

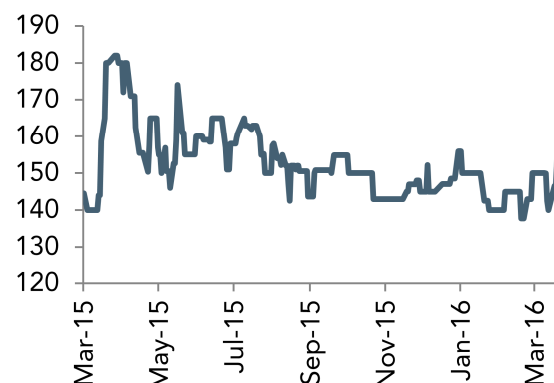
Total Nigeria Plc | Earnings Report

12 months ended 31st December, 2015

Higher taxes drag FY 15 earnings lower (₦115.54 - SELL)

- Total Oil Nigeria Plc (**Total**) reported FY 2015 audited financial statements, wherein earnings was 23.5% lower YoY at ₦4.0 billion (EPS: ₦11.92).
- **Curiously, despite the down-leg in earnings, management hiked proposed final dividend to ₦12.00 (+33% YoY) implying a record total dividend of ₦14/share for FY 15 which is ~1.2x EPS. This final pay-out translates to a gross dividend yield of 7.8% based on last closing price.**
- Importantly, we note that **Total has restated FY 2014 financials** as it unwound accrued cost related to the Technical Service Agreement (TSA) with Total Out Mer (TOM) and Total Raffinage Marketing (TRM) given that the agreement had not been registered with the National Office for Technology Acquisition and Promotion (NOTAP). **According to management, the decision to unwind the accrued cost was pursuant to a recent Judgement of the Federal High Court (FHC) Lagos, dated 14 December 2015, which maintained that any contract within the purview of NOTAP Act which is not registered by NOTAP is illegal, void and unenforceable.**
- The restatement impacts operating costs and taxes and therefore renders quarterly analysis of the results difficult.

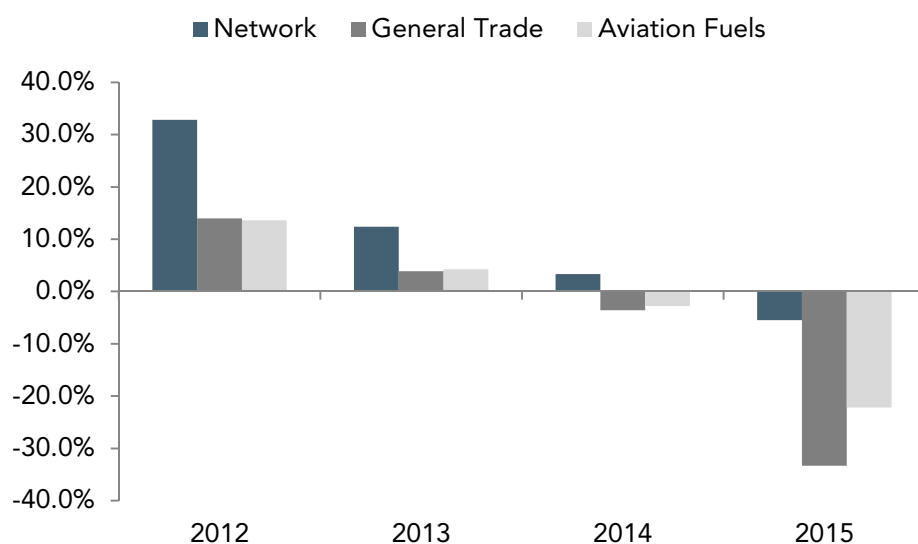
Income Statement Data (₦ million)*			
	2015 – 12M	2014 – 12M	%chg
Revenue	208,028	240,619	-13.5%
PBT	6,495	5,558	-4.9%
Tax	(2,448)	(1,135)	58.7%
PAT	4,047	4,424	-23.5%
* unless stated otherwise			
Balance Sheet Data (₦ million)			
	2015-Dec	2014-Dec	%chg
Fixed Assets	23,091	21,922	5.3%
Receivables	24,631	35,380	-31.2%
Cash	13,502	14,468	-6.7%
Payables	48,261	61,773	-18.0%
Net Assets	16,242	13,930	2.0%
Stock Data			
Price	₦157.60		
52 week range	₦137.75– ₦182.00		
Market Cap. (₦'m)	53,509		
1-month Avg. Vol	24,196		
Curr. PE	13.2x		
Bloomberg Ticker	TOTAL:NL		
Total Nigeria Plc- Share Price Trend			


Analyst(s)
Oyekunle Omotayo-Benson
oyekunle.omotayo-benson@arm.com.ng

Slump in sales to corporate customers drags FY 15 revenue lower

- FY 15 revenues dipped 13.5% YoY to touch a five year trough of ₦208 billion—in line with our estimate—due to a 33% YoY drop in general trade (that is corporate sales), and modest dip in network (retail) receipts via its outlets (-5% YoY). Notably, the dip in network sales reflects the impact of cut in PMS prices to ₦87/litre (-10% YoY) in January 2015 suggesting volumes were higher in the period. On the other hand, we think Total deliberately scaled down supply to some of its corporate clients due to prior payment delays, as nearly 63% of receivables to these segment were past due date in 2015 (vs. 52% in 2014).

