



# Total SA (TOT)

Updated February 6<sup>th</sup>, 2020 by Aristofanis Papadatos

## Key Metrics

|                             |      |  |       |                                  |           |
|-----------------------------|------|--|-------|----------------------------------|-----------|
| <b>Current Price:</b>       | \$50 | <b>5 Year CAGR Estimate:</b>               | 12.2% | <b>Market Cap:</b>               | \$130.9 B |
| <b>Fair Value Price:</b>    | \$66 | <b>5 Year Growth Estimate:</b>             | 2.0%  | <b>Ex-Dividend Date:</b>         | 3/26/2020 |
| <b>% Fair Value:</b>        | 76%  | <b>5 Year Valuation Multiple Estimate:</b> | 5.7%  | <b>Dividend Payment Date:</b>    | 4/1/2020  |
| <b>Dividend Yield:</b>      | 6.0% | <b>5 Year Price Target</b>                 | \$73  | <b>Years Of Dividend Growth:</b> | 3         |
| <b>Dividend Risk Score:</b> | D    | <b>Retirement Suitability Score:</b>       | B     | <b>Last Dividend Increase:</b>   | 4.1%      |

## Overview & Current Events

Total is the fourth-largest oil and gas company in the world based on its market capitalization of \$131 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 & services and gas, and renewables & power.

In early February, Total reported (2/6/20) financial results for the fourth quarter of fiscal 2019. Thanks to the start-up and ramp-up of major growth projects, the company grew its production by 8% over last year's quarter. On the other hand, the average realized price of liquids fell -7% and gas prices in Europe and Asia plunged about -40% over last year's quarter. Nevertheless, Total's earnings-per-share rose 1% thanks to strong performance in LNG and output growth.

In the year, thanks to strong contribution from start-ups and ramp-ups, Total grew its output 9% over the prior year. This was by far the highest production growth rate among oil majors. Moreover, the 1% increase in the earnings-per-share of Total amid suppressed commodity prices proved the unparalleled resilience of this oil major. To provide perspective, the earnings-per-share of Exxon Mobil and BP fell -71% and -26%, respectively. Furthermore, thanks to a \$1.0 billion increase in cash flows that have resulted from strong LNG production growth, Total's organic pre-dividend breakeven remains below \$25 per barrel while its organic post-dividend breakeven remains below \$50 per barrel.

## Growth on a Per-Share Basis

| Year                      | 2010   | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020          | 2025          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$6.24 | \$7.05 | \$7.01 | \$6.28 | \$5.63 | \$2.19 | \$2.52 | \$4.12 | \$5.05 | \$4.38 | <b>\$5.50</b> | <b>\$6.07</b> |
| <b>DPS</b>                | \$2.93 | \$3.11 | \$2.98 | \$3.13 | \$3.16 | \$2.73 | \$2.72 | \$2.72 | \$2.87 | \$2.90 | <b>\$3.02</b> | <b>\$3.33</b> |
| <b>Shares<sup>1</sup></b> | 2237.2 | 2254.2 | 2257.5 | 2268.5 | 2275.9 | 2336.1 | 2419.8 | 2520.6 | 2637   | 2618   | <b>2605</b>   | <b>2550</b>   |

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% in 2018 and 9% in 2019. The company expects production growth higher than 2% in 2020 but we expect significant growth in earnings-per-share, as we expect more favorable commodity prices than last year's suppressed levels. Moreover, Total will continue growing its LNG business, which provided a strong buffer in last year's adverse commodity environment.

On the other hand, as this year is likely to form a high base for future comparisons, we now expect only 2.0% average annual earnings-per-share growth beyond this year.

## Valuation Analysis

| Year             | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Now         | 2025        |
|------------------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| <b>Avg. P/E</b>  | 8.5  | 7.7  | 7.1  | 8.6  | 11.3 | 22.6 | 18.6 | 15.5 | 11.8 | 12.3 | <b>9.1</b>  | <b>12.0</b> |
| <b>Avg. Yld.</b> | 5.5% | 5.8% | 6.0% | 5.8% | 5.0% | 5.5% | 5.8% | 5.2% | 4.8% | 5.4% | <b>6.0%</b> | <b>4.6%</b> |

Total is trading at a price-to-earnings ratio of 9.1, which is much lower than its 10-year average of 12.4. Total has historically traded for a price-to-earnings ratio of 10 or lower during periods of high oil prices. We assume a price-to-

<sup>1</sup> In millions.

