



Sasol Ltd (SOL SJ)

Date: 14 April 2020

WPC 2020 – weak outlook for the ethylene chain

Key message: The IHS World Petrochemical Conference is being held online. The outlook for petrochemicals remains particularly weak for at least the next three years and possibly even longer.

- **World Petrochemical Conference:** In the last week, IHS hosted the World Petrochemical conference online, forums continue into this week.
- **Weak outlook for chemicals:** The outlook for chemical profitability remains extremely weak. Global capacity utilisation will remain well below optimum levels and industry profitability should remain well below mid cycle levels through 2023 and possibly into 2024.
- **Ethylene under pressure:** Ethylene utilisation rates are impacted by significant overbuild of capacity in Asia while the trade wars and the corona virus has impacted demand significantly. Ethylene demand growth is seen at 0% or lower in 2020. Delays are expected in new construction, but this is not enough to offset weaker near-term demand.
- **The US has lost its cost advantage:** Weakness in oil and naphtha prices has flattened the cost curve and US and European naphtha cracking costs are currently well below US ethane cracking costs (cracking costs net of by-product credits) despite very low ethane prices.
- **Polyethylene also weak:** Polyethylene markets are also set to remain weak and surplus capacity should be around 14mn tons in the next three years. Global operating rates will be the lowest in 20 years. Prices are expected to decline further from current depressed levels.
- **US polyethylene compromised:** The US should be a high cost region in 2020 and US cash export margins are expected to be at break even levels until at least 2022. US producers are now expected to curtail production and even shut higher cost plants.
- **A silver lining:** IHS notes that the demand for plastic in medical and packaging applications is set to increase amidst the COVID-19 crisis. Several US states are calling for a lift in the ban on plastic bags and several recycling and re-use programs have been suspended.
- **MEG remains in the doldrums:** IHS remains cautious on global MEG markets as significant expansion in new capacity coincides with a period of weak demand growth. Operating rates are set to decline to the lowest levels in 30 years and should remain low for several years.
- **Sasol:** We maintain our neutral stance on Sasol.

Analyst

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Rating: **NEUTRAL**

Price (14/04/2020): R69.97

Target Price: R35.00

Total return: -50%

Market cap R43.7bn

Shares in issue 625mn

Financial summary

| ZARmn | FY18 | FY19 | FY20E | FY21E | FY22E |
|-------------------|---------|---------|---------|---------|---------|
| Revenue | 181 461 | 203 575 | 192 473 | 215 242 | 242 819 |
| EBITDA | 50 357 | 47 736 | 37 530 | 50 127 | 65 394 |
| Net Income | 8 741 | 4 298 | 2 039 | 11 869 | 23 742 |
| Headline EPS | 27.30 | 30.54 | 3.30 | 19.15 | 38.30 |
| Core headline eps | 36.12 | 32.14 | 4.71 | 22.91 | 38.78 |
| Dividend | 12.9 | 5.9 | 0.0 | 0.0 | 7.0 |
| Dividend yield | 2.6% | 1.7% | 0.0% | 0.0% | 6.0% |

Source: Company data, Chronux Research estimates

Sasol share price (ZAR/share)

