



Sasol Ltd (SOL SJ)

Date: 06 March 2020

Spotlight on earnings – latest profit drivers

- A weaker oil price, significantly lower refining margins and a stronger rand have driven spot earnings lower and FY20 spot HEPS at R12.51 are now 20% below our forecast and the spot estimate of R15.43 for FY21 is almost 60% below our estimate of R36.30.
- We estimate if spot prices remained, the net debt: EBITDA ratio would end FY20 at 3.45x and FY21 at 3.41x. Gearing would be 66.9% and 64.4% respectively. Moody's downgraded Sasol's credit rating yesterday ([link](#)).

Global Chemical News

- The ACC reports that global chemical production declined by 1% in January mainly due to a 2.1% decline in China. While the plastic segment increased 0.5%, chemicals into the agricultural and consumer sectors declined by 2.9% and 4.6% respectively ([link](#)).
- ICIS reports that plastic processors in China are ramping up production as logistics constraints are being lifted. Plastic inventories remain high however and it could take up to two months for inventories to return to normal levels ([link](#)).

Analyst

Gerhard Engelbrecht
+27 82 885 0156

gerhard.engelbrecht@chronux.co.za

Rating:

NEUTRAL

Price (06/03/2020):

R169.74

Target Price:

R285.00

Total return:

68%

Market cap

R105.2bn

Shares in issue

620mn

[Fuel Prices](#)

[Asian Chemical Prices](#)

[US Chemical Prices](#)

[Other Chemical Prices](#)

[Sasol Divisional Forecasts](#)

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	27/02/20	05/03/20	% change
R/\$	15.15	15.31	1.1%
Brent Oil	52.18	51.13	-2.0%
Sasol ref margin	11.69	8.79	-24.8%
US Nat Gas	1.80	1.87	3.6%
Ethylene	675	675	0.0%
Propylene	775	785	1.3%
LDPE	900	900	0.0%
LLDPE	845	845	0.0%
Polypropylene	945	930	-1.6%
PVC	860	870	1.2%
Ammonia	223	223	0.0%
MEG	535	515	-3.7%
Ethane	0.14	0.15	3.1%

Sasol HEPS	Chronux	Spot 27/02/20	Spot 05/03/20	%change
FY20E	15.60	14.23	12.57	-11.7%
FY21E	36.45	20.43	15.43	-24.5%

Financial summary

ZARmn	FY18	FY19	FY20E	FY21E	FY22E
Revenue	181 461	203 576	208 842	229 445	250 182
EBITDA	50 356	47 736	45 828	62 391	70 763
Net Income	8 741	4 298	9 654	22 585	28 266
Headline EPS	27.30	30.54	15.60	36.45	45.60
Core headline eps	36.12	32.14	16.63	37.82	45.68
Dividend	12.9	5.9	0.0	0.0	8.0
Dividend yield	2.6%	1.7%	0.0%	0.0%	2.5%

Source: Company data, Chronux Research estimates

Sasol share price (ZAR/share)



