

Analyst: Sung Nam

Murphy Oil Corp (MUR)

Market Price:	\$54.78	EBITDA/Share:	\$15.61	Net Asset/Share:	\$42.15
DCF: EV/EBITDA Terminal Value	4.233%	DCF: Net Tangible Asset excluding Cash/Debt Terminal Value		7.281%	
Current Net Tangible Asset	13.054%	EVA Analysis:		12.635%	

Overview

We wanted an oil play in our portfolio. The company has achieved strong historical growth, is a good cashflow and book value relative to the market, and low debt levels, which is an added plus.

Dividend?

Dividend yield is 2%.

Cashflow Generation

Cashflows are mid-\$2 BB from operating cashflow. 7% EBITA margin, 11% EBITDA margin. Capex is \$2.3 BB. The company has \$1.3 BB in cash and \$900 MM in debt.

Profitability

ROA is a respectable 5.6%, and ROC is 8.7%.

LBO?

We believe a 80% debt/20% equity would be sustainable. However, growth/investments could be stunted, as we cut back on capex expenditures.

Price

We are forecasting a \$72.50/share in Year 5, or a 32% holding return, or 5.8% annual return.

Thus, the 1 year forecasted price is \$58.00. Finviz is showing a wide range between \$60-\$70.

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LBO Analysis

WACC Terminal Value:		Intrinsic Price in 5 Years:	72.47	Non-LBO Forecast	Non-LBO Forecast
EV/EBITDA with 5X Multiple Terminal Value:	\$67.40	Market Price:	54.78	Year 1 Target	57.93
Net Tangible Asset Terminal Value:	\$77.84	LBO Price:	60.00	Year 2 Target	61.27
EV/EBITDA with Today's Multiple Terminal Value:	\$97.04	Premium to Market Price:	9.53%	Year 3 Target	64.79
EVA Enterprise Value:	\$87.52	LBO Price/Intrinsic Price Target:	3.85%	Year 4 Target	68.52
Dividend Discount Model:	\$32.52	LBO Price/EV/EBIT Exit Price:	10.09%	Year 5 Target	72.47
Average:	\$72.47	Implied IRR at today's EV/EBIT:	12.12%	Implied IRR (Market Price):	5.76%
				Desired Return Rate	20.00%
				Implied Today's Price	29.12
				Overvalued/(Undervalued)	88.10%

Current Evaluation				Exit Evaluation			
Current Market Price:	54.78	LBO Price:	60.00	Exit Price:	72.47	Exit Price:	97.04
Outstanding Shares:	193,520,000	Outstanding Shares:	193,520,000	Outstanding Shares:	193,520,000	Outstanding Shares:	193,520,000
Market Capitalization:	10,601,025,600	Market Capitalization:	11,611,200,000	Market Capitalization:	14,023,462,419	Market Capitalization:	18,778,974,659
Available Cash:	1,152,380,000	Available Cash:	1,152,380,000	Available Cash:	1,755,602,295	Available Cash:	1,755,602,295
Debt:	939,390,000	Debt:	939,390,000	Debt:	939,390,000	Debt:	939,390,000
Net Cash:	212,990,000	Net Cash:	212,990,000	Net Cash:	816,212,295	Net Cash:	816,212,295
Enterprise Value:	10,388,035,600	Enterprise Value:	11,398,210,000	Enterprise Value:	13,207,250,124	Enterprise Value:	17,962,762,363
Original EV/EBIT:	7.34	EV/EBIT:	8.06	EV/EBIT at 5 Years:	5.88	EV/EBIT at 5 Years:	8.00
Original EV/EBITDA:	3.44	EV/EBITDA:	4.36	EV/EBITDA at 5 Years:	4.51	EV/EBITDA at 5 Years:	4.91
Competitor Average EV/EBIT:	N/A						
Competitor Average EV/EBITDA:	N/A						

