



Total SA (TOT)

Updated November 2nd, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$30	5 Year CAGR Estimate:	19.8%	Market Cap:	\$79.0 B
Fair Value Price:	\$44	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	1/2/2021 ¹
% Fair Value:	68%	5 Year Valuation Multiple Estimate:	7.9%	Dividend Payment Date:	1/26/2021
Dividend Yield:	10.1%	5 Year Price Target	\$59	Years Of Dividend Growth:	3
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	4.1%

Overview & Current Events

Total is the fourth-largest oil and gas company in the world based on its market capitalization of \$79.0 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, renewables & power.

In late October, Total reported (10/30/20) financial results for the third quarter of fiscal 2020. Due to the pandemic, the average price of Brent and European gas fell -31% and -26%, respectively, over last year's quarter. In addition, Total reduced its production by -11%, primarily due to OPEC quotas. On the bright side, the upstream segment posted operating profit of \$801 million thanks to low production cost (\$5 per barrel). Nevertheless, due to reduced volumes and suppressed commodity prices, adjusted earnings-per-share plunged -74% over last year's quarter, though they improved sequentially, from \$0.02 to \$0.29.

We reiterate that Total is the most defensive oil major during downturns thanks to its integrated business model. Its Gas, Renewables & Power segment is the only segment that posted essentially flat earnings in the first nine months of the year and thus it provided a strong buffer to the results of the company amid adverse commodity prices. Total was the only oil major that posted a material profit in the quarter. The oil major reaffirmed that its dividend is sustainable at Brent prices around \$40 and reiterated that its breakeven oil price is below \$25. This is in sharp contrast to Royal Dutch Shell and BP, which cut their dividends this year.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$6.24	\$7.05	\$7.01	\$6.28	\$5.63	\$2.19	\$2.52	\$4.12	\$5.05	\$4.38	\$1.40	\$4.88
DPS	\$2.93	\$3.11	\$2.98	\$3.13	\$3.16	\$2.73	\$2.72	\$2.72	\$2.87	\$2.90	\$3.02	\$3.17
Shares²	2237.2	2254.2	2257.5	2268.5	2275.9	2336.1	2419.8	2520.6	2637	2618	2640	2600

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. Due to the pandemic and the resultant OPEC production cuts, Total has reduced its output this year. However, we expect the pandemic to subside and the energy market to recover from next year. Moreover, Total is ideally positioned to endure the downturn thanks to its integrated business model and its healthy balance sheet. We expect the oil major to grow its earnings-per-share by 6.0% per year on average over the next five years off its mid-cycle level (5-year average) of \$3.65.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	8.5	7.7	7.1	8.6	11.3	22.6	18.6	15.5	11.8	12.3	8.2	12.0
Avg. Yld.	5.5%	5.8%	6.0%	5.8%	5.0%	5.5%	5.8%	5.2%	4.8%	5.4%	10.1%	5.4%

¹ Estimated date.

² In millions.

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Total is currently trading at 8.2 times its mid-cycle earnings-per-share of \$3.65. This earnings multiple is 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-earnings ratio of 12.0 as a reasonable approximation of 'fair value' for Total. If the stock reverts to its fair valuation over the next five years, it will enjoy a 7.9% annualized gain.

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%	82.7%	65.0%

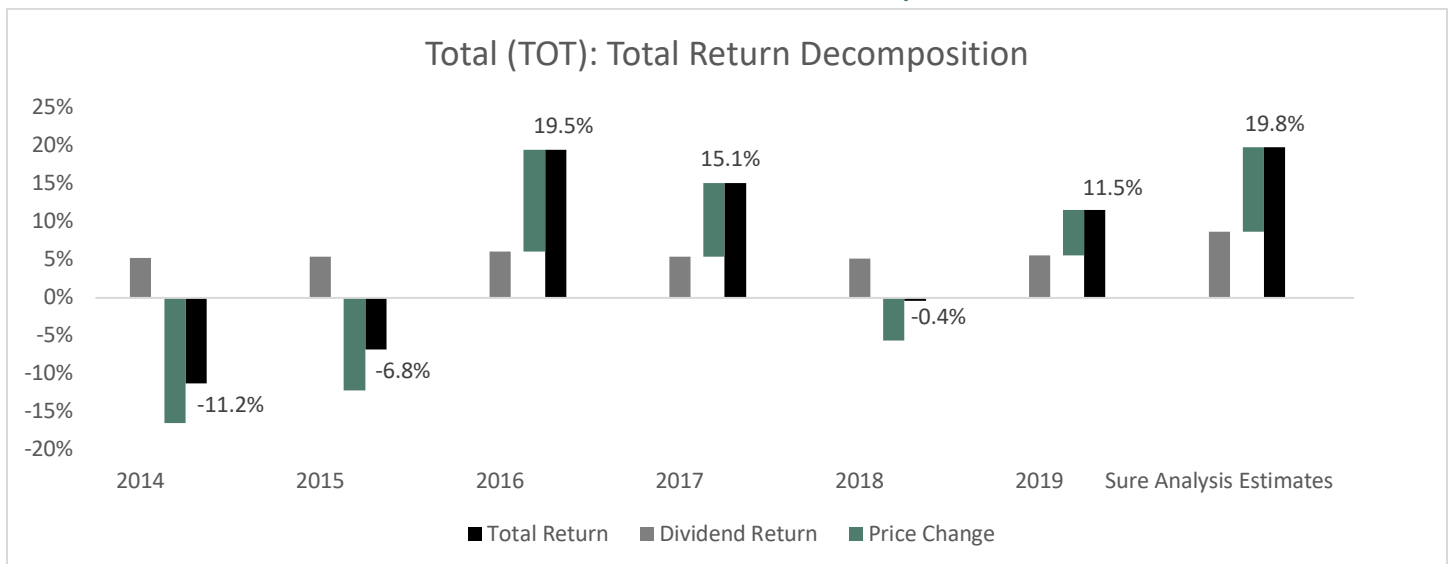
Total exhibited much better performance than its peers during the 3-year downturn of the oil market that began in 2014. During this period, in which the price of oil fell up to -70%, the earnings-per-share of Total fell only -49% whereas those of Exxon Mobil fell -75% and Chevron and BP posted losses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

