

Rating: Buy
 S&P 500: 1171

Total S.A.

Raise Net Present Value to \$126 a Share

<i>Symbol</i>	TOT	<i>Ebitda Next Twelve Months ending 3/31/06 (US\$m)</i>	31,800
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	113.80	<i>Natural Gas and Oil Production/Ebitda (%)</i>	70
<i>Pricing Date</i>	5/6/05	<i>Adjusted Reserves/Production NTM</i>	9.0
<i>Shares (mm)</i>	1192	<i>EV/Ebitda</i>	5.1
<i>Market Capitalization (US\$m)</i>	136,000	<i>PV/Ebitda</i>	5.6
<i>Debt (US\$m)</i>	28,000	<i>Undeveloped Reserves (%)</i>	49
<i>Enterprise Value (EV) (US\$m)</i>	164,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	24.50
<i>Present Value (PV) (US\$m)</i>	178,000	<i>Present Value Proven Reserves(US\$/boe)</i>	10.69
<i>Net Present Value (US\$/share)</i>	126	<i>Present Value Proven Reserves(US\$/mcf)</i>	1.78
<i>Debt/Present Value</i>	0.16	<i>Earnings Next Twelve Months (US\$/sh)</i>	12.92
<i>McDep Ratio - EV/PV</i>	0.92	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	3.1	<i>Indicated Annual Dividend (US\$/sh)</i>	3.47

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.

Summary and Recommendation

We continue a Buy rating on the common shares of **Total (TOT)**, the Euro mega cap energy stock with global natural gas, African oil, dynamic downstream and a capable leader. Continued favorable financial results justify an additional increase in net present value to \$126 a share following an increase earlier this year to \$120 from \$113. We see 11% potential appreciation to present value where the stock would then offer a continuing unlevered real return of some 7% per year at US\$40 a barrel for light, sweet crude oil.

Double LNG in Six Years

Among mega cap peers, Total has the most emphasis on overseas natural gas (see table Present Value by Line of Business). “Overseas” means outside North America. The distinction is justified because the two markets have different dominating characteristics with the North American market having higher prices for now. Ironically “overseas” for Total includes domestic production in France, the country where the company is domiciled.

Total is third largest in overseas natural gas while it is the fourth largest energy company overall in the listing. Among all companies in our coverage, only **Unocal (UCL)** is more concentrated on natural gas outside North America. Unocal and Total are fellow suppliers to the world’s largest natural gas liquefaction plant at Bontang, East Kalimantan, Indonesia. Though Unocal will soon be part of **ChevronTexaco (CVX)**, we present the companies separately.

The company is represented in plants that account for about 40% of the world’s liquefied natural gas (LNG) capacity. Management projects 12% per year growth through 2010. Backed by long reserve life, LNG projects would take about 40% of Total’s global natural gas production at the end of this decade. Current projects include eight trains at Bontang, six in the Middle East and

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three in Nigeria. New plants on stream by 2010 or soon thereafter include six or more trains in the Middle East, three in Nigeria and one in Norway. A train is a nearly self-contained module of process equipment. Plants grow by adding trains.

Present Value by Line of Business

(US\$millions)

	<i>North American Natural Gas</i>	<i>Over- seas Natural Gas</i>	<i>Oil Production</i>	<i>Down- stream</i>	<i>Total</i>
Exxon Mobil Corporation	40,000	76,000	151,000	142,000	409,000
Royal Dutch/Shell	9,000	44,000	86,000	118,000	257,000
Total S.A.	-	42,000	70,000	66,000	178,000
BP plc	27,000	32,000	119,000	84,000	262,000
ChevronTexaco Corporation	11,000	14,000	92,000	60,000	177,000
PetroChina Company Ltd	-	13,000	127,000	34,000	174,000
ConocoPhillips	16,000	8,000	50,900	42,000	116,900
Norsk Hydro ASA	-	7,000	11,700	11,600	30,300
Unocal Corporation	6,000	6,000	10,300	-	22,300
CNOOC Limited	-	3,300	24,300	-	27,600
Marathon Oil Corporation	3,700	2,500	7,400	7,400	21,000
Burlington Resources	20,000	1,300	8,200	-	29,500
Petro-Canada	5,000	800	11,900	5,000	22,700
Occidental Petroleum Corp.	6,000	500	29,800	4,800	41,100

Largest International Producer in Africa

While natural gas is the future, oil also offers high quality growth for Total. The company's leading position in Africa is especially valuable because the oil is mostly of a light, sweet grade that draws a premium price. Africa accounts for about 40% of current oil production and would grow about 6% a year through 2010.

