

Total Plc: Interim Results – Q3, September. 2010



December 20, 2010

REDUCE

Fair Value: NGN183.63

Current Price: NGN234.61

Valuation/Analyst Recommendation

In arriving at a fair value for the ordinary shares of TOTAL, we used two valuation methods which are Discounted Free Cash Flow Method (DCF) and Discounted Future Earnings Method (DFE). We project Turnover, Earnings Before Interest and Tax (EBIT), Earnings Before Interest Tax Depreciation and Amortization (EBITDA) and Profit After Tax (PAT) for the periods ending December 2010, 2011, 2012, 2013 and 2014. We estimate Turnover of **N168.75bn**, **N182.25bn**, **N198.29bn**, **N215.74bn** and **N231.92bn** for 2010, 2011, 2012, 2013 and 2014, respectively. We estimate EBIT of **N8.53bn**, **N10.43bn**, **N12.99bn**, **N14.13bn** and **N14.50bn** for the same period, based on EBIT Margin of 5.06% for 2010, 5.73% for 2011, 6.55% for 2012-2013, and 6.25% for 2014. We estimate EBITDA of **N9.91bn**, **N11.88bn**, **N14.51bn**, **N15.73bn** and **N16.16bn** for the same period. Looking at our estimate of the capital expenditure of the company within the forecast period and the notional tax on EBIT for the same period and adjusting for the net working capital, we arrived at **Free Cash Flow (FCF)** of **N5.84bn**, **N8.21bn**, **N10.14bn**, **N11.05bn** and **N11.32bn**. Our forecast PAT of **N5.51bn**, **N6.74bn**, **N8.39bn**, **N9.13bn** and **N9.36bn** is based on PAT margin of 3.27% for 2010, 3.70% for 2011, 4.23% for 2012-2013, and 4.04% for 2014. Using a dividend payout of 99% for the period, we arrived at **Dividend Payment** of **N5.46bn**, **N6.67bn**, **N8.31bn**, **N9.04bn** and **N9.27bn**. We applied a terminal growth rate of 7.69%. We used a beta value of 1; risk free rate of 9.90% and a market risk premium of 10.04%. The company had no long term interest bearing debt as at the last audited account. Applying the foregoing parameters, our cost of equity is 19.94%, which is our discount rate. Using 339.52mn shares in issue, the DCF Model generates **N198.39** per share and the DFE Model generates **N166.03** per share. Applying a weight of 55% to the DCF and 45% to the DFE, we arrive at a value of **N183.83** per share, which is our fair value. Buying the stock at the current market price of **N234.61** and holding it to our fair value of **N183.83** and adding the present value of the 5-year forecast dividends, investors will earn a total return of 7.20%. Relating this return to the cost of equity at 19.94%, investment in TOTAL Oil shares at the current market price will record a negative alpha return of 12.74%. The 2010 forward earnings yield based on our fair value generates 9.36%, while the 2010 forward Dividend Yield based on **N16.08** Dividend Per Share at our fair value generates 8.75%. TOTAL earlier declared an interim dividend of N2.00 for members whose names appeared in their book as at November 30, 2010. We therefore expect a final dividend of N14.08 at the end of the current financial year. The forward earnings yield at current market price is 7.33%.

Business Description

Total's principal activities are the blending of lubricants and marketing of petroleum products.

Ticker	TOTAL
Sector	Petroleum Marketing
Date of Incorporation	June 1, 1956
Date of Listing	April 20, 1979
Year End	December
No of Ordinary Shares	339,521,837
Capitalisation (₦)	79,655,218,179
% of Market Capitalisation	1.02
52-Week High(₦)	254.10
52-Week Low (₦)	142.50
YTD Return (%)	63.01
52-Week Avg. Trade	66,680
Beta Value	0.18
Current EPS (₦)	15.44
Current PE(x)	15.20

Harnessing Opportunities in Downstream Sector:

The unaudited Q3, 2010 result of TOTAL Plc (TOTAL) for the period ended September 30, 2010 showed that its Turnover (TO) decreased by 6.94% to **N121.99bn**, compared with N131.09bn in the corresponding period of 2009. The success of the Federal Government Sovereign Debt Note (SDN) which has reduced the financing charge and the improvements in the downstream sector of the oil industry following the Amnesty deal, may be responsible for the improved profitability. The Profit Before Tax (PBT) increased by 29.56% to **N5.89bn** in 2010 from N4.54bn in the corresponding period of 2009. The tax provision also increased by 4.32% from N1.62bn in 2009 to N1.69bn in 2010, while Profit After Tax (PAT) also increased to **N4.20bn** in Q3 2010 from N2.92bn in 2009, representing an increase of 43.57%.

