TotalEnergies

TRADITION
INVESTMENT MANAGEMENT

Total Energies Has Strong Free Cash Backed By High Yielding Growth Profile

Price $61.17 **Dividend Holding** **November 11, 2024**

- 5.3% Dividend Yield with 5% dividend growth.
- Strong long-term production profile, expecting a 4% CAGR output increase to 2030 with breakeven below $30/boe (barrel of oil equivalent).
- Long-term focus on LNGs (Liquified Natural Gas), expecting to grow export capacity by more than 50% by 2030, with 6 Mt/y (million tons per year) in long-term supply contracts signed with Asian importers.
- Trades at an attractive valuation at just 7.8x earnings.
- Committed to $2 billion in buybacks each quarter of 2025.

Investment Thesis

TotalEnergies (TTE) is a French energy company specializing in petroleum extracting and refining. TTE is the third largest non-OPEC producer in the world, producing 1.6 mmbbl/d of liquids (million barrels per day) and more than 5 bcf/d (billion cubic feet per day) of natural gas. Portfolio-wide, TTE has a sub $30/boe (barrel of oil equivalent) breakeven price with a strong cash flow profile even in lower pricing environment, generating $18 billion in free cash over the trailing twelve months.

We feel that TTE has a compelling expansion profile with a strong investment focus in LNGs and pushes into renewables without sacrificing high-yield traditional investment opportunities in oil exploration and production. TTE has a dividend yield of 5.57%, and trades at just 7.8x earnings. We feel this valuation fails to incorporate the peer-leading production profile growth of 4% CAGR to 2030, and rock-solid balance sheet.

Estimated Fair Value

EFV (Estimated Fair Value) = EFY25 EPS (Earnings Per Share) times P/E (Price/Earnings)

EFV = E25 EPS X P/E = $8.70 x 9.5x = $82.65

The strong unit production growth and profitability deserve at least a 9.5 PE in our opinion.

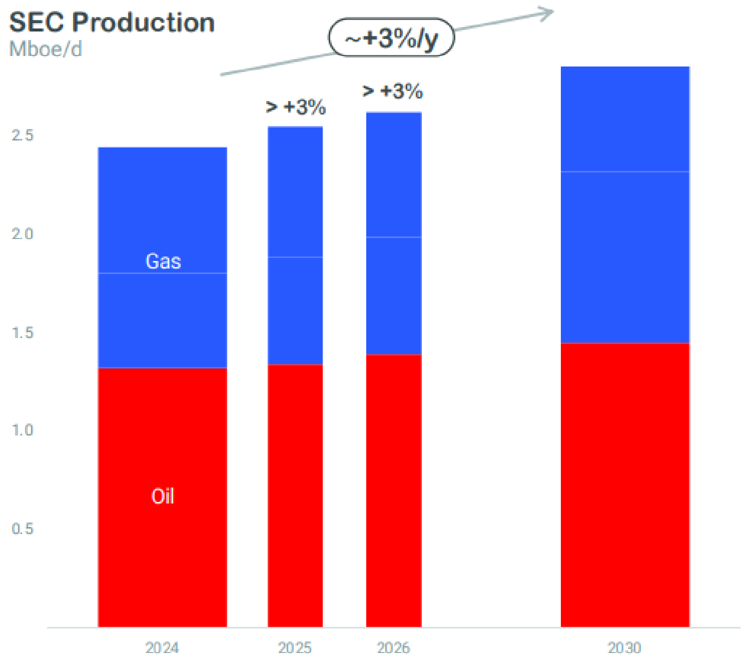
	E2024	E2025	E2026
Price-to-Sales	0.7	0.7	0.7
Price-to-Earnings	7.6	8.2	7.6

Upstream Overview

For the first 9 months of 2024, total production was down 2% year over year, due to both an outage at the non-TTE operated Ichthys LNG drill in Australia and exits from Brunei and South African offshore. TTE has proven reserves of 12 years, and 6 additional years in probable reserves. TTE expects to end the year within a similar production range to the first 9 months of 2024, between 2,400 kboe/d (thousands of barrels of oil equivalent) and 2,450 kboe/d.

Location	Production First 9 Months of 2024 (kboe/d)	Year over Year Change
Europe	563	1%
Africa	454	-5%
Middle East-North Africa	813	8%
Americas	366	-17%
Asia-Pacific	241	-6%
Total Production	**2,437**	**-2%**
Total Oil Production (Includes Bitumen)	**1,321**	**-6%**
Total Gas Production (includes NGLs)	**1,116**	**3%**

Does not include equity affiliates.



