

Rating: Buy
 S&P 500: 1205

Total S.A.

Raise Net Present Value to \$120 a Share

<i>Symbol</i>	TOT	<i>Ebitda Next Twelve Months ending 3/31/06 (US\$m)</i>	26,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	1
<i>Price (US\$/sh)</i>	110.70	<i>Natural Gas and Oil Production/Ebitda (%)</i>	70
<i>Pricing Date</i>	2/11/05	<i>Adjusted Reserves/Production NTM</i>	9.6
<i>Shares (mm)</i>	1228	<i>EV/Ebitda</i>	6.3
<i>Market Capitalization (US\$m)</i>	136,000	<i>PV/Ebitda</i>	6.7
<i>Debt (US\$m)</i>	27,700	<i>Undeveloped Reserves (%)</i>	48
<i>Enterprise Value (EV) (US\$m)</i>	163,600	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	20.80
<i>Present Value (PV) (US\$m)</i>	175,100	<i>Present Value Proven Reserves(US\$/boe)</i>	10.30
<i>Net Present Value (US\$/share)</i>	120	<i>Present Value Proven Reserves(US\$/mcf)</i>	1.72
<i>Debt/Present Value</i>	0.16	<i>Earnings Next Twelve Months (US\$/sh)</i>	10.01
<i>McDep Ratio - EV/PV</i>	0.93	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	2.8	<i>Indicated Annual Dividend (US\$/sh)</i>	3.06

Note: Estimated cash flow and earnings tied to one-year futures prices for oil, natural gas and refinery crack.

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, European refining and a capable leader. We raised our estimate of net present value to \$120 a share from \$113 on January 26, 2005 when we revised our estimate of long-term oil price to \$40 a barrel constant real from \$35. However, we restrain the increase in NPV to less than previously calculated in a sensitivity illustration as we await disclosure of detailed results for 2004. We see 8% potential appreciation to present value where the stock would then offer a continuing unlevered real return of some 7% per year at low risk.

Global Natural Gas Producer

Total has a high concentration on overseas natural gas as we categorize clean fuel production outside North America (see table Functional Cash Flow and Present Value). The company is represented in 40% of the world's liquefied natural gas capacity. Among the areas, Total has a quarter of the Dolphin project in Qatar designed to produce two billion cubic feet daily beginning in about 2007.

No other mega cap has as much relative emphasis in overseas natural gas (see table Present Value by Line of Business). 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, the only other with greater relative emphasis is **Unocal (UCL)**, Total's fellow supplier to the world's largest natural gas liquefaction plant at Bontang, East Kalimantan, Indonesia.

Profitability of overseas natural gas is slow to respond to oil price increases. We take account of that in our present value estimate.

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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	5,550	11.1	7.2	40,000	23%
Oil	12,690	8.9	6.3	80,100	46%
Downstream	7,760		7.1	55,000	31%
	26,000	9.6	6.7	175,100	100%
Debt (US\$mm)					27,700
Net Present Value (US\$mm)					147,400
Shares (mm)					1,228
Net Present Value (US\$/sh)					120

Present Value by Line of Business
(US\$millions)

	<i>North</i> <i>American</i> <i>Natural</i> <i>Gas</i>	<i>Over-</i> <i>seas</i> <i>Natural</i> <i>Gas</i>	<i>Oil</i> <i>Production</i>	<i>Down-</i> <i>stream</i>	<i>Total</i>
Exxon Mobil Corporation	38,000	54,000	172,000	110,000	374,000
Royal Dutch/Shell	9,000	47,000	95,000	113,000	264,000
Total S.A.	-	40,000	80,100	55,000	175,100
BP plc	30,000	30,000	133,000	70,000	263,000
PetroChina Company Ltd	-	13,000	139,800	21,000	173,800
ChevronTexaco Corporation	14,000	11,000	104,300	50,000	179,300
ConocoPhillips	16,000	8,000	49,700	42,000	115,700
Unocal Corporation	6,000	6,000	10,300	-	22,300
Norsk Hydro ASA	-	6,000	12,700	11,600	30,300
CNOOC Limited	-	3,300	24,300	-	27,600
Marathon Oil Corporation	3,700	1,500	8,300	7,400	20,900
Burlington Resources	20,000	1,300	8,300	-	29,600
Petro-Canada	5,000	1,000	12,400	3,900	22,300
Occidental Petroleum Corp.	5,700	600	30,400	4,800	41,500

