

Marathon Oil Corp.

4Q23 Earnings recap: solid quarter, solid outlook. How does MRO differentiate?

Reiterate Rating: UNDERPERFORM | PO: 27.00 USD | Price: 23.65 USD

Cash flow in line; Guidance in line with expectations

Adjusted EPS of \$0.69 was a modest beat vs BofA and consensus of \$0.65 with the delta on lower tax – which has some follow through cashflow impacts. C/flow (before w/c) of \$980mm was within sight of consensus/BofA (\$1.0bn). After capex of \$360mm, which met FY23 guidance, MRO delivered \$620mm of organic FCF, fully funding \$418mm of cash returns including. \$352mm in buy backs, that has been the hallmark of MRO since 2021. Net debt of ~\$5.3bn is virtually flat q/q. 2024 guidance looks consistent with prior comments: capex of \$1.9bn - \$2.1bn to hold 190 mb/d of oil production flat. As usual MRO's Bakken / Eagle Ford will consume the majority the capital (70%). Overall, solid results with in-line guidance. Looking forward, the challenge for mgmt. is defining an investment case that can differentiate in a consolidating sector.

Freeze dents 1Q24; expect upward cadence through 2024

4Q23 US production of 352 mboed / 179 mbd was a slight miss vs consensus (357 mboed / 183 mbd respectively). Note management has highlighted freeze offs impacting Bakken production in January (4,000 bpd impact), noting 1Q24 oil guidance dips to 180,000 bpd (~171,000 bpd in the US). FY 2024 oil guidance of 190,000 mbd implies US oil production of 181,000 bpd and would need a seasonal rebound in 2Q (<181mbd), and a peak in 3Q before the seasonal declines kicks-in in 4Q. Ex US, EG infill wells necessary to backfill EG LNG are not yet FID'd but are moving closer noting management is starting to include associated production in its 5-year EBITDA guidance - though noting that the momentum in LNG has been dented by a weaker forward curve.

Tax credits and EG infills lift PO to \$27 from \$26

MRO called out \$150mn of tax credits that can partially offset an expected AMT rate of 15%. 2024 is elevated as it includes a build up from previous years but going forward it believes 10-15% of capex may qualify as 'resource enhancement' or 'research & development,' that could provide a cash tax shield on \$200mm - 300mm of pre-tax earnings. At a 15% tax rate, the potential saving is \$30mm - \$45mm annually and in our view will likely attract questions on the call. Adjusting for capex guidance and slightly lower cash tax our PO moves up to \$27 from \$26, which assumes EG declines can be held off through 2H25. But with limited upside and an investment case at risk of being overshadowed by sector consolidation we keep our rating vs peers at Underperform.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.63	2.61	2.28	2.67	2.82
GAAP EPS	5.26	2.56	2.28	2.67	2.82
EPS Change (YoY)	193.0%	-43.6%	-12.6%	17.1%	5.6%
Consensus EPS (Bloomberg)			2.70	3.03	3.22
DPS	0.32	0.40	0.44	0.44	0.44
Valuation (Dec)					
P/E	5.1x	9.1x	10.4x	8.9x	8.4x
GAAP P/E	4.5x	9.2x	10.4x	8.9x	8.4x
Dividend Yield	1.4%	1.7%	1.9%	1.9%	1.9%
EV / EBITDA*	3.2x	4.2x	4.5x	4.3x	4.4x
Free Cash Flow Yield*	28.7%	14.8%	12.9%	12.9%	12.9%

* For full definitions of *IQmethod*SM measures, see page 5.

