Marathon Petroleum Company

4Q23 earnings first look - solid beat: capture overcomes unplanned downtime

Reiterate Rating: NEUTRAL | PO: 168.00 USD | Price: 160.14 USD

30 January 2024

Equity

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Strong margin capture drives solid EPS & cashflow beat

MPC's adj EPS of $3.98 handily beat BofA & consensus of $2.76/$2.20. Vs our estimate the beat was 2/3rds refining, 1/3rd consolidated midstream. Realized refining margin of $18.33 beat our $16.95 estimate driven by stronger Mid Con & Gulf Coast, with a capture of 123% versus the average of prior 4Q's at 114%; meanwhile pre-tax income from MPLX at $1,285mm was also ahead of our $1,115mm est. Cashflow (before w/c) of $2.26bn also beat consensus of $1.75bn, covering capex of $780mm, leaving <$1.1bn of free cash flow. A large working capital draw of $1.14bn, that looks mainly timing-related left free cashflow of $343mm for the quarter. However, with $9.2bn of cash on hand at end 4Q23 and net cash of $2.3bn, MPC cash returns remained best in class, returning $2.5bn through share buybacks in 4Q and bringing its total share count reduction for FY23 to $11.6bn or 20% of outstanding shares: note buy backs continued in 1Q24 ($0.9bn through Jan 26) and has $5.9bn remaining on its buyback authorization. Since the sale of Speedway, MPC has now bought back 45% of outstanding shares.

Affirming an industry trend: heavy turnarounds in 1Q24

Refining pre-tax income of $1.24bn beat our estimate of $921mn on strong margin capture (123% vs 114%) underlining the resilience of MPC's refining system – or the benefit of a new commercial organization's ability to work around planned downtime. In 4Q23 recall MPCs reformer at Galveston Bay only operated for part of the quarter. Throughput of 2,931 mmbd was slightly ahead of 2,890mm bpd guidance: $300mn of TAR expense was in line. 1Q24 guidance points to a relatively heavy maintenance quarter with throughput at 2,665 mm bpd down from 2,931 mmbpd q/q, and an associated TAR expense of $600mn. Note MPC's average annual TAR expense is typically ~$1.1bn suggesting much of the work could be complete ahead of summer. MPC's guidance follows VLO's heavy turnaround guidance last week and is consistent with industry commentary that points to a significant Spring Maintenance cycle.

2024 capex in line; mgmt continues to hold low levels

2024 capex guidance to $1.25bn (MPC standalone) and $2.35bn (including MPLX) looks in line with consensus. Note compared to 2023, refining capex is $150mn lower; MPLX spending is higher by $200mn ($1.1bn). Refining sustaining capex is estimated at $375mn noting turnaround costs are expensed in the operating line which leaves total spending in line with peers – but well below pre-COVID levels.

Best in class cash returns; limited upside for now

MPC's operating performance continues to support a leading cash return story, where dividends are more than funded by its ~65% ownership of MPLX, leaving Refining FcF to fund buy backs. Capital efficiency has also improved significantly, as has operating reliability with capture rates seeing clear benefits from commercial operations. MPC's strong share performance leaves only modest upside to our PO. With that said, we see reduced through-cycle margin volatility, a net cash balance sheet and low sustaining capital raising question on whether a reset in portfolio discount rate is warranted beyond leverage to cyclical margin trends. Reiterate Neutral.

Stock Data

Price	160.14 USD
Price Objective	168.00 USD
Date Established	5-Jan-2024
Investment Opinion	B-2-7
52-Week Range	104.32 USD - 162.31 USD
Mrkt Val (mn) / Shares Out (mn)	68,860 USD / 430.0
Free Float	99.5%
Average Daily Value (mn)	501.97 USD
BofA Ticker / Exchange	MPC / NYS
Bloomberg / Reuters	MPC US / MPC.N
ROE (2023E)	28.5%
Net Dbt to Eqty (Dec-2022A)	36.0%
ESGMeter™	High

Glossary

MPLX – Marathon Logistics Partners (owned 65% by MPC)

TAR - turnaround

Refer to important disclosures on page 4 to 6. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.
12652789

Timestamp: 30 January 2024 10:03AM EST

4Q23 earnings summary

The table below compares actual EPS with our estimates and prior period results.

