Initiation of Coverage | TOTAL: Riding the wave of industry transformation

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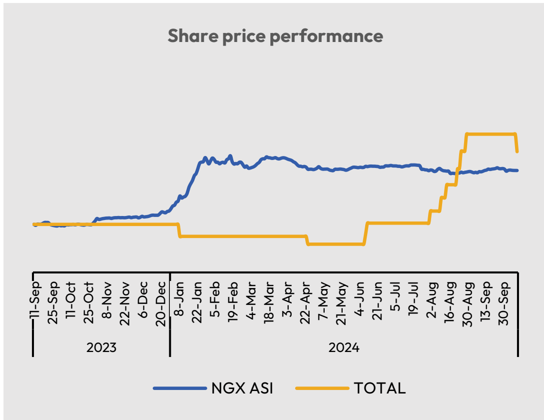
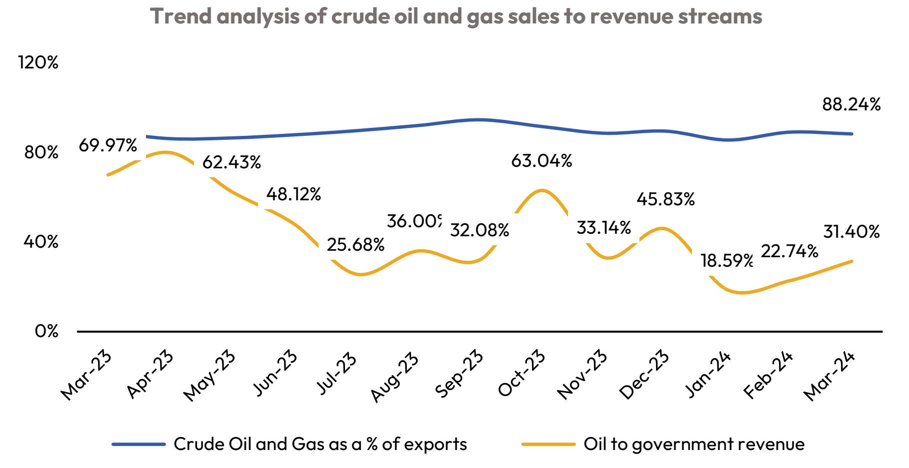
Rating	BUY
Target Price	₦934.69
NGX Ticker	TOTAL
Blloomberg Ticker	TOTAL:NL

Company Statistics	
Return on Assets	2.7%
Return on Equity	4.6%
Market Cap (Bn)	₦229



Industry overview: A balancing act between production and deregulation

Nigeria's oil and gas industry remains central to its economy, contributing around 6% to the country's GDP but accounting for about 90% of export earnings and 30% of government's revenue. The country holds 37.5 billion barrels of crude oil reserves, ranking it as the largest oil producer in Africa and 13th globally. It also possesses 209 trillion cubic feet of natural gas reserves, positioning it among the top gas reserve holders globally.



Source: Zedcrest Research

Upstream sector: Production and exploration

The upstream sector in Nigeria encompasses the exploration and production of oil and gas. In recent years, the sector has faced challenges due to declining production levels, which dropped to 1.41 million barrels per day (bpd) in Q2 2024 according to the National Bureau of Statistics (NBS), down from 2 million bpd in the late 2010s.

This drop has been attributed to several factors:

- **Aging infrastructure:** Many oil fields in Nigeria are mature, and investments in new infrastructure have been slow.
- **Operational inefficiencies**: Pipeline vandalism, crude oil theft, and sabotage in the Niger Delta have exacerbated production issues.
- **Geopolitical instability:** Security concerns in oil-producing regions have disrupted operations and reduced output.

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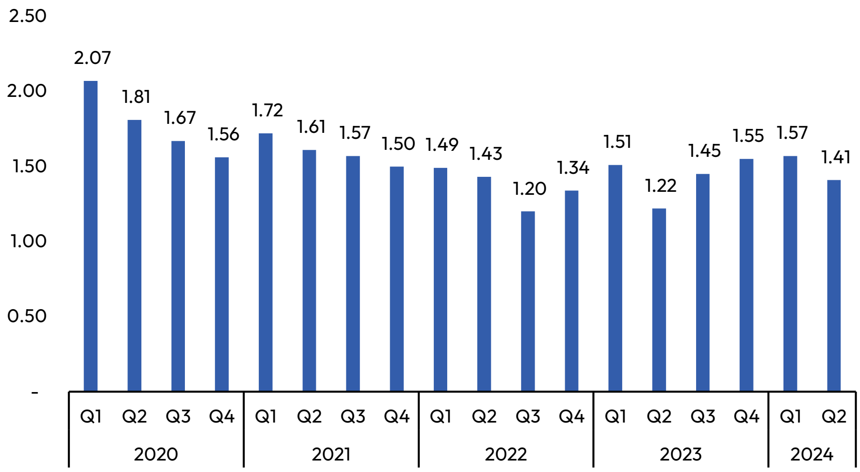
Nigeria's oil production (mbpd) weakens over the years



Source: NBS, Zedcrest Research

However, recent regulatory reforms, such as the Petroleum Industry Act (PIA) of 2021, aim to attract more investments into the sector by providing clarity on taxes, royalties, and profit-sharing mechanisms. With a clearer framework, companies are expected to ramp up production and investments.

Fuel subsidy removal: A game-changer for the downstream sector

The downstream sector, where TOTAL operates, involves the refining, marketing, and distribution of petroleum products. As of today, Nigeria's downstream industry is heavily import-dependent, with most of the country's refined petroleum products sourced from abroad due to the underutilization of its local refineries.

In 2023, Nigeria's daily consumption of Premium Motor Spirit (PMS) was estimated at 50 million liters, as reported by the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA). This demand was largely met through imports, with the country spending around ₦11.87 trillion on fuel and lubricants, according to full-year foreign trade data released by the National Bureau of Statistics (NBS). The government's decision to begin removing the fuel subsidy in 2023 significantly altered the sector's dynamics, saving the government approximately ₦4 trillion, as suggested by the World Bank. This policy shift led to an increase in PMS prices and gradually introduced market-based pricing. As a result, companies like TOTAL had the opportunity to improve their profit margins in response to these market-driven changes.

