Total (TOT)

Updated July 26th, 2018 by Ben Reynolds

Key Metrics

Current Price:	$63	**5 Year CAGR Estimate:**	11.4%	**Volatility Percentile:**	25.7%
Fair Value Price:	$62	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	82.1%
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.3%	**Valuation Percentile:**	60.0%
Dividend Yield:	4.7%	**5 Year Price Target**	$87	**Total Return Percentile:**	77.3%

Overview & Current Events

Total is the fourth-largest oil and gas company in the world, with a market capitalization of $169 billion. Like the other oil giants, it is a fully integrated company and operates in three segments; upstream, downstream (mostly refining) and marketing.

Total released its 2nd quarter earnings results on July 26th. The company saw adjusted earnings-per-share grow 36% versus the same quarter a year ago due primarily to higher oil prices. Total continues to make progress in reducing its break-even price of oil. The company now says it breaks even at oil prices less than $25; oil prices average $74 in the second quarter. Additionally, Total grew production 8.7% versus the same quarter a year ago. Total also recently announced (7/13/18) that it is acquiring Engie's portfolio of liquified natural gas (LNG) assets for $1.5 billion (including assumed debt), and possible additional payments of up to $550 million. The acquisition makes Total the second large player among energy majors in the global LNG market, with a 10% market share.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$8.55	$5.31	$6.24	$7.05	$7.01	$6.28	$5.63	$2.19	$2.52	$3.36	***$5.18***	***$7.27***
DPS	$3.10	$3.28	$2.93	$3.11	$2.98	$3.13	$3.16	$2.73	$2.72	$2.72	***$2.96***	***$3.40***

Like most of its peers, Total failed to grow its production during 2010-2014. However, the company has returned to a solid growth trajectory lately. It grew its output 5% last year and expects to grow it by 6% this year thanks to the start-up of 8 major projects. Moreover, it expects to continue to grow its output by 5% per year for at least the next four years.

After a 3-year downturn, the price of oil has enjoyed a strong rally since last summer. In addition, it is likely to remain strong for the foreseeable future thanks to the sustained efforts of OPEC and Russia, particularly amid the upcoming IPO of Saudi Aramco next year. Total is well positioned to enjoy a boost in its results from higher output and rising oil prices.

As the oil price is likely to remain supported by OPEC and Russia in the upcoming years and the supply glut has disappeared, it is reasonable to expect the oil price to rise by at least $10 over the next five years. Moreover, Total expects to grow its output by 5% per year in the upcoming years. Therefore, in order to be somewhat conservative, it is reasonable to expect the oil major to grow its EPS by at least 7.0% per year, from $5.18 this year to $7.27 in 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	8.3	10.5	8.5	7.7	7.1	8.6	11.3	22.6	18.6	15.5	***12.4***	***11.9***
Avg. Yld.	4.4%	5.9%	5.5%	5.8%	6.0%	5.8%	5.0%	5.5%	5.8%	5.2%	***4.8%***	***3.9%***

Total is now trading at a price-to-earnings ratio of 12.4, which is slightly higher than its 10-year average price-to-earnings ratio of 11.9. Total has historically traded for a price-to-earnings ratio of 10 or under during periods of high oil prices. The company has become more efficient and brought down its cost of production. Therefore, it should command a slightly higher multiple. We believe the 10-year average P/E ratio is a reasonable approximation of 'fair value' for Total.

If the stock reverts to its 10-year average P/E within the next five years, it will incur a modest 0.3% annualized drag due to the contraction of its P/E ratio.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	41.7%	32.2%	27.1%	27.6%	31.6%	28.1%	25.7%	20.8%	55.4%	61.5%	***63.0%***	***60.0%***
Debt/A	57.8%	58.1%	57.4%	58.3%	57.7%	56.8%	59.3%	57.5%	56.0%	53.0%	***52.0%***	***52.0%***
Payout	36.3%	61.8%	47.0%	44.1%	42.5%	49.8%	56.1%	125%	108%	81.0%	***57.1%***	***46.8%***
Std. Dev.	35.9%	27.4%	27.4%	29.7%	23.6%	15.5%	21.7%	23.3%	17.6%	11.0%	***13.9%***	***16.0%***