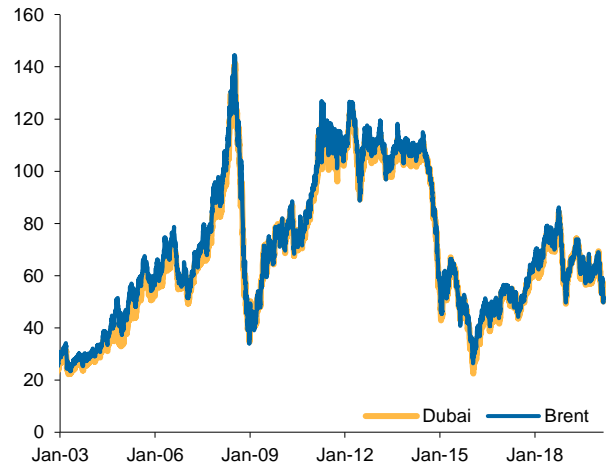
Fuel Prices

Figure 1 Exchange Rate, R/\$



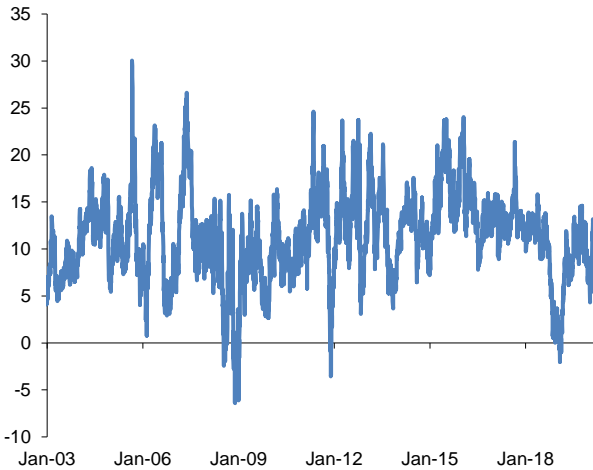
Source: CEF

Figure 2 Oil Price, \$/bbl



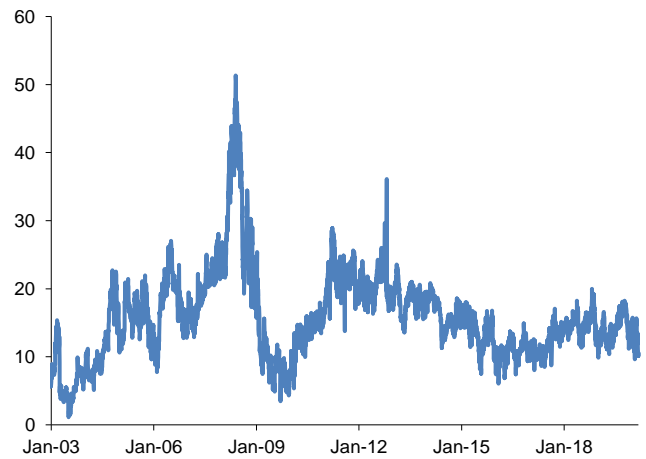
Source: FactSet, OilPrice.com

Figure 3 Petrol Crack spread, \$/bbl



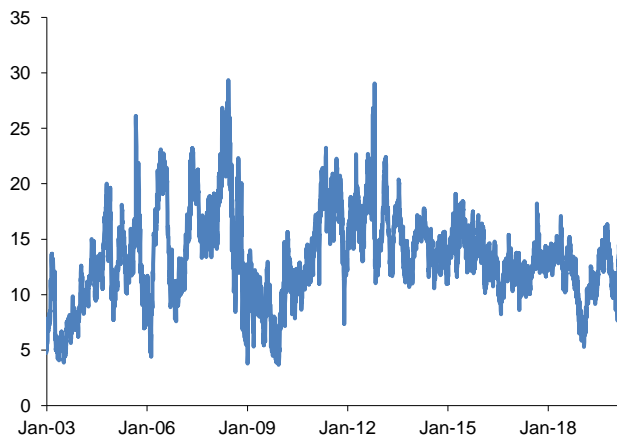
Source: FactSet, CEF, Sasol

Figure 4 Diesel crack spread, \$/bbl



Source: FactSet, CEF, Sasol

Figure 5 Refining margins, \$/bbl



Source: FactSet, CEF, Sasol

