Company

4 November 2009 | 10 pages

Total SA (TOT)

ADR

3Q 2009 Results – Dependable

- **Earnings in upper end of range** — Adjusted net income of $2,673 million was towards the top of a $2.43 to $2.72 billion (€1.7 to €1.9 billion) consensus (company) range – which is dependably normal for Total.
- **Mixed operating bag** — Divisional earnings were somewhat mixed on adjusted net income after tax and equity affiliates – E&P at $2.15 billion was at the lower end of consensus and 7% light of our forecast, whilst R&M and Chemicals both topped consensus. However, in E&P the contribution from affiliates was below forecast, with divisional EBIT of $4.63 billion being 1% ahead of expectations.
- **Production beat** — Oil and gas production of 2,243 kboepd was ahead of forecast, and delivered 0.5% YoY growth (we expected 1% decline), 2.8% sequential growth, as new start-ups (Tombua Landana, Tahiti, Qatargas2) more than offset OPEC cuts, PSA price effects and Nigeria disruptions. Along with a reasonably positive outlook statement for production ramp-ups in coming months, this should inject some optimism into investor sentiment.
- **Sanofi stake sales support dividend outlook** — Total sold around 1 billion worth of Sanofi-Aventis stock in 3Q, leaving it with an 8.6% stake worth around $8 billion. Gearing (ND/E) fell to 21% at end 3Q (from 25% end-2Q), which should reassure income investors over the sanctity of Total's future dividend distribution.
- **On the cusp?** — After underperforming the European integrated oils by around 14% YTD, it might be that 3Q results and an improving production outlook mark a turning point for the ADRs. But with limited upside and a valuation broadly in line with both BP and RDShell a re-rating may prove elusive. Hold.

Year to 31 Dec	2007A	2008A	2009E	2010E	2011E
Sales ($m)	185,302	215,485	168,498	188,406	192,157
EBITDA ($m)	47,395	37,635	35,926	41,255	44,038
Net Income ($m)	16,729	20,160	11,042	13,909	14,421
EPADR ($)	7.36	8.97	4.94	6.22	6.45
EPADR (Old) ($)	7.36	8.97	4.94	6.22	6.45
PE (x)	8.27	6.78	12.31	9.77	9.42
EV/EBITDA (x)	2.9	3.7	3.9	3.6	3.4
Dividend/ADR ($)	2.84	3.35	3.19	3.50	3.58
Dividend Yield (%)	4.7	5.5	5.2	5.8	5.9
FX Used EUR	1.37	1.47	1.40	1.50	1.50

Hold/Medium Risk	**2M**
Price (03 Nov 09)	US$60.80
Target price	US$59.86
Expected share price return	-1.5%
Expected dividend yield	5.6%
Expected total return	**4.1%**
ADRs Outstanding	2,229M
ADR/Ord Ratio	1:1
Local Share Price	€40.74
Market Cap	US$140,701M

David J Thomas
+44-20-7986-4030
david.j.thomas@citi.com

See Appendix A-1 for Analyst Certification and important disclosures.

Total 3Q 2009 results - dependable

Total 3Q results came in at the upper end of a $2.43 to $2.72 billion(€1.7 to 1.9 billion) (company) consensus range and 2% ahead of our forecast. Within the mix E&P net operating income (including affiliates and net of tax) was 7% light of expectations, despite oil & gas production being 2% better than forecast – but at the EBIT level the result ($4.63 billion) was as expected after factoring in the production beat – the key variance was in a weak contribution from equity affiliates (Nigeria LNG, Petrocedeno Venezuela). Otherwise R&M and Chemicals both beat forecast and consensus.

Net debt at end-3Q fell to 21% (from 25% end-2Q), helped by an $1,244 million working capital decrease and the sale of $1 billion worth of Sanofi-Aventis shares (where Total's stake is now 8.6%, worth around $8 billion).

On the outlook, Total is pointing to the ramp-up of 2009 start-ups (Akpo, Tombua Landana, Tahiti, Qatargas 2 and Yemen LNG), along with emergence from seasonal maintenance, as driving production growth in coming months. Finally, investors may see evidence of Total's growth portfolio. The company also identifies 3 possible FID's on major projects in 'coming quarters' – Surmont 2 (oil sands, Canada), CLOV (Angola block 17) and Laggan-Tormore (UK West of Shetlands). In particular oil service company watchers may be heartened by the possibility of CLOV being sanctioned before end-1H2010.

There is a conference call at 14.00 GMT hosted by CFO Patrick de la Chevardière. Dial-in details: France +33 (0) 1 7200 0986; UK +44 (0) 203 367 9457; USA +1 866 907 5925; access code "Total".

