



Initial View

12 months ended 31st December, 2014**Recommendation: SELL (₦130.15)**

- Total Nigeria Plc (**Total**) reported 1.1% YoY rise in FY 2014 revenues to ₦240.6 billion, with higher COGS and finance charges dragging PBT 20% lower to ₦5.6 billion. However lower effective taxes of 20% (FY 13: 34.3%) boosted EPS which rose 6.3% to ₦13.03k, relative to 2013 pro-forma numbers.
- Total proposed a final dividend of ₦9.00—which in addition to ₦2.00 interim—brings 2014 dividend payment to ₦11.00 per share, at par with 2013, but implies a higher payout ratio of 84% (2013: 70%).

Q4 14 topline performance underscores Total's strategy

- In contrast to our bearish expectations for a 10% contraction, Total's Q4 14 revenues fell only a modest 1.6% YoY to ₦62.8 billion. Given the extension of Q3 14 product shortages into the final quarter, and the high base in Q4 13, topline growth which implies 10% QoQ rebound, is quite impressive. Importantly, this compares much more favourably to Mobil's 1.2% QoQ growth, and suggests Total continues to aggressively pursue its volume driven strategy to retain market share, which was 10% as at 2014 based on our estimate.

Income Statement Data

	2014 – 12M'm	2013 – 12M'm	%chg
Revenue	240,619	238,163	1.1%
PBT	5,558	8,120	-54.5%
Tax	(1,135)	(2,786)	-141.7%
PAT	4,424	5,334	-9.5%

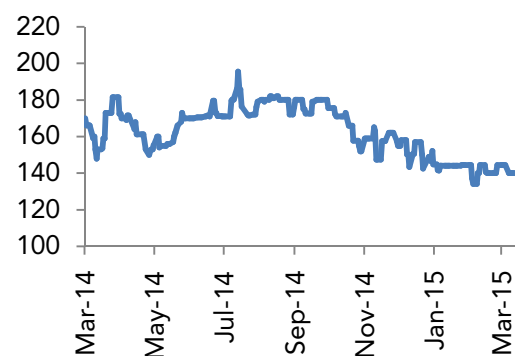
Balance Sheet Data

	2014-Dec.	2013 -Dec 'm	%chg
Inventory	19,827	20,852	35%
Receivables	36,038	32,038	13%
Cash	14,468	9,445	53%
Payables	61,817	43,536	42%
Net Assets	13,930	13,241	5%

Stock Data

Price	₦151.19
52 week range	₦134.05–₦195.50
Market Cap. (N'm)	53,895
1-month Avg. Vol	23,921
Curr. PE	12.1x
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

-
- Input cost fell a quicker 4.2% YoY to ₦55.7 billion, with gross profits accelerating 24% YoY to ₦7.2 billion, 4% ahead of the forecast. The YoY upswing in gross profit is underpinned by base effects as significant challenges with product sourcing as well as accounting reclassification pushed COGS to record highs, with corresponding record low gross margins of 9% in Q4 13. Thus, while Q4 14 GM expanded 240 bps YoY to 11.4%, it remains flat QoQ suggesting (against our expectation of easing pressures) that Q3 14 cost pressures persisted, a theme also visible with Mobil's 330bps QoQ contraction in Q4 14 GM.

Higher opex and finance charges crimp profits

- However, a 35% YoY jump in operating expenses erased gains, with profits from core operations falling about 4% YoY to ₦1.6 billion. Furthermore, Total's profitability in the period was worsened by the combination of 19% YoY dip in other income to ₦556 million and 48% YoY increase in finance charges to ₦780 million, due to jump in average borrowing to ₦19 billion (Q4 13: ₦15 billion). Thus, though PBT fell 25% to ₦1.3 billion, relative to proforma Q4 13, QoQ it jumped 88%, coming ~6% ahead of our estimate. Bottom-line was however boosted by a tax credit of ₦423 million, with Q4 14 PAT up 50% YoY to ₦1.7 billion, running 70% ahead of our expectation. In the same vein, Q4 14 PBT margin contracted 70bps YoY to 2.2%, while PAT margin expanded 100bps to 2.8% (Q4 14E: 1.8%).

