of Hess Retail Operations.

CAPEX and Investments

In FY 2014, MPC recorded CAPEX of $4.74B increasing by 69.88% YoY. This significant increase is attributed to the 907.09% increase in CAPEX from the speedway segment from $0.296B to $2.981B. The Acquisition of Hess Retail Operations for approximately $2.8B caused this increase. In FY 2013, CAPEX saw a YoY increase of 91.02% due to the increase in CAPEX for the refining segment resulting from the $1.36B acquisition of Galveston Bay Refinery. Moving forward, capital and investment budget for FY2015 is $2.53B excluding acquisitions MPC may make. This represents a 27% YoY increase from FY2014, excluding the acquisition of Hess Retail Operations.

Refining and Marketing

The capital expenditure budget for Refining and Marketing is $1.28B for FY2015. This is broken down into $0.234B for midstream assets, $0.37B for refining margin enhancement projects and approximately $0.675B for refinery sustaining. The midstream assets capex includes a project allowing MPC to process condensate from the Utica Shale region and grow its Gulf Coast export capabilities. CAPEX aimed at enhancing refining margin will allow MPC to increase its diesel production and process light crude oil from the Utica Shale region. The remaining $0.675B is primarily diverted to maintaining facilities and meeting regulatory requirement for operating refineries.

Speedway

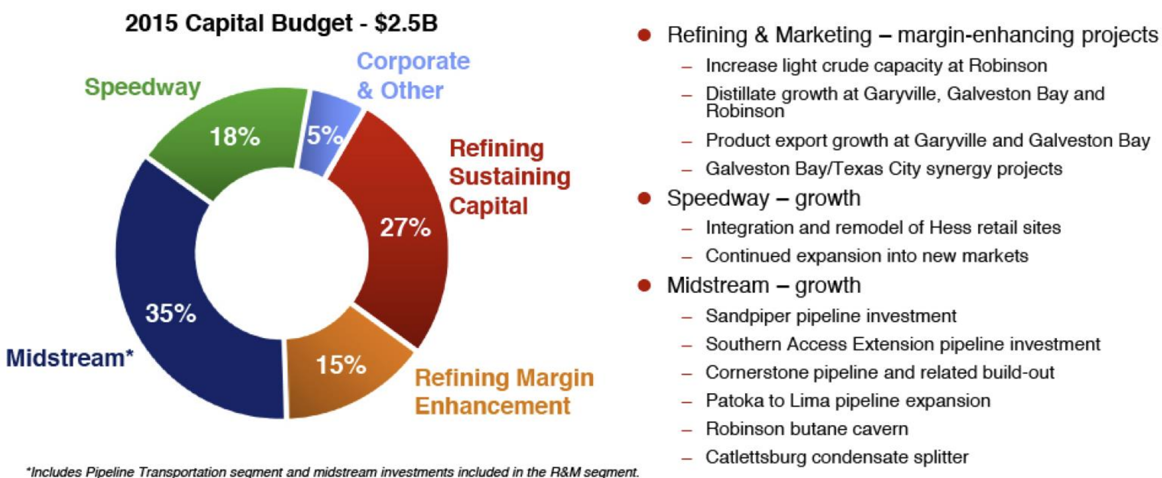
The capital expenditure budget for the Speedway segment stands at $0.452B and is meant for continued growth and integrating the convenience stores acquired from Hess. $0.24B of this CAPEX budget is meant for converting and remodeling Hess stores. The remaining part of the budget will be diverted towards new convenience store construction and land acquisition.

Pipeline Transportation

The capital expenditure budget for the Pipeline Transportation segment is $0.659B, and is aimed at projects that are likely to change energy landscape in the US, including equity investments in major pipeline projects, new infrastructure and upgrades to replace or enhance existing facilities. Approximately $0.31B of this CAPEX budget will be directed to the Sandpiper and SAX pipeline. In addition, MPLX is planning to construct the Cornerstone Pipeline project to connect Utica Shale to MPC's Canton refinery. This project is expected to cost approximately $0.2B.

Corporate and Other

The remaining $140B of the total CAPEX budget is meant for expansion projects of MPC's corporate headquarters, and upgrade information technology systems.



