

TOTAL Nigeria Plc: Interim Results – Q3



November 17, 2008

BUY

Fair Value: NGN 314.31

Current Price: NGN 241.56

Valuation/Analyst Recommendation

We maintain our top line forecast but review our bottom line forecast for TOTAL as a result of the improving efficiency in the operation of the company. In arriving at a fair value, we estimate a TO of **N154.51bn** for FY 08, based on the assumption that TOTAL will generate a turnover of **12.50%** over FY'07. We estimate EBITDA of **N6.18bn** based on EBITDA margin of **4%** and a PAT of **N4.64bn** based on a PAT margin of **3%** (up from our earlier margin of 2.5%). Using an estimated Net Debt of **N1.95m**, EV/EBITDA multiple of **19.85x** and a forward P/E ratio of **20x**, we arrived at **N355.58** using EV/EBITDA multiple and **N273.04** per share using price earning multiple. The average of the two valuations generates **N314.31** per share which is our fair value. The 2008 Forward Earnings Per Share of TOTAL generates **N13.65**. We estimate a dividend per share of **N12.97** (which translates to a final dividend of **N9.17** having paid an interim dividend of **N3.80**) based on a dividend payout of **95%**. The forward earnings yield and dividend yield based on our fair value generate **4.34%** and **4.13%** respectively. Looking at the current price of **N241.56** the stock is trading at a discount of **30.12%** to its fair value of **N314.31**. We therefore place a **BUY** on TOTAL's stock at the current market price for capital appreciation and good dividend payment.

Business Description

The principal activity of the company is the marketing of petroleum products.

Ticker	TOTAL
Sector	Petroleum Marketing
Date of Incorporation	June 01, 1956
Date of Listing	April 20, 1979
Year End	December
No of Ordinary Shares	339,521,837
Capitalisation	₦ 82,014,895,118.26
% of Market Capitalisation	0.99%
52-Week High	₦296.10
52-Week Low	₦162.35
YTD Return	37.76%
52-Week Avg. Trade	51,334
Beta Value	0.57
Current EPS	6.35
Current PE	38.04

Improving Efficiency:

The unaudited Q3'08 result of TOTAL Nigeria Plc (TOTAL) for the period ended September, 2008 showed that its Turnover (TO) grew by **30.8%** to **N133.17bn**, compared with **N101.82bn** in the corresponding period of 2007. Profit Before Tax (PBT) grew by **48.4%** between 2007 and 2008 to **N5.34bn** from **N3.6bn**. The company's provision for tax which increased by **37.3%** between 2007 and 2008 to **N1.8bn** from **N1.3bn** in 2007 brought about a Profit After Tax (PAT) of **N3.51bn** as against **N2.28bn** in 2007, representing a growth of **53.8%**. In order to reward its shareholders, the company declared an interim dividend of **N3.80** per share to members whose names will appear in the Register of Members on **November 26, 2008**. A cursory look at TOTAL's profit margin reveals a marginal

increase compared with the results at the corresponding quarter in 2007 and the FY 07 result. The PBT margin increased marginally to **4.01%** in Q3'08 from **3.53%** as at Q2'07 and up marginally from **3.52%** as at the end of the financial year in December, 2007. This shows that the company's total cost as a percentage of TO stood at **95.99%** in Q3'08, down marginally from **96.47%** in the corresponding period in 2007. PAT margin currently stands at **2.64%**, up marginally from **2.24%** in the corresponding period in 2007, and up from **2.37%** as at FY '07.

The result also indicates that the percentage of the TO, PBT, and PAT in the Q3 result to the Full Year Audited TO, PBT and PAT for the period ended December, 2007 are: **96.97%**, **110.5%** and **107.9%**, respectively. This suggests that given the current rate of performance, TOTAL should surpass its previous year's performance with wide margin. We are of the opinion that the current oil price volatility in the international market will not have negative impact on the profitability of TOTAL. We hold this view because the implementation of the Petroleum Support Fund (PSF) gives the oil marketers in Nigeria a regulated margin.

Looking at the audited account for the period ended December 2007; the company's cost of sales increased in 2007 over 2006 by **7.72%** to **N120.41bn** from **N111.78bn** in 2006. The increase was lower than the increase in TO which was up marginally by **8.51%** to **N137.34bn**, thereby leading to an increase of **14.47%** in gross profit to **N16.93bn**. This resulted in an increase in the gross profit margin from **11.68%** in 2006 to **12.33%** in 2007. The operating profit grew by **41.52%** in 2007 to **N4.63bn** while PAT grew by **29.35%** to **N3.26bn**. The company paid a total dividend of **N9.50k**, which was made up of **N3.10k** interim dividend and **N6.40k** final dividend.

A further analysis of the company's Turnover (TO) shows that **Petroleum Products** accounted for **90.51%**; and **Lubricants and Other Products** accounted for **9.49%**. The company recorded a TO of **N140.37bn** in FY '07, but Commissions and discounts expenses brought the TO down to **N137.34bn**.