TTE

Over the next decade, TTE plans to add 3% overall production per year in mixed oil and gas. The current production split is 45.8% gas, 54.2% oil which we expect to slowly shift toward gas over the next decade.

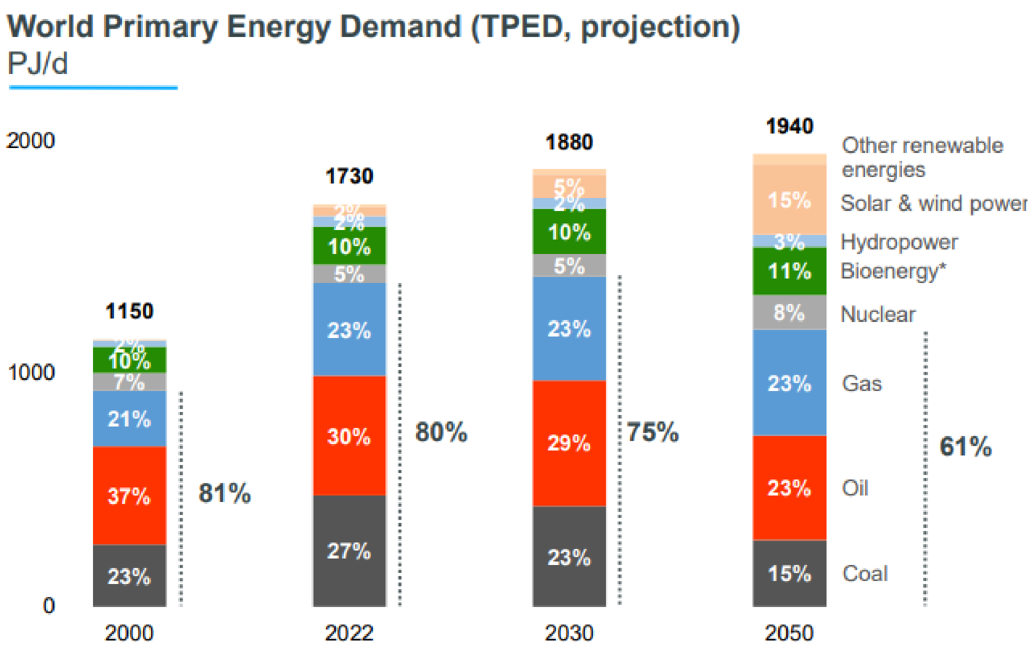
The cost environment has begun to stabilize in oil and gas, and TTE has a stated goal to reduce operating expenditure in oil and gas by $500 million by 2027, or by around 3% per year to offset cost inflation. By renegotiating contracts and trimming cost structures in mature areas, they should be able to meet the target of <$30/bbl (barrels) after-tax breakeven.

Oil and Dry Gas

	First 9 Months of 2024 ($ millions)	Year over Year Change
Revenue	$33,323	-9.7%
Net Operating Income Margin	23.1%	+100bps
Free Cash Flow	$5,881	43.2%

Segment Free Cash Flow is CFFO – Net Investments (Cash flow used in investments + capex linked to capitalized leases + carbon credits)

TTE expects oil demand to increase with population demand, or around a 1% CAGR to 2030. Unlike most majors, TTE estimates that global oil demand will not peak until after 2030 unless there is major technology improvement that will allow for more efficient electrification, especially in the emerging markets. In our opinion, the bottlenecks in electrification will allow oil demand to continue to grow well into the next decade.



TTE. Base case, current trends.

TTE has 10 major oil upstream projects to come online within the next decade, with an estimated after-tax breakeven of under $30/boe (barrel of oil equivalent). In total, adjusted for TTE ownership, it will add 529.7 kboe/d of attributable oil production – or around 295.9 kboe/d of operated production.

Title	Location	Attributable Production (kboe/d)	Operating Date	Approximate Direct Cost ($/bbl)
Ratawi Phase 1	Iraq	49.5	2025	<$10
Tilenga	Uganda	130.4	2026	$10
Kaminho	Angola	28.0	2028	$22
GranMorgu	Surinam	88.0	2028	$20

Projects shown are TTE Operated Only

Currently, TTE is in negotiations with the Guyanese government to gain license to drill in the valuable offshore play there, with TTE targeting shallow blocks with Petronas and Qatar Energy.

