



Rating	SELL
Price	₦242.00
FVE	₦212.93
52-week range	₦216.8- ₦292.9
Market Cap. (₦'bn)	82.16
1-month Avg. Vol	59,846
Curr. PE	10.24x

Quarterly EPS	Q1	Q2	Q3	Q4
2016 A	8.32	18.00	7.95	9.33
2017 A	7.87	5.70	3.90	6.08

Total: NL - Share Price Trend



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Total Nigeria Plc. (Total: NL)

Stock Report

Feeling the squeeze, downgrade to SELL

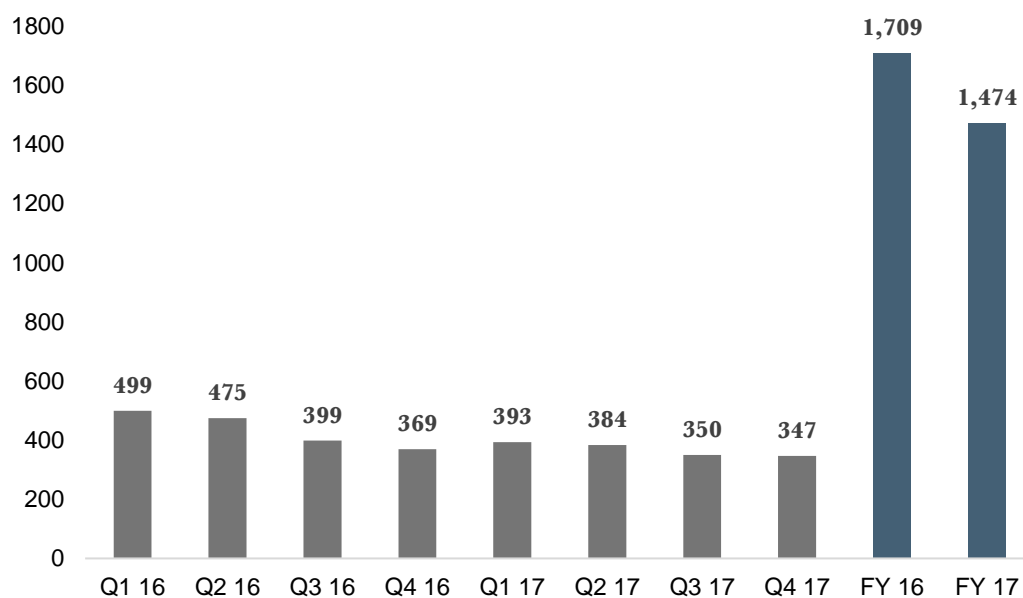
- In this note, we transfer primary coverage of Total Nigeria Plc. to **Olamide Adeboboye**.
- Total Nigeria Plc. (Total.NL) have sharply under-performed broader markets over the last three months. Given higher exchange rate and crude oil prices, current petrol prices have become unprofitable for the OMCs (Oil Marketing Companies). Consequently, the NNPC, the supplier of last resort, has become the sole importer of refined petrol, thus taking the under recovery from the loss incurred during importation. Ex-depot price, which our findings puts at ₦139/liter has put significant pressure on margins of OMCs. Admittedly, the pass-through of prices, given higher crude oil prices, would become difficult in 2018 as the election season picks up, thus hurting margins further. We therefore believe Total is at risk, given its high concentration of PMS to revenue and its pure play on marketing margin and volume dominance.

FY result dampened by 2nd half performance

In its FY 2017 result, profit was masked by the duo of elevated cost and finance charges, which lowered earnings per share (EPS) by ~46% YoY to ₦23.62 (FY 2016: ₦43.58). In fact, excluding FX loss reversal of ₦1.6 billion and net FX gains of ₦993 million, and adjusting for tax, earnings would print at ₦15.91/share, which is 64% lower than prior earnings (77% lower YoY- excluding FX loss of ₦9 billion in 2016, bringing prior year's EPS to ₦70.26). A large chunk of the weak earnings stemmed from lower sales and higher input cost.

- For context, despite higher PMS and Diesel prices to ₦146/litre and ₦214/litre (2016: ₦127/litre and ₦173/litre), revenue declined by 1% YoY to ₦288 billion, reflecting lower sales of petroleum products (-5% YoY to ₦240 billion). Evidently, the lower sales emanated from depressed volumes which our analysis puts at 1.46 billion litres (-14% YoY). According to management, volume decline emanated from supply challenges in sourcing mostly from the NNPC even as explosion at the NNPC jetty in Apapa in September made it impossible to receive products in Apapa.

