

An Upbeat Outlook Despite Obstacles

A Noteworthy Performance

TOTAL, like other Oil and Gas downstream players, benefitted from the increase in the price of petroleum products in 2022. Moreover, the company continued to reap the benefits of its extensive retail base as well as its B2B network. **TOTAL** reported yet another exceptional topline performance during the year, with revenue growth of 41.36% YoY to NGN482.47bn (the highest on record). The increase in both revenue sources – sale of Petroleum Products (+42.14% YoY) and sale of Lubricants (+39.03% YoY) contributed to the remarkable revenue outing. In the same vein, **TOTAL** commenced 2023 on a positive note as the company reported a 38.59% YoY growth in revenue to NGN135.28bn in Q1:2023. The increase in revenue was due majorly to higher revenue from petroleum products (+54.43% YoY), as lubricant sales declined marginally (-0.98% YoY). **Going forward, we expect prices to remain elevated contingent upon OPEC+'s determination to keep them high which would result in the uptick of petroleum product prices (especially deregulated products). In addition, the anticipated removal of fuel subsidies will enable PMS prices reflects market conditions and spur revenue growth. Hence, we project a revenue of NGN528.79bn in 2023FY (vs. NGN482.47bn in 2022FY).**

Cost Increases Suppresses Earnings

The war in Europe and the ensuing disruptions - surge in crude oil prices and logistics bottlenecks negatively impacted **TOTAL's** costs in 2022. Specifically, the company's inventory cost and cost of transporting supplies increased by 45.55% YoY and 40.44% YoY respectively. This led to a 47.49% YoY increase in total direct cost. Consequently, gross margin declined to 12.47% (vs 16.11% in 2021FY). Likewise, cost of sales increased by 44.70% YoY in Q1:2023, worsening gross margin to 11.10% (from 14.85% in Q1:2022). Operating expenses increased by 7.94% YoY in 2022FY due to increased selling and distribution costs (+14.57% YoY) and administrative expenses (+7.23% YoY). Thus, the operating margin declined to 5.73% (from 7.55% the previous year). In Q1:2023, operating margin further declined to 5.38% (vs. 6.79% in Q1:2022). Furthermore, finance costs jumped by 2.05x (to NGN5.39bn) in 2022FY, driven by the surge in interest paid on import loans to NGN3.35bn (+32.09x). This was due to increase in the company's trade finance loans during the year. This coupled with the marginal increase (+5.52% YoY) in tax obligations led to a 4.41% YoY decline in profit after tax to NGN16.12bn. Finance cost in Q1:2023 grew by 110.63% YoY which translated to a 4.65% YoY decrease in profitability. **For the rest of the year, the persistent inflationary pressure is expected to keep TOTAL's direct and operating costs high. However, we project a 23.14% YoY decline in finance costs, as we do not foresee any sizable additions to borrowing. This, as well as the anticipated positive pricing environment in the year is envisaged to result in earnings growth. Therefore, we forecast that the bottom line will increase by 8.07% YoY to NGN17.42b in 2023FY.**

Adapting to Trends

In line with the shifting focus to cleaner forms of energy, Oil and Gas firms have been positioning for the changing dynamics by introducing new energy strategies. In Q3:2021, Total Plc announced a name change to TotalEnergies Marketing Nigeria Plc. The rebrand involved the commencement of sales of solar lamps and B2B solar hybrid solutions in Nigeria. The company further accelerated its presence in the solar market in 2022FY, as participation in the nationwide installation of solar capacity increased. Solar lamp sales increased by 87.50%, and the solarization of its retail stations increased by 176.34%. **With the anticipated removal of fuel subsidies, consumers are expected to seek less costly and environmentally friendly alternatives such as solar. Thus, we expect TOTAL to leverage on its extensive network and market share to take advantage of this opportunity to grow its revenue base.**

Recommendation and Outlook

We estimate an EPS of **NGN51.31** based on the revised prediction and employed a target P/E of **4.46x** to obtain a price objective of **NGN229.01**. This represents an upside potential of 5.29% from the current price as of May 9th, 2023, hence, we advise a **HOLD**.