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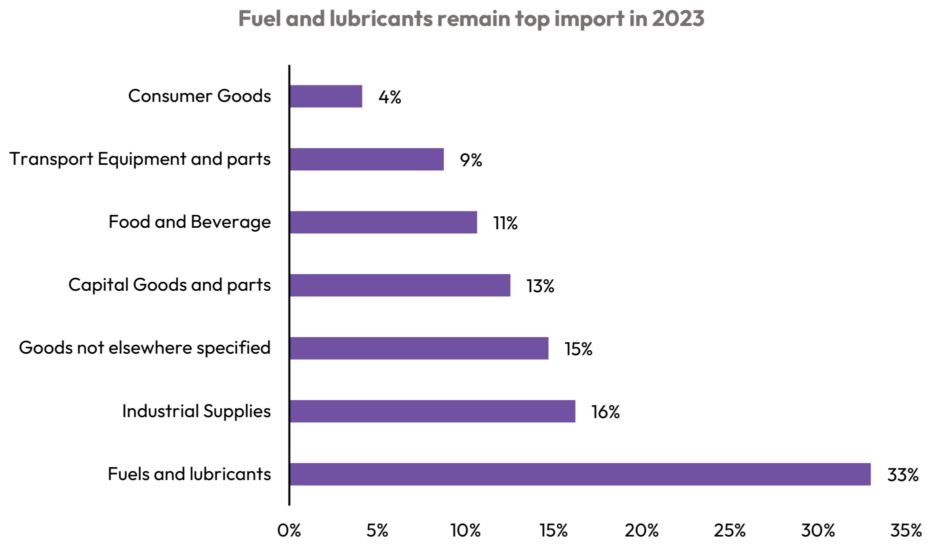

Source: NBS, Zedcrest Research

Key drivers for the downstream sector

- **Fuel subsidy removal:** The removal of fuel subsidies in 2023 marked one of the most significant shifts in the downstream sector. The subsidy system had long resulted in price distortions, smuggling, and fiscal strain on the Nigerian government. The new pricing regime allows for increased competition and improved profitability for companies like TOTAL, which has a significant market share in retail fuel distribution.

- **Increased private sector participation:** With the deregulation of the downstream sector, private sector players are now in a stronger position to invest in refining capacity and distribution infrastructure. The Nigerian National Petroleum Company Limited (NNPCL) recently announced plans to privatize government-owned refineries, including the Warri Refining and Petrochemical Company (WRPC) and Kaduna Refining and Petrochemical Company (KRPC), which have a combined refining capacity of 235,000 barrels per day (bpd). Additionally, new investments such as the Dangote Refinery are anticipated to reduce Nigeria's dependence on fuel imports, further enhancing the potential for local refining capacity and improving the overall efficiency of fuel distribution in the country.

- **Renewable energy and transition to cleaner fuels:** Global trends in energy transition are impacting Nigeria's downstream market. TOTAL's parent company, TotalEnergies, has been leading efforts to diversify into cleaner energy, including solar and natural gas. In Nigeria, the growing demand for liquefied petroleum gas (LPG) and compressed natural gas (CNG) reflects this shift, as more companies and consumers adopt cleaner fuels for energy needs.

- **Rising fuel demand:** Nigeria's population growth and urbanization have driven a steady increase in fuel demand. In 2023, Nigeria's population surpassed 220 million, and its urban centers are seeing rising numbers of cars and motorcycles, which further boosts the consumption of petroleum products. Despite short-term economic challenges, long-term projections

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for fuel demand remain positive, with consumption expected to grow by 3-5% annually.

Outlook for the downstream sector

The downstream sector is expected to experience steady growth, driven by the following:

- **Refinery revamps and new projects:** The Dangote Refinery, with a refining capacity of 650,000 barrels per day, is expected to reduce Nigeria's dependence on fuel imports. Other planned refurbishments, including the Port Harcourt Refinery, are expected to further improve local refining capacity.

- **Increased investment in gas distribution:** The government's push to develop Nigeria's vast gas reserves will have spillover effects on the downstream sector, particularly with regards to distribution infrastructure for LPG and CNG. This aligns with TOTAL's strategy of expanding its alternative energy offerings in the retail market.

- **Pricing freedom and market efficiency:** With the deregulation of fuel prices, the market is expected to become more efficient. Companies that can optimize their distribution networks and reduce costs will thrive. TOTAL, with its established infrastructure, remains in a favorable position to take advantage of these changes.

Key trends and data points

- **Fuel consumption**: An estimated 50 million liters of PMS is consumed daily in Nigeria, according to the NMDPRA.

- **Upstream production decline**: From 2.06 million bpd in 2020 to 1.41 million bpd in Q2 2024.

- **Natural gas:** Nigeria is the 8th largest gas producer in the world, with 209 trillion cubic feet of proven gas reserves.

- **Refining capacity:** The Dangote Refinery is expected to add 650,000 bpd (103 million litres per day) of capacity, meeting domestic demand and reducing fuel importss.

The Nigerian oil and gas industry, particularly the downstream sector, is undergoing a major transformation. TotalEnergies is well-positioned to benefit from the removal of fuel subsidies, a more favorable regulatory framework, and the government's push for increased private sector participation in refining. These changes are expected to lower direct costs associated with logistics and importation, while enabling the company to take advantage of market-driven pricing. Additionally, TotalEnergies can capitalize on its extensive distribution network and ongoing investments in alternative energy solutions.

In the short term, however, we expect a decline in fuel demand. This is largely due to higher PMS prices following the subsidy removal, reduced smuggling activities, increased electricity supply (which reduces reliance on fuel-powered generators), and the impact of rising global oil prices driven by geopolitical tensions in the Middle East.

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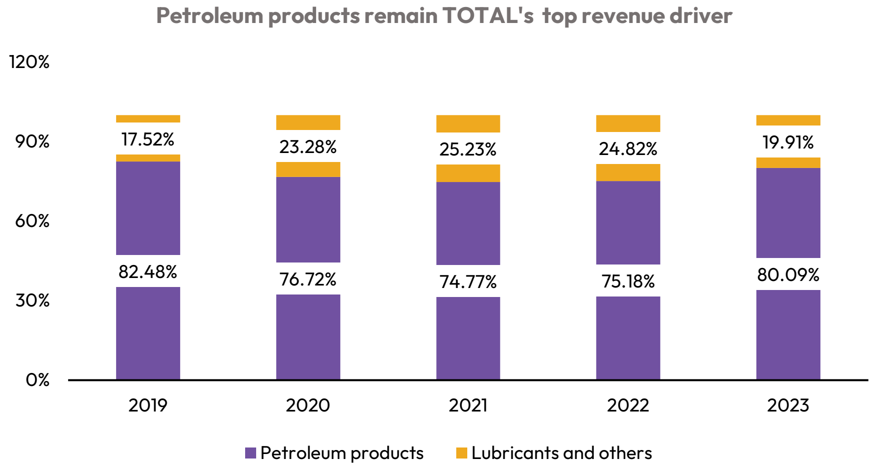
Company overview

TotalEnergies Marketing Nigeria Plc (TOTAL), a leading player in Nigeria's downstream oil and gas sector, was incorporated in 1956 and operates as a subsidiary of TotalEnergies SE, one of the world's largest energy conglomerates. TotalEnergies SE holds a 62% stake in TOTAL, which is a publicly tradedentity.