Enterprise Valuation Calculation During Holding Period							
Time Period	0	Adjusted for LBO	1	2	3	4	5
Annualized Price Targets based off LBO Price:	60.00	61.45	63.81	66.27	68.82	71.46	74.21
Shares Outstanding:	193,520,000	193,520,000	193,520,000	193,520,000	193,520,000	193,520,000	193,520,000
Market Capitalization:	11,611,200,000	11,891,202,516	12,348,704,703	12,823,808,831	13,317,192,118	13,829,557,837	14,361,636,317
Available Cash:	1,152,390,000	1,152,390,000	918,542,367	851,717,081	1,024,428,550	1,326,099,576	1,755,602,295
Debt:	939,390,000	939,390,000	939,390,000	939,390,000	939,390,000	939,390,000	939,390,000
Net Cash:	213,000,000	213,000,000	-20,847,633	-87,672,919	85,038,550	386,709,576	816,212,295
Enterprise Value:	11,398,200,000	11,678,202,516	12,369,552,335	12,911,481,751	13,232,153,569	13,442,848,261	13,545,424,021
EBIT	1,448,970,000	1,448,970,000	1,813,834,116	1,932,543,258	1,968,439,955	2,094,107,407	2,245,345,295
EV/EBIT:	7.87	8.06	6.82	6.68	6.72	6.42	6.03
EBITDA	2,613,750,000	2,613,750,000	2,862,908,442	3,065,543,531	3,315,849,296	3,482,509,088	3,655,712,148
EV/EBITDA:	4.36	4.36	4.32	4.21	3.99	3.86	3.71

Enterprise Valuation Calculation During Holding Period							
Time Period	0	Adjusted for LBO	1	2	3	4	5
Annualized Price Targets based off LBO Price:	60.00	61.45	75.43	80.03	82.42	89.21	97.73
Shares Outstanding:	193,520,000	193,520,000	193,520,000	193,520,000	193,520,000	193,520,000	193,520,000
Market Capitalization:	11,611,200,000	11,891,202,516	14,598,034,841	15,487,964,632	15,949,991,193	17,264,498,897	18,912,927,257
Available Cash:	1,152,390,000	1,152,390,000	918,542,367	851,717,081	1,024,428,550	1,326,099,576	1,755,602,295
Debt:	939,390,000	939,390,000	939,390,000	939,390,000	939,390,000	939,390,000	939,390,000
Net Cash:	213,000,000	213,000,000	-20,847,633	-87,672,919	85,038,550	386,709,576	816,212,295
Enterprise Value:	11,398,200,000	11,678,202,516	14,618,882,474	15,575,637,551	15,864,952,643	16,877,789,321	18,096,714,961
EBIT	1,448,970,000	1,448,970,000	1,813,834,116	1,932,543,258	1,968,439,955	2,094,107,407	2,245,345,295
EV/EBIT:	7.87	8.06	8.06	8.06	8.06	8.06	8.06
EBITDA	2,613,750,000	2,613,750,000	2,862,908,442	3,065,543,531	3,315,849,296	3,482,509,088	3,655,712,148
EV/EBITDA:	4.36	4.36	5.11	5.08	4.78	4.85	4.95

LBO Price	60.00	Equity Partners:	11,611,200,000	Weighting	100.00%	Annualized Return for Equity Partners: 10.09%
Shares Outstanding	193,520,000	Debt Partners:	0	0.00%		
Market Capitalization	11,611,200,000	Total Funds for LBO:	11,611,200,000	100.00%		

Book Value	Enterprise Value	Stock Valuation	Debt Reduction
Beginning Book Value	11,611.20	Current Market Price	Starting Debt
Year 5 Book Value	17,386.16	Year 5 Market Price	Debt Repayment
Annualized Return	8.41%	Annualized Return	Year 5 Ending Debt
			% of Starting Debt
			100.00%