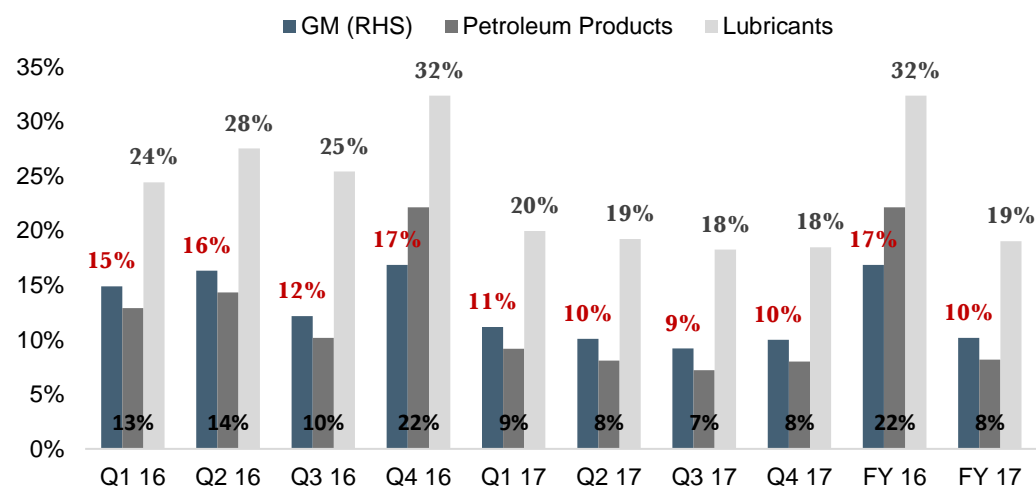
Figure 1: PMS volumes (Million Litres)



Source: Company Financials, ARM Research

- In the face of revenue decline, input cost expanded 7% YoY to ₦259 billion with Cost-to-Sales printing at 90% (2016: 83%). Similarly, gross margin moderated significantly to a 15-year low of 10.2% with pressure stemming from the petroleum segment which our analysis suggests Cost-to-sales for petroleum product printed at 94%. Irrespective, the lubricant business recorded higher sales (+22% YoY to ₦47.5 billion) even as our analysis suggests margin expansion of +9.8pps YoY to 29.2%. Rising sales in the lubricant business reflects higher prices YoY and more importantly rising volumes. On volumes, management noted it has increased market share in lubricants to 28.1% (2016: 25.7%). Management further noted it has increased lubricants' production capacity by 33% with the addition of 2 High Speed Filling Machines in Koko, Delta State, and Lagos, as well as carried out solarization of the Lagos blending plant and developed Power Purchase offers for industrial use.

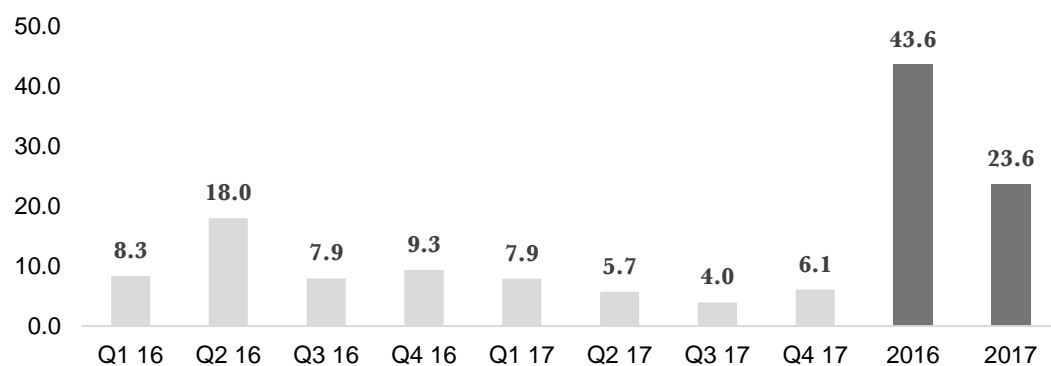
Figure 2: Gross margin (Lubes, Petroleum, and Combined)