TOTAL's primary operations involve the marketing and distribution of petroleum products, lubricants, and alternative energy solutions. Petroleum products account for 80% of its revenue, while lubricants and other offerings make up the remaining 20%.



Source: TotalEnergies Marketing Nigeria, Zedcrest Research

The company was listed on the Nigerian Stock Exchange in 1979 and has grown its operations, with over 520 service stations, 2 lubricants blending plants, 2 petroleum product depots, 1 bitumen depot and 5 aviation depots strategically located across the country.

TotalEnergies SE, the parent company, is committed to transitioning to renewable energy and reducing its carbon footprint. The rebranding from Total SA to TotalEnergies in 2021 reflects its ambition to become a key player in the global energy transition. TOTAL, in alignment with this vision, has initiated solar projects and cleaner fuel alternatives within the Nigerian market.

Core business segments

- **Fuels and distribution:** TOTAL leads in the distribution of premium motor spirit (PMS), diesel (AGO), and aviation fuel. The company operates over 520 retail stations, serving both urban and rural customers. The company has developed a strong logistics infrastructure to manage efficient distribution across Nigeria's challenging landscape.

- **Lubricants:** The company produces and distributes a diverse range of lubricants under its well-known brands: Quartz, Rubia, and Hi-Perf. With its lubricant blending plants, TOTAL has substantial capacity to cater to industrial, automotive, and commercial consumers, ensuring broad market coverage and the ability to meet the varying needs of its customers across different sectors.

- **Renewable energy solutions:** TOTAL has made strategic moves into the renewable energy space, with a focus on solar power initiatives. Many of its

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retail stations are now powered by solar energy, and the company has launched Total Solar Kits to provide clean energy solutions for households and businesses. Additionally, TOTAL has secured partnerships with Mamuda Industries and Rite Foods to deliver solar hybrid solutions with a combined capacity of 8 megawatts, along with installing solar systems at five different DHL International sites. These efforts align with the parent company's broader objective of reducing reliance on fossil fuels and supporting the global transition toward sustainable energy.

Operational footprint

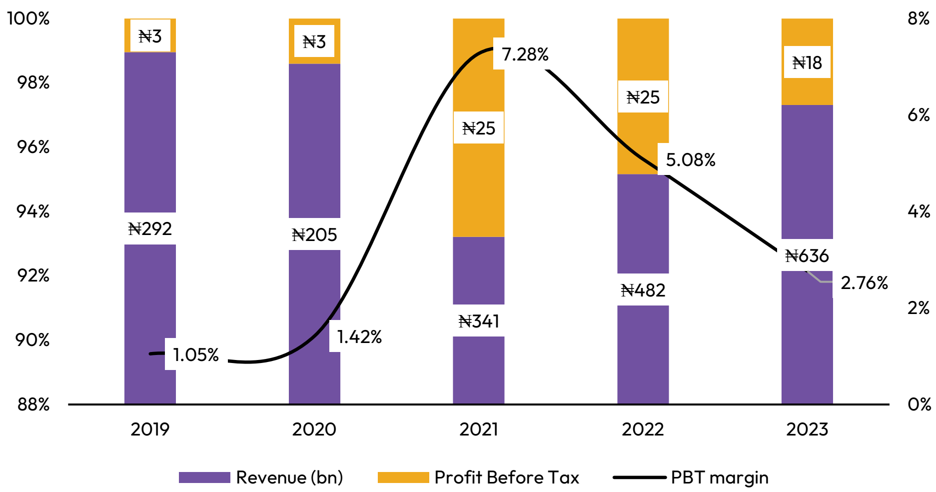
- Service Stations: 520+
- Blending Plants: 2 (located in Lagos and Koko)
- Petroleum product depots: 2
- Bitumen depot: 1
- Aviation Depots: 5 (Located at major airports such as Lagos and Abuja)
- Corporate Headquarters: Lagos

TOTAL's nationwide presence ensures that it is a significant player in the distribution of petroleum products and has a robust supply chain to manage fuel distribution across Nigeria's complex geography.

Financial performance

TOTAL has faced significant economic challenges in recent years, particularly due to the COVID-19 pandemic, weak economic activity, and disruptions in global oil prices. In 2020, the company generated revenues of ₦205 billion, marking a 30% decline from ₦292 billion in 2019. Despite these headwinds, TOTAL managed to post a profit before tax (PBT) of ₦2.9 billion, showcasing its ability to maintain operational efficiency in difficult times. Fast forward to 2023, the company has demonstrated notable improvement, with revenues reaching ₦636 billion, a sharp recovery from the lows of 2020. Additionally, PBT margins have improved to 3%, up from 1% in 2020, reflecting better sales performance and stronger margins amidst an evolving market environment.

TOTAL preserves healthy PBT margins despite 2020 revenue decline



Source: TotalEnergies Marketing Nigeria, Zedcrest Research

The company is expected to continue benefiting from the ongoing fuel subsidy removal, which allows it to operate in a more competitive pricing environment, improving margins.

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Strategic initiatives

- **Energy transition:** The company has committed to playing a major role in Nigeria's energy transition, in line with its global vision to achieve net zero emissions by 2050. This includes investing in solar energy, as seen in its installation of solar panels in some of its service stations across the country. These initiatives are part of a broader effort to diversify into renewable energy and position itself as a leader in clean energy solutions.

