

Q1'26 Earnings | TOTAL: Price-driven earnings rebound supported by mild volume recovery, but structural risks remain

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TotalEnergies Marketing Nigeria PLC delivered a sequential recovery in topline performance for Q1'2026 as revenue advanced 9.5% quarter-on-quarter to N197.1 billion naira from approximately N180 billion naira recorded in Q4'2025. However, despite the rebound on a quarterly basis, revenue declined 11.03% year-on-year from N221.6 billion, reflecting the lingering impact of demand destruction triggered by elevated fuel prices across the domestic downstream market. The improvement in quarterly revenue performance reflects continued recovery momentum in sales volumes following multiple quarters of severe consumer adjustment after subsidy removal and FX pass-through effects, with Q3'2025 to Q1'2026 all delivering sequential topline expansion. Nevertheless, our analysis indicates that the current recovery remains largely price-led rather than purely volume-driven. Data from the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA) showed that average PMS prices increased 8.31% quarter-on-quarter to approximately N945/litre in Q1'2026 from N872/litre in Q4'2025, with PMS prices reaching as high as N1,249/litre in March 2026. The close correlation between revenue expansion and PMS price appreciation suggests that pricing effects remained the dominant driver of topline growth in Q1'2026, although the magnitude of revenue growth slightly exceeding price growth points to mild volume recovery within TotalEnergies' retail and corporate distribution channels.

Rating	SELL
NGX Ticker	TOTAL
Bloomberg Ticker	TOTAL NL
Target Price	N278.38
Company statistics (Q1'2026)	
Return on Average Equity	24.33%
PAT Margin	0.59%
Debt Ratio	28.64%
Market cap	N195 billion

Revenue contraction and cost rigidity drive earnings collapse

Revenue composition further highlights the ongoing structural shift within the company's operating model. White products, which include Premium Motor Spirit (PMS), Automotive Gas Oil (AGO), and Aviation Turbine Kerosene (ATK), recorded a relatively muted quarter-on-quarter revenue increase of 1.2%. While this suggests that broad-based retail fuel demand remains relatively measured, we believe consumption patterns could become increasingly sensitive to further PMS price adjustments should global oil prices continue trending higher amid escalating geopolitical tensions. Conversely, lubricants and other non-white product segments recorded a strong 29.9% quarter-on-quarter rebound, reflecting stronger pricing power and the relatively inelastic nature. Consequently, white products contribution to total revenue declined to 65.73% from 71.11% in Q4'2025, while lubricants and other products expanded their contribution to 34.27% from 28.89%. This transition suggests that TotalEnergies is increasingly pivoting toward higher-margin, less price-sensitive segments capable of absorbing elevated macroeconomic costs and pricing volatility. The shift also reflects the growing importance of B2B and industrial demand channels within Nigeria's downstream energy landscape, particularly as corporates continue to rely heavily on diesel, lubricants, and alternative fuel products amid persistent national grid instability and rising energy costs.

In our view, this evolving product mix could provide an important earnings buffer in periods where higher PMS prices potentially weaken mass-market retail consumption. As a result, continued expansion in lubricants and industrial product penetration may increasingly support margin stability even if white product demand moderates over subsequent quarters.

Slower cost growth amplified operating efficiency gains

Despite topline growth remaining relatively moderate, TotalEnergies recorded a significantly stronger improvement in profitability due to disciplined cost containment and operational efficiency gains. Cost of sales increased only marginally by approximately 4% quarter-on-quarter, materially below the pace of revenue growth. This divergence created substantial operating leverage and allowed the company to

expand profitability at a faster rate than sales growth. The moderation in cost escalation reflects improved sourcing efficiency, lower international logistics exposure, and stronger inventory optimization following the company's increasing reliance on domestic supply channels linked to the Dangote Petroleum Refinery. The reduced dependence on imported refined products appears to have lowered freight-related expenses and shortened inventory conversion cycles, collectively supporting margin expansion during the quarter.