The company's profit margins increased in Q3 2010 over Q3 2009 and over the FY December, 2009. The PBT margin increased to 4.83% in Q3, 2010 from 3.47% as at Q3, 2009, and up from 3.45% as at the end of the financial year in December, 2009 but down from 5.62% as at Q2 2010. This shows that the company's total costs as a percentage of TO stand at 95.17%, lower than 96.53% and 96.55% recorded in the corresponding period of 2009 and FY 2009 respectively. PAT Margin currently stands at 3.44%, up from 2.23% in the corresponding period of 2009, and up from 2.22% as at FY 2009, but lower than 4.12% recorded in Q2 2010. The result also indicates that the percentage of TO, PBT, and PAT in Q3, 2010 to FY Audited TO, PBT and PAT for the period ended December, 2009 are: **68.32%**, **95.52%** and **105.72%**, respectively. This shows that TOTAL should surpass its previous year's bottom line performance but may find it difficult to meet the top line.

A cursory look at the balance sheet position as at Q3 2010 compared with the position as at December, 2009 shows that the company's fixed assets increased. Its fixed assets increased by 9.20% to N13.81bn from N12.65bn in FY 2009. Stock increased by 14.07% to N12.88bn in Q3 2010 from N11.29bn in FY 2009. Cash and bank balances, increased significantly by 132.71% to N1.19bn in Q3 2010 from N512.23mn in FY 2009. TOTAL's working capital worsened from a negative of N4.47bn in FY 2009 to a negative of N5.30bn in Q3 2010. Trade debtors increased by 3.60% to N7.17bn from N6.92bn. The net assets also increased by 19.84% to N8.37bn from N6.98bn as at FY 2009.

A review of the Petroleum & Gas industry in Nigeria shows that the Federal Government of Nigeria (FGN) has implemented a number of reforms and initiatives in the last few years with the aim of bringing a lasting solution to the numerous problems that plague the industry. At the moment, the industry is important to the sustenance of the Nigerian economy as it accounts for about 80% of the country's revenue and 90% of the foreign exchange earnings. In addition, it accounted for about 15.70% of the country's Gross Domestic Product (GDP) as at June 2010. Some of the FGN initiatives are: Amnesty for the Militants; establishment of Petroleum Support Fund (FSP); Local Content Act (LCA); Petroleum Industry Bills (PIB); establishment of Sovereign Debt Note (SDN) and the proposed deregulation of the downstream sector. These initiatives were put in place to achieve the following: protect the oil and gas facilities across the country; increase production of crude oil; ensure regular supply of petroleum products to avoid queues at the filling stations; encourage oil majors to import products and reduce financing costs for oil marketing firms; and increase the participations of the Nigerian firms in the oil and gas industry. Although these measures have helped the petroleum marketing firms in the last one year, it is our view that the most important of the reforms is the full deregulation of the sector which has not been implemented. Currently, most quoted oil companies in Nigeria are primarily involved in petroleum marketing business without any incentive for them to engage in other viable investments such as constructing and running of refineries. We are of the opinion that the sector still has a lot of untapped opportunities which we think the current PIB and full deregulation of the downstream sector will address. Available data from the Petroleum Products Pricing Regulatory Agency (PPPRA) website as at November 26, 2010 shows that the price at which the Premium Motor Spirit (PMS) should be sold is N114.15per litre but the price is currently pegged at N65 per litre, meaning that government is paying N48.15 per litre as subsidy. Deregulation of the sector will attract further investments and bring in competition which has the capacity to lower retail price in the long run and allow government to spend its scarce resources on provision of social amenities and infrastructure which will make doing businesses in Nigeria competitive.