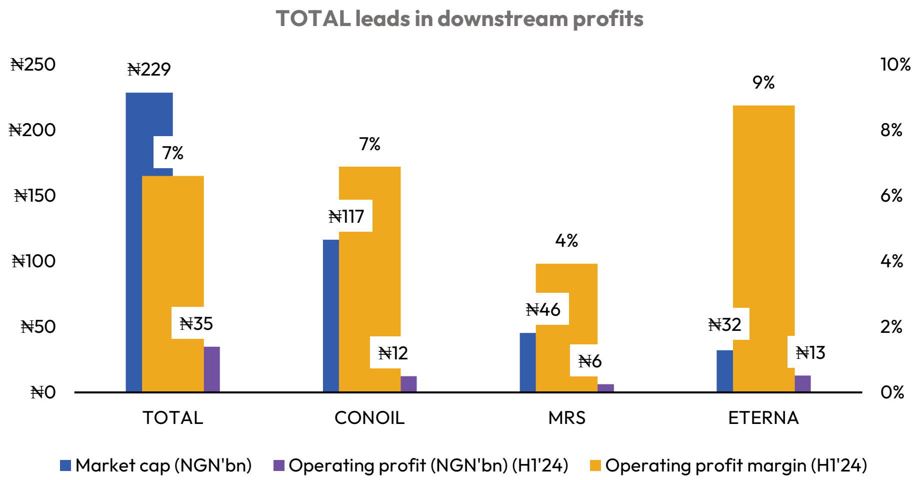
- **Digitalization:** To enhance customer experience and operational efficiency, TOTAL has implemented digital payment solutions, including Total Cards for fuel purchases and fleet management. These innovations help improve customer loyalty and streamline business operations.

- **Sustainability:** The company's sustainability strategy focuses on reducing carbon emissions and environmental impact. Total's solar initiatives and CSR programs—such as scholarships and healthcare support—align with its broader sustainability goals.

TOTAL dominates downstream sector

TOTAL is a dominant player in Nigeria's downstream oil and gas sector, and the only International Oil Company (IOC) still operating in this space. Its key competitors include:

- Oando Plc
- Conoil Plc
- MRS Oil Nigeria Plc
- Eterna Plc



Source: Company financials, Zedcrest Research

Despite the competitive landscape, TOTAL's extensive asset base, operational efficiency, and diversified product offerings provide a significant competitive advantage. Its ability to offer a range of products, from premium lubricants to aviation fuel, while also investing in renewable energy solutions, has allowed it to maintain its position as a market leader.

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Challenges and Opportunities

TOTAL faces significant challenges stemming from Nigeria's volatile regulatory environment and economic instability, particularly in relation to foreign exchange fluctuations and the removal of fuel subsidies. These factors pose risks to cost management and pricing stability. However, the company's strategic focus on renewable energy and digital innovation provides a strong foundation for long-term growth. As Nigeria increases its domestic refining capacity, particularly with the operational launch of the Dangote Refinery, TOTAL stands to benefit from reduced reliance on imported fuel. This shift could enhance the company's distribution capabilities and improve its profit margins by lowering import-related costs.

Outlook

TOTAL is well-positioned to capitalize on the deregulation of fuel pricing and the government's push for local refining. With its focus on renewable energy and sustainability, the company is aligning with global trends in cleaner energy, providing a positive long-term outlook

Financial analysis

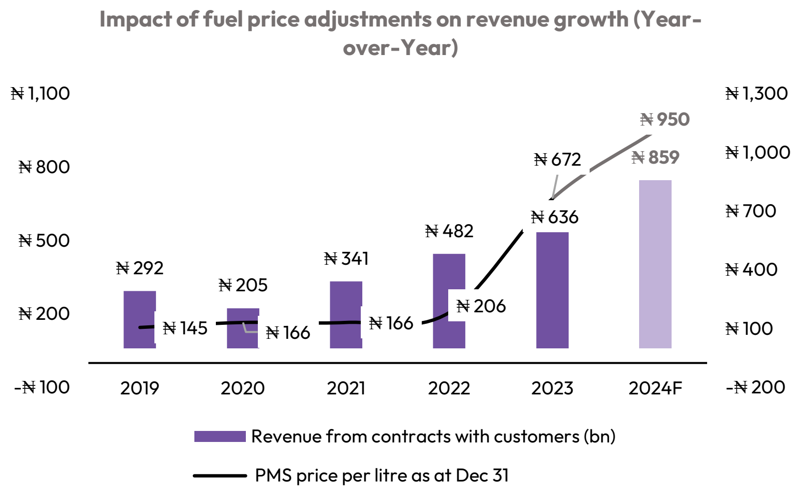
The Nigerian downstream sector faced numerous challenges between 2019 and 2023, including fluctuating crude oil prices, regulatory changes, currency volatility, and rising inflation. As a major player in the sector, TOTAL navigated these complexities with varying degrees of success, which is evident in its financial performance over the period.

One of the main factors affecting the company's financials was the government's fuel subsidy policy, which played a significant role in shaping pricing dynamics. Exchange rate volatility further compounded the situation, as the depreciation of the Naira inflated import costs, thereby compressing margins. Additionally, supply chain disruptions and global logistics issues led to difficulties in fuel importation and distribution, further impacting the company's operational flow.

Revenue growth and profitability

Revenue showed strong growth, expanding from ₦292 billion in 2019 to ₦636 billion in 2023, showcasing a CAGR of about 21% in four years. This remarkable rise was driven by several factors:

- **Fuel price adjustments:** Government decisions to adjust fuel prices and subsidies influenced revenue growth, particularly in 2021 and 2022.



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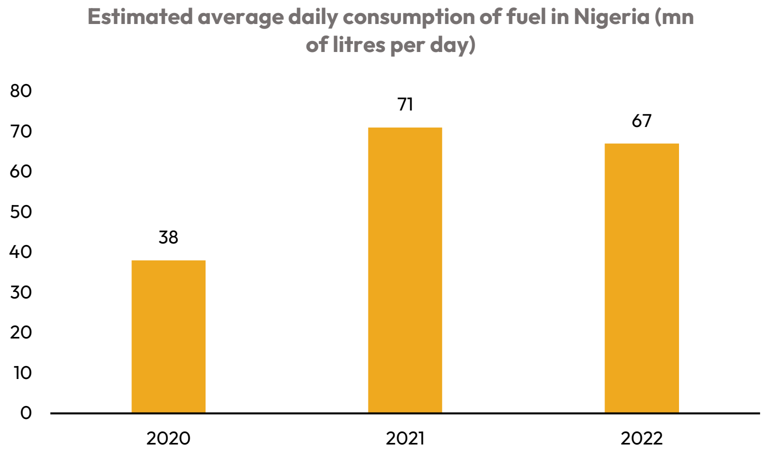
Additonally, the partial deregulation of the oil sector in 2020 allowed companies to pass on some cost increases to consumers, resulting in higher revenues.