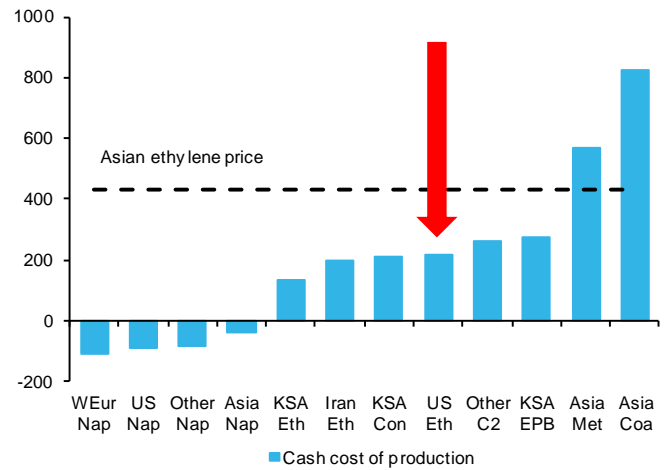


Figure 1 Asian naphtha price, \$/t



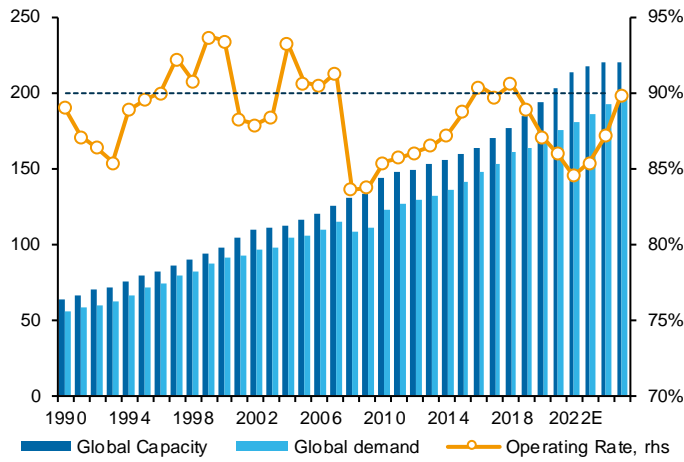
Source: FactSet

Figure 2 Spot ethylene cost curve, \$/t



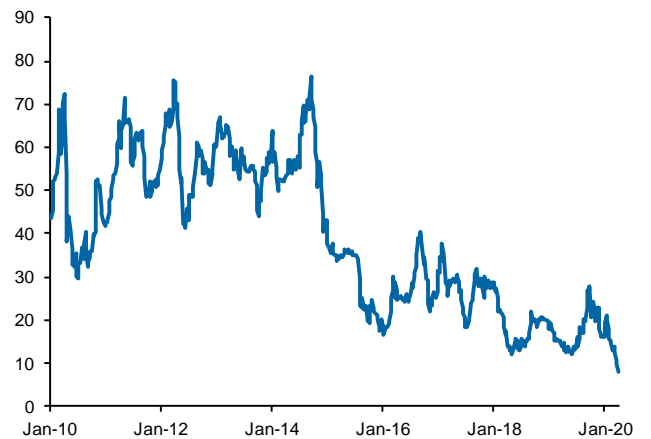
Source: Chronux Research estimates

Figure 3 Global ethylene supply and demand, mnt



Source: IHS, Chronux Research estimates

Figure 4 US ethylene, c/lb



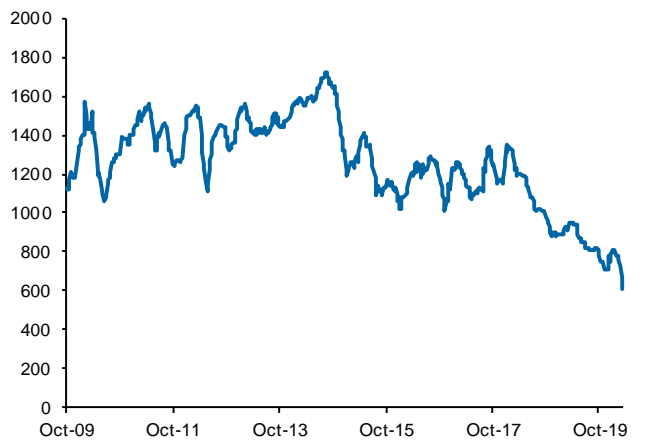
Source: Polymerupdate, Chronux Research estimates

Figure 5 Asian LLDPE, \$/t



Source: Polymerupdate, Chronux Research estimates

Figure 6 US LLDPE, \$/t



Source: Polymerupdate, Chronux Research estimates

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