Exhibit 1: Earnings Variance: Actuals vs Estimate, quarter-over-quarter and year-over-year
4Q23 Adjusted EPS of $3.98 beat consensus and BofA of $2.20 / $2.76

	4Q23A	1Q23E	3Q23A	Q/Q	4Q22A	Y/Y
Refining & Marketing	1,387	892	3,757	-63%	3,734	-63%
Speedway	-	-	-	#DIV/0!	-	#DIV/0!
Midstream	1,285	1,115	1,199	7%	1,088	18%
	2,672	2,036	4,956	-46%	4,822	-45%
Items not allocated to segments	-	-	-		-	
Corporate & other unallocated items	(271)	(175)	(246)	-10%	(319)	15%
Litigation (excluded)	n/a	n/a	n/a		n/a	
Impairments (excluded)	n/a	n/a	n/a		n/a	
Income from Operations	2,401	1,861	4,710	-49%	4,503	-47%
Net Interest Expense	(111)	(169)	(118)	6%	(186)	40%
Other Non-Op Expenses	-	-	-		-	
Earnings Before Tax	2,290	1,692	4,592	-50%	4,317	-47%
Income Tax Expense	408	327	1,013	-60%	885	-54%
Tax rate	18%	19%	22%	-19%	21%	-13%
Income (loss) from continuing ops.	1,882	1,364	3,579		3,432	
Add Income (loss) from discontinued ops.	-	-	-	#DIV/0!	-	#DIV/0!
Net Income (loss)	1,882	1,364	3,579	-47%	3,432	-45%
Less income attributable to Redeemable NCI	23	20	25	-8%	23	0%
Less income attributable to NCI	354	308	330	7%	297	19%
Net income attributable to MPC	1,505	1,036	3,224	-53%	3,112	-52%
Adjusted EPS	3.98	2.76	8.14	-51%	6.65	-40%
Reported EPS	$3.85	2.76	8.28	-54%	7.10	-46%
Shares	377	376	396	-5%	468	-19%

Source: BofA Global Research

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Price objective basis & risk

Marathon Petroleum Company (MPC)

Our price objective of $168/share is based on an assessed DCF value treating the assets as annuities after deducting maintenance capital. We use a long-term Gulf Coast 321 crack spread in our benchmark assumptions of $11.50/bbl, a long-term crude differential of $3.5, a WACC of 8.6%, a zero terminal growth rate.

Upside risks to our price objective are higher crack spreads as a result of unforeseen tightness in refined product markets. The downside risks to our price objective are as follows: (1) The company is weighted toward sour crude and has a number of expansion projects to process more sour crude. If the sweet-sour crude differentials narrow, the benefits of a more complex refinery would diminish, which could delay their return on investment. (2) The company is vulnerable to refining margin correction. If demand for refined products is weaker than expected, or if oil prices remain robust, this could pressure margins. (3) The company could be unable to capture the price environment due to cost pressures (opex, capex, and taxation).

Analyst Certification

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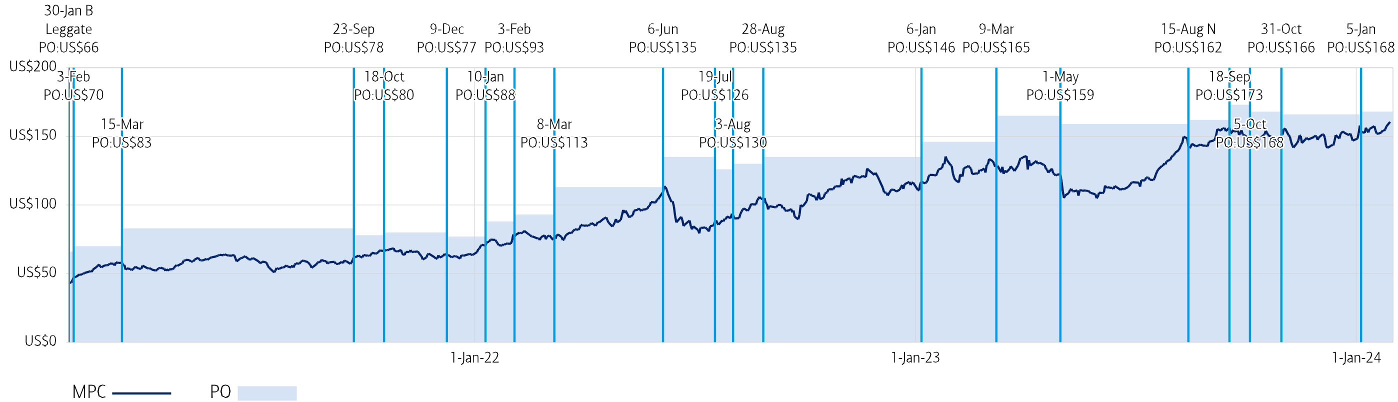
Marathon Petrol (MPC) Price Chart



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

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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)

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Underperform	N/A	≥ 20%

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