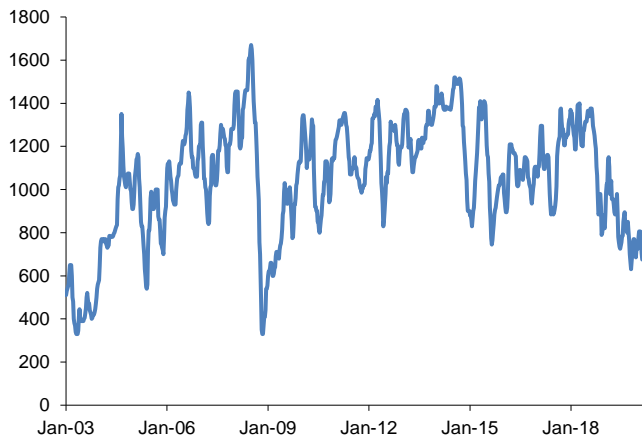
Figure 6 Natural gas prices, \$/MMBtu



Source: FactSet

Asian petrochemical prices

Figure 7 Asian ethylene prices, \$/t



Source: Polymerupdate

Figure 8 Asian propylene prices, \$/t



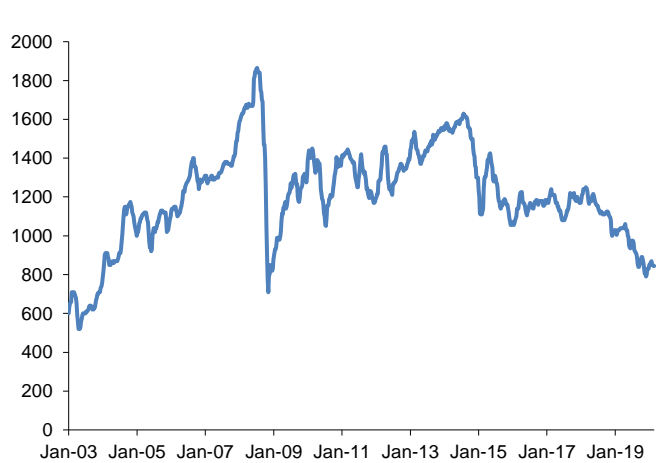
Source: Polymerupdate

Figure 9 Asian LDPE prices, \$/t



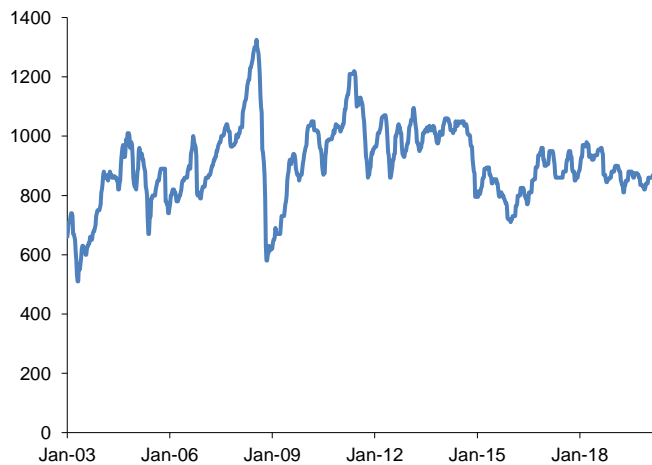
Source: Polymerupdate

Figure 10 Asian LLDPE prices, \$/t



Source: Polymerupdate

Figure 11 Asian polypropylene prices



Source: Polymerupdate