The largest current exploratory drill is on the Venus field off the coast of Namibia (~43% average interest across blocks). Potentially being Africa's Guyana, Namibia has seen a flurry of exploratory drilling activity with the discovery of more than 7 Bboe (billions of barrels of oil equivalent) in recoverable offshore assets. Previous drills estimated an annual production of 160,000 bbl/d in light oil, with TTE resuming test drilling in the final quarter of 2024. Additional drills are expected in the area in 2025.

Integrated LNG

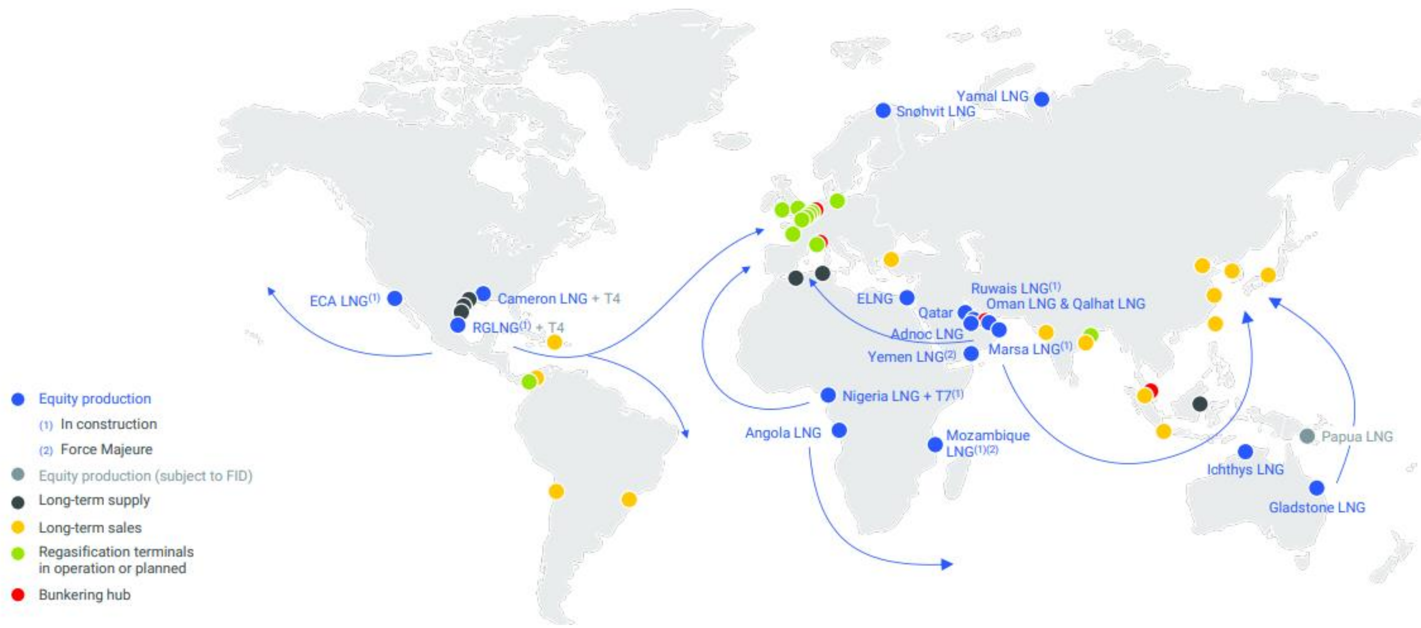
	First 9 Months of 2024 ($ millions)	Year over Year Change
Revenue	$14,618	-27.5%
Net Operating Income Margin	23.5%	flat
Free Cash Flow	$1,105	-67.7%

Segment Free Cash Flow is CFFO – Net Investments (Cash flow used in investments + capex linked to capitalized leases + carbon credits) under construction

		Capacity Mt/y	share	First LNG
ECA	Mexico	3	16.6%	2026
NFE	Qatar	32	6.25%	2026
NFS	Qatar	16	9.375%	2028
NLNG T7	Nigeria	7.6	15%	2026
Rio Grande T1–3	US	17.5	16.7%	2027
Marsa LNG	Oman	1	80%	2028
Mozambique LNG		13	26.5%	*2029*
Papua LNG	PNG	6	37.5%	Re-tendering
Cameron T4	US	6.8	16.6%	Re-tendering

TTE holds an advantageous position in global LNG markets, with around 10% market share – the third highest in the world – with 44 million tons per year of liquefaction capacity. TTE expects LNG demand to see 5% CAGR to 2030 with a tighter market in the short-term very sensitive to disruptions – over the same period it expects its own LNG portfolio to grow by over 50% to 2030.

