



Total SA (TOT)

Updated May 10th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$48	5 Year CAGR Estimate:	10.4%	Market Cap:	\$125.0 B
Fair Value Price:	\$54	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	6/24/2021 ¹
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.4%	Dividend Payment Date:	7/22/2021
Dividend Yield:	6.5%	5 Year Price Target	\$63	Years Of Dividend Growth:	3
Dividend Risk Score:	C	Retirement Suitability Score:	B	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 \$125.0 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 April, Total reported (4/29/21) financial results for the first quarter of fiscal 2021. The company reduced its production by -3% due to OPEC quotas and natural decline of fields and incurred depressed refining margins due to the pandemic. However, oil prices recovered sharply thanks to the production cuts of OPEC+ and the gas, renewables & power segment posted record operating income of \$1 billion thanks to strong LNG sales and positive contribution from renewables and electricity. As a result, Total grew its earnings-per-share 68% over last year's quarter, from \$0.66 to \$1.10. That level exceeded the pre-pandemic first quarter of 2019 and hence it was impressive. We thus raised this year's earnings-per-share forecast from \$3.70 to \$4.50.

We reiterate that Total is the most defensive oil major during downturns thanks to its integrated business model. Its Gas, Renewables & Power and Marketing segments incurred just a -26% decline in their earnings in 2020 and thus they provided a strong buffer to the results of the company amid an unprecedented downturn. The oil major has stated that its dividend is sustainable at Brent prices around \$40 and its breakeven oil price is below \$25. This is in sharp contrast to Royal Dutch Shell and BP, which cut their dividends in 2020.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$7.05	\$7.01	\$6.28	\$5.63	\$2.19	\$2.52	\$4.12	\$5.05	\$4.38	\$1.43	\$4.50	\$5.22
DPS	\$3.11	\$2.98	\$3.13	\$3.16	\$2.73	\$2.72	\$2.72	\$2.87	\$2.90	\$3.02	\$3.10	\$3.26
Shares²	2254.2	2257.5	2268.5	2275.9	2336.1	2419.8	2520.6	2637	2618	2645	2660	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 reduced its output by -5% in 2020. However, we expect the pandemic to subside and the energy market to recover later this 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 3.0% per year on average over the next five years.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	7.7	7.1	8.6	11.3	22.6	18.6	15.5	11.8	12.3	27.7	10.7	12.0
Avg. Yld.	5.8%	6.0%	5.8%	5.0%	5.5%	5.8%	5.2%	4.8%	5.4%	7.6%	6.5%	5.2%

¹ Estimated date.

² In millions.

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Total is currently trading at a price-to-earnings ratio of 10.7. This earnings multiple is lower than its 10-year average of 12.8. 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 2.4% annualized gain.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	44.1%	42.5%	49.8%	56.1%	125%	108%	81.0%	56.8%	66.2%	211%	68.9%	62.5%

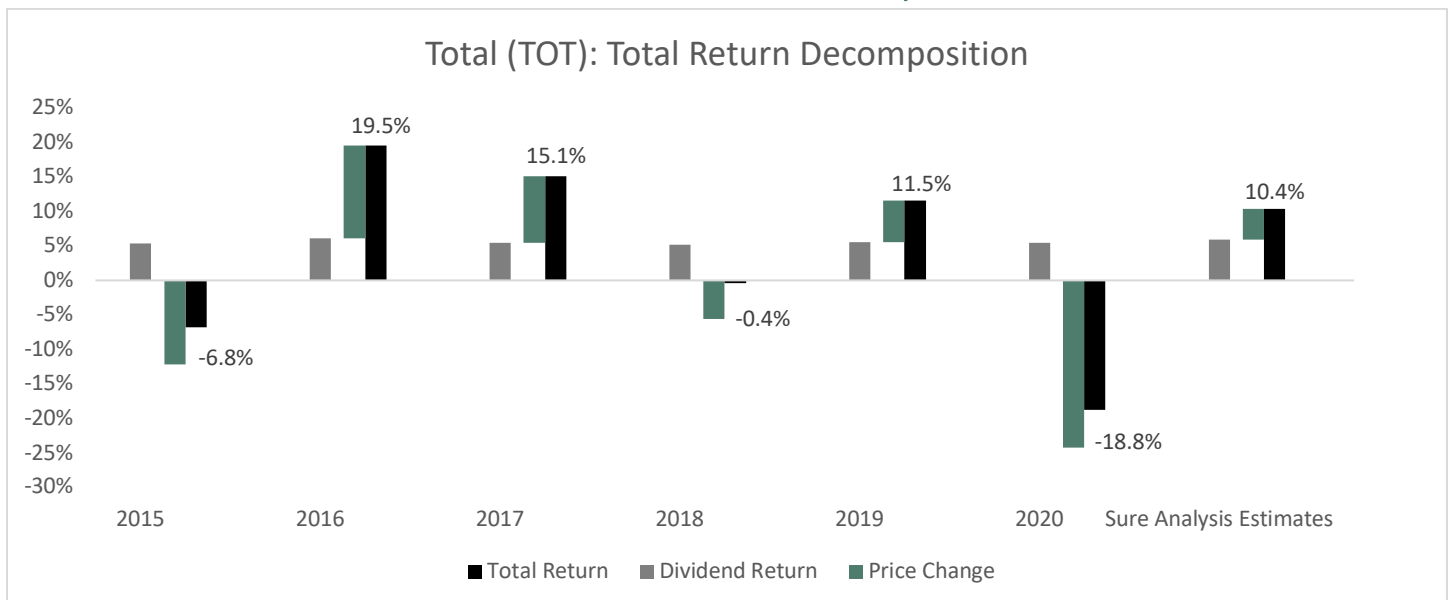
Total exhibited much better performance than its peers during the 3-year downturn of the oil market that began in 2014. During this period, in which the price of oil fell up to -70%, the earnings-per-share of Total fell only -49% whereas those of Exxon Mobil fell -75% and Chevron and BP posted losses 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 reaped the full benefit from high refining margins in 2014-2019.