Figure 1: YoY change in Total's revenue components



Source: Company financials, ARM Research

- Over 2015, the cost story for Total was quite mixed as input cost dipped to ₦187 billion (+14% YoY) while operating expenses stayed largely flat (+1.7 YoY). The moderation in input cost reflects fall in sourcing costs for non-regulated products such as AGO and lubricants primarily on softer oil prices. Consequently, whilst **gross profit dipped 9% YoY** to match our estimate of ₦25.2 billion, related margins expanded 60bps YoY to 12.2%. Similarly, **operating profits was 31% lower YoY**, nearly 60% ahead of our forecast due to the exclusion of costs (~₦1.3 billion by our estimate) related to the TSA—General Assistance and Cost Sharing contracts—with its sister companies. Operating margins therefore came in

at 3.0% (-80bps YoY) relative to our expectation of 1.9%.

Higher taxes offset impact of subsidy reimbursement on bottom-line

- However, net finance income of ₦240 million (vs. ₦1.2 billion net finance charge in 2014) pared PBT (₦6.5 billion) declines to only 5% YoY. Reported net finance income was largely driven by the ₦1.7 billion reimbursement from the Federal government for losses on currency fluctuations and interest charges due to delayed subsidy payment from prior years. However, higher effective taxes of 37.7% (vs. 22% in 2014) led to a steep drop in PAT to ₦4.0 billion, but still 8% ahead of our estimate. PBT and PAT margins contracted 28bps and 25bps respectively to 3.1% and 1.9%.
- Overall, weak FY 2015 earnings reflect dip in sales—particularly to Total’s corporate customers—sticky operating costs, and, more importantly, higher effective taxes. On the other hand, unwinding of cost related to the TSA and higher tax charges were the major drivers of deviation of earnings from our forecast. Going forward, supply shortages and subsidy which resurfaced with the rebound in oil prices to \$40/bbl appear to be brewing risks for downstream players. Although the NNPC has guided to improvement in coming days, we remain cautious given usual uncertainty that trails the subsidy regime. In light of developments, we will be reviewing our estimates.
- Total is trading at an EV/EBITDA of 5.8x and a current P/E of 13.2x, relative to 6.2x and 12.1x average for domestic peers. Current share price is at a 40% premium to our FVE of **₦115.54**. We retain our **SELL** rating on the stock.

Total Nigeria Plc - Summary of Results and Forecasts - Naira (₦)

QUARTERLY					
Income Statement (₦'mln)*	Q3 2015A	Q4 2015A	Q1 2016F	Q2 2016F	
Sales	47,324	53,530	53,558	56,521	
Cogs	(41,166)	(47,368)	(47,052)	(49,555)	
Gross profit	6,158	6,162	6,506	6,966	
Operating cost	(5,601)	(5,697)	(5,098)	(5,310)	
Operating profit	781	832	1,721	1,973	
Profit before taxation	328	499	1,202	1,485	
Tax	(163)	1,109	(336)	(450)	
Profit after taxation	165	1,608	866	1,036	
Earnings per share	0.5	4.7	2.5	3.0	
ANNUAL					
Income Statement (₦'mln)	FY 2014A	FY 2015A	FY 2016F	FY 2017F	FY 2018F
Sales	240,619	208,028	227,907	236,851	245,953
COGS	(212,714)	(182,682)	(200,222)	(208,125)	(216,113)
Gross profit	27,904	25,345	27,685	28,726	29,840
Operating cost	(21,240)	(20,295)	(21,145)	(21,436)	(21,679)
Operating profit	7,837	6,255	7,797	8,597	9,764
Net finance cost	(2,278)	240	(1,951)	(1,960)	(1,964)
PBT	5,558	6,495	5,846	6,637	7,800
Tax	(1,135)	(2,448)	(1,929)	(2,190)	(2,574)
PAT	4,424	4,047	3,917	4,447	5,226
Earnings per share	13.03	11.92	11.54	13.10	15.39
Dividend per share	11.00	14.00	9.23	10.48	12.31
Balance Sheet (₦'mln)					
	FY 2014A	FY 2015A	FY 2016F	FY 2017F	FY 2018F
Assets					
Fixed assets	21,922	23,091	22,923	23,392	23,844
Inventories	19,827	17,392	18,662	19,399	20,144
Trade debtors	35,380	24,631	33,511	34,826	36,164
Cash and other bank balances	14,468	13,502	13,521	14,758	16,315
Total Assets	95,512	83,654	92,624	96,413	100,536
Liabilities					
Trade Creditors	61,773	48,261	58,145	60,440	62,760
Borrowings	15,683	13,587	19,008	19,293	19,582
Total liabilities	92,534	80,192	89,646	93,434	97,557
Shareholders' fund	13,930	16,242	14,757	15,965	17,479
Key Ratios					
	FY 2014A	FY 2015A	FY 2016F	FY 2017F	FY 2018F
Profitability margins					
Gross margin	11.6%	12.2%	12.1%	12.1%	12.1%
EBITDA margin	3.3%	3.0%	3.4%	3.6%	4.0%
Operating margin	2.3%	3.1%	2.6%	2.8%	3.2%
PBT	1.8%	1.9%	1.7%	1.9%	2.1%
Net margin					
Valuation multiples					
EV/EBITDA	9.7	8.0	7.8	7.8	7.7
	11.0	9.9	10.2	10.1	9.9
P/CF	4.6	3.9	3.4	3.0	2.7
P/B	17.4	13.1	12.6	12.6	12.4
P/E	11.6%	13.2%	12.1%	12.1%	12.1%

Source: ARM Research *unless otherwise stated

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 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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