DEBT

MPC's short term debt currently stands at $27M growing at a 3yr CAGR of 21.64%. Likewise, long term debt which currently stands at $6.61B grew at a similar pace with a 3-yr CAGR of 26.16%. The increase in long term debt was primarily due to the $1.95B issuance of senior unsecured notes, and long term borrowings of $0.7B related to the acquisition of Hess Retail Operations, and Related Assets. Additionally, MPC has $2.5B unused revolving credit agreement with a maturity date of September 2014 It should be noted that since the spin off from Marathon Oil Corporation, MPC has enjoyed a lower or almost in line debt to equity compared to its comp group average except for FY2014. For FY2014, MPC Debt to Equity Ratio stood at 61.73%, a significant increase from previous year's 31.1%, while comp group average was 46.46%. Once more, it should be noted that this significant increase was caused by the issuance of debt for the acquisition of Hess Retail Operations. MPC has $0.132B and $1.001B due in principal and interest payments in FY2015 and FY2016 respectively. However, MPC has enough FCF to pay for its upcoming liabilities. It should also be noted that although MPC has experienced a declining interest coverage ratio since the last two fiscal years, its interest coverage ratio still stands at 14.35 times. MPC currently has a BBB credit grade rating from Standard & Poor's Rating Services, and a Baa2 grade by Moody's Investors Service, indicating a 'stable' investment grade rating.

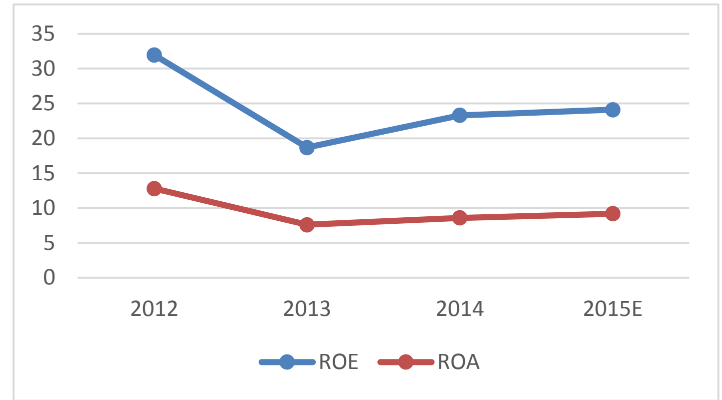
Shareholder Returns

Since MPC was spun off in June 2011, one of the company's main focuses has been the return of capital to shareholders in the form of a strong and growing base dividend, supplemented by share repurchases. Since June 2011 and the board of directors has authorized share repurchases totaling $8.0 billion. MPC repurchased 89 million shares of our common stock for approximately $6.27 billion, representing approximately 25 percent of its outstanding common shares. On July 30, 2014, $2.0 billion share repurchase was authorized. Most of the share repurchased is funded by FCF. Since the spin off, dividend per share grew at a CAGR of 59.91%, standing at $1.84 at FY2014. Dividend per share is expected to increase to $2.07 and $2.24 in 2015 and 2016 respectively.

CAPACITY

Throughput capacity for refining was 1839 mbpd for FY2014, a slight improvement of 0.16% compared to FY2013. A more significant increase was not achieved because of a 5.98% fall in Gasoline Capacity, as well as several maintenance programs taking place in refineries. Moving forward management believes that throughput Capacity should increase by approximately 2.99% YoY, as a result of less maintenance required in refineries. Furthermore, the expansion of of the distillate hydroeater by 10 mbpcd at the Garyville Refinery is expected to increase throughput capacity by the end of 2015Q1.