Over the long term in the latter part of the decade, a more stable supply environment will likely be present which could drive up demand, especially in Asia, which already represents 70% of global LNG demand. TTE expects that its portfolio of LNGs will be split 60% own production and 40% affiliate production, mostly focused in the US and Middle East where production and liquefaction costs are lowest.



TTE

Despite currently depressed spot prices, TTE expects the longer-term price environment to result in cash flows outpacing volume to 2030. We feel this will come in the form of linking more volumes to Brent crude prices. Unlike Europe or the US, Asia lacks a wide-scale gas benchmark like Henry Hub, and thus over 66% of LNG contracts have been linked to Brent Crude prices, allowing more long-term price stability. In oil-linked contracts, the buyer agrees to purchase LNG based on a 'slope' – usually 10-15% of Brent crude prices.

TTE has 6 Mt/y in contracts signed with Asian importers, with an average contract life of 9.5 years starting in 2026. The most major of these is a 2 Mt/y supply agreement with Sinopec over 15 years starting in 2028.

Benchmark	Location	First 9 Months of 2024 ($/mmbtu)	Year over Year Change
Brent-Linked LNG price	Most of Asia	~$9.6	1%
Henry Hub	North America	$2.2	-14%
NBP	Europe/UK	$9.8	-21%
JKM	Japan-Korea	$11.2	-16%

mmbtu = millions of British thermal units. Brent-linked LNG price from NaturalGasIntel and S&P Global. Assumes TTE Brent-Linked LNG prices are 12% Brent.

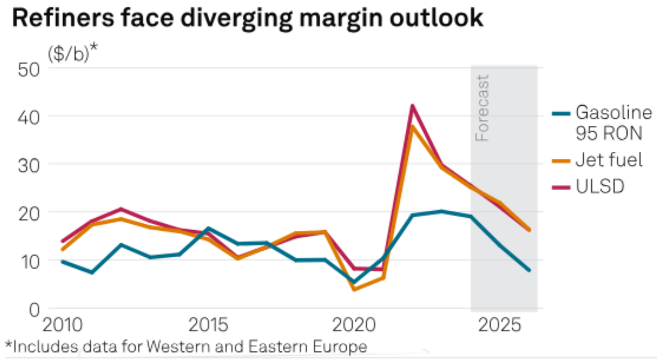
Refining

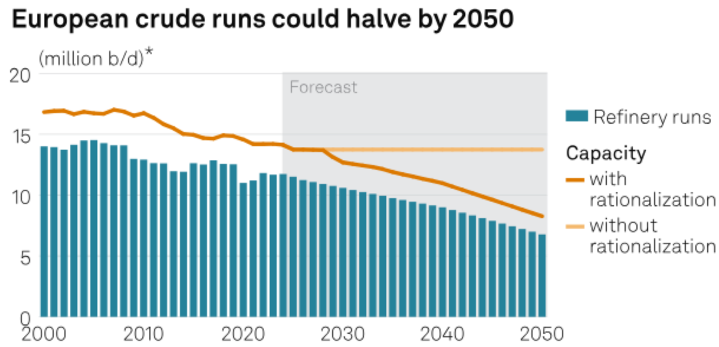
	First 9 Months of 2024 ($ millions)	Year over Year Change
Revenue	$95,657	-8.0%
Net Operating Income Margin	1.9%	-200bps
Free Cash Flow	$-1,073	-

Segment Free Cash Flow is CFFO – Net Investments (Cash flow used in investments + capex linked to capitalized leases + carbon credits)

Globally TTE has the capacity to refine 2 mmbbl/d (millions of barrels per day), with its largest refining base being in France. TTE reported refining margins fell 66% quarter over quarter, down to just $15/ton for the quarter ending September 2024 – below the breakeven of $25/ton. The long-term average from 2013-2023 was $35/ton.

This is merely cyclical as the refining industry turned down due to a combination of lower than expected oil demand (primarily out of China) and a record high industry refinery availability. Bank of America estimates that global refining capacity has increased by 1.5 mmbbl/d, compared to EIA estimates of a refined fuel demand contraction of 250 kbbl/d (thousands of barrels per day).





S&P Global Commodity Insights

Source: S&P Global Commodity Insights World Refinery Database; Long-Term Market Outlook

Despite lower-than-expected margins, utilization rates were up to 83%, or a 200bps increase year over year. Utilization in Europe saw a broad increase, which offset the decrease in the rest of the world. TTE believes that it will end the year at a utilization metric at or above 85%. As of the quarter ending September 2024, it does not expect to mothball or accelerate shutdown of any European refineries as a result of the supply glut.