	Historical				Forecasted				
	12 months ending 2007-12-31	12 months ending 2008-12-31	12 months ending 2009-12-31	12 months ending 2010-12-31	2011	2012	2013	2014	2015
Revenue	18,312.97	27,432.33	19,012.39	23,345.07	25,679.58	27,739.94	29,952.66	31,450.29	33,022.81
COGS (excluding depreciation)	14,882.62	21,649.74	14,547.59	18,142.25	20,030.07	21,632.48	23,363.07	24,531.23	25,757.79
Gross margin	3,430.35	5,782.59	4,464.80	5,202.82	5,649.51	6,107.47	6,589.58	6,919.06	7,265.02
SG&A	228.32	228.49	242.27	279.16	308.15	332.81	359.43	377.40	396.27
R&D	202.81	344.41	265.17	292.26	333.83	360.54	389.38	408.85	429.30
Unusual expense	40.71	0.00	88.74	18.58	0.00	0.00	0.00	0.00	0.00
Other operating expense	1,294.10	1,681.91	1,648.01	1,999.07	2,144.61	2,342.58	2,524.92	2,650.30	2,783.74
Depreciation	450.62	667.26	919.05	1,164.78	1,049.07	1,133.00	1,347.41	1,388.40	1,410.37
Operating Income (EBITA)	1,213.79	2,860.52	1,301.56	1,448.97	1,613.83	1,932.54	1,968.44	2,094.11	2,245.35
Interest income/(expense)	0.00	0.00	0.00	0.00	-75.15	-75.15	-75.15	-75.15	-75.15
Gain (loss) on sale of asset	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Income before tax	1,189.00	2,818.36	1,277.17	1,414.23	1,738.68	1,857.39	1,893.29	2,018.96	2,170.19
Tax	449.92	1,073.61	536.65	616.15	521.60	557.22	567.99	605.69	651.06
Income after tax	739.08	1,744.75	740.52	798.08	1,217.08	1,300.17	1,325.30	1,413.27	1,519.14
Minority Interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Equity in affiliates	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net income	739.08	1,744.75	740.52	798.08	1,217.08	1,300.17	1,325.30	1,413.27	1,519.14
*Figures are in millions (\$)									
Revenue Growth	N/A	49.80%	-30.69%	22.79%	10.00%	8.00%	8.00%	5.00%	5.00%
Tax Rate	37.84%	38.09%	42.02%	43.57%	30.00%	30.00%	30.00%	30.00%	30.00%
Implied Debt Interest Rate	0.00%	0.00%	0.00%	0.00%	-8.00%	-8.00%	-8.00%	-8.00%	-8.00%
Margins									
COGS (excluding depreciation)	81.27%	78.92%	76.52%	77.71%	78.00%	78.00%	78.00%	78.00%	78.00%
Gross margin	18.65%	20.82%	22.99%	22.29%	22.00%	22.00%	22.00%	22.00%	22.00%
Depreciation	2.46%	2.43%	4.83%	4.98%	4.09%	4.09%	4.50%	4.41%	4.27%
SG&A	1.25%	0.83%	1.27%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%
R&D	1.11%	1.26%	1.39%	1.25%	1.30%	1.30%	1.30%	1.30%	1.30%
Unusual expense	0.22%	0.00%	0.47%	0.08%	0.00%	0.00%	0.00%	0.00%	0.00%
Other operating expense	7.07%	6.13%	8.67%	8.56%	8.35%	8.45%	8.43%	8.43%	8.43%
Operating Income (EBITA)	6.63%	10.43%	6.85%	6.21%	7.06%	6.97%	6.57%	6.66%	6.80%
Interest income/(expense)	0.00%	0.00%	0.00%	0.00%	-0.29%	-0.27%	-0.25%	-0.24%	-0.23%
Gain (loss) on sale of asset	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Income before tax	6.49%	10.27%	6.72%	6.06%	6.77%	6.70%	6.32%	6.42%	6.57%
Tax	2.46%	3.91%	2.82%	2.64%	2.03%	2.01%	1.90%	1.93%	1.97%
Income after tax	4.04%	6.36%	3.89%	3.42%	4.74%	5.06%	5.16%	5.50%	5.92%
Minority Interest	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Equity in affiliates	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Net income	4.04%	6.36%	3.89%	3.42%	4.74%	4.69%	4.42%	4.49%	4.60%

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LBO Adjusted Proforma Balance Sheet