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 the most resilient oil major to the pandemic and is likely to enjoy a strong recovery this year thanks to the massive distribution of vaccines. The stock has rallied 53% in about six months, but it could still offer a 10.4% 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue (\$B)	215.86	234.22	227.97	212.02	143.42	127.93	149.10	184.11	176.25	119.70
Gross Profit	57,754	58,751	54,834	39,133	28,698	30,681	33,393	44,073	44,031	19,611
Gross Margin	26.8%	25.1%	24.1%	18.5%	20.0%	24.0%	22.4%	23.9%	25.0%	16.4%
Operating Profit	30,335	27,101	23,317	8,277	1,849	4,592	7,019	15,262	15,352	(7,265)
Op. Margin	14.1%	11.6%	10.2%	3.9%	1.3%	3.6%	4.7%	8.3%	8.7%	-6.1%
Net Profit	15,954	13,648	11,228	4,244	5,087	6,196	8,631	11,446	11,267	(7,242)
Net Margin	7.4%	5.8%	4.9%	2.0%	3.5%	4.8%	5.8%	6.2%	6.4%	-6.0%
Free Cash Flow	2,056	3,284	-1,235	-712	-5,186	-1,585	8,552	7,623	12,875	4,039
Income Tax	18,263	16,747	14,767	8,614	1,653	970	3,029	6,516	5,872	318

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets (\$B)	212.18	225.89	239.22	229.80	224.48	230.98	242.63	256.76	273.29	266.13
Cash & Equivalents	18178	20409	20200	25181	23269	24597	33185	27907	27,352	31,268
Acc. Receivable	25985	25339	23422	15704	10629	12213	14893	17270	18,488	14,068
Inventories	23488	22954	22097	15196	13116	15247	16520	14880	17,132	14,730
Goodwill & Int.	16088	16965	18395	14682	14549	15362	14587	28922	33,178	33,528
Total Liab. (\$B)	123.66	130.23	135.84	136.27	129.08	129.40	128.59	138.65	153.99	160.0
Accounts Payable	28625	28563	30282	24150	20928	23227	26479	26134	28,394	23,574
Long-Term Debt	41776	43927	45767	56423	56952	56987	52436	53435	61,390	76,096
Total Equity (\$B)	86.77	93.97	100.24	90.33	92.49	98.68	111.56	115.64	116.78	103.70
D/E Ratio	0.48	0.47	0.46	0.62	0.62	0.58	0.47	0.46	0.53	0.73

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	7.9%	6.2%	4.8%	1.8%	2.2%	2.7%	3.6%	4.6%	4.3%	-2.7%
Return on Equity	19.1%	15.1%	11.6%	4.5%	5.6%	6.5%	8.2%	10.1%	9.7%	-6.6%
ROIC	12.6%	10.1%	7.8%	2.8%	3.4%	4.0%	5.3%	6.8%	6.4%	-4.0%
Shares Out.	2254.2	2257.5	2268.5	2275.9	2336.1	2419.8	2520.6	2637	2618	2645
Revenue/Share	95.64	103.33	100.36	92.95	62.24	53.53	59.77	68.68	67.32	46.00
FCF/Share	0.91	1.45	-0.54	-0.31	-2.25	-0.66	3.43	2.84	4.92	1.55

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

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