Figure 12 Asian PVC prices, \$/t



Source: Polymerupdate

US petrochemical prices

Figure 13 US ethane prices, US\$/gal

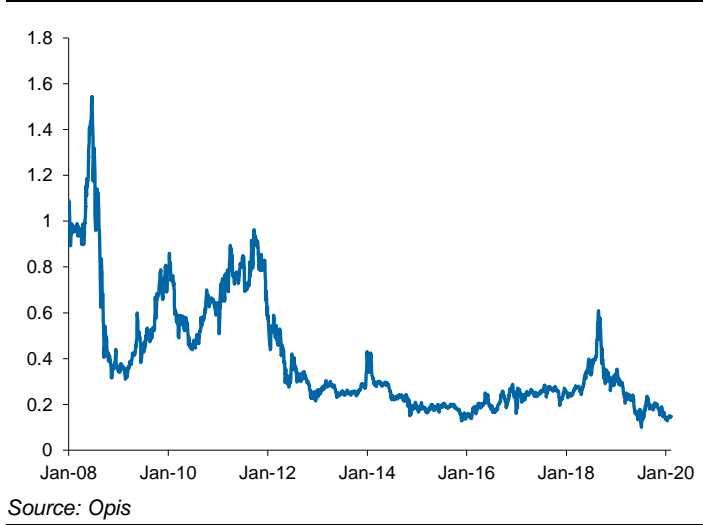


Figure 14 US ethylene prices, US\$/lb

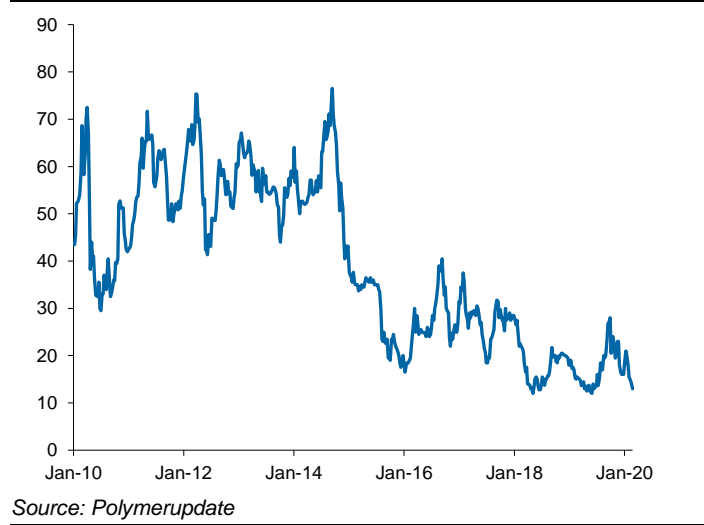


Figure 15 US HDPE prices, \$/t

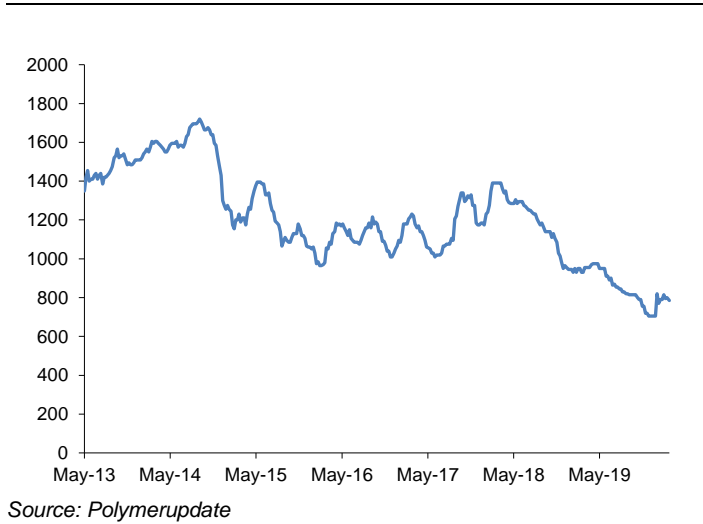


Figure 16 US LDPE price, \$/t

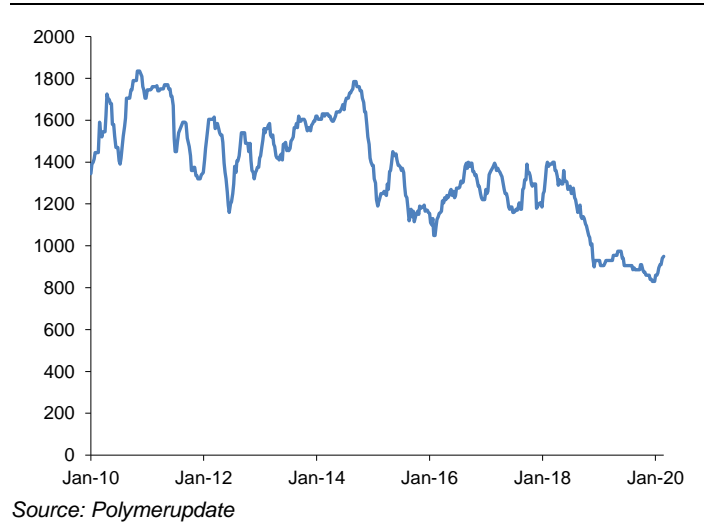


Figure 17 US LLDPE prices, \$/t

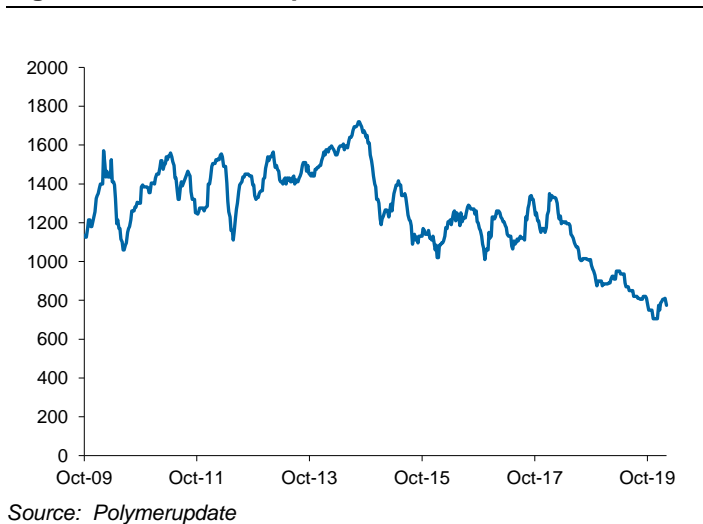
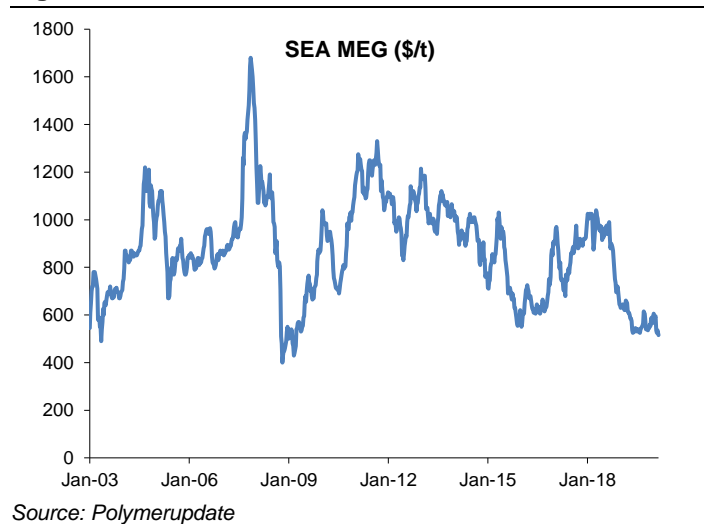