	As of 2010-12-31	Adjustment		Adjusted Proforma	2011	2012	2013	2014	2015
		+	-						
Cash	535.83			535.83	301.98	235.16	407.87	709.54	1,139.04
Short term investment	616.56			616.56	616.56	616.56	616.56	616.56	616.56
Cash and Short term	1,152.39			1,152.39	918.54	851.72	1,024.43	1,326.10	1,755.60
Accounts Receivable	1,467.31			1,467.31	1,467.31	1,467.31	1,467.31	1,467.31	1,467.31
Other receivables	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Total Receivables	1,467.31			1,467.31	1,467.31	1,467.31	1,467.31	1,467.31	1,467.31
Deferred Income Tax	-0.01			-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Total Inventory	762.21			762.21	762.21	762.21	762.21	762.21	762.21
Prepaid Expenses	88.24			88.24	88.24	88.24	88.24	88.24	88.24
Other Current Assets	80.55			80.55	80.55	80.55	80.55	80.55	80.55
Current Assets	3,550.69	0.00	0.00	3,550.69	3,316.84	3,250.02	3,422.73	3,724.40	4,153.90
PP&E, Gross	16,408.84			16,408.84	18,708.84	21,008.84	23,308.84	25,608.84	27,908.84
Change in Depreciation	1,164.78			1,164.78	1,049.07	1,133.00	1,347.41	1,388.40	1,410.37
Accumulated Depreciation	5,908.22			5,908.22	6,957.29	8,090.29	9,437.70	10,826.11	12,236.47
PP&E, Net	10,500.62			10,500.62	11,751.55	12,918.55	13,871.14	14,782.73	15,672.37
Goodwill	42.85	3411.66		3,454.51	3,454.51	3,454.51	3,454.51	3,454.51	3,454.51
Intangibles	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Long term investments	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other long term assets	271.85			271.85	271.85	271.85	271.85	271.85	271.85
Long Term Assets	10,815.32			14,226.98	15,477.91	16,644.91	17,597.50	18,509.09	19,398.73
Total Assets	14,233.24	3411.66	0.00	17,777.67	18,794.75	19,894.92	21,020.22	22,233.49	23,552.63
Accounts Payable	2,237.92			2,237.92	2,237.92	2,237.92	2,237.92	2,237.92	2,237.92
Accrued Expense	316.87			316.87	316.87	316.87	316.87	316.87	316.87
Other current Liabilities	376.08			376.08	376.08	376.08	376.08	376.08	376.08
Total Current Liabilities	2,930.87	0.00	0.00	2,930.87	2,930.87	2,930.87	2,930.87	2,930.87	2,930.87
Notes Payables/Short Term Debt	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Current port. Of LT Debt/Capital Leases	0.04			0.04	0.04	0.04	0.04	0.04	0.04
Long term Debt	939.35	0.00		939.35	939.35	939.35	939.35	939.35	939.35
Capital Lease Obligations	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Total Interest Earning Debt	939.39	0.00	0.00	939.39	939.39	939.39	939.39	939.39	939.39
Deferred Income tax	1,212.21			1,212.21	1,212.21	1,212.21	1,212.21	1,212.21	1,212.21
Minority Interest	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other liabilities	951.22			951.22	951.22	951.22	951.22	951.22	951.22
Total Liabilities	6,033.69	0.00	0.00	6,033.69	6,033.69	6,033.69	6,033.69	6,033.69	6,033.69
Redeemable Preferred Stock	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Non-redeemable Preferred Stock	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Common Stock	193.29		193.29	0.00	0.00	0.00	0.00	0.00	0.00
Additional Paid-in capital	767.76	11611.20	767.76	11,611.20	11,611.20	11,611.20	11,611.20	11,611.20	11,611.20
Dividends Paid	0.00		0.00	0.00	-200.00	-400.00	-600.00	-800.00	-1,000.00
Retained Earnings	6,800.99		6800.99	0.00	1,217.08	2,517.25	3,842.55	5,255.82	6,774.96
Treasury Stock	-11.93		(11.93)	0.00	0.00	0.00	0.00	0.00	0.00
Other Equity	449.43		449.43	0.00	0.00	0.00	0.00	0.00	0.00
Total Equity	8,199.54	11611.20	8199.54	11,611.20	12,628.28	13,728.45	14,853.75	16,067.02	17,386.16
Liability + Equity	14,233.23	11611.20	8199.54	17,644.89	18,661.97	19,762.14	20,887.44	22,100.71	23,419.85
Variance	0.01			132.78	132.78	132.78	132.78	132.78	132.78
Debt/Equity	0.11			0.08	0.07	0.07	0.06	0.06	0.05