The energy market is facing one of the fiercest downturns in its history due to the pandemic, which has caused a collapse in the demand for oil products. As Total is the most defensive and resilient oil major, it could enjoy a strong recovery from next year. Thanks to its 10.1% dividend, its growth prospects and its cheap valuation, Total could offer a 19.8% average annual return over the next five years. The stock is suitable, not only for growth-oriented investors, but also for income-oriented investors. We thus 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
Revenue (\$B)	186.83	215.86	234.22	227.97	212.02	143.42	127.93	149.10	184.11	176.25
Gross Profit	51714	58521	59071	55126	39387	29030	31025	33585	44298	44297
Gross Margin	27.7%	27.1%	25.2%	24.2%	18.6%	20.2%	24.3%	22.5%	24.1%	25.1%
Operating Profit	24,312	30,335	27,101	23,317	8,277	1,849	4,592	7,019	15,262	15,352
Op. Margin	13.0%	14.1%	11.6%	10.2%	3.9%	1.3%	3.6%	4.7%	8.3%	8.7%
Net Profit	14,059	15,954	13,648	11,228	4,244	5,087	6,196	8,631	11,446	11,267
Net Margin	7.5%	7.4%	5.8%	4.9%	2.0%	3.5%	4.8%	5.8%	6.2%	6.4%
Free Cash Flow	6,226	2,056	3,284	-1,235	-712	-5,186	-1,585	8,552	7,623	12,875
Income Tax	13,603	18,263	16,747	14,767	8,614	1,653	970	3,029	6,516	5,872

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets (\$B)	191.14	212.18	225.89	239.22	229.80	224.48	230.98	242.63	256.76	273.29
Cash & Equivalents	19270	18178	20409	20200	25181	23269	24597	33185	27907	27,352
Acc. Receivable	24151	25985	25339	23422	15704	10629	12213	14893	17270	18,488
Inventories	20747	23488	22954	22097	15196	13116	15247	16520	14880	17,132
Goodwill & Int.	11859	16088	16965	18395	14682	14549	15362	14587	28922	33,178
Total Liab. (\$B)	109.65	123.66	130.23	135.84	136.27	129.08	129.40	128.59	138.65	153.99
Accounts Payable	24538	28625	28563	30282	24150	20928	23227	26479	26134	28,394
Long-Term Debt	40479	41776	43927	45767	56423	56952	56987	52436	53435	61,390
Total Equity (\$B)	80.35	86.77	93.97	100.24	90.33	92.49	98.68	111.56	115.64	116.78
D/E Ratio	0.50	0.48	0.47	0.46	0.62	0.62	0.58	0.47	0.46	0.53

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	7.5%	7.9%	6.2%	4.8%	1.8%	2.2%	2.7%	3.6%	4.6%	4.3%
Return on Equity	18.1%	19.1%	15.1%	11.6%	4.5%	5.6%	6.5%	8.2%	10.1%	9.7%
ROIC	12.0%	12.6%	10.1%	7.8%	2.8%	3.4%	4.0%	5.3%	6.8%	6.4%
Shares Out.	2237.2	2254.2	2257.5	2268.5	2275.9	2336.1	2419.8	2520.6	2637	2618
Revenue/Share	83.24	95.64	103.33	100.36	92.95	62.24	53.53	59.77	68.68	67.32
FCF/Share	2.77	0.91	1.45	-0.54	-0.31	-2.25	-0.66	3.43	2.84	4.92

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

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