Figure 18 SEA MEG, \$/t



Other chemical and energy prices

Figure 19 US ethylene margin, \$/t

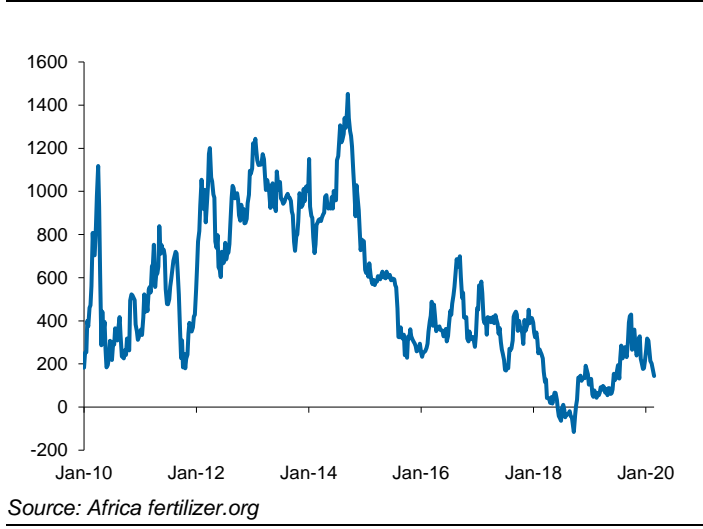


Figure 20 US polyethylene margins, \$/t

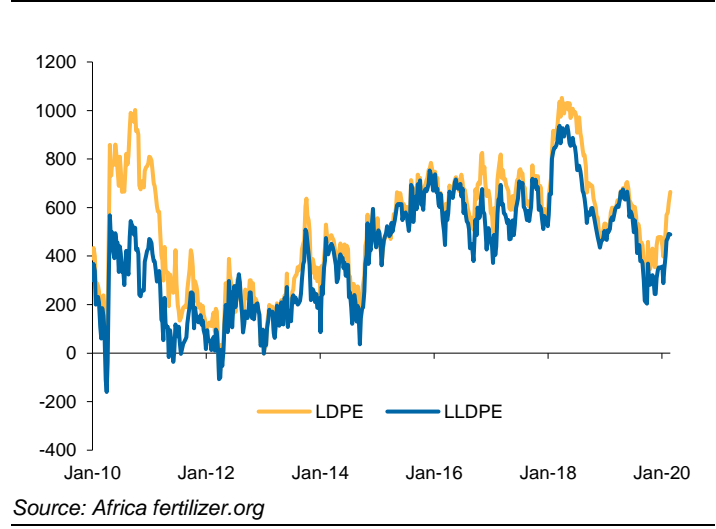


Figure 21 US integrated polyethylene margin, \$/t

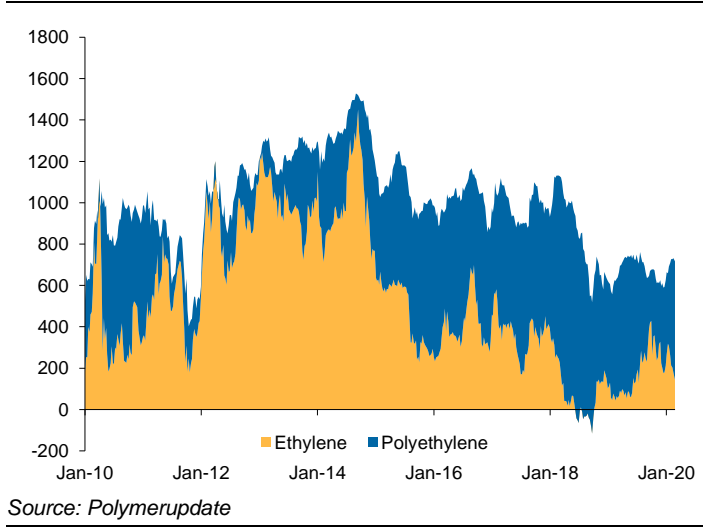


Figure 22 US MEG Conversion margin, \$/t

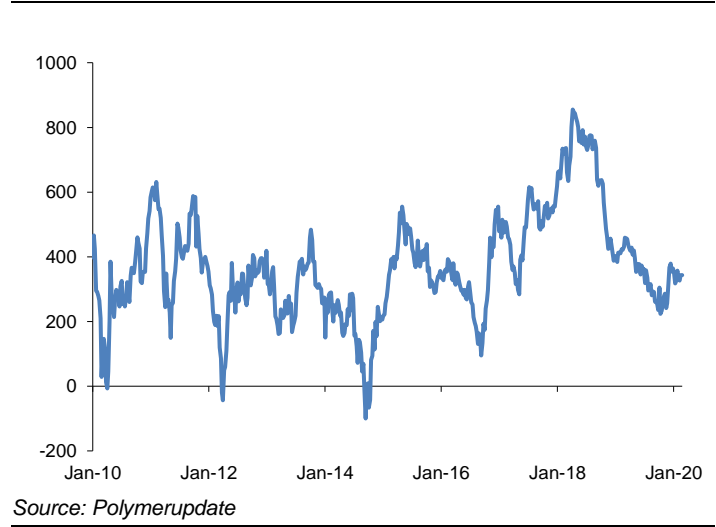


Figure 23 Malaysia palm kernel oil prices, \$/t

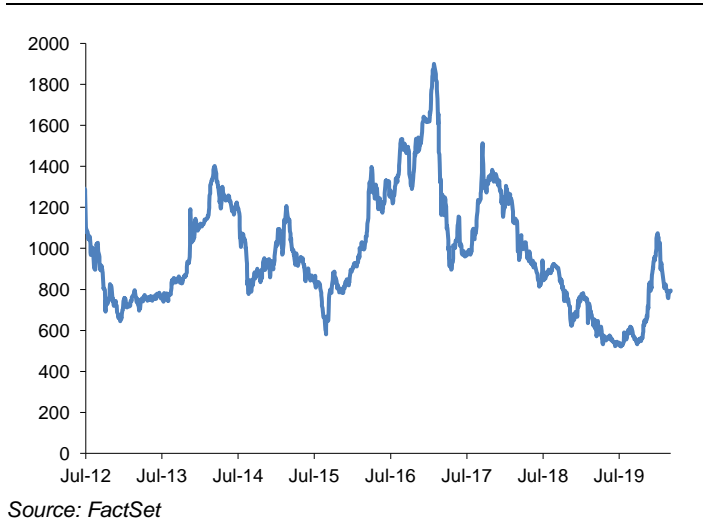


Figure 24 Richards Bay coal prices, \$/t

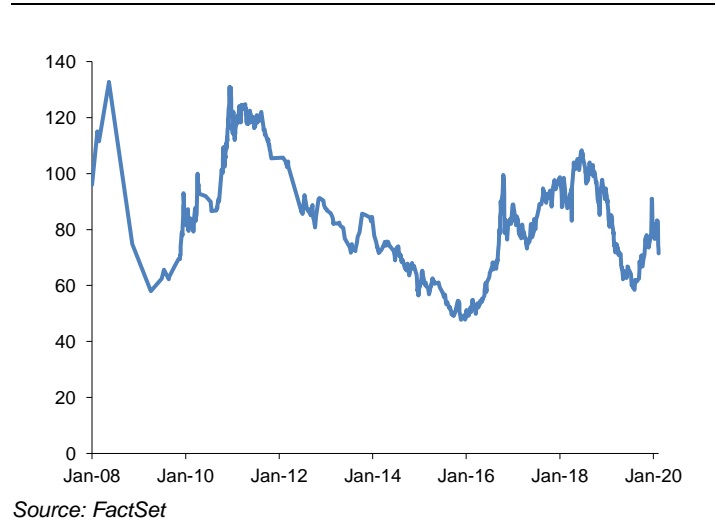


Figure 25 Sasol divisional forecasts

		FY18	FY19	FY20E	FY21E	FY22E
Oil Price	US\$/bbl	61.02	69.77	61.10	61.20	62.55
Exchange Rate	R/US\$	12.83	14.06	14.79	15.20	15.75
Refining margin	US\$/bbl	13.53	10.27	12.02	12.93	12.93
Coal prices	US\$/t	93.67	89.20	72.00	68.00	63.67
Ethane	US\$/gal	26.30	33.18	17.67	20.07	24.73
Ethylene Price (Asia)	US\$/t	1 168	992	749	777	814
Ethylene price (US)	US\$/t	492	450	409	427	464
Propylene	US\$/t	901	935	856	863	873
LDPE	US\$/t	1 200	1 076	925	953	990
LLDPE	US\$/t	1 187	1 063	844	913	950
Polypropylene	US\$/t	1 169	1 199	1 023	1 047	1 057
MEG	US\$/t	1 042	892	649	647	671
Solvents	US\$/t	1 041	966	876	895	953
BC Basket price	US\$/t	913	919	818	828	867
PC Basket price	US\$/t	1 862	1 844	1 783	1 763	1 870
To June (Rm)						
		FY18	FY19	FY20E	FY21E	FY22E
Mining		19 797	20 876	21 672	21 950	22 911
EPI		4 198	5 184	5 329	5 452	6 758
Energy		69 773	83 803	78 943	84 135	88 499
International Energy		0	0	0	0	0
