



# Independent Stock Idea

February 12, 2010

rating: contrarian buy  
s&p 500: 1068 intraday

## Total S.A. (TOT) Secure Income at 5.5%

<i>Symbol</i>	TOT	<i>Ebitda Next Twelve Months ending 12/31/10 (US\$mm)</i>	30,000
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	1
<i>Price (US\$/sh)</i>	56.60	<i>Natural Gas and Oil Production/Ebitda (%)</i>	83
<i>Pricing Date</i>	2/12/10	<i>Adjusted Reserves/Production NTM</i>	9.3
<i>Shares (mm)</i>	2241	<i>EV/Ebitda</i>	5.4
<i>Market Capitalization (US\$mm)</i>	127,000	<i>PV/Ebitda</i>	7.9
<i>Debt (US\$mm)</i>	35,000	<i>Undeveloped Reserves (%)</i>	50
<i>Enterprise Value (EV) (US\$mm)</i>	162,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	30.50
<i>Present Value (PV) (US\$mm)</i>	237,000	<i>Present Value Proven Reserves (US\$/boe)</i>	18.37
<i>Net Present Value (US\$/share)</i>	90	<i>Present Value Proven Reserves (US\$/mcf)</i>	3.06
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.20
<i>McDep Ratio - EV/PV</i>	0.68	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	5.5	<i>Indicated Annual Dividend (US\$/sh)</i>	3.10
Note: Estimated cash flow and earnings tied to one-year futures prices for oil.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$8 a million btu.			
For historical analysis of TOT since 2004 see <a href="http://www.mcdep.com/ltot.htm">www.mcdep.com/ltot.htm</a>			

### Summary and Recommendation

Contrarian Buy-recommended **Total S.A. (TOT)** offers unlevered appreciation potential of 46% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$90 a share. Fourth quarter results, released on February 11, exceeded our expectations from three months ago for total unlevered cash flow (Ebitda) with added upstream efficiency offsetting weaker downstream margins (see table [Next Twelve Months Operating and Financial Estimates](#)). Cash flow and reserve life support NPV in an industry context (see table [Functional Cash Flow and Present Value](#)). We changed our previous “Buy” on TOT to “Contrarian Buy” after stock price dropped below its 200-day average of \$59 a share in the past week. The near-term oil price outlook has also become more tentative. Futures prices for oil for the next six years settled below the 40-week average of \$82 a barrel on February 8 before settling above that measure on February 11 (see chart [Six-Year Commodity Price Meter](#)). Much of the current uncertainty may relate to higher than normal volatility in currency exchange rates following the banking failures of 2008. Meanwhile, Total’s low McDep Ratio points to strong appreciation potential on a fundamental basis. Finally, management confirmed the dividend that provides an income yield of 5.5%.

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Total S.A.									
Next Twelve Months Operating and Financial Estimates									
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	12/31/08	9/30/09	12/31/09	2009	3/31/10	6/30/10	9/30/10	12/31/10	12/31/10
<b>Volume</b>									
Natural Gas (mmcf)	5,127	4,726	5,320	<b>4,923</b>	4,957	4,686	4,726	5,320	<b>4,923</b>
Days	92	92	92	<b>365</b>	90	91	92	92	<b>365</b>
Oil (mbd)	1,434	1,379	1,404	<b>1,381</b>	1,404	1,404	1,404	1,404	<b>1,404</b>
Total gas & oil (mmb)	211	199	211	<b>804</b>	201	199	202	211	<b>812</b>
Total gas & oil (mbd)	2,289	2,167	2,291	<b>2,201</b>	2,230	2,185	2,192	2,291	<b>2,224</b>
<b>Price</b>									
Dollar (euro/\$)	1.32	1.43	1.48	<b>1.39</b>	1.36	1.36	1.36	1.36	<b>1.36</b>
Natural gas (\$/mmbtu)	7.57	4.89	5.07	<b>5.19</b>	5.00	4.96	5.01	5.05	<b>5.01</b>
Oil (\$/bbl)									
WTI Cushing	58.45	68.22	76.09	<b>61.70</b>	74.01	72.72	74.20	75.54	<b>74.11</b>
Brent	55.50	68.10	74.50	<b>60.62</b>	72.46	71.20	72.65	73.96	<b>63.43</b>
Company	49.40	65.10	70.60	<b>57.65</b>	68.67	67.47	68.85	70.09	<b>68.77</b>
Total gas & oil (\$/bbl)	47.91	52.10	55.05	<b>47.76</b>	54.35	53.99	54.90	54.69	<b>54.49</b>
NY Harbor 3-2-1 (\$/bbl)	5.10	9.45	5.22	<b>8.34</b>	7.07	10.29	9.39	5.74	<b>8.12</b>
Europe (\$/t)	41.40	12.00	11.70	<b>17.83</b>	15.85	23.06	21.05	12.87	<b>18.21</b>
<b>Revenue (mmeuro)</b>									
Natural gas	2,709	1,487	1,679	<b>6,687</b>	1,639	1,553	1,600	1,817	<b>6,609</b>
Oil	4,945	5,776	6,170	<b>20,855</b>	6,376	6,334	6,534	6,652	<b>25,896</b>
Total production	7,654	7,262	7,849	<b>27,542</b>	8,015	7,887	8,134	8,469	<b>32,505</b>
Other	26,051	21,554	23,446	<b>84,611</b>	23,446	23,446	23,446	23,446	<b>93,782</b>
Total	33,705	28,816	31,295	<b>112,153</b>	31,460	31,333	31,579	31,915	<b>126,287</b>
<b>Expense</b>									
Production	3,155	3,276	3,224	<b>11,149</b>	3,290	3,226	3,350	3,517	<b>13,384</b>
Other	23,958	20,834	22,606	<b>81,214</b>	22,482	22,482	22,482	22,482	<b>89,927</b>
<b>Ebitda (mmeuro)</b>									
Production	4,499	3,987	4,625	<b>16,394</b>	4,488	4,417	4,555	4,743	<b>18,203</b>
Other	2,093	720	840	<b>3,397</b>	964	964	964	964	<b>3,856</b>
Total Ebitda	6,592	4,707	5,465	<b>19,791</b>	5,452	5,381	5,519	5,707	<b>22,058</b>
Exploration	227	130	237	<b>698</b>	200	200	200	200	<b>800</b>
Deprec., Deplet., & Amort.	1,748	1,599	1,927	<b>6,682</b>	1,927	1,927	1,927	1,927	<b>7,708</b>
Excess tax and other	(509)	(532)	(684)	<b>(1,743)</b>					
<b>Operating Income</b>									
Upstream	3,727	3,236	3,908	<b>12,879</b>					
Downstream	1,415	83	11	<b>1,026</b>					
Chemicals	254	191	66	<b>249</b>					
Total operating income	5,126	3,510	3,985	<b>14,154</b>					
Excess tax and other	509	532	684	<b>1,743</b>					
<b>Ebit</b>	4,617	2,978	3,301	<b>12,411</b>	3,325	3,254	3,392	3,580	<b>13,550</b>
Interest	181	87	95	<b>398</b>	95	95	95	95	<b>380</b>
<b>Ebt</b>	4,436	2,891	3,206	<b>12,013</b>	3,230	3,159	3,297	3,485	<b>13,170</b>
Income Tax	1,552	1,012	1,122	<b>4,204</b>	1,131	1,106	1,154	1,220	<b>4,610</b>
<b>Net Income (mmeuro)</b>	2,883	1,879	2,084	<b>7,808</b>	2,100	2,053	2,143	2,265	<b>8,561</b>
<b>Shares (millions)</b>	2,235	2,237	2,241	<b>2,237</b>	2,241	2,241	2,241	2,241	<b>2,241</b>
Per share (euro)	1.29	0.84	0.93	<b>3.49</b>	0.94	0.92	0.96	1.01	<b>3.82</b>
Ebitda Margin (E&P)	59%	55%	59%	<b>60%</b>	56%	56%	56%	56%	<b>56%</b>
Tax Rate	35%	35%	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>