ROE, ROA, ROIC/WACC

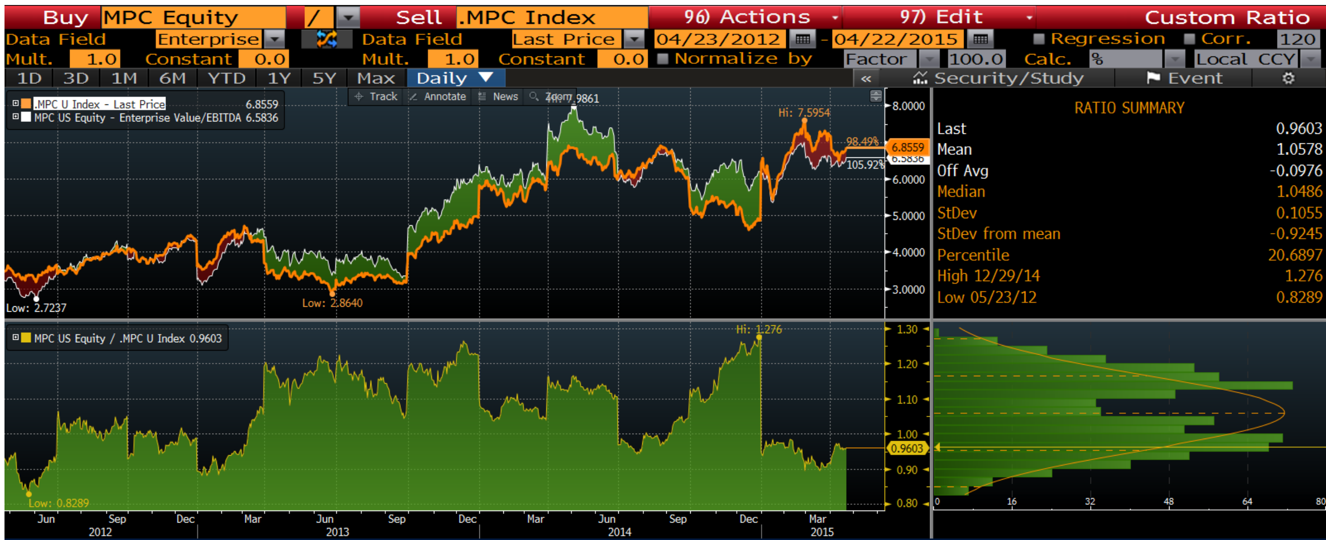


MPC's ROE for FY2014 was 23.29%, higher than the comp group average of 14.0.7%. Breaking down ROE through the Dupont Analysis, it can be seen that the appreciation in ROE is largely caused by an increasing profit margin and asset/equity ratio from FY2013 to FY2014. Profit margin increased from $2.25% to 2.77%, and Asset/Equity increased from 2.50 to 2.67. This demonstrates that MPC has been efficient at managing its costs and improving profitability. The inflated Assets/Equity is not alarming given that MPC had to issue debt for the acquisition of Hess Stores that have already demonstrated their positive contribution to bottom-line from 2014Q4. Following the trend, ROA was 8.58%, and higher than comp group average of 5.46%. In should be notes that for both of these ratios have actually improved since FY2013. ROIC/WACC in FY2014 was 1.16 decreasing from 1.31 in FY2013. Yet ROIC/WACC was still higher than the comp group average of 0.875. This ROIC/WACC relation against MPC's comps is expected to persist even in FY2015.

