



PRESS RELEASE:

**TOTAL SENEGAL's Ratings
Once Again Affirmed**

**WARA affirms once
again Total Senegal's
ratings at A-/Stable/w-3**

The Senegalese leader of fuel distribution, headquartered in Dakar, is still rated A- by WARA. The outlook remains stable.

Dakar, on 22/10/2017 — **West Africa Rating Agency (WARA)** announces today that it has affirmed **Total Senegal's** ratings. On WARA's regional rating scale, Total Senegal's long-term rating remains «**A-**», an investment grade rating, while its short-term rating is still set at «**w-3**». Total Senegal is the leader of fuel and petroleum products distribution in Senegal. The outlook attached to these ratings remains **stable**.

Simultaneously, on its international scale, WARA affirms Total Senegal's ratings at: **iB+/Stable/iw-5**.

The macroeconomic environment is stable in Senegal, where country risk is mitigated by a fair degree of political stability, a homogenous and peaceful society, as well as robust institutions. In such a context, Total Senegal is the leading player of fuel distribution in the country: its market share is 35% in the gas-station retail segment, and 40% in the corporate segment. The powerful Total brand together with the operating support supplied by the Group stand as strong assets, fueled by products largely recognized as superior in terms of quality, on a global basis. Notwithstanding the recent discovery of offshore hydrocarbon resources, Senegal efficiently regulates the domestic market for fuel a vital good: the National Hydrocarbon Committee (*Comité National des Hydrocarbures* or CNH), on behalf of the Ministry of Energy and the Development of Renewable Energies, organizes the market and contributes to its transparency. The margin of fuel distribution companies was recently revalued by 25% in June 2015, which mechanically means better financial performance for Total Senegal going forward, provided inventory effects do not offset it. As a matter of fact, the company's healthy profits of the past were severely wedged in 2016 by the twin impact of negative inventory effects and a tax penalty of 3.5 billion CFA Francs: Total Senegal does not control the end-user price of fuel it distributes on its domestic market, but the company rigorously manages its cost base, and certainly fine-tunes the pace of its investments. Warehousing is one of the most crucial challenges for Total Senegal: on one hand, the monthly

discretionary repricing of petroleum products can lead to wide negative inventory effects, and on the other hand, the government-initiated project of rationalizing warehousing in the sector has been postponed sine die, leading to important opportunity costs for Total Senegal, via Senstock, in the capital of which Total Senegal has a stake. Competition is intense on Senegal's fuel market: 30 contenders share a market of 2 million tons of black and white petroleum products, which forces historical players like Total Senegal to engage costly investments into new gas stations. In such a narrow economy, credit and concentration risks are inevitable: Total Senegal regularly suffers from the weak credit culture and payment discipline of some of its counterparts, a risk the company effectively manages though. The company's cash position is often under pressure, generating large amounts of permanent short-term debt, resembling long-dated funding: Total Senegal finds it uneasy to compress its working capital requirements (receivables have longer maturities, payables are short and inventories are large), which ultimately weighs on the net cash position, and tends to crystallize large volumes of short-term liabilities, quasi-permanently.

Total Senegal's ratings do not incorporate any external support factors. However, the ratings explicitly include the continuous assistance and brand recognition Total Senegal receives from its reference shareholder, Total Group, France's largest market capitalization and MENA's leading fuel distributor.

An upgrade of Total Senegal's ratings would be the consequence of: i) an upgrade by WARA of Senegal's national ceiling; ii) a mechanism more favorable to Total Senegal for the warehousing of fuel and, consequently, Senstock turning decently profitable; iii) a sustained policy by the authorities of keeping distribution margins at high and even higher levels going forward, while Total Senegal continues to control its expenses, and to strengthen its gross margin on variable costs; and iv) the compression of its working capital requirements, capable of improving the company's net cash position and of stabilizing the use of bank lines, relatively to the size of the company's capital base.

A downgrade of Total Senegal's ratings would be the result of: i) a downgrade by WARA of Senegal's national ceiling; ii) competition further intensifying, leading to the erosion of the leader's market shares; iii) Total Group's divestment, as a majority owner, from its Senegalese subsidiary; iv) a prolonged period of sluggish profitability, for endogenous reasons (the inflation of expenses) or exogenous ones (unfavorable pricing by the

authorities); or v) the materialization of concentration risks, and the crystallization of credit risks on a few large industrial debtors defaulting simultaneously.

With a **stable** outlook, WARA signals that the probability of favorable scenarios is equivalent to that of unfavorable ones in the medium term, which means in other words that Total Senegal's ratings carry as many chances of upgrades as risks of downgrades, under the constraint of Senegal's national ceiling, which WARA currently keeps at 'A-'.

The methodology that WARA uses for the rating of Total Senegal is that for industrial and commercial corporates, published for the first time on the 15th of July 2012, subsequently revised in September 2016, and available on WARA's website (www.emergingmarketsratings.org).

The sources of information used WARA for the rating of Total Senegal are essentially non-public pieces of information obtained during a series of meetings with the management of Total Senegal, during May and June 2017. This information, together with sources in the public domain, are considered by WARA as relevant and sufficient to carry on Total Senegal's ratings.

Finally, WARA emphasizes that the ratings of Total Senegal are solicited and participating, i.e. they are the result of a rating request from Total Senegal, and that the management team of the company has had active and transparent collaboration with WARA's analytical team.

Total Senegal's «**A-**» long-term rating is 3 notches beyond the minimum rating accepted by CREPMF for issuing debt without a third-party guarantee.

The full rating report is available on request via email:
infos@rating-africa.org

Contact

Lead Analyst:
Ndeye THIAW
Tél: +221 33 825 72 22
+225 22 50 18 44
Email: infos@rating-africa.org