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Timestamp: 22 February 2024 01:27AM EST

22 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	26.00	27.00

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Stock Data

Price	23.65 USD
Price Objective	27.00 USD
Date Established	22-Feb-2024
Investment Opinion	C-3-7
52-Week Range	20.57 USD - 29.56 USD
Mkt Val (mn) / Shares Out (mn)	13,841 USD / 585.2
Free Float	99.6%
Average Daily Value (mn)	222.75 USD
BofA Ticker / Exchange	MRO / NYS
Bloomberg / Reuters	MRO US / MRO.N
ROE (2024E)	12.9%
Net Dbt to Eqty (Dec-2023A)	44.1%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

FID – final investment decision

AMT – Alternative Minimum tax

iQprofileSM Marathon Oil Corp.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	19.4%	10.6%	9.4%	10.9%	10.5%
Return on Equity	28.9%	14.0%	12.9%	16.0%	15.2%
Operating Margin	54.1%	35.7%	32.5%	34.4%	34.5%
Free Cash Flow	3,978	2,054	1,786	1,780	1,787

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.7x	2.6x	3.0x	2.7x	2.7x
Asset Replacement Ratio	0.8x	0.9x	0.9x	0.9x	0.9x
Tax Rate	21.2%	18.3%	21.2%	21.2%	21.2%
Net Debt-to-Equity Ratio	45.5%	44.1%	50.6%	42.3%	34.7%
Interest Cover	21.6x	6.5x	6.2x	6.7x	6.6x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	7,510	6,407	5,996	6,153	6,095
% Change	43.9%	-14.7%	-6.4%	2.6%	-0.9%
Gross Profit	6,753	5,180	4,866	5,028	4,974
% Change	60.6%	-23.3%	-6.1%	3.3%	-1.1%
EBITDA	5,817	4,497	4,198	4,345	4,296
% Change	72.4%	-22.7%	-6.7%	3.5%	-1.1%
Net Interest & Other Income	(172)	(337)	(316)	(316)	(316)
Net Income (Adjusted)	3,180	1,587	1,286	1,417	1,406
% Change	156.2%	-50.1%	-18.9%	10.1%	-0.7%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	3,612	1,554	1,286	1,417	1,406
Depreciation & Amortization	1,753	2,211	2,248	2,231	2,194
Change in Working Capital	0	0	0	0	0
Deferred Taxation Charge	(17)	299	282	170	169
Other Adjustments, Net	80	23	31	31	31
Capital Expenditure	(1,450)	(2,033)	(2,061)	(2,070)	(2,013)
Free Cash Flow	3,978	2,054	1,786	1,780	1,787
% Change	81.4%	-48.4%	-13.0%	-0.4%	0.4%
Share / Issue Repurchase	(2,754)	(1,473)	(971)	(968)	(971)
Cost of Dividends Paid	(220)	(251)	(257)	(257)	(257)
Change in Debt	1,915	(250)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	334	433	992	1,546	2,105
Trade Receivables	1,146	1,000	1,000	1,000	1,000
Other Current Assets	191	136	136	136	136
Property, Plant & Equipment	17,377	17,213	14,119	13,958	13,777
Other Non-Current Assets	892	793	793	793	793
Total Assets	19,940	19,575	17,040	17,433	17,811
Short-Term Debt	0	2,000	2,000	2,000	2,000
Other Current Liabilities	2,306	1,922	1,922	1,922	1,922
Long-Term Debt	5,521	3,378	3,378	3,378	3,378
Other Non-Current Liabilities	716	1,070	1,070	1,070	1,070
Total Liabilities	8,543	8,370	8,370	8,370	8,370
Total Equity	11,397	11,205	8,670	9,063	9,441
Total Equity & Liabilities	19,940	19,575	17,040	17,433	17,811

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Oils

Company Description

Marathon Oil (MRO) is a mid-sized oil and gas company with business segments in exploration and production. Operations are focused in the US, Libya, Equatorial Guinea, UK, Iraq and exploration potential in Asia. MRO has 2.1bn boe of proved reserves and average production of 459mboepd.

Investment Rationale

Our Underperform rating on MRO reflects the further disadvantaged on inventory visibility versus a broader peer group, which suggests absolute upside is limited beyond addressing inventory depth.

Stock Data

Average Daily Volume 9,472,312

Quarterly Earnings Estimates

	2023	2024
Q1	0.67A	0.44E
Q2	0.48A	0.59E
Q3	0.77A	0.67E
Q4	0.70A	0.58E

4Q23 Recap

The table below compares actual 4Q23 results to our estimate and prior periods.