Source: Zedcrest Research

- **Growing demand:** After the initial shock of the COVID-19 pandemic, fuel demand rebounded sharply in 2021 and 2022 as the economy reopened, pushing TOTAL's sales higher.



Source: Zedcrest Research

- **Market leadership:** The company maintained its leading position in the downstream sector, leveraging its extensive retail network and investments in new service stations across Nigeria.

Profitability margins

The performance of TOTAL from 2019 to 2023 highlights key financial trends shaped by both external economic pressures and internal operational strategies. Despite facing challenges such as fluctuating oil prices, global inflation, and supply chain disruptions, the company has navigated these obstacles through improved cost management and strategic adjustments. Over the five-year period, TOTAL experienced fluctuations in gross margin, EBITDA margin, and overall profitability, with notable recoveries during certain periods. The company's efforts to control costs and manage rising expenses have been critical in sustaining its financial health amidst a volatile economic environment.

Gross margin

In 2023, TOTAL recorded a gross profit of ₦82 billion, representing a 36% increase from ₦60 billion in the previous year.

The gross margin exhibited growth over the review period from 2019 to 2023, but faced fluctuations due to external cost pressures. Starting at 12% in 2019, the gross margin improved to 16% by 2021, driven by better cost control measures and more efficient management of direct costs. However, the margin dipped back to 12% in 2022 before slightly recovering to 13% in 2023. These shifts reflect the company's ability to navigate rising costs of sales while improving efficiencies in certain years.

In 2020, when the gross margin rose to 15%, a reduction in cost of sales as a percentage of revenue—from 88% in 2019 to 85%—played a significant role in boosting profitability. This improvement was largely driven by the impact of the COVID-19 pandemic leading to an economic slowdown, which resulted in more efficient inventory management and reduced spending on the importation of refined products as demand weakened.

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Notably, inventory levels dropped by 35%, falling to ₦22 billion from ₦34 billion in 2019, contributing to overall cost control. However, by 2022, as the cost of sales rose back to 88% of revenue and global inflation surged, margin pressure intensified. The increased costs were primarily attributed to higher spending on lubes and greases, alongside the depreciation of the Naira and rising oil prices for imported refined products. Global oil price hikes, compounded by supply chain disruptions and broader inflationary pressures, drove up the company's direct costs, causing a dip in gross margin to 12% . By 2023, TOTAL experienced a slight recovery, with gross marginimproving to 13%, underscoring the company's strategic efforts to stabilize costs in a challenging macroeconomic environment.

EBITDA margin

In 2023, TOTAL posted an EBITDA of ₦32 billion, a decline from ₦35 billion in 2022, primarily due to heightened costs driven by persistent inflation during the period.

The EBITDA margin fluctuated between 5% and 10% from 2019 to 2023. A sharp increase to 10% in 2021 was driven by stronger revenue growth, better inventory management, and more effective cost controls. Specifically, spending on inventory of lubes, greases, and refined products decreased to 81% of revenue, down from 84% in 2020. Additionally, selling and distribution costs dropped to 0.95% of revenue, compared to 1.45% in 2020, and administrative expenses were reduced to 6.78% of revenue, down from 9.05%, reflecting the company's enhanced cost management and operational efficiencies. This improvement can largely be attributed to the post-pandemic recovery, as global demand for oil and refined products rebounded. TOTAL capitalized on this recovery, with rising demand for lubricants and greases supporting revenue growth. Their contribution to revenue increased by 2 percentage points to 25% in 2021, while strategic cost-cutting initiatives further helped manage expenses.

However, by 2023, the EBITDA margin fell back to 5%. This decline was driven by an increase in spending on lubes, greases, and refined products, which surged to 85% of revenue, reflecting the impact of rising inventory costs amid global inflation and supply chain disruptions. Selling and distribution costs, coupled with other operating expenses, also increased to 8% of revenue in 2023, up from 6% in 2022, further squeezing margins. These trends were heavily influenced by foreign exchange losses, as the depreciation of the Naira by nearly 97% in 2023 led to FX-related losses of ₦46 billion, a sharp contrast to the ₦3.8 billion gain the previous year. The surge in fuel prices contributed to an 80% rise in distribution costs to ₦7 billion. Additionally, geopolitical tensions, including the Russia-Ukraine conflict and Israel–Hamas war, drove up the cost of crude oil and related products, further straining margins. Increased competition in the downstream sector also added to operational expenses, making it challenging for the company to maintain the higher margins achieved in 2021.

PBT and PAT

As a result of weaker EBITDA in 2023, both Profit Before Tax (PBT) and Profit After Tax (PAT) experienced significant year-over-year declines, with PBT dropping by 28% and PAT by 20%, settling at ₦18 billion and ₦13 billion, respectively. This reflected tighter PBT and PAT margins of 3% and 2%. The dip in profitability was largely driven by rising costs, particularly from increased operational expenses.

Over the five-year period, PBT margins have fluctuated, with a low of 1% recorded during the pandemic-hit year of 2019/2020, where global economic disruptions led to increased cost pressures. The margin peaked at 7% in 2021, during which TOTAL capitalized on improved market conditions and robust demand recovery, while successfully implementing cost-saving measures and taking advantage of relatively

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lower administrative expenses. Likewise, PAT margins followed a similar pattern, with the peak of 5% in 2021 reflecting the company's strongest performance over the period.

