

A Tough Year Although with Few Positives

Another Unimpressive Full Year Performance

TOTAL's 2020FY scorecard showed another year of revenue decline (-29.93%YoY), but this time to a 5-year low of NGN204.72bn. The decline was steeper due to the COVID-19 crisis, which affected industry supply chains and disrupted sales. Revenue from petroleum products were most affected, plunging by 35.07%YoY to NGN156.49bn, while lubricant sales fell by 6.85%YoY to NGN 47.67bn. By segment, product sales to Aviation, Network and General Trade declined by 53.42% YoY, 30.12%YoY, and 20.14% YoY respectively. Similarly, PMS (Premium Motor Spirit) prices were adjusted in line with the crash in crude prices in Q2:2020 (from NGN144.87 to NGN125 per litre), with the result causing a 50.33% YoY drop in revenue at the end of that quarter. Although PMS prices gradually picked up as oil prices improved, sales remained subdued due to bottlenecks with FX sourcing. **As it stands, FX sourcing remains an industry-wide problem suppressing import volume. Barring significant improvement in FX liquidity, sales volume is expected to remain pressured. However, we anticipate the rising global crude oil prices to support an upward revision of petroleum products prices. On this basis, we project a topline growth of 42.19%YoY from NGN204.72bn in 2020FY to NGN291.10bn in 2021FY.**

Finance Cost Dips Significantly

Cost to sales ratio for the year (84.98%) was slightly better than the 88.00% recorded in 2019. This was realized from savings on material costs (lubes, greases, and refined products), which was considerably lesser by 32.42%YoY. **Our assessment is that the installation of another high-speed filling machine at its Lagos blending plant contributed to the company's production efficiency.** Operating expenses also declined marginally by 1.13% YoY mainly due to lower volume sold during the year. However, despite reduced OPEX, cost efficiency weakened as OPEX margin peaked, reaching 13.69% from 9.70% achieved in 2019FY. Consequently, EBIT margin dipped by 163bps to 1.73% with EBIT settling at NGN3.54bn (-63.98%YoY) for 2020FY. On the other hand, **TOTAL's** finance cost declined significantly by 63.39%YoY to NGN2.89bn, owing to a reduction in bank overdraft rates to 8.46%, from 14.75%. **The company took advantage of the low interest environment by issuing commercial papers to raise c.NGN15bn, with the rates on the instruments ranging for as low as 1.75% to 2.0%. We are however concerned about its FX denominated revolving credit facility from its related party given the volatile FX environment. About USD25.55mn has already been drawn down from this sum.**

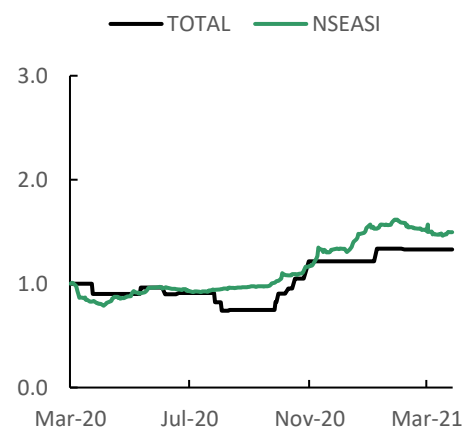
Overall, Profit after tax settled at NGN2.06bn (vs NGN2.28bn in 2019FY).

Free Cash Flow Improves on Account of Better Operating Cycle

Going by the trend in the last 5 years, **TOTAL's** free cash flow peaked at NGN37.36bn in 2020FY. This was boosted by improved cash generation, evidenced by the shorter operating cycle achieved in the financial year. We attribute this to favourable credit terms with its supplier which are mainly related parties as payable days increased from 84 days to 137 days. **However, we observed an interest-bearing component (short-term foreign revolving credit) of NGN9.54bn in the company's payables, with the figure repeated as loan and borrowings. Adjusting for this apparent double counting would reduce the number of days it takes the company to pay its creditors to 127days - a better reflection of the existing supplier credit terms.**

Overall, return to equity shareholders remained low at 7.31%, compared to 7.72% in 2019FY and a 5- year historical average of 32.99%. This has been a result of weak earnings and a sluggish asset turnover (1.48x) compared to its peers (3.53x).

Company	TOTAL
Valuation	
Trailing EPS	NGN6.08
BVPS	NGN82.91
P/E	23.37x
P/BV	1.71x
Target PE	19.65x
Dec-2021 Exp. EPS	NGN7.48
Dec 2021 Target price	NGN146.98
Current Price	NGN 135.9
Up/Downside Potential	+8.15%
Ratings	HOLD
Key metrics	
ROE	7.31%
ROA	1.49%
Net margin	1.01%
Asset Turnover	1.48
Leverage	5.06x
Share/Share Price Statistics	
Yr Hi	NGN143.00
Yr Lo	NGN130.00
YTD return	9.23%
Beta	0.25
Adjusted Beta	0.5
52-wk average volume	76,335
Shares outstanding	0.34bn
Market cap [NGN]	48.21bn
Financial year end	December
Most Recent Period (MRP)	2020FY



Recommendation and Outlook

The future growth of the downstream sector hinges on a fully deregulated market to boost margins. For 2021FY we project EPS of NGN7.48 and P/E ratio of 19.65x. This brings our target price to NGN146.98 – an implied upside potential of 8.15% when compared to its closing price as of April 21, 2021. We therefore recommend the ticker as **HOLD**.

Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	144.28			
						Max	149.71			
						EPS				
						7.38	7.43	7.48	7.53	7.58
Target PE	19.55x	144.28	145.26	146.23	147.21	148.19				
	19.60x	144.65	145.63	146.61	147.59	148.57				
	19.65x	145.02	146.00	146.98	147.96	148.95				
	19.70x	145.39	146.37	147.36	148.34	149.33				
	19.75x	145.76	146.74	147.73	148.72	149.71				

Financial Highlights (NGN Million) TOTAL NIGERIA PLC 2020FY

<i>Profit & Loss Account</i>	2020FY	2019FY	y/y Growth
Revenue	204,158	292,177	-30.12%
Cost of Sales	173,974	257,125	-32.34%
Gross Profit	30,184	35,051	-13.88%
Other Income	1,538	3,337	-53.90%
Operating Expense	27,945	28,341	-1.40%
Finance cost	7,901	2,892	-63.39%
PBT	3,070	3,092	-0.72%
PAT	2,243	2,278	-1.55%
<i>Balance Sheet</i>	2020FY	2019FY	y/y Growth
Inventories	21,619	33,642	-35.74%
Trade and Other Receivables	42,334	45,435	-6.83%
Cash and bank	30,805	8,234	274.18%
Property, Plant and Equipment	36,208	35,477	2.06%
Other Assets	12,638	11,001	14.88%
Total Assets	143,604	133,788	7.34%
Shareholders' fund	28,320	28,331	0.04%
Trade and Other Payables	73,224	57,178	28.06%
Tax Liabilities	0.00	0.23	-100.00%
Total Liabilities	115,273	105,468	9.30%

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Movements in Price Target

Company Name: Total Nigeria Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
22-Apr-2021	135.90	-	146.98	-	HOLD

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Company	Disclosure
Total Nigeria Plc.	

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