



Total SA (TOT)

Updated July 30th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$54	5 Year CAGR Estimate:	15.3%	Volatility Percentile:	12.2%
Fair Value Price:	\$62	5 Year Growth Estimate:	7.0%	Momentum Percentile:	17.9%
% Fair Value:	87%	5 Year Valuation Multiple Estimate:	2.7%	Growth Percentile:	67.5%
Dividend Yield:	5.6%	5 Year Price Target	\$87	Valuation Percentile:	82.9%
Dividend Risk Score:	C	Retirement Suitability Score:	B	Total Return Percentile:	92.6%

Overview & Current Events

Total is the fourth-largest oil and gas company in the world based on its market capitalization of \$139 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 May, Total agreed to acquire Anadarko's assets in Africa for \$8.8 billion. This is the biggest deal throughout the tenure of the current CEO. In Mozambique, Total will leverage its expertise in LNG and, in Ghana, the company will leverage its expertise in deep off-shore drilling.

In late July, Total reported (7/25/19) financial results for the second quarter of fiscal 2019. Thanks to the start-up and ramp-up of major growth projects, the company grew its production by 9% over last year's quarter, from 2.72 to 2.96 million barrels per day. However, the average realized prices of liquids and gas were 7% and 17% lower, respectively, than in last year's quarter. As a result, the earnings-per-share of Total fell 20% over last year and missed analysts' consensus by 11%.

On the bright side, thanks to continuing strong contribution from start-ups and ramp-ups, Total still expects output growth to exceed 9% this year. This is by far the highest production growth rate among oil majors. Moreover, European refining margins have increased in the running quarter while Total will also benefit from the restart of two of its refineries. Furthermore, the organic pre-dividend breakeven remains below \$25 per barrel while the organic post-dividend breakeven remains below \$50 per barrel. This bodes well for the safety of the generous dividend of Total.

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	\$3.04	\$3.40
Shares	2233.0	2237.2	2254.2	2257.5	2268.5	2275.9	2336.1	2419.8	2520.6	2637	2600	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 more than 9% this year. Moreover, it expects to continue to grow output by 5% per year for at least the next three years.

The first half of this year has been lackluster for Total, mostly due to lower prices of Brent and natural gas. However, 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.

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	10.4	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%

Total is trading at a price-to-earnings ratio of 10.4, which is lower than its 10-year average of 11.9. Total has historically traded for a price-to-earnings ratio of 10 or lower during periods of high oil prices. We believe that the 10-year average

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price-to-earnings ratio is a reasonable approximation of 'fair value' for Total. If the stock reverts to its fair valuation within the next five years, it will enjoy a 2.7% annualized gain thanks to the expansion of its valuation level.

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%	58.5%	46.6%

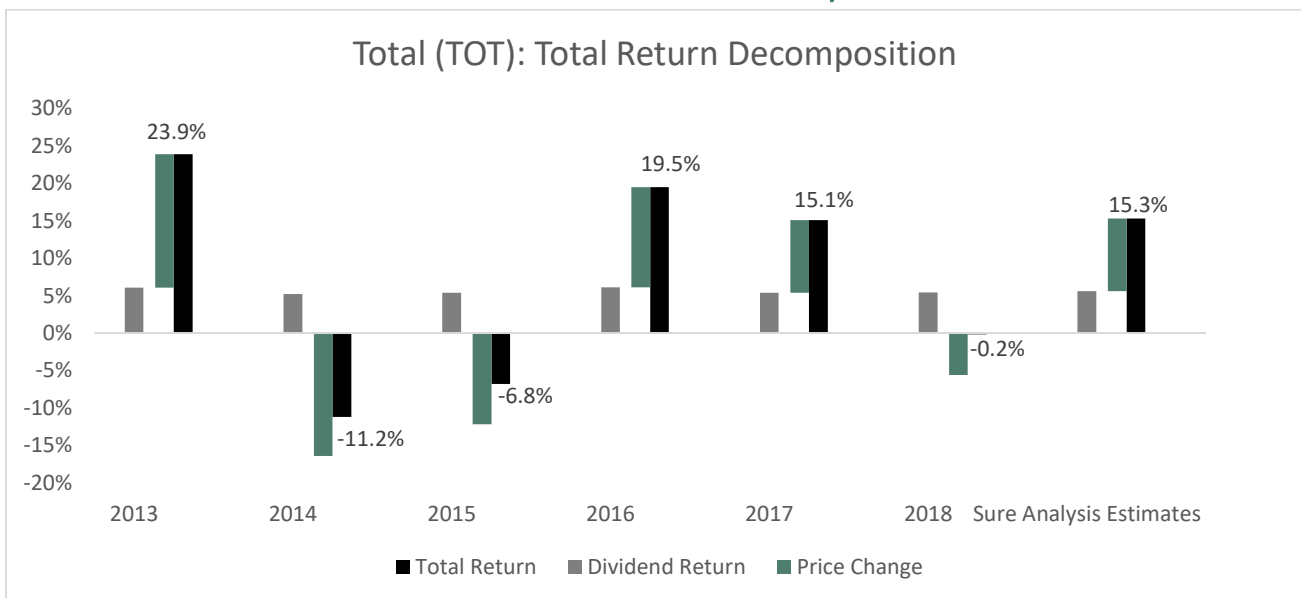
Total exhibited much better performance than its peers during the 3-year downturn of the oil market that began in 2014. During this period, in which the oil price plunged up to 70%, the earnings-per-share of Total fell only 49% whereas those of Exxon Mobil plunged 75% and Chevron and BP posted losses 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, which were hedges against a plunge of the oil price. Total maintained almost all its refineries and hence it has reaped the full benefit from 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 5.5 \$/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

Total is positioned to benefit from strong output growth and somewhat higher oil prices in the upcoming years. As a result, it can offer a 15.3% average annual return over the next five years thanks to 7% annual earnings-per-share growth, its 5.6% dividend and a 2.7% annual expansion of its valuation level. 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 maintain our buy rating.

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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