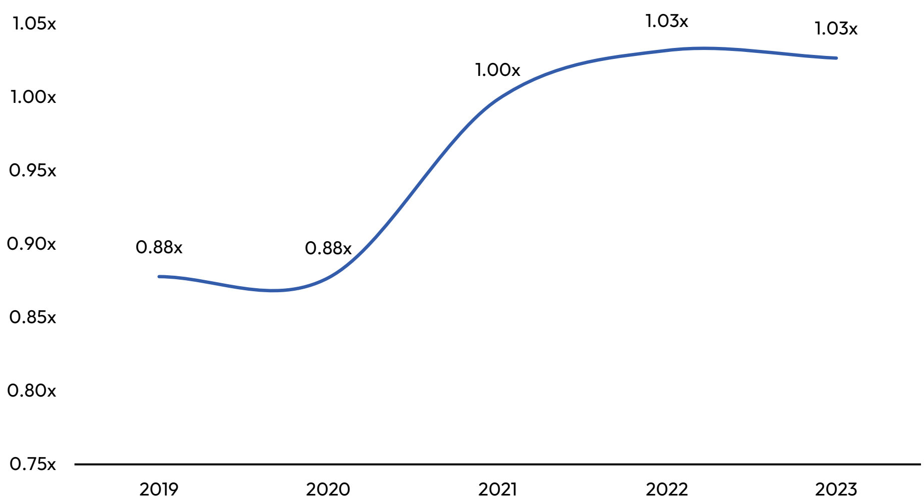
Administrative expenses

Administrative expenses, the largest single operating cost for TOTAL, amounted to ₦36 billion in 2023, up from ₦25 billion in 2022, representing 6% of revenue compared to 5% the previous year. A review of the annual reports shows that fluctuations in administrative expenses were primarily driven by technical assistance and management fees which rose to ₦8 billion, a 232% surge from ₦3 billion in 2022 and increasing its contribution to total administrative expenses to 23% up from 10% the previous year. These fees were paid to related parties, TotalEnergies Marketing Services for general assistance and TotalEnergies Marketing Afrique charges TotalEnergies Marketing Nigeria Plc for technical assistance provided during the period. In 2020, administrative expenses surged to 9% of revenue, largely due to pandemic-induced challenges, a dip in revenue by 30% juxtaposed whith increase in fees for technical and general assistance by as much as 60%, consulting fees spiking 34% higher and renumeration to directors being up 33%. As these pressures eased post-pandemic and revenue recovered, the company implemented strategic cost-cutting measures and digital transformation initiatives to automate logistics and enhance efficiency. By 2021 and 2022, these efforts reduced administrative expenses to 7% and 5% of revenue respectively, as TOTAL streamlined operations through workforce optimization and the adoption of digital systems.

Working capital and liquidity metrics

In 2023, TOTAL maintained a current ratio of 1.03, consistent with 2022. This indicates that the company was able to keep sufficient current assets to cover its short-term obligations, despite rising operational costs. Current assets grew from ₦256 billion in 2022 to ₦317 billion in 2023, driven primarily by a 37% increase in trade receivables (from ₦111 billion to ₦152 billion). This surge in receivables was largely fueled by an increase in customer accounts, which rose to ₦67 billion from ₦41 billion the previous year. The rise in customer accounts likely reflects higher sales made on credit, particularly as businesses and government entities requested extended payment terms to manage economic challenges in the country. Additionally, inventories increased by 25% (from ₦59 billion to ₦74 billion), which can be attributed to the global supply chain volatility and the company's decision to hold more stock to mitigate potential shortages and ensure operational continuity in a fluctuating market.

Strong current ratio cushions TOTAL against cost pressures



Source: TotalEnergies Marketing Nigeria, Zedcrest Research

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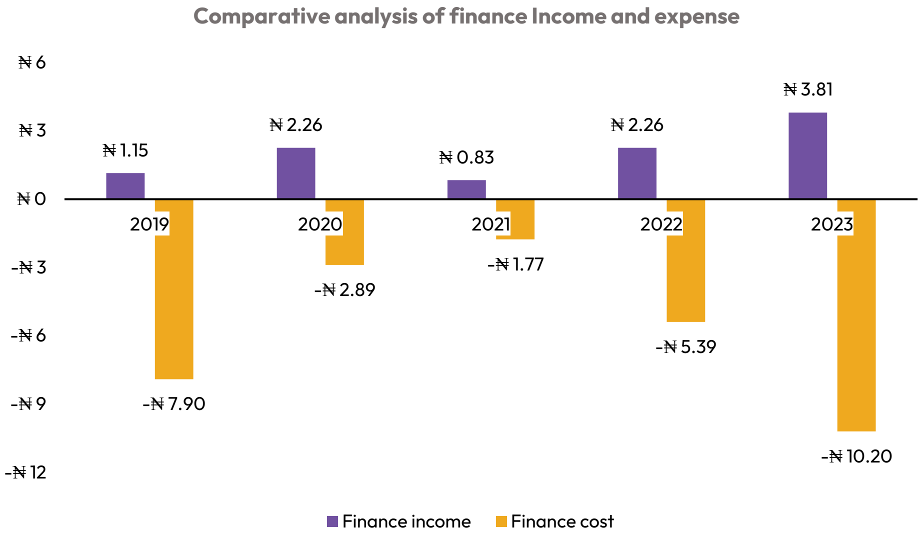
However, current liabilities also increased, from ₦248 billion in 2022 to ₦309 billion in 2023, driven primarily by a rise in trade payables, which grew from ₦190 billion to ₦214 billion. Funds owed to trade and other creditors surged to ₦114 billion from ₦49 billion the previous year, reflecting the company's expanded operational activities, particularly the increased importation and distribution of petroleum products. This was highlighted by the rise in inventory, indicating the sourcing of more crude or refined products to meet domestic demand. The higher costs across the supply chain, coupled with increased operational expenses, naturally resulted in larger outstanding amounts owed to creditors. Additionally, the company's reliance on short-term borrowings more than doubled, from ₦47.7 billion to ₦84.5 billion, signaling a heavier dependence on debt to manage working capital requirements. While liquidity remained stable, this growing reliance on debt financing underscores potential cash flow pressures in an environment characterized by rising interest rates.

Debt and leverage ratios

In 2023, loans and borrowings grew sharply from ₦48 billion in 2022 to ₦85 billion in 2023, representing a 77% increase. This rise in debt was primarily driven by the need to finance both capital expenditures and increased working capital requirements as the company grappled with rising operational costs and inflationary pressures.

At the same time, shareholders' equity saw a modest increase from ₦50 billion in 2022 to ₦56 billion in 2023, reflecting higher retained earnings from profits. Consequently, the debt-to-equity ratio increased from 0.95x in 2022 to 1.51x in 2023, indicating that by the end of 2023, the company had ₦1.51 of debt for every ₦1 of equity. This highlights TOTAL's growing reliance on debt financing to support its operations.

This significant increase in leverage reflects the company's aggressive borrowing strategy in response to a challenging macroeconomic environment, marked by rising fuel prices that elevated distribution costs and inflated operational expenses. While the company's net finance cost rose from ₦3 billion in 2022 to ₦6 billion in 2023, it managed to maintain an interest coverage ratio of 4x (calculated as EBIT of ₦40 billion divided by finance costs of ₦10 billion). This indicates that the company generated sufficient earnings to cover its interest expenses. However, the increasing debt load could pose risks in the future if profitability does not keep pace with rising borrowing costs.