Petrochemical utilization saw an increase of 700bps to 79%, concentrated in polymers, which TTE expects to remain constant for the remainder of 2024. Overall, the petrochemical export market has become less attractive over time due to added US export-capacity and Chinese domestic capacity driving up the cost of inputs. TTE has said that the Petrochemicals business does still have some attractive expansion opportunities where there are cheap self-owned feedstocks. The largest is Project Amiral in Saudi Arabia, 37.5% owned by TTE and operated by Aramco. The project will utilize off-gasses and byproducts from the major Saudi Aramco SATORP refinery on the Persian Gulf coast, the largest refinery in the Middle East. First production is expected in 2027 and is expected to turn 1.65 million tons of ethylene into 1 million tons of polyethylene per year.

TTE has stated that it wishes to invest in refinery transformation now, rather than play catch up later, though its only announced plans are coprocessing investments in biofuels. TTE has stated that retrofits to biofuels take around 40% less capex than a similarly sized greenfield project and have profitability timelines of 4-10 years. As an example, the Grandpuits refinery was converted from a crude refinery in 2020. Grandpuits previously output 4.6 million metric tons in crude refining capacity, and with a $540 million investment, will be able to supply 405,000 metric tons of biofuels per year, including around 5% of France's yearly aviation fuel. Overall, we feel that the current environment is not overly favorable for biofuels, as the feedstocks tend to be very expensive.

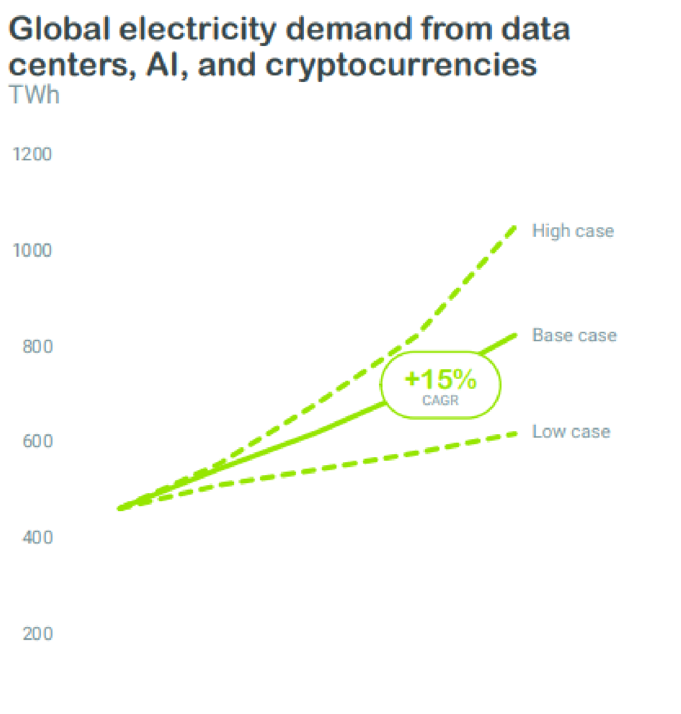
We feel this could expand the lifespan of flagship European refineries, though it may be a game of last-man-standing given profitability is likely still limited by feedstock costs and still muted demand for end-products. Over time we expect the European refinery base to contract as the EU has a non-electric vehicle ban slated to come into effect in 2035, although the ultimate timing will probably be delayed. Around 70% of TTE refining capacity is in Europe, and while we feel some will be able to stay open on industrial fuels, lubricants, and feeding TTE's strong consumer fuels marketing position in Africa, the long-term picture for domestic focused European refining is not strong.

Integrated Power

	First 9 Months of 2024 ($ millions)	Year over Year Change
Revenue	$17,573	-23.1%
Net Operating Income Margin	9.1%	+330bps
Free Cash Flow	$-2,651	-

Segment Free Cash Flow is CFFO – Net Investments (Cash flow used in investments + capex linked to capitalized leases + carbon credits)

The trend of electrification should provide a secular long-term tailwind in European operations. Additionally, the continued trend of digitization and adoption of AI could push global power demand far higher than predicted. TTE's base case sees electrical demand growing at 15% CAGR through the end of the decade. TTE estimates the segment will have positive free cash by 2028. While we think that TTE's most attractive businesses are its oil and gas ventures, it has stated that it is going to pursue higher-margin projects to boost return on capital employed to above 12%, so that the segment would be competitive over the long-term.