Company	TOTAL
Valuation	
Trailing EPS	NGN49.09
BVPS	NGN135.71
P/E	4.64x
P/BV	1.60x
Target PE	4.46x
Dec-2023 Exp. EPS	NGN51.31
Dec 2023 Target price	229.01
Current Price	217.50
Up/Downside Potential	5.29%
Ratings	HOLD
Key metrics	
ROE	9.03%
Net margin	3.08%
Asset Turnover	0.50x
Leverage	5.88x
Yr Hi	224.00
Yr Lo	193.00
YTD return	12.69%
Beta	0.55
Adjusted Beta	0.33
Dividend declared	NGN0.00
Shares outstanding	0.34bn
Market cap [NGN]	73.85bn
Financial year end	December
Most Recent Period (MRP)	Q1:2023

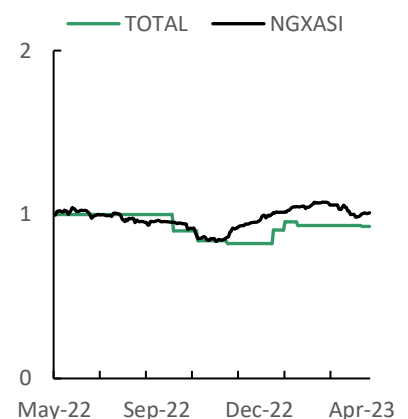


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2023 Target Price to key model inputs						Min	201.37
						Max	257.14
EPS							
	229.01	50.81	51.06	51.31	51.56	51.81	
Target PE	3.96x	201.37	202.36	203.36	204.35	205.34	
	4.21x	214.08	215.13	216.18	217.24	218.29	
	4.46x	226.78	227.89	229.01	230.12	231.24	
	4.71x	239.48	240.66	241.84	243.01	244.19	
	4.96x	252.18	253.42	254.66	255.90	257.14	

Financial Highlights and Forecasts (NGN billion)

<i>Profit & Loss Account</i>	Q1:2023A	Q1:2022A	2023F	2024F	2025F	2026F	2027F
Revenue	135.28	97.61	528.79	548.74	569.55	591.27	613.95
Cost of sales	120.27	83.12	465.33	482.89	501.20	520.32	540.28
Gross Profit	15.01	14.49	63.45	65.85	68.35	70.95	73.67
OPEX	8.72	8.73	39.80	41.74	44.06	46.20	48.46
Operating Profit	27.67	5.25	26.66	27.19	27.47	27.97	28.48
Finance Cost	1.60	0.29	4.14	4.34	4.62	4.91	5.20
PBT	6.42	4.95	24.89	25.27	25.32	25.58	25.85
PAT	4.16	3.84	17.42	17.69	17.72	17.91	18.09

<i>Balance Sheet</i>	Q1:2023A	2022A	2023F	2024F	2025F	2026F	2027F
Property, Plant, and Equipment	38.13	41.87	43.16	41.59	37.07	32.66	28.13
Total Debt	49.10	50.03	54.02	58.30	62.90	67.82	73.11
Total Assets	270.93	307.82	238.62	259.96	283.10	306.17	329.90
Total Equity	46.08	50.29	60.40	72.03	83.70	95.56	107.60
Total Current Liabilities	217.05	247.96	169.76	178.02	187.31	196.80	206.83
Non-Current Liabilities	7.81	9.57	7.73	7.95	8.53	8.55	8.54
Total Liabilities	224.85	257.53	177.48	185.98	195.84	205.35	215.37

<i>Financial Ratios</i>	Q1:2023A	Q1:2022A	2023F	2024F	2025F	2026F	2027F
Gross Margin	11.10%	14.85%	12.00%	12.00%	12.00%	12.00%	12.00%
Operating Margin	5.38%	6.79%	5.04%	4.96%	4.82%	4.73%	4.64%
Net Margin	3.08%	4.47%	3.29%	3.22%	3.11%	3.03%	2.95%
Return on Asset	1.54%	1.53%	7.30%	6.80%	6.26%	5.85%	5.48%
Return on Equity	9.03%	9.23%	28.84%	24.56%	21.18%	18.74%	16.81%
Asset Turnover	0.50	0.34	2.22x	2.11x	2.01x	1.93x	1.86x
Financial Leverage	5.88	6.05	3.95x	3.61x	3.38x	3.20x	3.07x
Debt to Asset Ratio	0.18x	0.19x	0.23x	0.22x	0.22x	0.22x	0.22x
Debt to EBIT Ratio	6.74x	8.00x	2.03x	2.14x	2.29x	2.42x	2.57x
Current Ratio	1.08x	0.97x	1.09x	1.17x	1.26x	1.34x	1.42x
Quick Ratio	0.74x	0.87x	0.79x	0.87x	0.97x	1.05x	1.13x

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Asset allocation: The recommended weighting for equities, cash and fixed income instrument is based on a number of metrics and does not relate to a particular size change in one variable.

Movements in Price Target

Company Name: Seplat Energy Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
09-May-2023	217.50	-	229.01	-	HOLD

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Company	Disclosure
Total Energies Marketing Nigeria Plc	

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