



Total (TOT)

Updated October 28th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	\$58	5 Year CAGR Estimate:	14.2%	Volatility Percentile:	16.4%
Fair Value Price:	\$64	5 Year Growth Estimate:	7.0%	Momentum Percentile:	75.1%
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.1%	Growth Percentile:	62.3%
Dividend Yield:	5.1%	5 Year Price Target	\$90	Valuation Percentile:	63.4%
Dividend Risk Score:	D	Retirement Suitability Score:	C	Total Return Percentile:	77.8%

Overview & Current Events

Total is the fourth-largest oil and gas company in the world based on its market capitalization of \$153 billion. Like the other oil and gas super majors, it is a fully integrated company. Total operates in three segments: upstream, downstream (mostly refining), and marketing.

Total released its financial results for the third quarter of fiscal 2018 two days ago. The company reported earnings-per-share that were 42% higher over last year and exceeded the analysts' estimates by 5% thanks to a 44% increase in the average oil price and 8.6% production growth. It was the highest quarterly profit for the oil major in the last six years. In addition, management raised its guidance for production growth of the full year from "at least 7%" to 8% thanks to the solid start-up of some major projects, such as Kaombo in Angola, Ichthys LNG in Australia and the second train of Yamal LNG in Russia.

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	\$5.40	\$7.57
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
Shares	2228.7	2233.0	2237.2	2254.2	2257.5	2268.5	2275.9	2336.1	2419.8	2520.6	2525	2450

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

After a 3-year downturn, the oil market has tightened thanks to the efforts of OPEC and Russia and supply disruptions in Iran, Venezuela and Libya. As a result, the oil price has rallied to an almost 4-year high and is likely to remain strong in the years ahead. Total is well positioned to enjoy a boost in its results from higher output and rising oil prices.

Thanks to the rally of the oil price in Q3, Total exceeded our estimates and the analysts' consensus in Q3. We have thus raised our earnings-per-share estimates for this year by 4%, from \$5.18 to \$5.40. Moreover, as the oil market is likely to remain tight in the upcoming years, it is reasonable to expect the oil price to rise by at least \$10 over the next five years. Furthermore, 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 earnings-per-share by at least 7.0% per year, from \$5.40 this year to \$7.57 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	10.7	11.9
Avg. Yld.	4.4%	5.9%	5.5%	5.8%	6.0%	5.8%	5.0%	5.5%	5.8%	5.2%	5.1%	3.7%

Due to its recent 10% correction, along with the global financial markets, Total is now trading at a P/E ratio of 10.7, which is lower than its 10-year average of 11.9. Total has historically traded for a P/E ratio of 10 or lower during periods of high oil prices. The company has become more efficient and brought down its cost of production. Therefore, it

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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 ratio within the next five years, it will enjoy a 2.1% annualized gain thanks to the expansion of its P/E ratio.

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%	23.9%	17.1%	12.9%	13.4%	13.8%	18.0%	20.0%
Debt/A	57.8%	58.1%	57.4%	58.3%	57.7%	56.8%	59.3%	57.5%	56.0%	53.0%	54.0%	52.0%
Payout	36.3%	61.8%	47.0%	44.1%	42.5%	49.8%	56.1%	125%	108%	81.0%	54.8%	44.9%
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%