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earnings ratio of 12.0 as 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 5.7% annualized gain thanks to the expansion of its valuation level.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year   | 2010  | 2011  | 2012  | 2013  | 2014  | 2015 | 2016 | 2017  | 2018  | 2019  | 2020         | 2025         |
|--------|-------|-------|-------|-------|-------|------|------|-------|-------|-------|--------------|--------------|
| Payout | 47.0% | 44.1% | 42.5% | 49.8% | 56.1% | 125% | 108% | 81.0% | 56.8% | 66.2% | <b>54.9%</b> | <b>54.9%</b> |

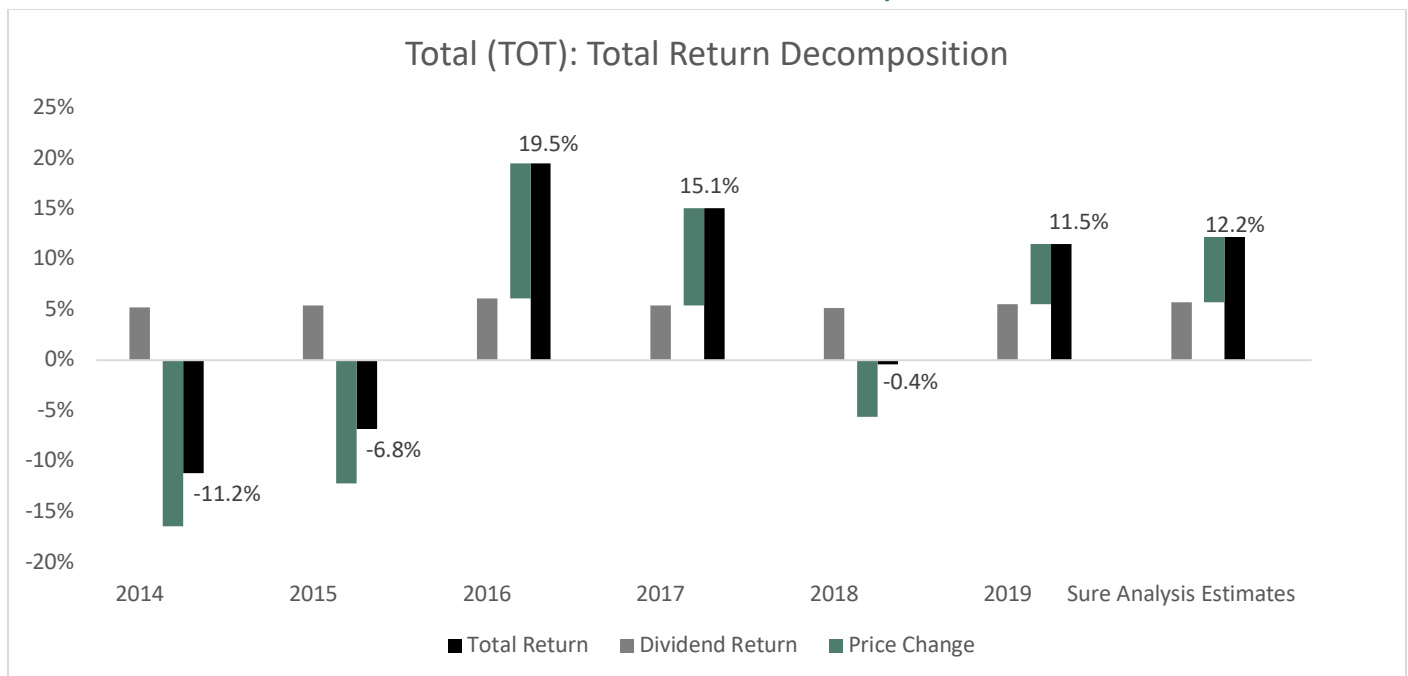
Total exhibited much better performance than its peers during the 3-year downturn of the oil market that began in 2014. During this period, in which the price of oil fell up to -70%, the earnings-per-share of Total fell only -49% whereas those of Exxon Mobil fell -75% and Chevron and BP posted losses in 2016. The key behind the resilience of Total was its superior refining segment. During the rough years of refining (2008-2013), upstream segments were 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 fall of the price of oil. Total maintained almost all its refineries and hence it has reaped the full benefit from high refining margins in the last five years.