Figure 1. Total – 3Q 2009 Results ($ million)

Net operating income	3Q09A	3Q08A	2Q09A	3Q09E	3Q09/3Q08	3Q09/2Q09	3Q09/3Q09E
Exploration and production	2,146	4,349	1,973	2,311	-48.0%	3.0%	-7.0%
Refining and marketing	209	1,352	212	196	-84.0%	-6.0%	7.0%
Chemicals	230	395	97	150	-39.0%	127.0%	54.0%
Corporate & other	239	306	209	245	-18.0%	8.0%	-2.0%
Adjusted net op.income	**2,824**	**6,401**	**2,492**	**2,901**	**-54.0%**	**8.0%**	**-3.0%**
Non-recurring items	84	(1,548)	612	0			
Group net operating income	2,909	4,853	3,104	2,901	-37.0%	-11.0%	0.0%
Net cost of net debt	(84)	(126)	(80)	(189)			
Minorities	(74)	(152)	(73)	(90)			
Reported net income	2,750	4,575	2,950	2,623	-37.0%	-11.0%	5.0%
Adjusted net income	**2,673**	**6,105**	**2,341**	**2,623**	**-54.0%**	**9.0%**	**2.0%**
PER ADR DATA							
Ordinary ADRs (m)	2,237	2,244	2,236	2,236	0.0%	0.0%	0.0%
Clean EPADR ($ per ADR)	1.19	2.72	1.05	1.20	-56.0%	14.0%	-1.0%
CASH FLOW and B/SHEET							
Capex	4,449	5,057	4,504	5,204	-8.0%	-6.0%	-14.0%
Net debt	14,643	12,302	17,862	19,236	25.0%	-22.0%	-24.0%
Net debt/equity	20.8%	16.1%	25.1%	24.8%	29.0%	-17.0%	-16.0%
Net debt/capital employed	17.2%	13.7%	20.1%	19.9%	26.0%	-14.0%	-14.0%
MACRO DATA							
Brent oil ($/bbl)	68	116	59	68	-41.0%	16.0%	0.0%
Gas price ($/Mcf)	3.17	8.05	3.70	3.17	-61.0%	-14.0%	0.0%
TRCV ref. margin ($/bbl)	0.83	5.63	1.55	0.83	-85.0%	-47.0%	0.0%
Exchange rate ($/€)	1.43	1.50	1.36	1.43	-5.0%	5.0%	0.0%
OPERATIONAL DATA							
Upstream volumes (kboepd):							
Oil	1,379	1,409	1,328	1,349	-2.0%	4.0%	2.0%
Gas	864	822	855	857	5.0%	1.0%	1.0%
Total	**2,243**	**2,231**	**2,182**	**2,206**	**0.5%**	**3.0%**	**2.0%**
Downstream volumes (kbpd):							
Refinery throughput	2,142	2,393	2,175	2,202	-10.0%	-2.0%	-3.0%
F/X Used ($/EUR)	1.43	1.50	1.36	1.43			

Note: Percentage figures are calculated on local currency numbers not accounted for F/X rate.

Source: Company reports, Citi Investment Research and Analysis.

Total SA

Company description

Total is one of the five leading multinational energy companies in the world, with operations in more than 130 countries. Its businesses cover the entire oil & gas chain, from crude oil and natural gas exploration and production to gas downstream (including power generation), transportation, refining, petroleum product marketing, and international crude oil and product trading. Total's upstream division is set to benefit from a decade of continued investment in both exploration and field developments, such that it should be able to deliver 3-4% CAGR volume growth well into next decade, a significant differentiator compared with other super-majors struggling to maintain flat production. Total is Europe's biggest refiner and marketer, and is well set to benefit from Europe's structural deficit in diesel. Total also owns a around 12.5% stake in pharmaceuticals company Sanofi-Aventis, and a 48% interest in Spanish oil company CEPSA.

Investment strategy

We rate Total Hold/Medium Risk (2M) with a target price of $59.86 per ADR. Total has a strong balance sheet, a commitment to maintaining capital investments in anticipation of the next oil price up-cycle, and to maintaining (if not growing) dividends, all of which is well supported by an '09 cash breakeven below the peer group average and a non-strategic Sanofi shareholding. But with the ADRs trading around fair value and no strong near term catalysts to drive valuation or a re-rating versus peers, our recommendation is Hold.

Valuation

Our target price of $59.86 per ADR is based on a blended average of long-term and shorter-term valuation measures. These include DCF, sum of the parts, and relative P/E and EV/DACF multiples versus peers. Our $51.48 per ADR DCF valuation is calculated using a long-run Brent oil price of $65/bbl, a Henry Hub natural gas price of $6.50/Mcf and a WACC of 8.3%. Our SOTP valuation is $52.38 per ADR. Our multiple-based valuation assumes that Total ADRs should trade at a 10% premium to the peer group average, yielding a ADR valuation of $64.35 per ADR. The blended average is $59.86 per ADR, which we set as the target price.

Risks

We rate Total as Medium Risk, the same level as its sector peers. The group operates in a number of high-risk countries, where changes in government could conceivably result in changes to contract terms, or even oil and gas reserves ownership that could have a material impact on the group's growth outlook, which in the case of Total is a key tenet of the valuation. However, Total's portfolio is well diversified and, judging from history, the risk of such an event is exceptionally low. The group's strong balance sheet, and cash availability from the Sanofi-Aventis stake is a further potential risk given the capacity for acquisitions. However, management has remained reticent to acknowledge any interest in material acquisitions while oil prices remain at high levels. Finally, the group's earnings are 100% geared to fluctuations in the euro/U.S. dollar exchange rate, where the relative weakness of the U.S. dollar has impacted relative earnings momentum over the past year. These risks could prevent the ADR price reaching our target price. However, if any of these factors proves to have less of an effect than we anticipate, the ADR could materially outperform our target.