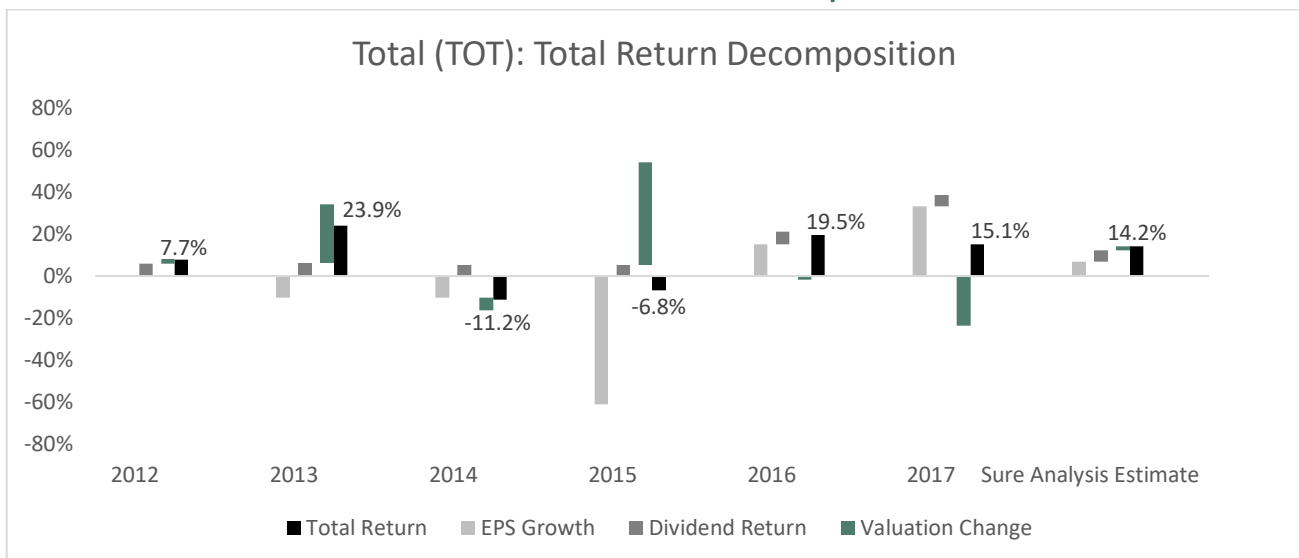
Total exhibited much better performance than its peers during the 3-year downturn of the oil market that began in 2014. During this period, in which the oil price plunged up to 70%, the earnings-per-share of Total fell only 49% whereas those of Exxon Mobil plunged 75% and Chevron and BP posted losses in 2016. The key behind the resilience of Total was its superior refining segment. During the rough years of refining (2008-2013), the upstream segment was generating ~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 refineries were their hedges against a plunge of the oil price. Total maintained almost all its refineries and hence it has reaped the full benefit from the high refining margins 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 poised to benefit from output growth and strong oil prices in the upcoming years. As a result, it can offer a 14.2% average annual return over the next five years. 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. The recent correction has rendered the stock even more attractive. We rate it as a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue (\$B)	223.20	160.69	186.83	215.86	234.22	227.97	212.02	143.42	127.93	149.10
Gross Profit	68640	58879	51714	58521	59071	55126	39387	29030	31025	33585
Gross Margin	30.8%	36.6%	27.7%	27.1%	25.2%	24.2%	18.6%	20.2%	24.3%	22.5%
Operating Profit	32203	20613	24312	30335	27101	23317	8277	1849	4592	7019
Op. Margin	14.4%	12.8%	13.0%	14.1%	11.6%	10.2%	3.9%	1.3%	3.6%	4.7%
Net Profit	14742	12102	14059	15954	13648	11228	4244	5087	6196	8631
Net Margin	6.6%	7.5%	7.5%	7.4%	5.8%	4.9%	2.0%	3.5%	4.8%	5.8%
Free Cash Flow	9477	732	6226	2056	3284	-1235	-712	-5186	-1585	8552
Income Tax	19693	11105	13603	18263	16747	14767	8614	1653	970	3029

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets (\$B)	164.70	183.04	191.14	212.18	225.89	239.22	229.80	224.48	230.98	242.63
Cash & Equivalents	17152	16709	19270	18178	20409	20200	25181	23269	24597	33185
Acc. Receivable	21281	22521	24151	25985	25339	23422	15704	10629	12213	14893
Inventories	13393	19868	20747	23488	22954	22097	15196	13116	15247	16520
Goodwill & Int.	7435	10766	11859	16088	16965	18395	14682	14549	15362	14587
Total Liab. (\$B)	95.16	106.33	109.65	123.66	130.23	135.84	136.27	129.08	129.40	128.59
Accounts Payable	20624	22040	24538	28625	28563	30282	24150	20928	23227	26479
Long-Term Debt	31674	36028	40479	41776	43927	45767	56423	56952	56987	52436
Total Equity (\$B)	68.20	75.29	80.35	86.77	93.97	100.24	90.33	92.49	98.68	111.56
D/E Ratio	0.46	0.48	0.50	0.48	0.47	0.46	0.62	0.62	0.58	0.47

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	8.9%	7.0%	7.5%	7.9%	6.2%	4.8%	1.8%	2.2%	2.7%	3.6%
Return on Equity	22.1%	16.9%	18.1%	19.1%	15.1%	11.6%	4.5%	5.6%	6.5%	8.2%
ROIC	15.1%	11.3%	12.0%	12.6%	10.1%	7.8%	2.8%	3.4%	4.0%	5.3%
Shares Out.	2229	2233.0	2237.2	2254.2	2257.5	2268.5	2275.9	2336.1	2419.8	2520.6
Revenue/Share	99.35	71.82	83.24	95.64	103.33	100.36	92.95	62.24	53.53	59.77
FCF/Share	4.22	0.33	2.77	0.91	1.45	-0.54	-0.31	-2.25	-0.66	3.43

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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