African Oil Producer

While the company is diversified globally in oil production, it has enjoyed its greatest success in Africa that accounts for 40% of proven oil reserves. West Africa production is projected to grow from about 500,000 barrels daily (bd) to about 800,000 bd in the five years through 2008. The largest single new field for Total may be Dalia, expected to flow 240,000 bd (40% TOT) at its peak. Indicating the direction of future production and the need for investment, more than half of proven reserves in Africa are reported as undeveloped

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Adjusted reserve life of 9.6 years for oil and natural gas, slightly less than for peer companies, would be a longer 12.6 years before adjustment. Undeveloped reserves account for 48% of the total. Our adjustment counts undeveloped reserves at half the weight of developed reserves because the development investment has not yet been made.

Largest European Refiner

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. Whether it is gasoline, diesel, or jet fuel, transportation fuels are demanding a greater share of the oil barrel and oil has no competition for transportation fuel. Meanwhile excess refining capacity has been worked off or retired. As a result, Total should continue to generate strong cash from refining/marketing even though it may not be predictable from quarter to quarter.

Largest Shareholder of Sanofi-Aventis

Upon creation of the new pharmaceutical giant, Sanofi-Aventis (SNY) last year, Total was the largest shareholder with some 13.4%. With the equivalent of about 2800 million American Depositary Shares outstanding SNY has a market cap over US\$100 billion and Total's position is worth about \$14 billion if we understand correctly. We include that amount in our estimate of "downstream" present value. Yet only Total's share of SNY earnings is in cash flow (Ebitda) as we calculate it. That is because Total does not report its share of interest, taxes and depreciation incurred by SNY and we have not made our own estimate. As a result the cash flow multiple for downstream is higher than for most companies.

Cash Flow Continues as 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, expecting to be favorably surprised as the company attempts to achieve 4% per year annual volume growth.

Cash flow would be sustained at a high level in 2005. Of course that could change depending on how well futures prices anticipate actual prices among other factors.

Europe refining margin appears to have increased more in recent quarters, but still remains near half that of N.Y. Harbor in our projection. (Multiply the margin in dollars per barrel by seven to get the rough equivalent in dollars per ton.)

Capable Leader

Chairman Thierry Desmarest has built a respectable record as a capable and energetic leader. He has had remarkable success combining Total with Fina and Elf. He also contributed to the formation last August of Sanofi-Aventis.