There are contingent liabilities in respect of legal actions against the company amounting to **N435,215,848**. The management of TOTAL did not make provision for these contingent liabilities as consultation with the company's external solicitors indicated that the likely outcome of the legal action will favour the company. The company has a technical service agreement with TOTAL Outre-Mer (TOTAL Africa Middle East) which is renewable every three years subject to the approval of the National Office for Technology Acquisition and Promotion (NOTAP).

The company's significant overseas and local suppliers are: **Total Africa Middle East**; **Nigerian National Petroleum Corporation (NNPC)**; **Greif Nigeria Plc**; **Eunisell Chemicals Ltd.**; **Lotus Plastics Ltd** and **GS Telecom Nigeria Ltd**. As at December 31, 2008, its shareholding structure was: **Total Societe Anonyme** (45.24%), **Elf Aquitaine S.A.** (16.48%), **Enifor Ltd.** (8.12%) and **Nigerian Citizens & Associations** (30.16%).

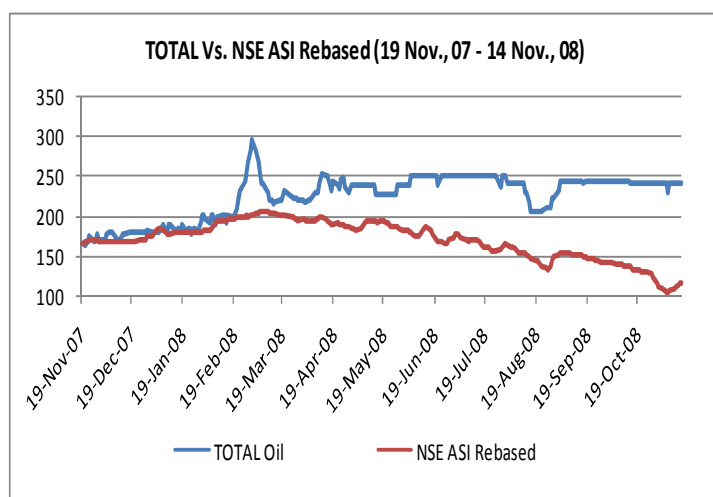
Industry Analysis (Nmn)

Company	TO	PBT	PAT	PAT Margin (%)	ROE (%)	EPS*	PE*
TOTAL	137,340	4,828	3,255	2.37	51.36	6.35	38.04
AP	102,030	7,050	5,700	5.59	77.38	5.86	50.16
Chevron	72,600	2,990	1,950	2.69	N/A	4.84	55.22
Oando	185,890	6,810	5,480	3.67	11.56	8.26	13.69
Mobil	54,500	1,770	1,130	3.24	50.31	6.65	52.46

Source: Company Annual Reports as at FY '07, NSE FACTBOOK. * Current

Financial Performance (Nmn)

	Q3 '08	Q3 '07	%Δ	FY 2007	FY 2006	%Δ	FY 2008E
Turnover	133,170	101,815	30.8	137,340	126,574	8.51	154,506
PBT	5,335	3,595	48.4	4,828	3,249	48.62	6,019
PAT	3,512	2,284	53.8	3,255	2,516	29.35	4,635
PBT Margin (%)	4.01	3.53	0.48	3.52	2.57	0.95	3.9
PAT Margin (%)	2.64	2.24	0.4	2.37	1.99	0.38	3.0



Directors as at December 2007

Names	Position	Holding
Mr. S. Mittelman	Chairman	NIL
Mr. D. Thiolon	Mg. Director	NIL
Engr. C. Okonmah	Exec. Director	NIL
Ms. N. Rajmohammed	Exec. Director	NIL
Barr. O.O. Akpata	Exec. Director	NIL
Engr. J.W. Adeyinka	Non-exec. Director	46,974
Mr. A. Champeaux	Non-exec. Director	NIL
Chief (Mrs.) C.A. Ibru	Non-exec. Director	1,893
Engr. K. Ukonne	Non-exec. Director	20,548
Alhaji M.M Sambo	Non-exec. Director	NIL

Contact us at Our Offices:

Lagos Office: UAC House (6th-8th Floors) 1/5 Odunlami Street, P.M.B 12913 Lagos. (Tel.) 234-1-2640160-9 (Fax) 234-1-2702890

Port Harcourt:

AfriBank Bank Building (2nd floor, 5 Trans Amadi Road, Port Harcourt. (Tel) 234-084-463308 (Fax) 234-084-463174

Abuja Office:

NAL Abuja Complex, Plot 990, Cadastral Zone A O, Central Business District, (behind Leventis Stores), Abuja FCT (Tel) 234-09-6700535

(Website)

www.fsdhgroup.com, www.fsdhsecurities.com

(Email) fsdhsecurities@fsdhgroup.com

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