TOTAL has over the years broaden its product range at its service stations to include non-fuel products and services such as lubricants, car care products, insecticides, LPG shops, car wash and oil change bays. It commenced its Shops, Food and Service (SFS) concept between 2003/2004, and it has continually led to increasing profitability for the firm. The capital employed by TOTAL as at December 31, 2009 of N10.36bn was such that equity accounted for 67.42% and long term liabilities accounted for 32.58% of the capital structure. Its total Assets stood at N49.70bn, while total liabilities stood at N42.72bn. The short term liabilities stood at N39.34bn, accounting for 92.10% of the total liabilities while the long-term liabilities stood at N3.37bn accounting for 7.90% of the total liabilities. TOTAL has no long term interest bearing debt as at December 31, 2009 but has lease and short term obligations which amounted to N4.23bn. An analysis of the TO of Total in 2009 shows that it has three main business lines: **White products (retail and general trade)** – 82.8%, **Lubricants & Special Products** – 10.4% and **Aviation Fuels** – 6.8%. TOTAL's outstanding shares stood at about 339.52mn out of which 153.60mn is owned by **Total Societe Anonyme** representing about 45.24% of the shares, **Elf Aquitaine S. A.** – 55.96mn (16.48%), **Enifor Ltd** – 27.56mn (8.12%), while the balance of 30.16% (102.40mn) is owned by other **Nigerians Citizens & Associations**.

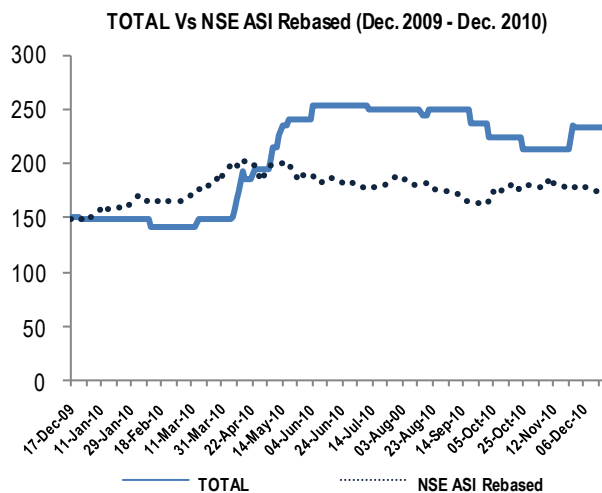
Comparable Analysis. As at December 2009

Company	GEs	PBT	PAT	PAT Margin (%)	ROAE (%)	EPS*	PE*
Total	178,570	6,163	3,968	2.22	55.68	15.44	15.20
MRS Oil	74,603	1,721	1,051	1.41	43.06	4.15	16.05
Mobil Oil	62,032	4,066	2,842	4.58	81.04	11.93	14.28
Oando	336,686	13,512	9,951	2.95	20.51	6.72	9.83
Conoil	101,853	3,725	2,312	2.27	18.20	2.38	14.61

Source: Company Annual Reports, NSE FACTBOOK, *Current

Financial Performance (N'mn)

	Q3 2010	Q3 2009	% Δ	FY 2009	FY 2008	% Δ	FY 2010F
Gross Earnings	121,995	131,090	(6.94)	178,570	177,412	0.65	168,749
PBT	5,887	4,544	29.56	6,163	6,508	(5.30)	8,108
PAT	4,195	2,922	43.57	3,968	4,393	(9.68)	5,513
PBT Margin (%)	4.83	3.47	1.36	3.45	3.67	(0.22)	4.80
PAT Margin (%)	3.44	2.23	1.21	2.22	2.48	(0.25)	3.27



Directors As At December 31, 2009

Name	Position	Shareholding
S. Mittelman	Chairman	-
D. Tholon	Managing Director	-
J.W. Adeyinka	Non- Executive Director	46,974
K. Ukonne	Non- Executive Director	19,873
A.Champeaux	Non- Executive Director	-
O. Hahn	Non- Executive Director	-
O.O. Akpata	Executive Director	8,280
F. Boni	Executive Director	-
J.O. Ibru	Non- Executive Director	-

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