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

	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</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>2004E</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)	4,386	4,386	4,671	4,386	4,386	4,386	4,386	4,386	4,386	4,386
Oil (mbd)	1,674	1,674	1,692	1,674	1,674	1,674	1,674	1,674	1,674	1,674
Total gas & oil (mmb)	221	221	903	216	219	221	221	878	216	878
Price										
Dollar (euro/\$)	1.22	1.28	1.24	1.28	1.28	1.28	1.28	1.28	1.28	1.28
Oil (\$/bbl)										
WTI Cushing	43.89	48.30	41.44	46.72	47.65	47.23	46.31	46.98	45.42	46.65
Brent	41.50	45.66	38.64	44.17	45.05	44.66	43.78	44.42	42.94	34.78
Company (euro/bbl)	23.81	25.06	21.80	24.24	24.72	24.51	24.03	24.37	23.56	24.21
Refining Margin										
NY Harbor 3-2-1 (\$/bbl)	7.83	5.30	8.25	6.95	8.85	7.97	6.83	7.65	8.03	7.92
Europe (\$/t)	32.90	21.31	27.55	27.94	35.56	32.02	27.44	30.74	32.29	31.83
Revenue (mmeuro)										
Production	5,269	5,544	19,698	5,247	5,411	5,422	5,316	21,396	5,100	21,249
Other	25,842	25,842	99,556	25,842	25,842	25,842	25,842	103,370	25,842	103,370
Total	31,111	31,387	119,255	31,089	31,253	31,265	31,159	124,766	30,943	124,619
Expense										
Production	1,711	1,849	5,758	1,701	1,782	1,788	1,735	7,006	1,627	6,933
Other	24,349	24,454	94,220	24,368	24,287	24,318	24,362	97,335	24,309	97,277
Ebitda (mmeuro)										
Production	3,557	3,695	13,940	3,546	3,628	3,634	3,581	14,390	3,473	14,316
Other	1,494	1,388	5,336	1,475	1,555	1,524	1,481	6,035	1,533	6,093
Total Ebitda	5,051	5,083	19,276	5,021	5,184	5,158	5,062	20,425	5,006	20,410
Exploration	81	81	344	81	81	81	81	324	81	324
Deprec., Deplet., & Amort.	1,280	1,280	5,065	1,280	1,280	1,280	1,280	5,120	1,280	5,120
Excess tax and other	(783)		(1,902)					-		
Operating Income										
Upstream	3,406									
Downstream	752									
Chemicals	315									
Total operating income	4,473									
Excess tax and other	783									
Ebit	3,690	3,722	13,867	3,660	3,823	3,797	3,701	14,981	3,645	14,966
Interest	33	33	151	33	33	33	33	132	33	132
Ebt	3,657	3,689	13,716	3,627	3,790	3,764	3,668	14,849	3,612	14,834
Income Tax	1,280	1,291	4,800	1,270	1,326	1,318	1,284	5,197	1,264	5,192
Net Income (mmeuro)	2,377	2,398	8,915	2,358	2,463	2,447	2,384	9,652	2,348	9,642
Shares (millions)	1,228	1,228	1,234	1,228	1,228	1,228	1,228	1,228	1,228	1,228
Per share (euro)	1.94	1.95	7.22	1.92	2.01	1.99	1.94	7.86	1.91	7.85
Ebitda Margin (E&P)	68%	67%	71%	68%	67%	67%	67%	67%	68%	67%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%

Buy Oil and Gas Producers at Mid Decade

TOT stock appears to have positive appeal in an attractive group for investment (see table [Rank by McDep Ratio](#)). Three to five-fold gain potential for oil and gas price over the next 5 to 13 years justifies investment in recommended oil and gas producers, in our opinion. Supporting improving prospects, the average futures 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. The current benchmark oil average futures price for the next six years is about \$42 a barrel.

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

	<i>Symbol/</i>		<i>Price</i>		<i>Market</i>	<i>Net</i>		
	<i>Rating</i>	<i>11-Feb</i>	<i>(\$/sh)</i>	<i>Shares</i>	<i>Cap</i>	<i>Present</i>	<i>Debt/</i>	<i>McDep</i>
		<i>2005</i>		<i>(mm)</i>	<i>(\$mm)</i>	<i>Value</i>	<i>Present</i>	<i>Ratio</i>
						<i>(\$/sh)</i>	<i>Value</i>	
Mega Cap								
Exxon Mobil Corporation	XOM	B3	56.11	6,461	363,000	54.00	0.07	1.04
BP plc	BP	B3	62.20	3,601	224,000	64.00	0.12	0.98
Shell Transport and Trading Co. plc	SC	B3	53.45	1,587	85,000	55.90	0.16	0.96
Total S.A.	TOT	B3	110.70	1,228	136,000	120.00	0.16	0.93
Royal Dutch Petroleum	RD	B1	58.85	2,016	119,000	66.00	0.16	0.91
ChevronTexaco Corporation	CVX	B1	58.16	2,123	124,000	76.00	0.10	0.79
		<i>Total or Median</i>			<i>1,051,000</i>		<i>0.14</i>	<i>0.95</i>

B1 = Buy full unlevered position, B2 = Buy half unlevered position, B3 = Alternative buy, H = Hold

S2 = Short half unlevered position, S3 = Short quarter unlevered position

McDep Ratio = **M**arket cap and **D**ebt to **P**resent value of oil and gas and other businesses

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