VALUATION

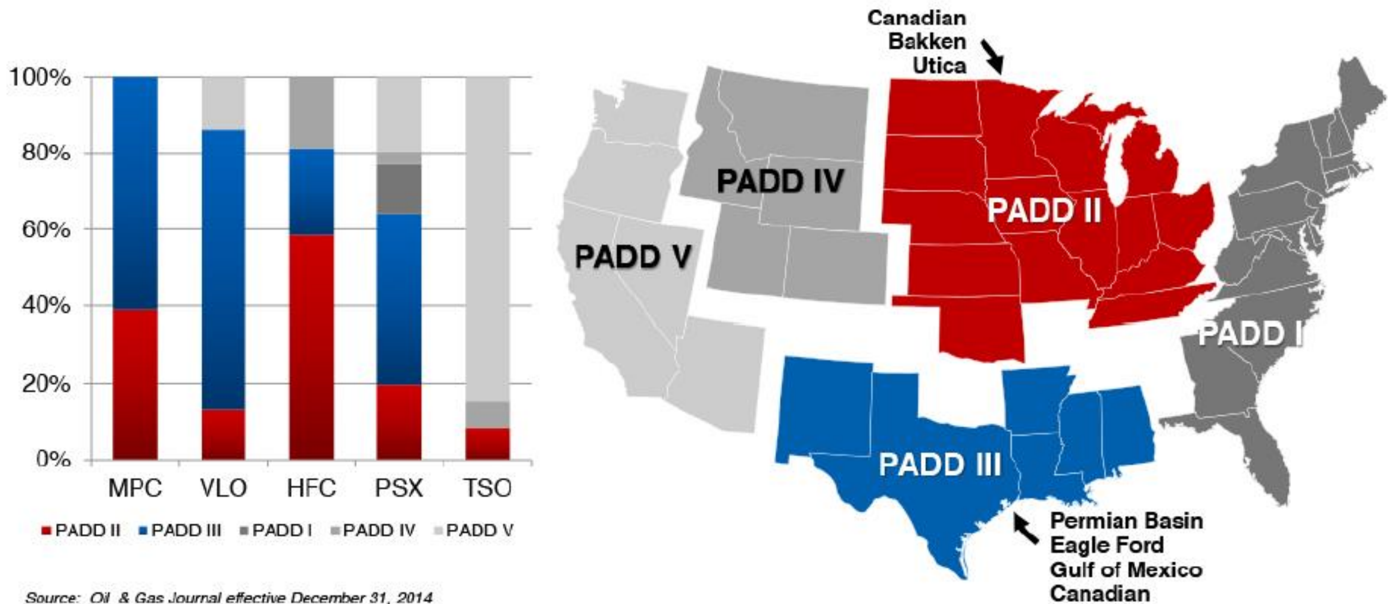
Undervaluation

MPC is currently trading at a 9.76% discount relative to its peers on a 3 yr EV/EBITDA multiple. This undervaluation is due to the recent sell off in oil prices, as well as a significant decreases in HollyFrontiers's EBITDA for 2014Q3 and 2014Q4. The fall in HFC's EBITDA caused the significant skew at year end 2014. Although MPC's EV/EBITDA appreciated since beginning of 2015, the company faced further headwinds when workers at the Catlettsburg refinery went on a strike on February 1st. The Catlettsburg refinery has a refining capacity of 242000 barrels per day. The strike expanded to nearly 12 sites, causing uncertainty and thereby depressing MPC's EV/EBITDA multiple. However, the strike ended on April 7th and workers returned back to work the following week.



Peer Group Selection

We chose to value MPC to a custom index using the historical EV/EBITDA multiples of VLO and HFC. MPC operates strictly in the PADD II and PADD III regions of the United States. There are three major US refineries that have a significant presence in these regions: VLO, HFC, and PSX. However, PSX could not be used in the custom index, because it was spun off from Conoco-Philips 2.5 years ago, and thus does not have enough historical data for a 3 year valuation. So, the 3 year valuation using VLO and HFC is based on location. It should be noted, though, that the comparable table and financial analysis was built using TSO, PSX, HFC, and VLO, because all four are major players in the US refining industry.



Source: Oil & Gas Journal effective December 31, 2014

Marathon Petroleum Corporation Comparable Analysis
($ in millions except per share)

Company	Stock Price 4/29/2014	Capitalization: Equity Market Value	Valuation Multiples: Enterprise Market Value	E Multiple LTM	E Multiple NFY	EV/EBITDA LTM	EV/EBITDA NFY	Ratios: ROE % LTM	ROA % LTM	ROIC/WACC % LTM	Dividend Yield % NTM	Margins: Gross Margin % LTM	EBITDA Margin % LTM	Leverage: Debt/ Equity % MRQ
VLO US EQUITY	$59.28	$30,482	$33,746	10.0	9.2	4.4	4.9	15.6	7.8	1.19	1.77	5.06	5.80	30.88
HFC US EQUITY	$38.63	$7,536	$8,126	24.4	11.2	9.2	5.8	5.5	2.9	1.02	8.44	3.19	4.45	19.10
PSX US EQUITY	$80.62	$43,706	$47,630	14.5	11.1	10.7	6.7	14.6	9.7	-0.11	2.35	6.44	3.04	40.22
TSO US EQUITY	$88.34	$11,102	$16,884	15.3	12.2	7.7	6.9	17.2	5.6	1.03	1.25	10.78	5.40	95.64
Mean				16.3	10.5	8.1	5.8	11.9	6.8	0.7	4.19	4.9	4.4	30.1
Median				14.5	11.1	9.2	5.8	14.6	7.8	1.0	2.35	5.1	4.4	30.9
MPC US EQUITY	$101.63	$27,730	$33,512	13.3	10.5	6.6	6.1	20.3	8.6	1.11	1.81	6.20	5.61	61.73

APPENDIX

Valuation against peer group index over 4.5 years (since MPC's spin off from Marathon Oil)

