



Marathon Petro Bulls Position for Upside as Refiners Show Strength

Ticker/Price: MPC (\$60.75)

Analysis:

Marathon Petroleum (MPC) with almost 5,000 of the May \$60 calls bought on the day up to \$3, some being spread against the \$65 calls, and follows bull risk reversals opened earlier for small credits. Today's flow follows the January 2021 \$55 calls bought last week while the June \$70 calls, January \$65 calls, and April \$65 calls have all seen strong flow recently. Shares are consolidating below the 50-EMA at \$62 and a downtrend from the February highs with a breakout targeting the 200-EMA at \$66. Longer-term, MPC has room back to a big volume node at \$72.50 with weekly RSI nearing a move above 50. The \$41.36B company trades 6.6X earnings, 0.43X sales, and 25X FCF with a 3.5% yield. They see 51.8% EPS growth in 2019 up to over \$9/share with 11.8% revenue growth. MPC is benefitting from better utilization rates which helped margins climb 15% last quarter to over \$15/barrel. The company closed on their \$23.3B merger with Andeavor in October, a deal which expands their operations into the Western US where they have long been under-represented. MPC initially saw \$1B in annual synergies in the first three years but at \$160M already in the first three months, ahead of schedule, and now targeting \$1.4B through 2021. Analysts have an average target for shares of \$92.50 with 14 buy ratings and 1 hold. Short interest is 1.5%. Cowen positive in December after their Analyst Day behind the company's strong capital return plan, increased synergy goals, and leverage to IMO 2020. Macquarie started at Outperform on 2/5 and Piper starting at Overweight on 1/10 with a \$72 PT. Institutional ownership fell 7%. In December, a director bought over \$360K in stock at \$62. MPC is on watch in the near-term with earnings in early May and potential changes to the EPA biofuel credit restrictions being drafted.

Hawk Vision:



Trading Strategy: MPC is a nice value and see the Refiners looking to bottom here, a nice reward/risk versus recent lows.

Confidence Ranking: \$\$