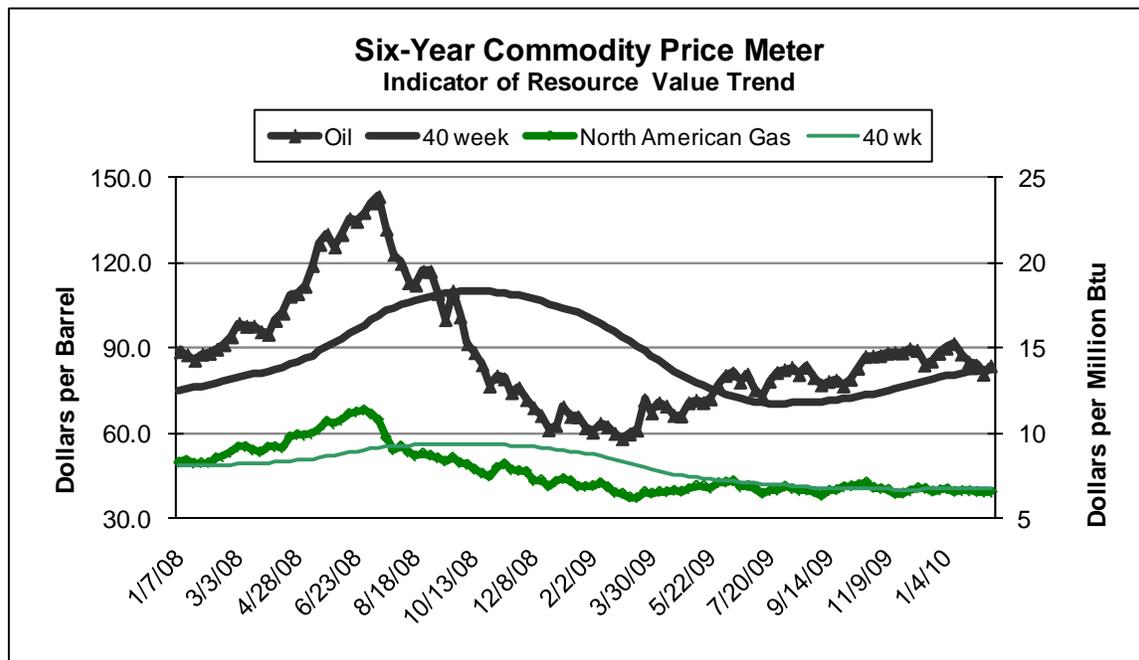


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Total					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
Rest of World Natural Gas	5,040	11.0	8.9	45,000	19%
Oil	19,720	8.3	7.1	140,000	59%
Downstream	5,240		9.9	52,000	22%
	30,000	9.3	7.9	237,000	100%
Debt (US\$mm)					35,000
Net Present Value (US\$mm)					202,000
Shares (mm)					2,241
Net Present Value - Standard Estimate (US\$/sh)					90
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					88

Note: Downstream includes about \$9 billion present value for the company's 9% ownership of pharmaceutical company Sanofi-Aventis.





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