TTE

TTE expects to deliver 100GW of renewables by the end of the decade, with 70% of renewables growth in deregulated markets. We feel that targeting deregulated markets should provide above-peer growth. Additionally, increasing exposure to energy merchant markets to 30% (currently 10%) by the end of the decade could also boost margins during periods of under supply.

Future investment in the segment is going to be split 30% to natural gas, with 70% in renewables and storage.

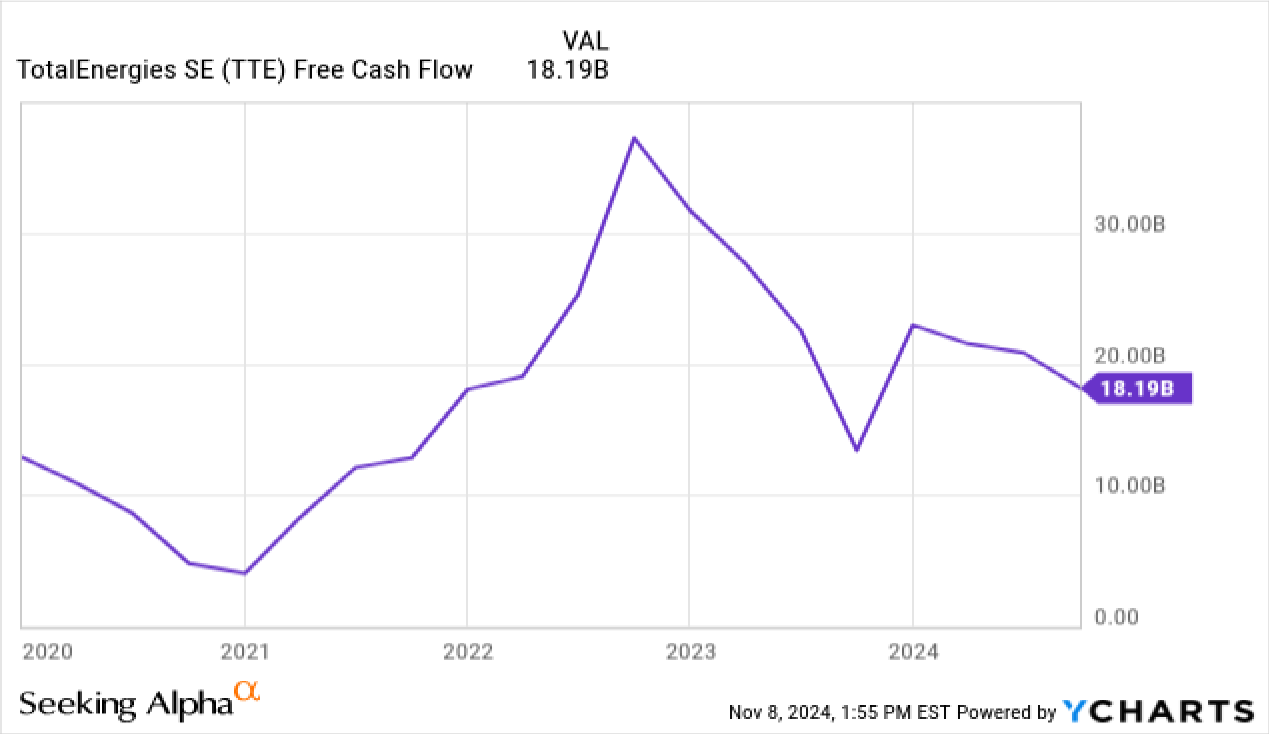
Net Power Production	First 9 Months of 2024 (TWh)	Year over Year Change
From Renewables	19.6	45%
From Gas	10.2	-15
Total	**29.7**	**17%**

Risk

The European regulatory environment has become more hostile to oil and gas companies over the last decade. European regulations mean that the long-term viability of refining operations in Europe are in question. While converting existing refineries to biorefineries is less expensive than greenfield construction, these green bets have a far longer time to profitability than traditional exploration and production efforts. The integrated power segment has the lowest return on capital employed in the company at 10%, which it believes can bring up to 12% by the end of the decade. This is still far below the company-wide figure of 15.9%.

Financials

By 2030, TTE expects to grow annual free cash flow to grow between $5 billion at $60/bbl Brent to $10 billion at $80/bbl Brent. For the trailing twelve months ending September 2024, TTE generated $18.19 billion in free cash.