BP PLC

(BP; $57.58; 2M)

Valuation

Our $58.97 target price is based on a weighted average of fundamental (SOTP, DCF) and relative (EV/DACF) measures.

Our $59.16 DCF is calculated using a long-run Brent oil price of $65/bbl, a Henry Hub natural gas price of $6.50/mcf, a WACC of 8.1% and 1% terminal growth rate. Our $55.33 SOTP is calculated using a long-term oil price of $65/bbl and WACC of 8.1%. Our $58.77 EV/DACF valuation is based on a 10% premium to the 2010e sector target.

Risks

We rate BP as Medium Risk. The risk rating on the ADR is derived after consideration of industry-specific risks, financial risk and management risk. With regard to BP, we would highlight the overriding level of political, fiscal and legal risk inherent in Russia. Outside Russia, BP's upstream growth is derived from two broad areas: deepwater (Gulf of Mexico and Angola) and non-OECD gas. Both of these carry varying challenges and risks: technical and weather-related in the deepwater and political/market-based in non-OECD gas developments. Any problems with its deepwater developments would also affect growth, returns and sentiment. Our oil price expectations are above the futures strip. Downgrades to our long-term oil price below $85/bbl would decrease our target price on BP. If the impact on the company from any of these factors proves to be greater or less than we anticipate, the ADR could underperform or outperform our target price.

Royal Dutch Shell

(RDSa; $59.37; 1M); (RDSb; $57.76; 1M)

Valuation

Our target price on both A and B ADRs is $65.64. This target price is based on a weighted average of fundamental (SOTP & DCF) and relative (EV/DACF) valuation measures. We place a 75% weighting on fundamental valuation and a 25% weighting on relative valuation.

Our DCF is calculated using a long-run Brent oil price of $65/bbl, a Henry Hub natural gas price of $6.50/mcf, a WACC of 8.24% and 1% terminal growth, leading to an estimated fair value of $61.96. Our Sum-of-the-Parts valuation is $66.79, again based on a long-term oil price of $65/bbl and WACC of 8.24%. We set our EV/DACF multiple-based target at a 5% premium to the peer group.

Risks

We rate RD/Shell Medium Risk. The risk rating on the ADR is derived after consideration of a number of factors. These factors include an assessment of industry-specific risks, financial risk and management risk. The following risk factors could prevent the ADRs from reaching our target price:

- Oil Price & FX - if market expectations for the long-term oil price moves away from our $65/bbl assumption.
- Technical Risk - Our valuation of Shell depends on its ability to monetise its reserves and resources. Field performance may unexpectedly differ from this base case.
- Physical Risk - Unforeseen physical threats to infrastructure associated with Shell's production/exploration.
- Political/Economic Risk - Our valuation of Shell is potentially exposed to changes in the political/fiscal regime in the countries of operation.
- Delivery Risk - Shell has a heavy reliance on large technically challenging projects, as such capex and timing risks remain ever-present, in our opinion.

Appendix A-1

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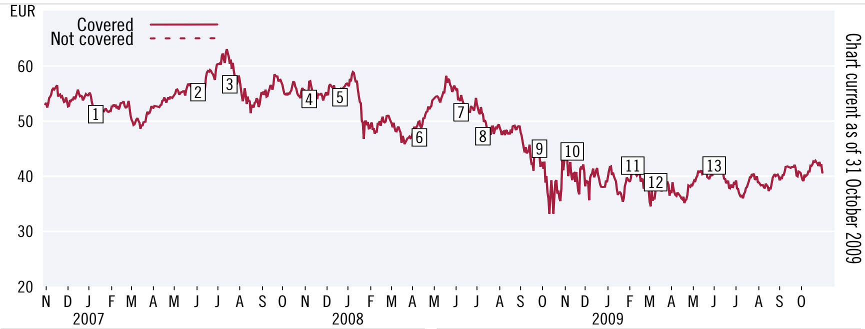
Fundamental Research
Analyst: David J Thomas
Covered since April 12 2007



	Date	Rating	Target Price	Closing Price
1	10-Jan-07	1L	*61.00	51.25
2	3-Jun-07	1L	*62.00	56.60
3	18-Jul-07	*2L	62.00	60.40
4	7-Nov-07	*1L	*63.00	57.17
5	20-Dec-07	1L	*64.00	55.25
6	10-Apr-08	1L	*60.00	49.96
7	9-Jun-08	1L	*66.00	54.72
8	9-Jul-08	1L	*58.00	51.28
9	26-Sep-08	*1M	*52.00	43.71
10	12-Nov-08	*2M	*43.00	39.29
11	5-Feb-09	*1M	*48.00	40.77
12	10-Mar-09	1M	*42.00	37.56
13	1-Jun-09	*2M	*40.00	41.92

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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