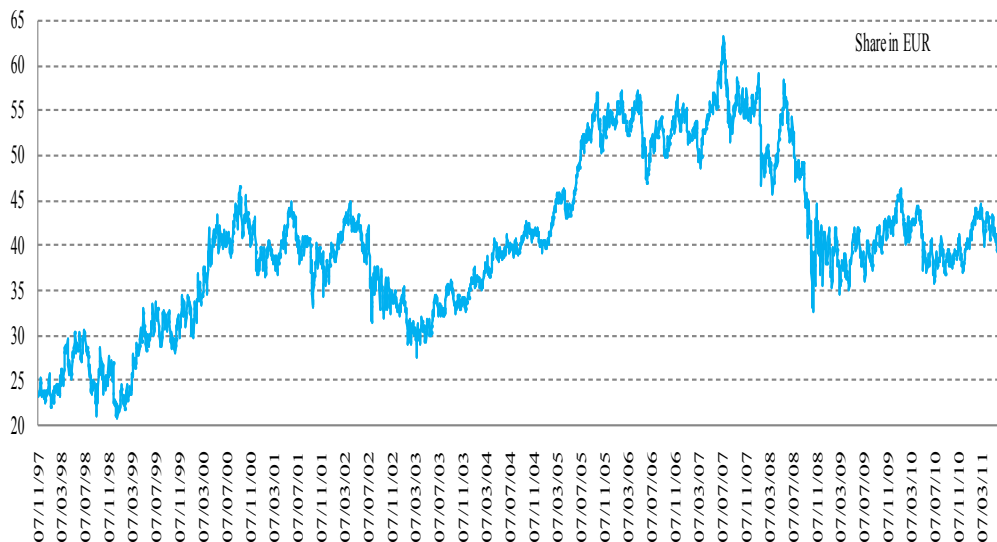


DESCRIPTION

Total is Europe's 3rd largest oil major. The company's main activities are upstream exploration and production, downstream distribution and marketing, and chemicals. Total also holds a stake in Sanofi-Aventis, which it is selling over time. After several years of subpar hydrocarbons production growth, Total has accelerated its E&P capex plans and has started to chase acquisitions. It recently acquired SunPower, a US solar panel manufacturer, for \$1.4 billion. Total had 92,585 employees at the end of 2010.

Share Price	38.0€
Nb of shares	2,348m
Market Capitalization	€89,228m
Net Debt 2011e	€15,682m
Enterprise Value	€104,911m

FAIR @ 35€
Valuation Range
[35€-44€]



Market profile

High 52 weeks	35.66€
Low 52 weeks	44.55€
Average volume	5,848,683

Free float	92%
Insiders	8%

Shareholders

Société Générale	6.86%
Treasury shares	4.80%
Deutsche Bank	4.25%
Gpe Bruxelles Lambert	4.00%
Employees	4.00%
Cie Nat Portefeuille	1.60%
BNP Paribas	0.20%

Valuation ratios

P/E 2011e/2012e	5.8x/5.6x
P/CF 2011e/2012e	3.9x/3.8x
P/B 2011e/2012e	1.3x/1.1x
EV/EBIT 2011e/2012e	3.9x/3.7x
Rendement du dvd	8.6%/8.9%
FCF Yield 2011e/2012e	8.8%/8.9%
Gearing 2011e/2012e	17%/13%

5 year-forecast (CAGR)

Revenue	3.2%
EBIT	8.7%
EPS	8.8%
DPS	9.6%

Why hold/buy the share ?

After being unable to post a growth in oil & gas production, Total has decided to step up its investment plans and to focus on faster contributing assets (disposal of CEPESA, investment in Novatek). This should help the company return to a sustainable and faster growth of oil & gas production over the coming years, without damaging the balance sheet.

We believe that a 2.5% growth is achievable, with an average return on capital employed of c. 19% (compared to 29% in 2004-2010 but with -0.9% CAGR of oil & gas production).

Longer term, the big challenge for Total is its ability to broaden its energy mix; the transition to renewables is a sound and reasonable move, and its ROI will probably be negative for some time. But that's probably a way to regain traction in the stock market.

Catalysts

- 1) Increase in oil & gas production (up to 2.5% over the 5 coming years);
- 2) Disposal of non strategic assets (Sanofi-Aventis, CEPESA)
- 3) Diversification of production mix for the very long run (renewables-solar...)
- 4) Disposal/spin-off of chemicals business (?)

Risks

- 1) Earnings highly sensitive to €/€ exchange rate and slightly less to Brent.
- 2) Geopolitical risks (Africa, Middle-East) and ability to win deals with national oil companies.
- 3) Environmental risks and negative externalities (Erika).

Valuation

The stock is undervalued, for a reason (subpar oil & gas production and lower profitability than peers in Europe). We used 5 approaches that derive an average intrinsic value of €38.6. Taking into account the risks to the business model, we applied a margin of safety of 10% only, which makes the stock attractive around €35.