Global oil production is about 39% of Total's value (see table Functional Cash Flow and Present Value). It helps the credibility of our estimates that beginning in 2005 the company discloses wellhead price for natural gas and oil quarterly.

Refining, Chemicals and Sanofi-Aventis Drive Downstream

The largest European refiner creates growing profits by turning increasingly heavy crude oil into increasingly lighter products. Combining the refining properties of predecessor Total with Elf Aquitaine and Belgian Petrofina, the company has about 20% of capacity in Western Europe and the U.K. Trading in a global marketplace, European refiners also send gasoline to the U.S. and distillate oil to China at times.

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Total
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
Overseas Natural Gas	7,390	9.8	5.7	42,000	24%
Oil	14,860	8.6	4.7	70,000	39%
Downstream	9,550		6.9	66,000	37%
	31,800	9.0	5.6	178,000	100%
Debt (US\$mm)				28,000	
Net Present Value (US\$mm)				150,000	
Shares (mm)				1,192	
Net Present Value (US\$/sh)				126	

Chemicals profitability is rebounding also under some of the same dynamic forces of rising demand and shrinking spare capacity. Management plans an initial public offering later in 2005 of shares in Arkema, an independent company. The new entity holds chemical businesses that are currently less profitable and not considered to be core operations in Total's future.

Upon creation of the new pharmaceutical giant, Sanofi-Aventis (SNY) last year, Total was the largest shareholder with 13.25% at year end. The stake is worth about \$17 billion today, up from \$14 billion a few months ago. We include that amount in our estimate of "downstream" present value. Under equity accounting, only Total's share of SNY earnings is in cash flow (Ebitda) as we calculate it. As a result the cash flow multiple for downstream is higher than for most companies.

In the past Total has sold shares of predecessor Sanofi and used the proceeds to repurchase Total stock. The company has stated its intention not to sell SNY shares at least during the immediate period after the merger. With stock price appreciation and the passage of time, Total could once again gradually monetize its Sanofi shares.

Cash Flow Continues at a High Level

Commodity price drives cash flow in our model (see table Next Twelve Months Operating and Financial Estimates). We hold volume constant in our projection, hoping to be favorably surprised as the company attempts to achieve 3-4% per year annual volume growth.

Buy Oil and Gas Producers at Mid Decade

Multi-fold gain potential for oil and gas price over the years ahead justifies investment in recommended oil and gas producers, in our opinion. A McDep Ratio of 1.0 implies that a stock is valued at present value assuming a constant real oil price of US\$40 (see table Rank by McDep Ratio). That is lower than the current benchmark oil average futures price for the next six years of about US\$50 a barrel. Moreover the average price of oil for continuous delivery over the next six years is in a multi-year uptrend as defined by the current quotes above the 40-week average of about \$42 a barrel.

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Total S.A.
Next Twelve Months Operating and Financial Estimates

