



Total SA (TOT)

Updated February 9th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$55	5 Year CAGR Estimate:	14.9%	Volatility Percentile:	12.4%
Fair Value Price:	\$62	5 Year Growth Estimate:	7.0%	Momentum Percentile:	55.4%
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.3%	Growth Percentile:	65.0%
Dividend Yield:	5.6%	5 Year Price Target	\$87	Valuation Percentile:	68.7%
Dividend Risk Score:	C	Retirement Suitability Score:	B	Total Return Percentile:	84.2%

Overview & Current Events

Total is the fourth-largest oil and gas company in the world based on its market capitalization of \$145 billion. Like the other oil and gas super majors, it is a fully integrated company. Total operates in four segments: upstream, downstream (mostly refining), marketing and gas, and renewables & power.

In early February, Total reported (2/7/19) financial results for the fourth quarter of fiscal 2018. In the quarter, the price of Brent was essentially flat over prior year's quarter but Total grew its earnings-per-share 6% thanks to 10% production growth. This impressive output growth resulted from start-ups and ramp-ups of new projects, which more than offset the 4% natural decline of oil fields. In the year, production grew 8% over the prior year and reached a record level of 2.8 million barrels per day. The solid production growth and the 32% increase in the average price of Brent led the company to grow its earnings-per-share by 23%, from \$4.12 in 2017 to \$5.05 in 2018. Thanks to continuing strong contribution from start-ups and ramp-ups, management expects 9% output growth this year. This is by far the highest production growth rate among oil majors.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$5.31	\$6.24	\$7.05	\$7.01	\$6.28	\$5.63	\$2.19	\$2.52	\$4.12	\$5.05	\$5.20	\$7.29
DPS	\$3.28	\$2.93	\$3.11	\$2.98	\$3.13	\$3.16	\$2.73	\$2.72	\$2.72	\$3.00	\$3.10	\$3.40
Shares	2233.0	2237.2	2254.2	2257.5	2268.5	2275.9	2336.1	2419.8	2520.6	2637	2635	2500

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 8% last year and expects to grow it by 9% this year. Moreover, it expects to continue to grow output by 5% per year for at least the next three years.

The price of oil collapsed during the fourth quarter. However, it has stabilized lately while global oil demand continues to grow at a solid pace and has reached 100.0 million barrels per day for the first time in history. We expect the oil price to somewhat rise in the upcoming years to help supply satisfy the growing demand. Total is well positioned to enjoy a boost in its results from higher output and rising oil prices.

Thanks to strong production growth and our expectations for somewhat higher oil prices in the upcoming years, we expect Total to grow its earnings-per-share by at least 7.0% per year, from about \$5.20 this year to \$7.29 in 2024. For this year, we have provided conservative outlook due to the current suppressed oil prices.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	10.5	8.5	7.7	7.1	8.6	11.3	22.6	18.6	15.5	11.8	10.6	11.9
Avg. Yld.	5.9%	5.5%	5.8%	6.0%	5.8%	5.0%	5.5%	5.8%	5.2%	5.0%	5.6%	3.9%

Since early October, the price of oil has collapsed and hence Total has incurred a 15% correction. As a result, Total is now trading at a P/E ratio of 10.6, 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 has brought down its

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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 ratio within the next five years, it will enjoy a 2.3% annualized gain thanks to the expansion of its P/E ratio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	61.8%	47.0%	44.1%	42.5%	49.8%	56.1%	125%	108%	81.0%	59.4%	59.6%	46.6%