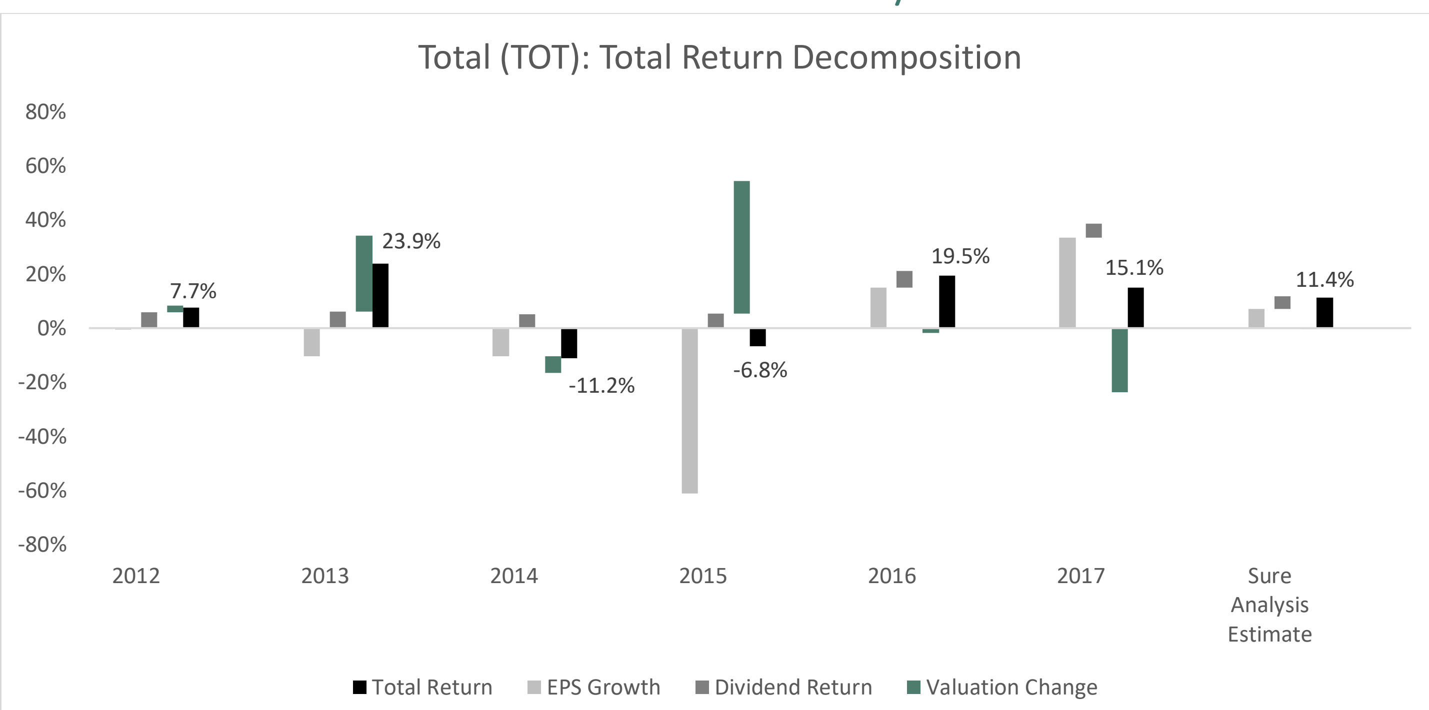
Total exhibited much better performance than its peers during the 3-year downturn of the oil market that began four years ago. During this period, in which the oil price plunged up to 70%, the EPS of Total fell only 49% whereas those of Exxon Mobil plunged 75% and Chevron and BP posted losses in 2016. The key factor behind the resilience of Total was its superior refining segment. During the rough years of refining (2008-2013), the upstream segment was generating about 90% of the total earnings of all the oil majors. Consequently, the other oil majors sold many of their refineries during that period, failing to see that their refining segment was their hedge against a potential plunge of the oil price. Total maintained almost all its refineries and hence it has reaped the full benefit from the high refining margins that have prevailed in the last four years.

Total also has another competitive advantage when compared to its American peers. It produces only a minor portion (less than 10%) of its natural gas in the U.S. and hence its average selling price of gas is much higher than the price of Henry Hub. Moreover, while all the oil producers drastically cut their production costs during the recent downturn, Total managed to reduce this cost to 5.4 $/bbl, which is nearly half of the production cost of most of its peers.

Final Thoughts & Recommendation

Total is properly positioned to benefit from output growth and strong oil prices in the upcoming years. As a result, it can offer an 11.4% average annual return over the next five years thanks to 7.0% annual EPS growth and its 4.7% dividend, which will be partly offset by a 0.3% annualized P/E contraction. The stock is suitable, not only for growth-oriented investors, but also for income-oriented investors, as it offers a generous dividend and proved the most defensive oil major in the recent downturn of the oil sector. It makes a reasonable buy at current prices for investors looking for energy sector exposure and will be an even better buy when trading below its historical fair value multiple.

Total Return Breakdown by Year



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