Exhibit 1: MRO Earnings Variance

Adjusted EPS of \$0.69 beat our estimate and consensus of \$0.65

	4Q23	4Q23	4Q22	YoY	3Q23	QoQ
Total Revenues	1691	1716	1733	-2%	1813	-7%
Expenses:						
Production	221	212	181	22%	192	15%
Other operating	202	171	158	28%	164	23%
Production tax	112	100	103	9%	113	-1%
Marketing	0	0	0	NM	0	NM
SGA	72	74	88	-18%	72	0%
Operating Expenses	607	557	442		469	
DDA	520	585	434	20%	583	-11%
Exploration	13	17	18	-28%	20	-35%
Impairments	0	0	3	-100%	0	NM
EBIT	551	557	836	-34%	741	-26%
Net Interest expense	(84)	(79)	(60)	-40%	(94)	11%
Other non-op expense	4	0	2	100%	5	-20%
EBT	471	478	778	-39%	652	-28%
Tax	42	101	165	-75%	127	-67%
Net Income	429	376	613	-30%	525	-18%
Adjustments	(23)	0	(50)	NM	(59)	NM
Adjusted Net Income	406	376	563	-28%	466	-13%
Shares	584	589	637	(0.08)	604	(0.03)
Adjusted EPS / sh	0.69	0.65	0.88		0.77	

Source: BofA Global Research; Company data

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Exhibit 2: MRO Earnings Estimates

The table below shows our updated EPS estimates reflecting updated tax guidance, a stemmed decline in EG from 2H25 and declining again in 2027, and adjusted oil production cadence.

	Q1	Q2	Q3	Q4	FY	BBG Consensus
2022A	1.02	1.32	1.39	0.88	4.63	4.43
2023E	0.67	0.48	0.77	0.64	2.56	2.58
Previous	0.67	0.48	0.77	0.64	2.56	n/a
2024E	0.44	0.59	0.67	0.58	2.28	2.70
Previous	0.45	0.61	0.63	0.54	2.22	n/a
2025E	0.65	0.66	0.67	0.69	2.67	3.03
Previous	0.57	0.63	0.63	0.61	2.44	n/a

Source: BofA Global Research, Bloomberg

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Price objective basis & risk

Marathon Oil Corp. (MRO)

Our price objective of \$27/sh assumes \$75 Brent and \$70 WTI long-term. We assume long-term HH natural gas of \$4.00. We apply a long-term (post-tax) weighted average cost of capital (WACC) of 7.6%, which is based on the BofA strategy team's assumed risk premium and a five-year monthly beta.

The risks to our price objective are (1) the oil and gas price and margin environment, (2) significant delays to the new upstream projects critical to its production targets, (3) inability to capture the price environment due to cost pressures (opex, capex, and taxation), and (4) limited visibility around long-term upstream developments necessary to sustain production. Upside risks to our price objective are higher oil & gas prices.