	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next Twelve Months</i>
	<i>9/30/04</i>	<i>12/31/04</i>	<i>2004</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>3/31/06</i>
Volume										
Natural Gas (mmcf/d)	4,386	5,323	4,907	4,945	4,945	4,945	4,945	4,945	4,945	4,945
Oil (mbd)	1,674	1,684	1,695	1,657	1,657	1,657	1,657	1,657	1,657	1,657
Total gas & oil (mmb)	221	237	919	223	226	228	228	906	223	906
Price										
Dollar (euro/\$)	1.22	1.30	1.24	1.31	1.29	1.29	1.29	1.29	1.29	1.29
Natural gas (\$/mmbtu)	4.15	4.40		4.40	4.58	4.72	4.77	4.62	4.75	4.71
Oil (\$/bbl)										
WTI Cushing	43.89	48.31	41.44	49.65	51.72	53.22	53.86	52.11	53.61	53.10
Brent	41.50	44.00	38.23	45.22	47.11	48.47	49.05	47.46	48.82	61.21
Company	39.50	43.48	27.79	44.10	45.94	47.27	47.84	40.13	47.61	40.88
Refining Margin										
NY Harbor 3-2-1 (\$/bbl)	7.78	5.72	7.74	6.17	10.80	9.50	7.65	8.53	8.41	9.09
Europe (\$/t)	32.90	42.40	32.83	45.41	80.93	71.20	57.34	63.72	63.04	68.13
Revenue (mmeuro)										
Natural gas	1,675	2,155		1,958	2,063	2,146	2,171	8,338	2,114	8,494
Oil	6,083	6,736		6,577	6,927	7,206	7,292	28,003	7,101	28,527
Total production	7,758	8,891	25,534	8,535	8,990	9,352	9,464	36,340	9,215	37,021
Other	23,353	25,941	97,166	18,153	18,153	18,153	18,153	72,613	18,153	72,613
Total	31,111	34,832	122,700	26,688	27,143	27,505	27,617	108,953	27,368	109,633
Expense										
Production	4,200	5,173	11,572	4,574	4,802	4,983	5,039	19,397	4,914	19,737
Other	21,860	23,726	91,003	16,310	16,299	16,299	16,299	65,207	16,299	65,195
Ebitda (mmeuro)										
Production	3,557	3,717	13,962	3,961	4,188	4,369	4,425	16,943	4,301	17,283
Other	1,494	2,215	6,163	1,843	1,854	1,854	1,854	7,406	1,854	7,417
Total Ebitda	5,051	5,932	20,125	5,804	6,043	6,224	6,279	24,349	6,155	24,701
Exploration	81	151	414	72	120	120	120	432	120	480
Deprec., Deplet., & Amort.	1,280	1,794	5,579	1,191	1,400	1,400	1,400	5,391	1,400	5,600
Excess tax and other	(783)	(1,090)	(2,991)	(1,572)						
Operating Income										
Upstream	3,406	3,460	12,820	4,010						
Downstream	752	1,192	3,217	891						
Chemicals	315	425	1,086	555						
Total operating income	4,473	5,077	17,123	6,113						
Excess tax and other	783	1,090	2,991	1,572						
Ebit	3,690	3,987	14,132	4,541	4,523	4,704	4,759	18,526	4,635	18,621
Interest	33	118	236	47	47	47	47	188	47	188
Ebt	3,657	3,869	13,896	4,494	4,476	4,657	4,712	18,338	4,588	18,433
Income Tax	1,280	1,354	4,863	1,573	1,566	1,630	1,649	6,418	1,606	6,451
Net Income (mmeuro)	2,377	2,515	9,032	2,921	2,909	3,027	3,063	11,920	2,982	11,981
Shares (millions)	1,228	1,218	1,231	1,192	1,192	1,192	1,192	1,192	1,192	1,192
Per share (euro)	1.94	2.07	7.34	2.45	2.44	2.54	2.57	10.00	2.50	10.05
Ebitda Margin (E&P)	46%	42%	55%	46%	47%	47%	47%	47%	47%	47%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%

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Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/</i>	<i>Rating</i>	<i>Price</i> <i>(\$/sh)</i>	<i>Shares</i>	<i>Market</i>	<i>Net</i>	<i>Debt/</i>	<i>McDep</i>
			<i>6-May</i>	<i>(mm)</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>Ratio</i>
			<i>2005</i>		<i>(\$mm)</i>	<i>Value</i>	<i>Value</i>	
Mega Cap								
Shell Transport and Trading Co. plc	SC	B	54.25	1,587	86,000	56.00	0.14	0.97
BP plc	BP	B	61.82	3,574	221,000	64.00	0.13	0.97
Exxon Mobil Corporation	XOM	B	57.60	6,421	370,000	60.00	0.06	0.96
Total S.A.	TOT	B	113.80	1,192	136,000	126.00	0.16	0.92
Royal Dutch Petroleum	RD	B	59.29	2,018	120,000	66.00	0.14	0.91
ChevronTexaco Corporation	CVX	B	52.74	2,100	111,000	76.00	0.10	0.72
			<i>Total or Median</i>		<i>1,044,000</i>		<i>0.13</i>	<i>0.94</i>

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