



Initial View

FY 2013 ended 31st December 2013**Recommendation: NEUTRAL**

- Total Nigeria Plc “Total” FY 2013 revenues rose 9% YoY to ₦238.2 billion, with other income (operating and non-operating) which tripled YoY mainly responsible for the quicker 14% YoY rise in both PBT and PAT to ₦8.1 billion and ₦5.3 billion, respectively.
- Total proposed a final dividend of ₦9.00—which in addition to ₦2.00 interim—brings total 2013 dividend payment to ₦11.00 per share, at par with 2012, but implies a lower payout ratio of 70% (2012: 80%).

Gasoline drives Q4 13 sales

- Q4 2013 revenues of ₦63.8 billion -- +24% (YoY) and +12% (QoQ) – is most in the company’s history, tracking 9% ahead of our forecast. We believe performance was driven by increased PMS sales, which we link to payment of subsidy arrears in the prior quarter, though weak base flattered growth. The movement in 2013 quarterly sales (Q1: ₦61 billion Q2: ₦56 billion and Q3: ₦57 billion) suggests that Total will continue to pursue its volume driven strategy as long as subsidy payments are made timely, as surge in volume tracks receipt of subsidy payment.

Income Statement Data

	2013- 12 'm	2012 - 12 'm	%chg
Revenue	238,163	217,884	9%
PBT	8,120	7,089	15%
Tax	2,786	2,427	15%
PAT	5,334	4,671	14%

Balance Sheet Data

	2013-Dec 'm	2012 -Dec 'm	%chg
PPE	20,852	18,864	11%
Receivables	32,038	26,244	22%
Cash	9,445	3,348	182%
Payables	43,536	44,532	-2.2%
Net Assets	13,241	11,302	17%

Stock Data

Price	₦181.45
52 week range	₦138 - ₦187.99
Market Cap. (N'm)	61,606.24
1-month Avg. Vol	53,902
Curr. PE	11.5x
Bloomberg Ticker	TOTAL: NL
Reuters Ticker	TOTAL: LG

Total Nigeria Plc - Share Price Trend**Analyst(s)****Oyekunle Omotayo-Benson**oyekunle.omotayo-benson@arm.com.ng

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- The 30% YoY jump in COGS, however drove gross profits 15% lower YoY to ₦5.7 billion, causing corresponding margins to collapse 4.1pps to 9%. The magnitude of the margin compression, over 200bps behind history levels hints at some accounting reclassifications, especially as mean base oil prices were lower YoY.

Surge in “other income” bolster earnings

- Similarly—and given surge in volumes—we also believe accounting reclassification drove opex 25% lower YoY to ₦4.1 billion. Nonetheless, core operating income which rose 31% YoY to ₦1.6 billion in Q4 13 with corresponding margins expanding 50bps to 2.6% implies higher volumes filtered into earnings.
 - “Other income—which includes other gains and interest income— of ₦1.8 billion (vs. Q4 12: ₦760million) and the 11% YoY moderation in finance charges to ₦525 million, on the back of lower average debt ₦15.1billion (vs. ₦16.4 billion in Q4 12) saw Q4 13 PBT and PAT both double to ₦2.9 billion and ₦2.1 billion respectively. Corresponding PBT and PAT margins expanded 1.9pps and 1.4pps YoY to 4.7% and 3.2%, respectively, significantly higher than the average over the last 5 years (PBT: 3.5% and PAT: 2.3%).
 - Total’s Q4 13 performance was impressive right from the topline through to earnings, though the latter was significantly flattered by other income. We believe topline volume growth will continue to be hinged on developments with subsidy payment, which, in light of FG funding challenges is likely to translate into similar QoQ performance in 2014. We will seek clarity from management to understand the drivers of other income and sustainability of same going forward. Overall, we are cautiously optimistic on sustainability of Q4 13 performance in 2014.
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- Total trades at a current P/E and P/B of 11.5x and 5.5x relative to 17.3x and 3.8x for peers. Our estimates are under review, though we have a **NEUTRAL** rating on Total (FV: ~~₹~~180.30) as per our last published report.
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ARM ratings and recommendations

ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6 month period (minimum) to the review date. We adopt a 5 point rating system for this category of stocks and a 3 point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
STRONG BUY	>20%	BUY	>20%
OVERWEIGHT	10% — 20 %	NEUTRAL	5% — 20 %
NEUTRAL	0% — 10 %	SELL	<5%
UNDERWEIGHT	-5% — 0%		
SELL	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
BUY	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
OVERWEIGHT	Accumulate security to an extent moderated by cognizance of its benchmark weight
NEUTRAL	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reasonable portfolio constraints
UNDERWEIGHT	Minimise exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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