MPC's currently Identified Eligible MLP EBITDA Sources of approximately 1.6B

Retained by MPC

- ~ 5,400 miles of additional crude and products pipelines
  - Owns, leases or has an ownership interest in these pipelines
  - 0.5% of MPLX Pipe Line Holdings LP
- Southern Access Extension, Sandpiper and Utica investments

- 199 owned and 12 leased inland barges; 5.3 MMBBL capacity
- 18 owned and one leased inland towboats

- 63 light product; ~20 MMBBL storage; 192 loading lanes
- 18 asphalt; ~5 MMBBL storage; 65 loading lanes

- 27 owned and 2,183 leased
- 794 general service; 1,171 high pressure; 245 open-top hoppers

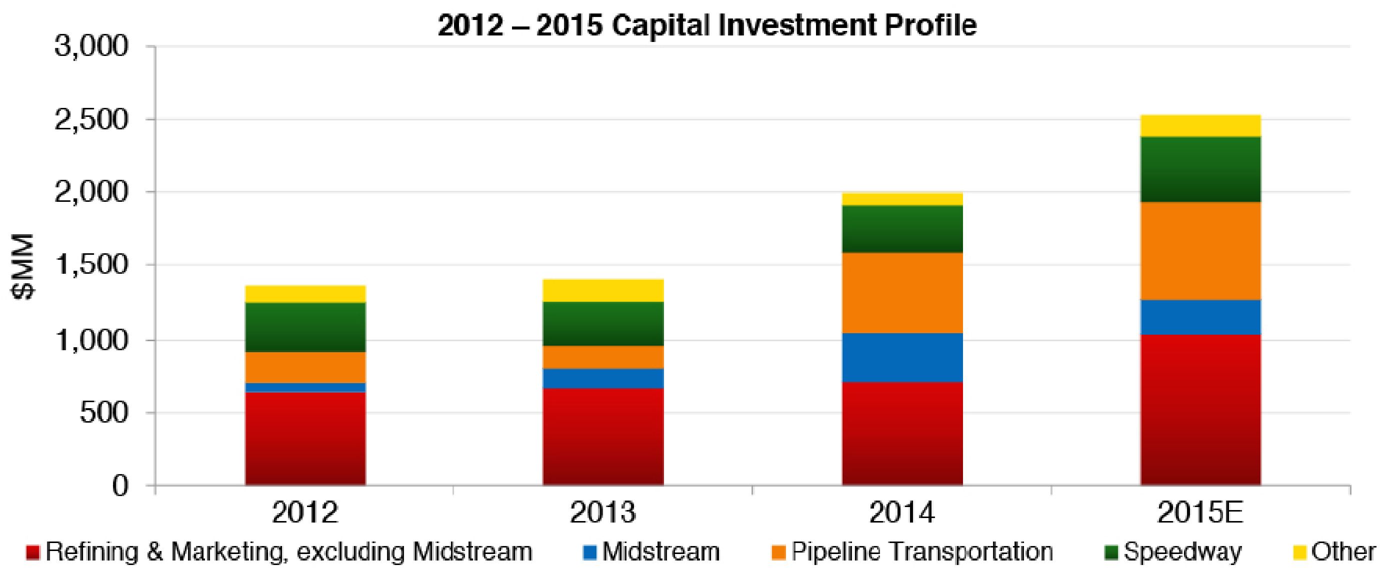
- 59 MMBBL storage (tanks and caverns)
- 25 rail loading racks and 24 truck loading racks
- 7 owned and 11 non-owned docks
- 2 condensate splitter investments

- 20 B gallons of fuels distribution volume
  - Existing MPC and Speedway volumes; ~17 B gallons refined products
  - Acquisition of Hess' retail operations adds ~3 B gallons refined products