Base Chemicals		43 873	48 813	47 582	49 520	53 739
Performance Chemicals		65 984	68 296	69 712	71 701	78 806
Lake Charles Project		0	0	10 462	21 749	25 908
Group functions		52	78	0	0	0
Revenue (internal and external)		203 676	227 050	233 700	254 508	276 621
Mining		5 296	4 765	3 239	3 928	3 509
EPI		271	1 166	1 516	1 509	1 659
Energy		14 053	16 042	14 354	16 480	17 161
International Energy		0	0	0	0	0
Base Chemicals		4 697	3 831	(189)	(273)	691
Performance Chemicals		8 247	7 940	7 363	6 115	9 325
Lake Charles Project		0	(3 791)	(1 919)	10 298	12 505
Group functions		(6 326)	(3 288)	(1 695)	(584)	(361)
Operating profit		26 238	26 664	22 670	37 473	44 490
Capital Items		(9 901)	(18 645)	0	0	0
Translation gains (losses)		(1)	604	474	7	441
Total operating income		16 336	8 623	23 144	37 479	44 931
Income from associates		1 443	1 074	281	1 436	1 530
Profit before interest and tax		17 779	9 697	23 425	38 915	46 461
Interest paid		(7 327)	(8 195)	(9 187)	(8 740)	(8 902)
Interest received		1 716	787	827	887	885
Interest capitalised		3 568	6 942	2 126	2 068	2 092
Net interest		(2 043)	(466)	(6 235)	(5 785)	(5 925)
Profit before tax		15 736	9 231	17 190	33 130	40 536
Tax		(5 578)	(3 157)	(6 187)	(8 876)	(10 600)
Profit after tax		10 158	6 074	11 003	24 254	29 936
Minorities		(1 417)	(1 776)	(1 350)	(1 668)	(1 672)
Attributable earnings		8 741	4 298	9 653	22 586	28 264
Headline adjustment		8 069	14 643	0	0	0
Headline earnings		16 810	18 941	9 653	22 586	28 264
Headline earnings per share		27.30	30.54	15.60	36.45	45.60