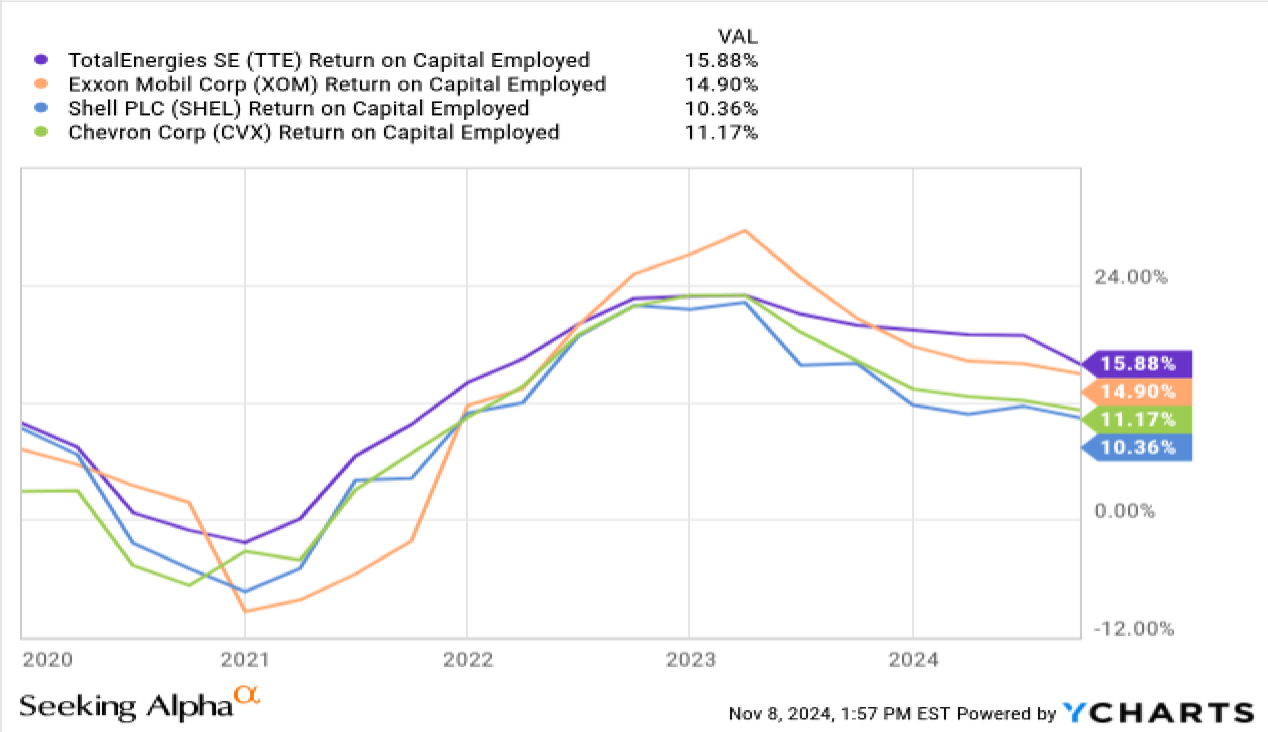
In our view that this cash flow target is more than realistic, given the production growth estimate of 4% CAGR to 2030. According to Wood Mackenzie, this production growth profile is a peer-leader. TTE expects to end the decade at a production split of 20% Integrated Power, 40% Gas, and 40% Oil.

For the trailing twelve months ending September 2024 TTE has a net debt to EBITDA of 0.75x, and a strong $31.98 billion cash position. Our opinion is that TTE's balance sheet is rock-solid, and what little debt does exist is mostly asset-level.

Over that same period, our view is that the dividend will continue to be a safe peer-leader. In 2025, TTE has committed to $2 billion per quarter in share repurchases, or 5.4% of shares. Additionally, it will increase the dividend by 5%, to $3.67 or a yield of 6.0% at current prices. TTE targets a dividend payout ratio of at least 40% of operating cash flows.

In our view there will likely not be any major M&A actions, but TTE has stated that the areas they are most interested in is in Malaysia LNGs and US Shale gas in the Eagle

Ford. We do expect there to be an upped pace of oil dispositions in within the next few years, in the form of targeted de-risking of the portfolio. The most recent divestitures are the mature Brunei offshore block for around $250 million, and a partial $860 million exit from its oil-focused 10% stake in the SPDC (Shell Petroleum Development Company of Nigeria). Importantly, TTE will keep its access to the Nigerian LNG supply chain and licenses, which represent 40% of Nigeria's LNG supply.