Total's strategy to face hurdles over 2015

- Overall, despite weak YoY performance, QoQ recovery suggests despite sector challenges, volumes growth over Q4 14 filtered into bottom-line. Going forward, we expect Total to continue to pursue this strategy. In this regard, a number of recent development hint at a more challenging year over 2015 which could limit impact on bottomline. Specifically, combined with the softer input cost on diesel and lubricants, fixed absolute margin on PMS should see the recent cutback in price translate into a net gain for gross margins. Nevertheless, our estimate show that higher operating expenses, but more importantly, spike in finance charges, as devaluation drives debt higher and higher interest environment, are likely erode GM gains and ultimately moderate profitability. Whilst current fiscal challenges increase the prospect for post-election deregulation, which we believe could significantly positively alter the company
-

outlook. Nonetheless, after several failed removal attempts, we have excluded the possibility from our projection. Overlaying the tepid earnings outlook, with an increase in risk free rate to capture upswing in sovereign yields drives a sizeable moderation (-27%) in FVE to ~~¥~~130.15. While share price has retraced about 9% since our last update, current share price is at a 16% premium to our FVE. Total trades on 2015E P/E of 15x which is at a premium to Bloomberg domestic peer average of 7.7x. We downgrade our rating on the stock to a **SELL** from NEUTRAL.

Summary of Results and Forecasts

QUARTERLY					
	Q3 2014A	Q4 2014A	Q1 2015F	Q2 2015F	
Income Statement ('mln)					
Turnover	57,649	62,811	55,630	55,855	
COGS	(51,054)	(55,655)	(48,746)	(48,746)	
Gross Profit	6,595	7,156	6,884	7,109	
Operating Costs	(5,435)	(5,583)	(5,391)	(5,439)	
Operating Profit	1,384	2,129	1,741	1,917	
Profit Before Taxation	719	1,353	1,033	1,194	
Taxation	(312)	421	(330)	(382)	
Profit After Taxation	407	1,774	702	812	
ANNUAL					
	2014A	2015F	2016F	2017F	2018F
Income Statement (mln)					
Turnover	240,619	224,316	244,991	256,851	269,387
COGS	(212,714)	(195,375)	(213,653)	(224,193)	(235,948)
Gross Profit	27,904	28,941	31,338	32,657	33,439
Operating Costs	(21,240)	(21,933)	(22,303)	(22,907)	(23,685)
Operating Profit	8,180	8,018	10,137	10,907	10,966
Profit Before Taxation	5,558	5,128	7,590	9,019	9,083
Taxation	(1,135)	(1,692)	(2,505)	(2,976)	(2,998)
Profit After Taxation	4,424	3,436	5,085	6,043	6,086
Balance Sheet ('mln)					
Fixed Assets	21,922	20,827	20,695	20,584	20,504
Stocks	19,827	13,656	14,934	15,671	16,492
Trade Debtors	36,038	29,309	32,011	33,560	35,198
Creditors	61,817	40,608	44,407	46,598	49,041
Net Assets	13,930	14,438	16,445	18,228	19,471
Key Ratios					
Operating Margin	3.4%	3.6%	4.1%	4.2%	4.1%
Net Margin	1.8%	1.5%	2.1%	2.4%	2.3%
P/E	11.1	14.3	9.7	8.1	8.1
P/BV	3.5	3.4	3.0	2.7	2.5
P/Sales	0.3	0.2	0.2	0.2	0.2

Source: Company financials, ARM Estimates

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

Copyright © 2015 Asset & Resource Management Company Limited (“ARM”).

All rights reserved. Unauthorised use, reproduction, distribution or disclosure of this document is strictly prohibited.

This material has been issued by Asset & Resource Management Company Limited (“ARM”), a Company regulated by the Nigerian Securities and Exchange Commission. The analyst(s) primarily responsible for preparing this research report, in whole or in part, certifies that with respect to each security or issuer covered; all of the views expressed accurately reflect his/her personal views about the subject securities and issuers and no part of his/her compensation was, is, or will be, directly or indirectly, related to the inclusion of specific recommendations or views in the report.

This research report is based on information from sources that ARM and its analysts believe to be reliable. Neither ARM nor any of its research analysts, nor any member of the ARM Group, gives any representation or warranty, express or implied, or undertaking of any kind or assumes responsibility or liability of any kind with respect to the accuracy or completeness of the information set out in this report or any third party’s use (or the results of such use) of such information. This report is provided solely for informational purposes and is not to be construed as providing advice, recommendations, or endorsements of any kind whatsoever. The investments and strategies discussed here may not be suitable for all investors; counsel of investment advisor should be obtained with regard to such investments and or strategies. This research report is not a replacement for advice from an accountant, lawyer, personal finance advisor or other category of investment advisor. The investments discussed in this report may oscillate in price or value. Opinions and information provided are made as of the date of the report issue and are subject to change without notice. This research report is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Reference herein to any specific security or financial instrument does not necessarily constitute or imply its endorsement or recommendation by ARM, its directors, officers, employees or designated agents. Members of ARM may act as broker, advisor or lender, or make a market in any investments or issuers referenced in this report. Further information on any of the securities discussed herein may be obtained upon request to ARM. By accepting this document, you agree to be bound by the foregoing limitations.