Source: Company data, Chronux Research

Earnings Sensitivities

Figure 26 FY20E Earnings Sensitivity, ZAc/share

	FY Average exchange rate (R/US\$)											
	14.00	14.10	14.20	14.30	14.40	14.50	14.60	14.70	14.80	14.90	15.00	
Brent Oil Price (US\$/bbl)	45.00	(1 511)	(1 490)	(1 468)	(1 446)	(1 425)	(1 391)	(1 334)	(1 277)	(1 220)	(1 163)	(1 106)
	46.00	(1 349)	(1 326)	(1 303)	(1 281)	(1 258)	(1 223)	(1 165)	(1 107)	(1 049)	(991)	(933)
	47.00	(1 187)	(1 163)	(1 139)	(1 115)	(1 091)	(1 055)	(996)	(936)	(877)	(818)	(759)
	48.00	(1 024)	(999)	(974)	(949)	(924)	(887)	(826)	(766)	(705)	(645)	(585)
	49.00	(861)	(835)	(809)	(783)	(757)	(718)	(657)	(595)	(533)	(472)	(411)
	50.00	(698)	(671)	(643)	(616)	(589)	(549)	(487)	(424)	(361)	(299)	(236)
	51.00	(535)	(506)	(478)	(449)	(421)	(380)	(316)	(253)	(189)	(125)	(62)
	52.00	(371)	(341)	(312)	(282)	(253)	(211)	(146)	(81)	(16)	49	113
	53.00	(207)	(177)	(146)	(115)	(85)	(42)	25	91	157	223	289
	54.00	(43)	(11)	20	52	84	128	195	263	330	397	464
	55.00	121	154	187	220	253	298	366	435	503	571	640
	56.00	285	319	354	388	422	468	538	607	677	746	815
	57.00	450	485	520	556	591	638	709	780	851	921	991
	58.00	615	651	688	724	760	809	881	953	1 025	1 096	1 168
	59.00	780	817	855	892	930	980	1 053	1 126	1 199	1 272	1 344
	60.00	945	984	1 022	1 061	1 100	1 151	1 225	1 299	1 373	1 447	1 521
	61.00	1 110	1 150	1 190	1 230	1 270	1 322	1 397	1 473	1 548	1 623	1 698
	62.00	1 276	1 317	1 358	1 399	1 440	1 493	1 570	1 646	1 723	1 799	1 875
	63.00	1 442	1 484	1 526	1 569	1 611	1 665	1 743	1 820	1 898	1 975	2 053
	64.00	1 608	1 652	1 695	1 738	1 781	1 837	1 916	1 995	2 073	2 152	2 230
	65.00	1 774	1 819	1 864	1 908	1 952	2 009	2 089	2 169	2 249	2 329	2 408
	66.00	1 941	1 987	2 032	2 078	2 123	2 181	2 263	2 344	2 425	2 506	2 587
	67.00	2 108	2 155	2 202	2 248	2 295	2 354	2 436	2 519	2 601	2 683	2 765
	68.00	2 275	2 323	2 371	2 419	2 467	2 527	2 610	2 694	2 777	2 861	2 944
	69.00	2 442	2 491	2 540	2 590	2 638	2 700	2 785	2 869	2 954	3 038	3 123
	70.00	2 609	2 660	2 710	2 761	2 811	2 873	2 959	3 045	3 131	3 216	3 302
	71.00	2 777	2 829	2 880	2 932	2 983	3 047	3 134	3 221	3 308	3 394	3 481

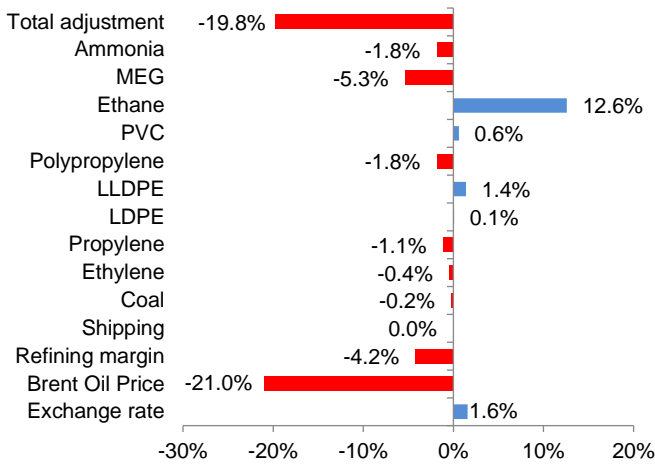
Figure 27 FY21E Earnings Sensitivity, ZAc/share