TTE has no shortage of organic opportunities, reporting a pipeline of more than $18 billion per year in capex projects. TTE expects to spend $5.3-6.0 billion annually in new oil and gas development, and $5 billion annually in low-carbon energy investments. The remaining will be left for maintaining existing oil and gas infrastructure. TTE has a peer-leading ROCE (return on capital employed) of 15.88%, which given the strong organic profile of TTE's development operations, will likely stay on top.

Conclusion

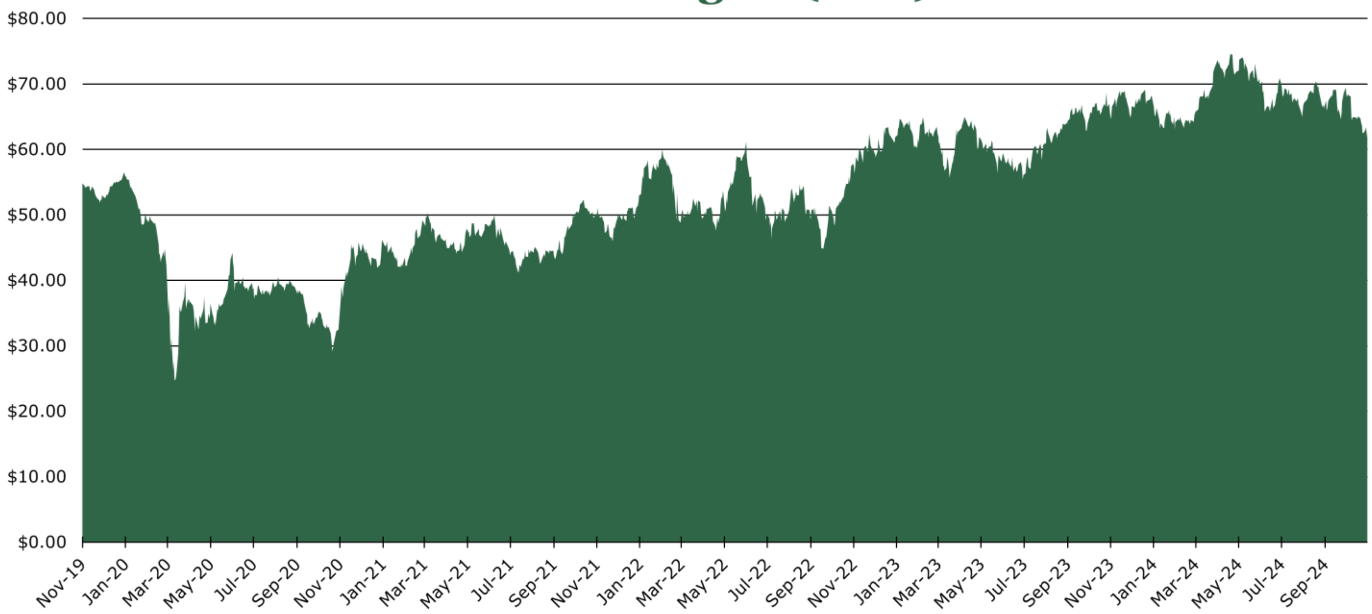
Overall, TTE's financial strength is best shown by its long-term production profile growth and its peer-leading return on capital employed. Trading at just 7.8x earnings, with a net debt to EBITDA ratio of 0.75x, a robust 5.3% dividend yield, and more than $18 billion in annual free cash TTE is well-positioned to deliver long-term value to shareholders.

The company expects to generate at least $5 billion in additional annual free cash flow by 2030. We appreciate that while TTE continues to invest in renewables, it is not sacrificing high-yielding traditional opportunities in upstream oil and LNG projects. This blend of growth in both traditional and new energy plays makes TTE a compelling choice for dividend-focused investors.

Peer Comparisons

	Total Energies (TTE)	Petrobras (PBR)	BP (BP)	Shell (SHEL)	ExxonMobil (XOM)
Price-to-Earnings	8.30	5.45	8.30	8.45	15.00
Price-to-Sales (TTM)	0.71	0.91	0.43	0.73	1.48
Price-to-Book (TTM)	1.22	1.20	1.25	1.12	1.98
Net Income Margin	8.30%	15.78%	1.40%	5.27%	9.80%
Dividend Yield	5.30%	-	6.05%	4.01%	3.27%

Total Energies (TTE)



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