0.00 0.00 0.00 0.00 0.00

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LBO Adjusted Proforma Cash Flow

	12 months ending 2010-12-31	2011	2012	2013	2014	2015
Net Income	798.08	1,217.08	1,300.17	1,325.30	1,413.27	1,519.14
Depreciation	1,164.78	1,049.07	1,133.00	1,347.41	1,388.40	1,410.37
Amortization	0.00	0.00	0.00	0.00	0.00	0.00
Deferred Taxes	63.31	0.00	0.00	0.00	0.00	0.00
Non Cash Items	231.73	0.00	0.00	0.00	0.00	0.00
Change in Working capital	870.65	0.00	0.00	0.00	0.00	0.00
Accounts Receivable	-4.01	0.00	0.00	0.00	0.00	0.00
Other Receivables	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	-28.23	0.00	0.00	0.00	0.00	0.00
Prepaid Expenses	-5.02	0.00	0.00	0.00	0.00	0.00
Accounts Payable	698.40	0.00	0.00	0.00	0.00	0.00
Cash from Operating Activities	3,128.55	2,266.15	2,433.17	2,672.71	2,801.67	2,929.50
Capital Expenditures	-2,316.37	-2,300.00	-2,300.00	-2,300.00	-2,300.00	-2,300.00
Long term investment	0.00	0.00	0.00	0.00	0.00	0.00
Intangibles	-12.44	0.00	0.00	0.00	0.00	0.00
Cash from Investing Activities	-2,328.81	-2,300.00	-2,300.00	-2,300.00	-2,300.00	-2,300.00
Financing Cash flow items	6.50	0.00	0.00	0.00	0.00	0.00
Total Cash Dividends Paid	-201.41	200.00	200.00	200.00	200.00	200.00
Issuance (Retirement) of Stock	42.99	0.00	0.00	0.00	0.00	0.00
Issuance (Retirement) of Current Portion Debt	-	0.00	0.00	0.00	0.00	0.00
Issuance (Retirement) of Long Term Debt	-414.04	0.00	0.00	0.00	0.00	0.00
Cash from Financing Activities	-565.96	-200.00	-200.00	-200.00	-200.00	-200.00
Foreign Exchange effect	0.88	0.00	0.00	0.00	0.00	0.00
Beginning Cash Balance	301.14	535.83	301.98	235.16	407.87	709.54
Net Change in Cash	234.68	-233.85	-66.83	172.71	301.67	429.50
Ending Cash Balance	535.82	301.98	235.16	407.87	709.54	1,139.04
Depreciation to Sales	4.99%	4.09%	4.09%	4.50%	4.41%	4.27%
Amortization to Sales	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
A/R to Sales	6.29%	5.71%	5.29%	4.90%	4.67%	4.44%

Appreciation Potential:

#DIV/0!

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LBO Debt Schedule

	Proforma	2011	2012	2013	2014	2015
CSS						
Net Change in Cash	234.68	-233.85	-66.83	172.71	301.67	429.50
Current Portion Debt Repayment						
Long Term Debt Repayment						
Outstanding Debt	939.39	939.39	939.39	939.39	939.39	939.39
Current Portion Debt Balance	0.04	0.04	0.04	0.04	0.04	0.04
Long Term Debt Balance	939.35	939.35	939.35	939.35	939.35	939.35
Forward Libor Curve		4.00%	4.50%	5.00%	5.50%	6.00%
Spread		4.00%	3.50%	3.00%	2.50%	2.00%
Interest Rate		8.00%	8.00%	8.00%	8.00%	8.00%
Interest Expense		75.15	75.15	75.15	75.15	75.15
EBITDA		1813.83	1932.54	1968.44	2094.11	2245.35
EBITDA/Interest Expense Coverage		24.14	25.72	26.19	27.87	29.88

Interest Rate Coverage Table

Debt Rating					
AAA	AAA	AAA	AAA	AAA	AAA
AA					
A+					
A					
A-					
BBB					
BB+					
BB					
B+					
B					
B-					
CCC					
CC					
C					
D					

*Source: NYU; Professor Damodaran