	FY Average exchange rate (R/US\$)											
	12.00	12.50	13.00	13.50	14.00	14.50	15.00	15.50	16.00	16.50	17.00	
Brent Oil Price (US\$/bbl)	30.00	(2 694)	(2 619)	(2 552)	(2 492)	(2 437)	(2 386)	(2 148)	(1 870)	(1 595)	(1 322)	(1 058)
	32.00	(2 381)	(2 293)	(2 214)	(2 141)	(2 073)	(2 010)	(1 758)	(1 468)	(1 184)	(909)	(636)
	34.00	(2 067)	(1 967)	(1 875)	(1 790)	(1 709)	(1 633)	(1 369)	(1 075)	(787)	(500)	(215)
	36.00	(1 754)	(1 641)	(1 536)	(1 439)	(1 345)	(1 256)	(992)	(690)	(390)	(91)	206
	38.00	(1 440)	(1 315)	(1 198)	(1 087)	(982)	(894)	(620)	(306)	7	318	623
	40.00	(1 127)	(989)	(859)	(737)	(634)	(534)	(247)	76	392	706	1 019
	42.00	(813)	(663)	(520)	(401)	(286)	(181)	109	438	765	1 091	1 415
	44.00	(500)	(336)	(196)	(73)	44	158	459	799	1 138	1 475	1 811
	46.00	(186)	(27)	110	242	371	496	809	1 161	1 511	1 859	2 207
	48.00	111	266	414	558	698	835	1 159	1 522	1 884	2 244	2 603
	50.00	392	559	719	874	1 025	1 174	1 509	1 884	2 257	2 628	2 999
	52.00	674	852	1 023	1 189	1 352	1 512	1 859	2 245	2 630	3 013	3 395
	54.00	955	1 145	1 327	1 505	1 679	1 851	2 209	2 607	3 003	3 397	3 791
	56.00	1 237	1 438	1 632	1 821	2 006	2 189	2 559	2 968	3 376	3 782	4 186
	58.00	1 519	1 731	1 936	2 137	2 334	2 528	2 909	3 330	3 749	4 166	4 582
	60.00	1 800	2 024	2 240	2 452	2 661	2 866	3 259	3 691	4 122	4 551	4 978
	62.00	2 082	2 317	2 545	2 768	2 988	3 205	3 609	4 053	4 495	4 935	5 374
	64.00	2 364	2 610	2 849	3 084	3 315	3 544	3 959	4 414	4 868	5 320	5 770
	66.00	2 646	2 903	3 153	3 400	3 642	3 882	4 309	4 776	5 241	5 704	6 166
	68.00	2 927	3 196	3 458	3 715	3 970	4 221	4 659	5 137	5 614	6 089	6 562
	70.00	3 209	3 489	3 762	4 031	4 297	4 560	5 009	5 499	5 987	6 473	6 958
	72.00	3 491	3 782	4 067	4 347	4 624	4 898	5 360	5 861	6 360	6 858	7 347
	74.00	3 772	4 075	4 371	4 663	4 951	5 237	5 710	6 222	6 733	7 241	7 734
	76.00	4 054	4 368	4 676	4 979	5 279	5 576	6 060	6 584	7 106	7 617	8 122
	78.00	4 336	4 661	4 980	5 295	5 606	5 914	6 410	6 945	7 476	7 994	8 510
	80.00	4 618	4 954	5 285	5 610	5 933	6 253	6 760	7 307	7 842	8 370	8 898
	82.00	4 900	5 247	5 589	5 927	6 261	6 592	7 111	7 666	8 207	8 747	9 286

Source: Chronux Research

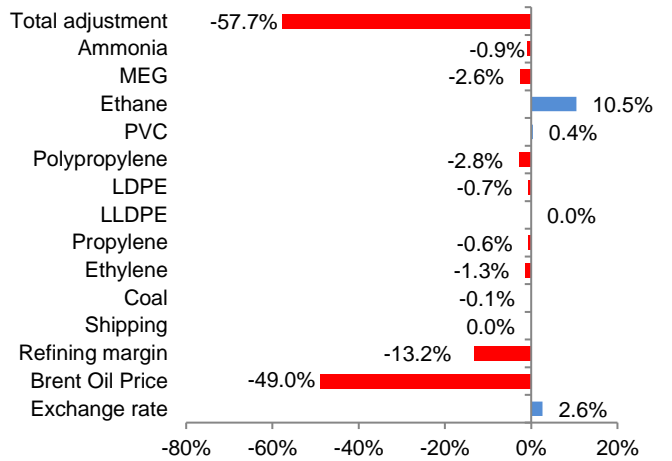
Spot earnings

Figure 28 FY20E spot earnings, % deviation: R12.57



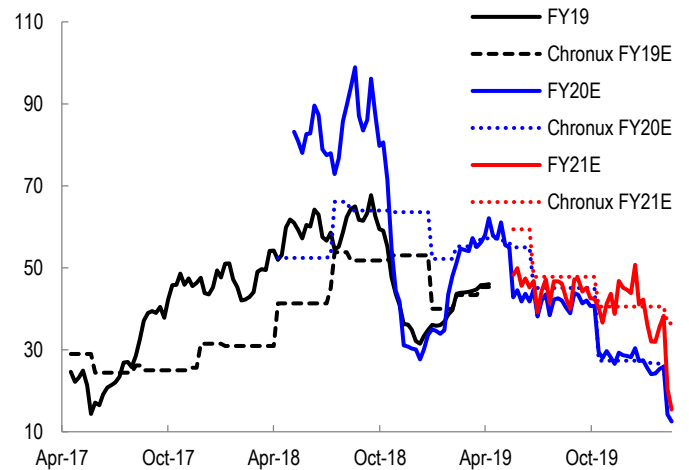
Source: Chronux Research

Figure 29 FY21E spot earnings, % deviation: R15.43



Source: Chronux Research

Figure 30 FY19-FY21E spot earnings



Source: Chronux Research

- **Our spot earnings estimates exclude the period end mark to market on currency and oil price hedges.**
- These charts above show the difference between our earnings estimate and the earnings if the commodity remained at spot for the remainder of the period.
- The chart to the left shows the history of spot earnings as shown on the front page

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