Source: TotalEnergies Marketing Nigeria, Zedcrest Research

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Capital expenditure (CAPEX)

In 2023, TOTAL's capital expenditure (CAPEX) amounted to ₦7 billion, a decrease from ₦9 billion in 2022, reflecting a more cautious approach amidst rising costs and macroeconomic challenges. The majority of this spending was allocated towards property, plant, and equipment (PPE), which included infrastructure development and upgrades, particularly in fuel storage and distribution facilities, as well as service station enhancements.

This reduction in CAPEX compared to the previous year could be attributed to the company's strategic decision to optimize cash flow and manage its rising debt levels, as borrowing costs increased sharply due to higher interest rates. Additionally, the depreciation of the Naira led to increased costs for imported equipment, further influencing the company's capital spending decisions.

While TOTAL maintained steady investment in its core operations, the pullback in CAPEX likely reflects an attempt to preserve liquidity in a period marked by inflation and volatile energy prices.

Cash flow management

In 2023, TOTAL experienced negative cash flow from operations, posting a loss of₦73 million, driven by rising inventories, higher trade receivables, and escalating operating costs. Despite a relatively stable CAPEX at ₦7 billion, the company relied on debt financing, raising ₦176 billion, to support operations and capital expenditures. However, significant debt repayments totaling ₦241 billion and dividend payouts of ₦11 billion contributed to a sharp decline in cash and cash equivalents, which fell from ₦83 billion in 2022 to ₦32 billion in 2023. These factors underscore the company's ongoing challenge of balancing liquidity needs with its capital and financing obligations.

Financial projections

Revenue outlook (2024–2028)

TOTAL is set to experience significant revenue growth from 2024 through 2028, with revenues expected to rise from ₦859 billion in 2024 to ₦3 trillion by 2028. This growth reflects an ambitious expansion strategy and an increase in long-term demand across multiple business segments. The company's forecasted compound annual growth rate (CAGR) of around 35% points to aggressive scaling efforts. This is expected to be driven by continued investment in alternative energy sources, expanding customer bases in the domestic markets, and leveraging technological advancements in oil, gas, and renewable energy projects. For example, the company's potential new ventures into renewable energy markets could capture more market share as global policy shifts toward greener energy solutions.

Cost of sales and gross profit projections

As revenue grows, the cost of sales is projected to rise from ₦750 billion in 2024 to ₦2 trillion by 2028, maintaining a margin around 81% of revenue—lower than the 86% average from 2019-2023. This increase in costs is expected to be driven by rising material prices and transportation expenses. However, the company anticipates preserving a healthy gross profit margin, with gross profit expected to improve from 13% in 2023 to 19% by 2028, growing over eight-fold from ₦43 billion in 2023 to ₦355 billion in 2028. This indicates that TOTAL plans to enhance cost efficiencies, likely through supply chain optimization, as the launch of the Dangote Refinery in Nigeria and the agreed naira-for-crude transactions are expected to alleviate cost pressures from importing refined products. These factors, along with other cost control measures, are

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likely to reduce the impact of FX volatility and logistics costs, supporting the company's profitability trajectory.

EBITDA and operational efficiency

EBITDA is forecasted to rise significantly from ₦43 billion in 2024 to ₦354 billion by 2028 posting margins of 11-12% by 2028. This reflects the company's operational leverage and its ability to extract more value from revenue growth while controlling costs. Given the increasing trend of efficiency-driven initiatives globally, TOTAL could potentially integrate more AI-driven operational optimizations, streamline logistics, and reduce overhead costs. Investments in automated energy management systems or sustained partnerships in smart energy technologies could further enhance operational efficiency. The company's focus on expanding into higher-margin projects like solar and wind energy could also contribute to improving EBITDA margins.

Interest expense and finance costs

Interest expenses are expected to gradually decrease as a percentage of loans and borrowings, dropping from 11% in 2023 to 0.63% by 2028, signaling the company's intent to manage its debt more efficiently. The projection indicates that TOTAL may continue restructuring its financing, potentially refinancing existing debt at lower rates as credit conditions improve. Additionally, the company's cash flow improvements could allow it to reduce its reliance on debt funding for new projects, relying more on internally generated capital. TOTAL could also explore innovative financing options such as green bonds, which would align with the company's expanding footprint in the renewable energy sector.

Net profit and Profit After Tax (PAT)

TOTAL's PAT is projected to grow from ₦18 billion in 2024 to ₦270 billion by 2028. This substantial increase reflects the company's improved cost management, growing revenues, and stable interest expense profile. The outlook for profitability is strong, with the company benefiting from higher gross margins and tax incentives/credits linked to investments in sustainable energy initiatives. Government incentives for carbon reduction and renewable energy development, combined with high oil and gas prices, could drive profits higher. As TOTAL expands its portfolio of renewable energy projects, this will likely enhance long-term profitability, especially as global energy transitions are expected to accelerate in the coming years.

Balance Sheet Projections (2024–2028)

Total assets are expected to rise significantly from ₦517illion in 2024 to ₦1.4 trillion by 2028, reflecting increased capital investments in both oil and gas as well as renewable energy projects. Non-current assets, particularly property, plant, and equipment, are projected to more than double, indicating ongoing large-scale investments in infrastructure and capacity-building projects.

On the liabilities side, the company will see a rise in both current and non-current liabilities, from ₦450 billion in 2023 to ₦1.3 trillion in 2028. This suggests that TOTAL plans to take on more debt to fund its aggressive growth strategy, especially for capital-intensive projects in oil, gas, and renewables. However, given the healthy revenue and profit projections, the company appears well-positioned to manage this debt effectively, maintaining a strong balance sheet throughout the period.

Cash flow forecasts (2024–2028)

TOTAL is expected to generate strong cash flows, with operating cash flow forecasted to grow from ₦54 billion in 2024 to ₦201 billion by 2028. This rise is supported by robust revenue growth, improving operational efficiencies, and effective working capital management. However, cash outflows related to capital expenditures (capex) are also

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expected to increase, reflecting TOTAL's aggressive investment strategy. Capex is forecasted to grow from ₦15 billion in 2024 to ₦48 billion by 2028, driven largely by investments in developments of depots, acquisition of computer hardware, generators, motor vehicles, upgrade of information technology infrastructure, structural and civil upgrade of stations.