Source: Company Financials, ARM Research

- Elevated Finance charge supported weak earnings:** Though net finance cost moderated by 18% YoY to ₦173 million, Total faced sizable finance charge in 2017 with interest expense expanding over four-fold YoY to ₦3 billion which management attributed to increase in bank lending interest rates & reduction of credit terms for PMS purchases. This is surprising in our view given that importation and volumes declined over the period. Thus, while we await clarification from the management, our analysis reveals bank overdraft more than doubled to ₦9 billion - average interest rate on bank overdrafts for the year was ~19.0% (2016: 14.1%). That said, ₦1.9 billion from subsidy refund (Petroleum Subsidy Fund -PSF), which drove finance income higher by 850% YoY to ₦2.5 billion moderated net finance cost in the period. Consequently, PBT declined by 42% to ₦11.8 billion while PAT moderated 46% to ₦8 billion. The company declared a final dividend of ₦14/share, bringing the full year dividend to ₦17/share.

Figure 3: Trend in EPS



Source: Company Financials, ARM Research

Lower volumes and margin pressure over 2018

- Over 2018, starting from the top line, we expect the effect of the volumes decline to become more glaring as prices would remain stable relative to the previous year. With an estimated decline of 6% in PMS volumes to 1.3 billion litres, revenue is expected to print lower at ₦275 billion (-4.3% YoY). On cost, we expect the pressures seen in 2017 to persist taking the gross margin to 9.9% (-0.28pps) as the company would still have to source its products (PMS) from NNPC. Further down, operating expense is expected to go slightly higher (+1.3% YoY) buoyed higher distribution for lubricants and deregulated products. The foregoing combined with net finance cost which we forecast would increase by 1.2x to ₦1 billion, as the cushion effect from the outstanding subsidy payments wanes out drives our estimate for PAT lower to ₦4.7 billion (-41% YoY) with corresponding margin at 1.6%. Consequently, EPS should print at ₦13.8/share and DPS of ₦9.68 (dividend payout of 70%).
 - On our estimates adjusted, Total is trading on a FY 18 P/E of 12.2x relative to current P/E of 10.24x and average P/E of peer (6.96x). We downgrade our view to a **SELL** (from BUY) with FVE of **₦212.93** based on downward revision to estimate.
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Summary of Results and Forecasts - Naira (₦)

ANNUAL					
Income Statement (₦' m) *	2016A	2017A	2018F	2019F	2020F
Sales	290,953	288,063	275,551	303,015	339,125
COGS	-241,851	-258,767	-248,296	-268,409	-297,099
Gross profit	49,102	29,296	27,254	34,605	42,026
Operating cost	-20,563	-20,963	-21,757	-23,669	-28,179
Operating profit	29,988	12,269	7,150	12,448	15,365
Net finance cost	-578	-474	-1,051	-830	-662
PBT	20,353	11,795	6,099	11,618	14,703
Tax	-5,556	-3,776	-1,403	-3,485	-4,411
PAT	14,797	8,019	4,696	8,133	10,292
Balance Sheet (₦ '000) *					
Assets					
Investment property	25,228	28,520	30,069	32,324	35,197
Inventories	34,903	26,666	24,830	26,841	29,710
Trade debtors	24,631	48,498	32,726	35,822	48,482
Cash and other bank balances	21,842	12,163	13,299	25,899	23,646
Total Assets	136,928	107,982	112,805	142,459	151,907
Liabilities					
Trade Creditors	95,679	63,420	68,991	93,943	98,043
Interest bearing loans & borrowings	9,220	13,135	12,741	12,996	13,256
Total liabilities	136,683	105,164	110,187	139,841	149,289
Shareholders' fund	25,268	25,819	27,061	31,508	36,597
Key Ratios					
	2014A	2015A	2016A	2017E	2018E
Gross margin	12.2%	16.9%	10.2%	9.9%	11.4%
Operating margin	3.0%	10.3%	4.3%	2.6%	4.1%
PBT	3.1%	7.0%	4.1%	2.2%	3.8%
Net margin	1.9%	5.1%	2.8%	1.7%	2.7%
Valuation multiples					
EV/EBITDA	6.5	2.5	3.8	5.5	3.6
P/CF	6.4	6.5	9.6	7.5	4.0
P/B	4.2	3.9	3.5	3.3	2.8
P/E	12.9	6.7	11.1	21.1	12.2
Gross margin	12.2%	16.9%	10.2%	9.9%	11.4%

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