Gross profit expansion signals structural operational turnaround

Gross profit surged 65.0% quarter-on-quarter during the period while gross profit margin expanded materially to 13.7% from 9.1% in Q4'2025, confirming a significant turnaround in operational efficiency and inventory management. The sharp margin recovery suggests that TotalEnergies successfully optimized its local sourcing strategy through improved access to lower-cost domestic supply from Dangote refinery.

EBITDA momentum reinforces earnings recovery

EBITDA advanced 33.6% quarter-on-quarter to N9.989 billion from N7.478 billion recorded in Q4'2025, reflecting improved earnings quality across the business.

The improvement in EBITDA was largely supported by expanding gross margins, slower cost growth and stronger contribution from premium lubricant segment. EBITDA margin consequently improved to 5.1% from 4.2%, highlighting enhanced operational efficiency despite the still challenging macroeconomic environment. Importantly, EBITDA growth outpaced revenue growth materially, suggesting that the company is entering a more efficient operational phase following several quarters of inventory dislocation and import-driven cost pressure. This also reinforces the view that management's transition toward leaner inventory structures and localized procurement is beginning to produce meaningful profitability benefits.

Finance cost decline reflects structural shift in working capital model

Finance costs declined 6.0% quarter-on-quarter to ₦4.77 billion from ₦5.07 billion despite higher short-term borrowings, reflecting a structural shift in the company's inventory financing model following increased domestic sourcing from the Dangote Petroleum Refinery. Historically, imported fuel purchases relied on letters of credit (LCs) and extended shipping cycles, causing interest costs to accumulate while products remained in transit. However, faster inventory turnover and shorter delivery timelines associated with local sourcing have reduced financing duration and lowered interest accumulation periods. Consequently, while borrowings increased to support bulk local purchases, finance costs declined due to more efficient working capital utilization and reduced cash entrapment within inventory.

Profitability returned to positive territory amid margin recovery

The combination of stronger gross profitability, slower cost escalation, and lower finance costs enabled TotalEnergies to return to profitability during Q1'2026. Profit before tax improved significantly from a loss position of approximately N580.58 million naira in Q4'2025 to a profit of ₦1.9 billion in Q1'2026. The recovery was further supported by a substantial reduction in tax expense, which declined approximately by 70% during the period. Consequently, profit after tax rebounded from a loss of N3 billion naira in Q4'2025 to a positive N1.171 billion in Q1'2026. Margin performance reflected this broader earnings recovery trend. Gross profit margin improved to 13.7% from 9.1%, while EBITDA margin strengthened to 5.1% from 4.2%. Profit before tax margin recovered from negative 0.32% to positive 1.0%, while profit after tax margin improved from negative 1.71% to 0.59%.

Inventory normalization reflects transition toward leaner sourcing structure

Inventory trends support the view that TotalEnergies Marketing Nigeria Plc is transitioning from an import-heavy model toward a leaner domestic sourcing framework. Inventory levels expanded significantly between Q2'2024 and Q4'2024 due to import stockpiling and supply uncertainty following subsidy removal, before normalizing in Q1'2025–Q2'2025 as elevated prices and weaker demand forced inventory clearance. Another inventory build-up occurred between Q2'2025 and Q4'2025 amid bulk purchase positioning tied to the Dangote Petroleum Refinery transition. However, Q1'2026 saw inventory levels decline by 26.80% from ₦133.46 billion naira in Q4'2025 to ₦97.692 billion naira in Q1'2026, reflecting improved supply reliability, faster inventory turnover, and more efficient procurement cycles. Going forward, reduced dependence on imported products should limit excessive inventory accumulation and support stronger working capital efficiency and cash flow conversion.