Additionally, TOTAL may undertake significant financing activities during the forecast period, raising funds to support its ambitious expansion plans. Positive cash flows will enable the company to reinvest in new technologies and infrastructure positioning it to capitalize on long-term growth trends in the global energy market.

Capital reserve and dividend policy outlook

TOTAL'S retained earnings are projected to grow substantially, from ₦67 billion in 2024 to ₦110 billion by 2028, driven by improving profitability. The company's dividend payout ratio is forecasted to decrease, reflecting a balance between rewarding shareholders and retaining earnings to fund future growth. Dividends per share are expected to hit ₦34 by 2028, signaling the company's commitment to providing consistent returns to shareholders while maintaining financial flexibility for future investments. The outlook suggests that TOTAL would continue to prioritize shareholder returns, while also keeping a focus on capital retention to finance new growth projects in the energy transition space.

Outlook (2024-2028)

TOTAL, as a key player in the downstream oil and gas sector, is positioned for robust growth over the forecast period from 2024 to 2028. The company's revenue is expected to rise substantially, reflecting both increased demand for refined petroleum products and a strategic pivot toward diversifying its energy portfolio. TOTAL is likely to benefit from the government's policies aimed at improving the domestic refining capacity and reducing reliance on imports, which could drive higher margins. Additionally, the company's investments in infrastructure, supply chain optimization, and digitalization will help maintain operational efficiency despite anticipated cost pressures.

The transition to cleaner energy is also expected to open new revenue streams, particularly as the company expands its footprint in renewable energy solutions, which aligns with global sustainability trends. This strategic diversification will help the company mitigate the volatility typically associated with crude oil price fluctuations. Profitability metrics such as EBITDA and net income will see substantial growth, supported by improved margins, cost discipline, and operational efficiencies. Cash flow generation will remain solid, enabling the company to fund capital expenditures and maintain a balanced dividend policy while pursuing long-term growth initiatives. Despite rising capital investments, TOTAL's balance sheet will strengthen, with growing equity and manageable debt levels. In summary, the company is well-positioned to navigate the dynamic downstream market, capitalizing on growth opportunities while maintaining its focus on financial sustainability and shareholder value.

SWOT Analysis

Strengths:

- **Strong market position:** As a leading player in Nigeria's downstream oil and gas sector, TOTAL has an extensive distribution network, ensuring widespread availability of its products across the country.

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- **Global expertise & Brand recognition:** TOTAL benefits from its affiliation with TotalEnergies SE, a global energy giant, which provides access to cutting-edge technology, best practices, and a strong brand reputation.

- **Diverse product portfolio:** The company's diversified portfolio, which includes fuel, lubricants, solar energy solutions, and natural gas, positions it to cater to multiple market segments, making it less reliant on a single product line.

- **Commitment to renewable energy:** TOTAL is investing in renewable energy, especially solar power, which aligns with the global shift towards cleaner energy and the Nigerian government's push for alternative energy sources.

Weaknesses:

- **High operating costs:** The company faces rising operational expenses due to the volatility of foreign exchange rates, increasing inflation, and fluctuating fuel prices, which can negatively impact profitability.

- **Dependency on imported refined products:** Although Nigeria is a major crude oil producer, the country relies heavily on imported refined products, leaving TOTAL vulnerable to global market price fluctuations.

Opportunities:

- **Expansion into renewable energy:** The increasing demand for cleaner energy presents an opportunity for Total Energies Nigeria to expand its renewable energy offerings, including solar power and electric vehicle (EV) infrastructure.

- **Government initiatives to reduce fuel imports:** The Nigerian government's efforts to improve local refining capacity could reduce the dependence on imported refined products, lowering costs and improving profit margins for downstream companies.

- **Digitalization and operational efficiency:** Investment in technology to optimize logistics, supply chain management, and customer experience can improve operational efficiency and create new revenue streams through digital platforms.

Threats:

- **Oil price volatility:** Fluctuations in global oil prices directly impact the company's bottom line, especially given Nigeria's dependency on crude oil exports and imported refined products.

- **Intensified competition:** Nigeria's downstream market is competitive, with numerous players vying for market share. This increases pressure on pricing and profit margins.

- **Environmental regulations:** Stricter environmental policies both locally and globally may lead to increased compliance costs and force the company to accelerate its transition to renewable energy at potentially high initial investments.

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Valuation

After a comprehensive analysis of TotalEnergies Marketing Nigeria Plc's financial performance and future prospects, we have established a valuation of ₦934.69 per share, representing a 39% premium to its current trading price. This valuation was determined using the Discounted Cash Flow (DCF) approach, aiming to capture both the company's present value and its intrinsic worth based on projected future cash flows.

Key valuation assumption:

- Weighted Average Cost of Capital (WACC): 20.07%

Recommendation

Given our valuation of ₦841.35 per share, we believe that TOTAL is currently undervalued. We recommend that investors consider accumulating shares of the company as it offers a compelling investment opportunity with significant upside potential.

DCF values in NGN'mn		2024 Jan - Dec	2025 Jan - Dec	2026 Jan - Dec	2027 Jan - Dec	2028 Jan - Dec
Operating profit | EBITDA		**42,973**	**26,514**	**(4,272)**	**(66,198)**	**354,528**
Less: tax expense	31%	(13,322)	(8,219)	-	-	(109,904)
Add: depreciation & amortization		1,112	2,268	4,598	8,105	12,691
Changes in NWC		25,232	46,499	(26,143)	57,655	(150,312)
Less: Capex		(17,352)	(20,182)	(25,832)	(37,415)	(48,339)
Free cash flow to the firm (FCFF)		**38,643**	**46,880**	**(51,650)**	**(37,853)**	**58,665**
Terminal value (long term inflation rate)	14.0%					1,101,891
Discount rate	20.07%					
Total free cash flow to the firm		**38,643**	**46,880**	**(51,650)**	**(37,853)**	**1,160,556**
Mid period adjustment		0.5	1.5	2.5	3.5	4.5
Discount factor		0.9	0.8	0.6	0.5	0.4
		35,266	**35,632**	**(32,695)**	**(19,957)**	**509,590**

	Model output	Market value
Enterprise Value (NGN'mn)	**527,836.04**	
Net debt (NGN'mn)	(210,487.94)	
Equity Value (NGN'mn)	**317,348.10**	**228,804**
Shares outstanding (mn)	339.5218	339.5218
Share Price (N)	**934.69**	**673.9**

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