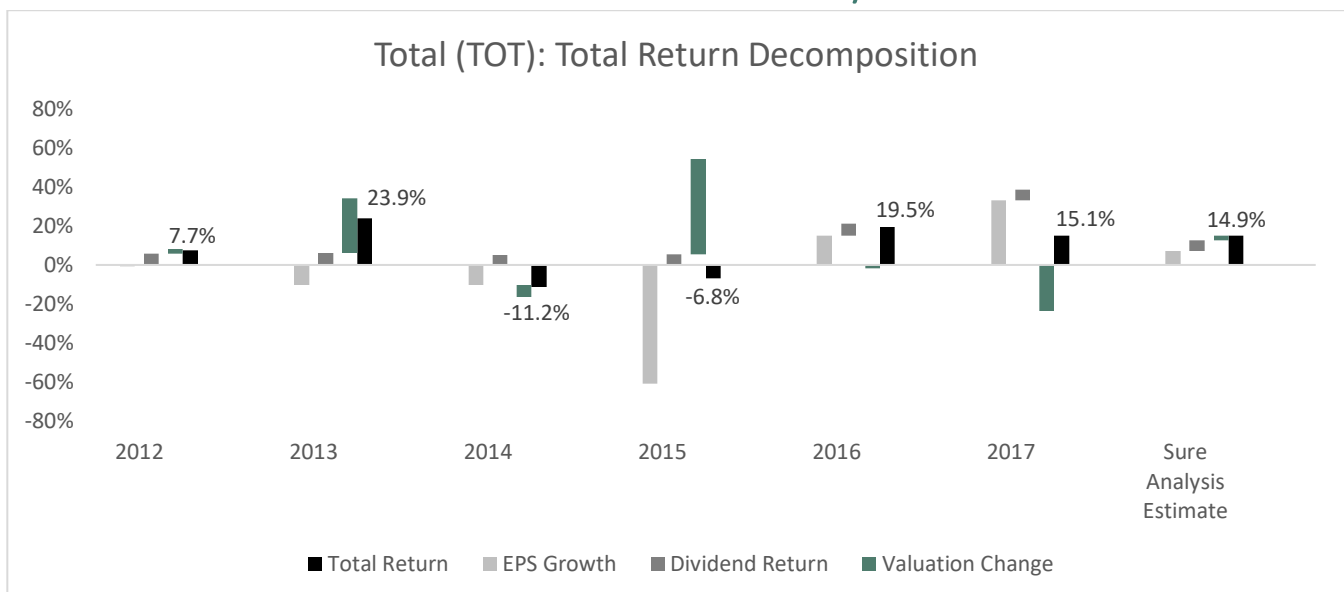
Total exhibited much better performance than its peers during the 3-year downturn of the oil market that began in 2014. During this period, in which the oil price plunged up to 70%, earnings-per-share of Total fell only 49% whereas those of Exxon Mobil plunged 75% and Chevron and BP posted losses in 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. Overall, Total is the most resilient oil major during downturns or periods of suppressed oil prices.

Final Thoughts & Recommendation

Due to the collapse of the oil price since early October, Total has incurred a 15% correction and thus it has become markedly attractive. Total is poised to benefit from strong output growth and somewhat higher oil prices in the upcoming years. As a result, it can offer a 14.9% 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. We rate it as a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue (\$B)	160.69	186.83	215.86	234.22	227.97	212.02	143.42	127.93	149.10	184.11
Gross Profit	58879	51714	58521	59071	55126	39387	29030	31025	33585	44298
Gross Margin	36.6%	27.7%	27.1%	25.2%	24.2%	18.6%	20.2%	24.3%	22.5%	24.1%
Operating Profit	20613	24312	30335	27101	23317	8277	1849	4592	7019	16017
Op. Margin	12.8%	13.0%	14.1%	11.6%	10.2%	3.9%	1.3%	3.6%	4.7%	8.7%
Net Profit	12102	14059	15954	13648	11228	4244	5087	6196	8631	11446
Net Margin	7.5%	7.5%	7.4%	5.8%	4.9%	2.0%	3.5%	4.8%	5.8%	6.2%
Free Cash Flow	732	6226	2056	3284	-1235	-712	-5186	-1585	8552	7623
Income Tax	11105	13603	18263	16747	14767	8614	1653	970	3029	6516

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets (\$B)	183.04	191.14	212.18	225.89	239.22	229.80	224.48	230.98	242.63	256.76
Cash & Equivalents	16709	19270	18178	20409	20200	25181	23269	24597	33185	27907
Acc. Receivable	22521	24151	25985	25339	23422	15704	10629	12213	14893	17270
Inventories	19868	20747	23488	22954	22097	15196	13116	15247	16520	14880
Goodwill & Int.	10766	11859	16088	16965	18395	14682	14549	15362	14587	28922
Total Liab. (\$B)	106.33	109.65	123.66	130.23	135.84	136.27	129.08	129.40	128.59	138.65
Accounts Payable	22040	24538	28625	28563	30282	24150	20928	23227	26479	26134
Long-Term Debt	36028	40479	41776	43927	45767	56423	56952	56987	52436	53435
Total Equity (\$B)	75.29	80.35	86.77	93.97	100.24	90.33	92.49	98.68	111.56	115.64
D/E Ratio	0.48	0.50	0.48	0.47	0.46	0.62	0.62	0.58	0.47	0.46

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	7.0%	7.5%	7.9%	6.2%	4.8%	1.8%	2.2%	2.7%	3.6%	4.6%
Return on Equity	16.9%	18.1%	19.1%	15.1%	11.6%	4.5%	5.6%	6.5%	8.2%	10.1%
ROIC	11.3%	12.0%	12.6%	10.1%	7.8%	2.8%	3.4%	4.0%	5.3%	6.8%
Shares Out.	2233.0	2237.2	2254.2	2257.5	2268.5	2275.9	2336.1	2419.8	2520.6	2637
Revenue/Share	71.82	83.24	95.64	103.33	100.36	92.95	62.24	53.53	59.77	68.68
FCF/Share	0.33	2.77	0.91	1.45	-0.54	-0.31	-2.25	-0.66	3.43	2.84

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

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