Total 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. Also, given its cheap valuation, Total could offer a 12.2% 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. We maintain our buy rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year                    | 2010   | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019 |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|------|
| <b>Revenue (\$B)</b>    | 186.83 | 215.86 | 234.22 | 227.97 | 212.02 | 143.42 | 127.93 | 149.10 | 184.11 |      |
| <b>Gross Profit</b>     | 51714  | 58521  | 59071  | 55126  | 39387  | 29030  | 31025  | 33585  | 44298  |      |
| <b>Gross Margin</b>     | 27.7%  | 27.1%  | 25.2%  | 24.2%  | 18.6%  | 20.2%  | 24.3%  | 22.5%  | 24.1%  |      |
| <b>Operating Profit</b> | 24312  | 30335  | 27101  | 23317  | 8277   | 1849   | 4592   | 7019   | 16017  |      |
| <b>Op. Margin</b>       | 13.0%  | 14.1%  | 11.6%  | 10.2%  | 3.9%   | 1.3%   | 3.6%   | 4.7%   | 8.7%   |      |
| <b>Net Profit</b>       | 14059  | 15954  | 13648  | 11228  | 4244   | 5087   | 6196   | 8631   | 11446  |      |
| <b>Net Margin</b>       | 7.5%   | 7.4%   | 5.8%   | 4.9%   | 2.0%   | 3.5%   | 4.8%   | 5.8%   | 6.2%   |      |
| <b>Free Cash Flow</b>   | 6226   | 2056   | 3284   | -1235  | -712   | -5186  | -1585  | 8552   | 7623   |      |
| <b>Income Tax</b>       | 13603  | 18263  | 16747  | 14767  | 8614   | 1653   | 970    | 3029   | 6516   |      |

## Balance Sheet Metrics

| Year                          | 2010   | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019 |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|------|
| <b>Total Assets (\$B)</b>     | 191.14 | 212.18 | 225.89 | 239.22 | 229.80 | 224.48 | 230.98 | 242.63 | 256.76 |      |
| <b>Cash &amp; Equivalents</b> | 19270  | 18178  | 20409  | 20200  | 25181  | 23269  | 24597  | 33185  | 27907  |      |
| <b>Acc. Receivable</b>        | 24151  | 25985  | 25339  | 23422  | 15704  | 10629  | 12213  | 14893  | 17270  |      |
| <b>Inventories</b>            | 20747  | 23488  | 22954  | 22097  | 15196  | 13116  | 15247  | 16520  | 14880  |      |
| <b>Goodwill &amp; Int.</b>    | 11859  | 16088  | 16965  | 18395  | 14682  | 14549  | 15362  | 14587  | 28922  |      |
| <b>Total Liab. (\$B)</b>      | 109.65 | 123.66 | 130.23 | 135.84 | 136.27 | 129.08 | 129.40 | 128.59 | 138.65 |      |
| <b>Accounts Payable</b>       | 24538  | 28625  | 28563  | 30282  | 24150  | 20928  | 23227  | 26479  | 26134  |      |
| <b>Long-Term Debt</b>         | 40479  | 41776  | 43927  | 45767  | 56423  | 56952  | 56987  | 52436  | 53435  |      |
| <b>Total Equity (\$B)</b>     | 80.35  | 86.77  | 93.97  | 100.24 | 90.33  | 92.49  | 98.68  | 111.56 | 115.64 |      |
| <b>D/E Ratio</b>              | 0.50   | 0.48   | 0.47   | 0.46   | 0.62   | 0.62   | 0.58   | 0.47   | 0.46   |      |

## Profitability & Per Share Metrics

| Year                    | 2010   | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018  | 2019 |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|-------|------|
| <b>Return on Assets</b> | 7.5%   | 7.9%   | 6.2%   | 4.8%   | 1.8%   | 2.2%   | 2.7%   | 3.6%   | 4.6%  |      |
| <b>Return on Equity</b> | 18.1%  | 19.1%  | 15.1%  | 11.6%  | 4.5%   | 5.6%   | 6.5%   | 8.2%   | 10.1% |      |
| <b>ROIC</b>             | 12.0%  | 12.6%  | 10.1%  | 7.8%   | 2.8%   | 3.4%   | 4.0%   | 5.3%   | 6.8%  |      |
| <b>Shares Out.</b>      | 2237.2 | 2254.2 | 2257.5 | 2268.5 | 2275.9 | 2336.1 | 2419.8 | 2520.6 | 2637  |      |
| <b>Revenue/Share</b>    | 83.24  | 95.64  | 103.33 | 100.36 | 92.95  | 62.24  | 53.53  | 59.77  | 68.68 |      |
| <b>FCF/Share</b>        | 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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