Annual Price and Margin Sensitivities

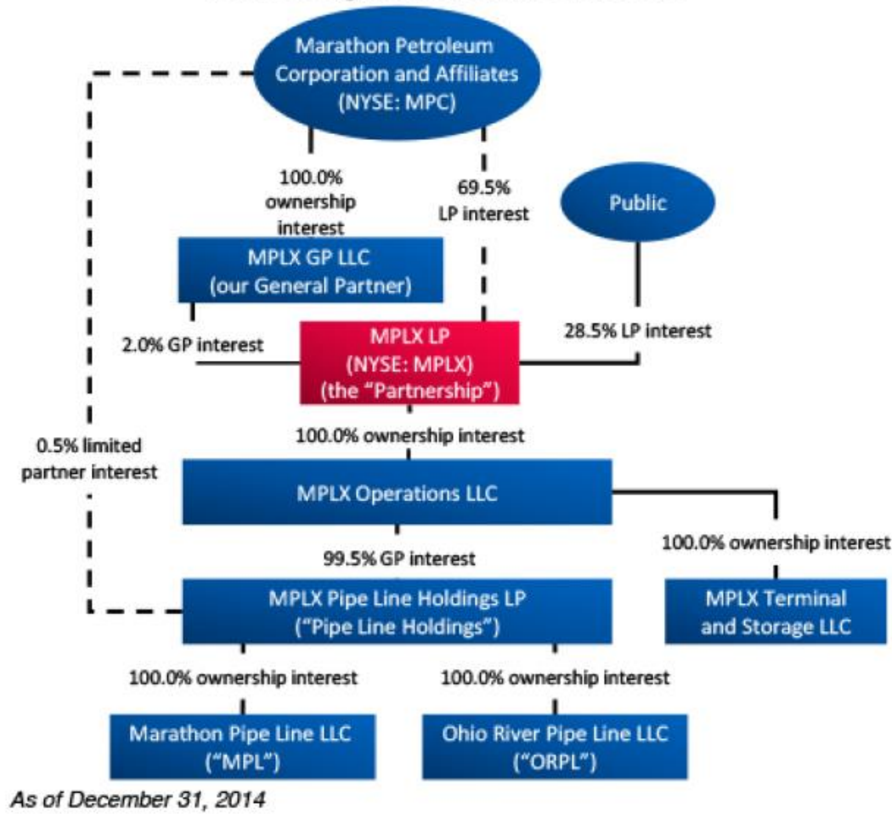
LLS 6-3-2-1 Crack Spread* Sensitivity (per $1.00/barrel change)	~$450
Sweet/Sour Differential** Sensitivity (per $1.00/barrel change)	~$200
LLS-WTI Spread*** Sensitivity (per $1.00/barrel change)	~$100
Natural Gas Price Sensitivity (per $1.00/MMbtu change in Henry Hub)	~$140

Capital Investment Profile

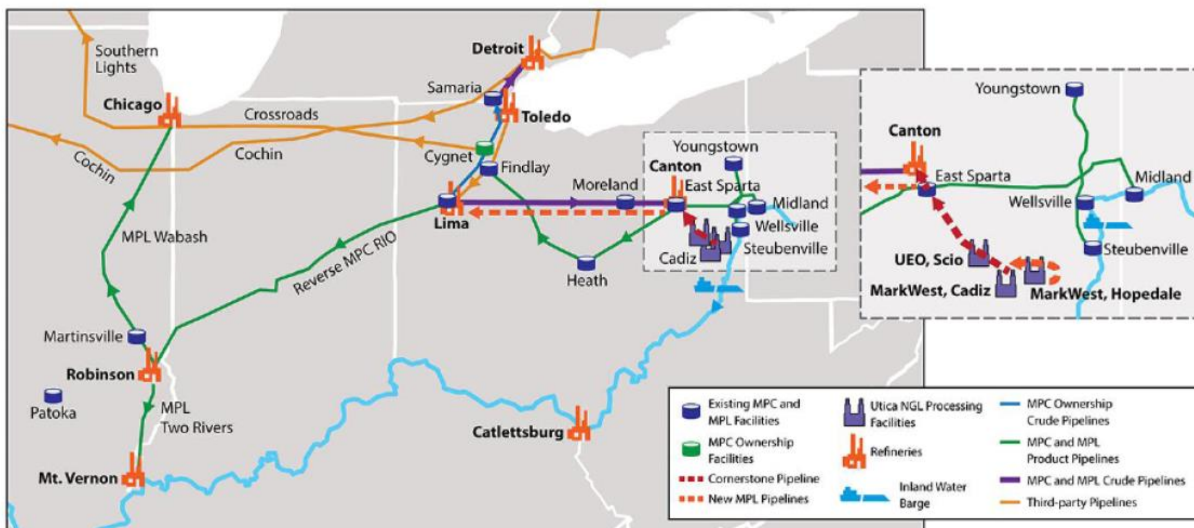


Excludes Galveston Bay and Hess retail acquisitions

MPLX



MPLX/MPC Utica Build-Out Connectivity



DISCLAIMER

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