Balance sheet weakness continues to pressure valuation outlook

Despite the operational rebound in Q1'2026, TotalEnergies Marketing Nigeria Plc continues to face pressure from prior-period losses, which continue to weaken cash flow prospects and valuation support. Shareholders' funds declined 41% YoY to ₦44.2 billion in FY'2025, while cash and cash equivalents fell sharply to ₦43.3 billion in FY'2025 from ₦91.3 billion in FY'2024, reflecting sustained liquidity pressure. Although total borrowings declined 28.1% YoY to ₦83.18 billion in FY'2025 from ₦115.7 billion in FY'2024, short-term borrowings increased 18.79% QoQ to ₦101 billion from ₦85 billion in Q4'2025, suggesting increasing reliance on short-term financing to support operational liquidity and inventory funding needs. In our view, weaker retained earnings, rising borrowings and expected higher capital expenditure requirements will continue to pressure free cash flow generation despite improving operational performance. Consequently, we maintain a conservative valuation outlook and lower target price forecast for the company.

Outlook remains constrained despite operational recovery

Looking ahead, we expect elevated geopolitical tensions between Iran and the United States to sustain upward pressure on global crude oil prices, with likely pass-through effects to domestic PMS pricing. While this may continue supporting topline revenue growth in nominal terms, we believe the sustainability of price-led expansion remains limited due to persistent consumer sensitivity to higher fuel prices. Although recent quarters suggest early signs of volume stabilization, the broader demand environment remains fragile. Historical pricing trends continue to indicate that sharp PMS price increases eventually trigger varying degrees of demand destruction across retail consumers and transportation channels. Nevertheless, we expect relatively inelastic corporate and industrial demand segments to remain resilient. Telecommunications operators, manufacturing facilities, logistics operators, airlines, and commercial enterprises continue to depend heavily on diesel and fuel products especially in periods of recurring grid instability and unreliable public power supply. Consequently, B2B demand channels should continue absorbing elevated pricing levels more effectively than retail consumers. We also expect lubricant sales to remain a key earnings stabilizer in coming quarters. Given the potential moderation in white product revenue growth amid weaker consumer demand and the absence of strong seasonal consumption catalysts, lubricant expansion may increasingly become the primary driver supporting revenue resilience and margin sustainability.

FY'26 earnings outlook: Gradual stabilization but no rerating catalyst

For FY'2026, we revise our revenue forecast lower to a modest 1.03% YoY growth, projecting revenue of N775.54 billion versus N767.63 billion in FY'2025, down from our previous expectation of 8–10% YoY growth (N830–850 billion). The downward revision reflects our expectation that while recent quarters indicate gradual volume stabilization, elevated PMS prices and persistent consumer sensitivity will likely constrain broad-based demand recovery. We expect the geopolitical tension between Iran and the United States to sustain upward pressure on crude oil prices and domestic PMS pricing. Also, historical trends suggest further price increases could trigger additional demand moderation across retail consumers.

Consequently, we expect FY'2026 growth to remain supported primarily by gradual recovery in white products and stronger contribution from lubricants and other higher-margin segments, particularly from resilient B2B and industrial demand channels. We forecast gross margin to average 10–11% in FY'2026, EBITDA margin to stabilize around 3.96%, and profit after tax to settle at approximately N3.286 billion naira from a loss position of N17.178 billion naira.

Valuation and recommendation

Despite the improving operational recovery recorded during Q1'2026, we do not believe current earnings momentum fully offsets the company's medium-term valuation risks. Our revised discounted cash flow valuation incorporates expectations for higher capital expenditure requirements and cash flow constraints.

Consequently, we revise our target price downward to **N278.38**, representing an implied downside of 51.67% relative to the company's market price at the time of this report. While operational efficiency is improving and profitability has returned to positive territory, we believe the current market valuation already overprices near-term recovery expectations amid a still fragile macroeconomic environment and structurally constrained consumer demand backdrop. Accordingly, we maintain a **SELL** recommendation on TotalEnergies Marketing Nigeria Plc.

Income statement (N'million)	2025A	2026E	2027E	2028E	2029E	2030E
Revenue	767,634	775,544	802,856	831,875	862,199	893,471
Gross profit	82,074	84,540	86,679	90,246	93,311	96,812
EBITDA	22,141	30,719	33,298	33,258	33,577	34,112
Profit before tax	- 12,500	4,004	7,598	8,894	16,432	16,104
Profit after tax	- 17,178	3,286	6,450	7,891	15,082	15,617

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