Analyst Certification

I, Doug Leggate, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Large Cap Oils Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	APA Corporation	APA	APA US	Doug Leggate
	Canadian Natural Resources	YCNQ	CNQ CN	Doug Leggate
	Canadian Natural Resources	CNQ	CNQ US	Doug Leggate
	Chesapeake Energy	CHK	CHK US	Doug Leggate
	Chevron Corp.	CVX	CVX US	Doug Leggate
	ConocoPhillips	COP	COP US	Doug Leggate
	Coterra Energy Inc	CTRA	CTRA US	Doug Leggate
	EQT Corporation	EQT	EQT US	John H. Abbott
	ExxonMobil Corp.	XOM	XOM US	Doug Leggate
	Granite Ridge Resources, Inc	GRNT	GRNT US	John H. Abbott
	Imperial Oil	IMO	IMO US	Doug Leggate
	Imperial Oil	YIMO	IMO CN	Doug Leggate
	Kimbell Royalty Partners	KRP	KRP US	John H. Abbott
	Occidental Petroleum Corp.	OXY	OXY US	Doug Leggate
	Ovintiv Inc	YOVV	OVV CN	Doug Leggate
	Ovintiv Inc	OVV	OVV US	Doug Leggate
	Range Resources Corp	RRC	RRC US	Doug Leggate
	Suncor	YSU	SU CN	Doug Leggate
	Suncor	SU	SU US	Doug Leggate
NEUTRAL				
	California Resources Corporation	CRC	CRC US	Kalei Akamine
	CNX Resources	CNX	CNX US	John H. Abbott
	Delek US Holdings, Inc.	DK	DK US	Doug Leggate
	Devon Energy Corp.	DVN	DVN US	Doug Leggate
	Diamondback Energy Inc.	FANG	FANG US	Doug Leggate
	EOG Resources	EOG	EOG US	Doug Leggate
	Gulfport Energy Corporation	GPOR	GPOR US	Doug Leggate
	HF Sinclair Corporation	DINO	DINO US	Doug Leggate
	Marathon Petroleum Company	MPC	MPC US	Doug Leggate
	PBF Energy	PBF	PBF US	Doug Leggate
	Permian Resources Corporation	PR	PR US	Doug Leggate
	Phillips 66	PSX	PSX US	Doug Leggate
	Valero Energy Corp.	VLO	VLO US	Doug Leggate
UNDERPERFORM				
	Chord Energy Corporation	CHRD	CHRD US	John H. Abbott
	Crescent Energy Company	CRGY	CRGY US	John H. Abbott
	Marathon Oil Corp.	MRO	MRO US	Doug Leggate

US - Large Cap Oils Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	National Fuel Gas Company	NFG	NFG US	John H. Abbott
	Northern Oil and Gas	NOG	NOG US	John H. Abbott
	Vital Energy Inc	VTLE	VTLE US	John H. Abbott
RSTR				
	Pioneer Natural Resources	PXD	PXD US	Doug Leggate

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales
Basic EBIT + Depreciation + Amortization

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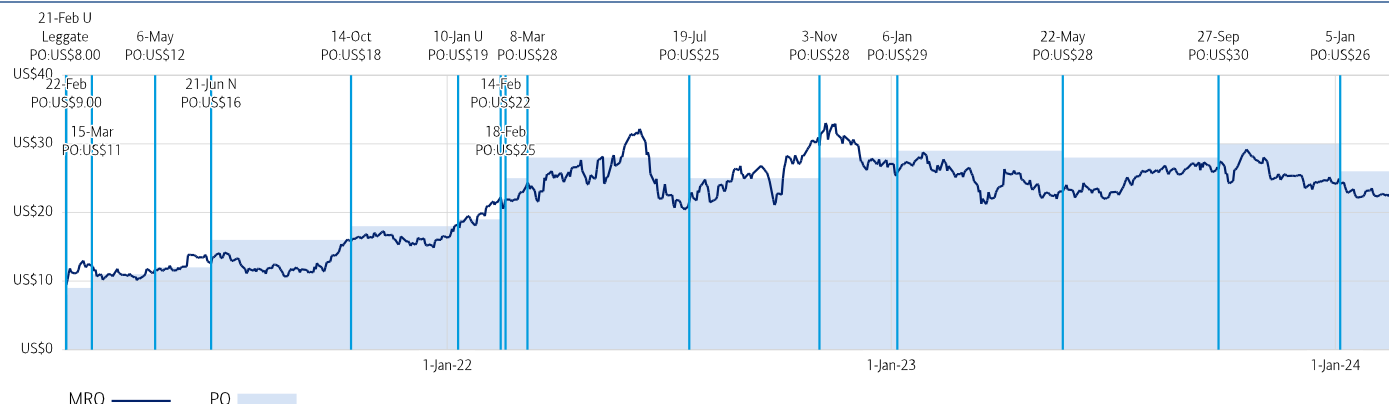
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Disclosures

Important Disclosures

Marathon (MRO) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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