



Sasol Ltd (SOL SJ)

Date: 07 August 2020

Spotlight on earnings – latest profit drivers

- Sasol's spot earnings increased sharply this week, boosted by higher oil prices as well as a weaker rand. Spot earnings for the group is at R10.61/share while the LCCP earns a loss of R4.53/share. Refining margins continue to weaken, however.
- Asian ethylene, propylene and LLDPE prices were lower. US ethylene and polyethylene prices were slightly higher than the previous week, however. US integrated margins have remained resilient despite an increase in natural gas and ethane prices.

Global chemical news

- China's cumulative polyethylene imports achieved a record of more than 8.6million tons in 1H2020, 7% higher than the same period in 2019. HDPE imports increased by 10%, LLDPE was 11% higher while LDPE imports declined by 6.6% ([link](#)).
- Polyethylene markets are buoyant in the USA and additional price increases are expected in August following price increases in previous months. A series of outages, maintenance shuts and increased exports have increased tightness in US markets ([link](#)).

	31/07/20	07/08/20	% change
R/\$	16.74	17.27	3.2%
Brent Oil	43.25	45.46	5.1%
Sasol ref margin	4.05	3.23	-20.3%
US Nat Gas	1.99	2.31	15.8%
Ethylene	800	795	-0.6%
Propylene	790	775	-1.9%
LDPE	980	980	0.0%
LLDPE	865	810	-6.4%
Polypropylene	945	940	-0.5%
PVC	815	815	0.0%
Ammonia	200	200	0.0%
MEG	430	445	3.5%
Ethane	21.00	22.75	8.3%

Sasol HEPS	Chronux	Spot 31/07/20	Spot 07/08/20	%change
FY21E	23.20	5.01	10.61	111.8%
FY22E	39.30	-4.46	2.22	-149.8%

FY21 balance sheet

Net debt (ZARbn)	(158.3)
Net debt:EBITDA (x)	3.1

Financial summary

ZARmn	FY19	FY20E	FY21E	FY22E
Revenue	203 576	189 980	216 947	243 080
EBITDA	47 737	35 453	49 997	63 246
Net Income	4 298	3 590	12 271	22 007
Headline EPS	30.54	5.80	19.80	35.50
Core headline eps	32.14	5.34	21.92	37.09
Dividend	5.9	0.0	0.0	0.0
Dividend yield	1.7%	0.0%	0.0%	0.0%

Source: Company data, Chronux Research estimates

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Rating

	R/share	NEUTRAL
Share price	150.7	
Target price	158.0	
Expected dividend	0.0	
Total expected return	4.9%	

Market cap	Rmn	95 651
Shares outstanding	mn	632

[Fuel Prices](#)

[Asian Chemical Prices](#)

[US Chemical Prices](#)

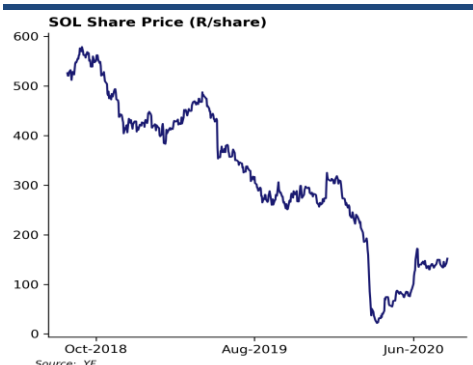
[Other Chemical Prices](#)

[Sasol Divisional Forecasts](#)

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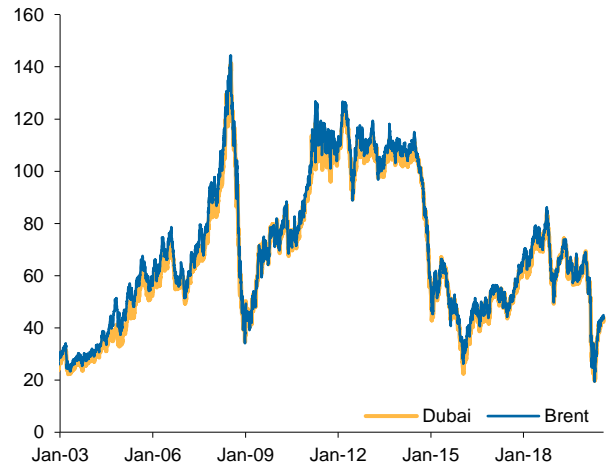
Fuel Prices

Figure 1 Exchange Rate, R/\$



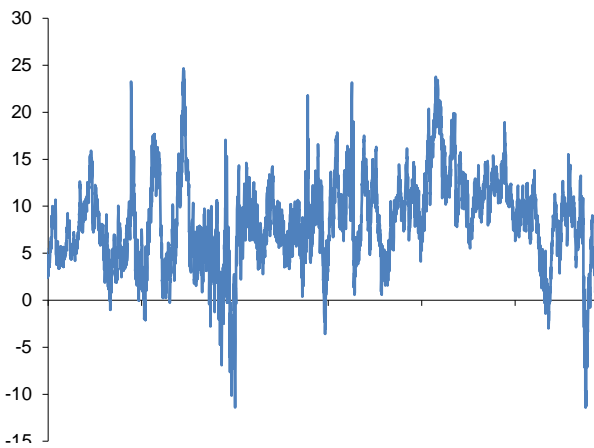
Source: CEF

Figure 2 Oil Price, \$/bbl



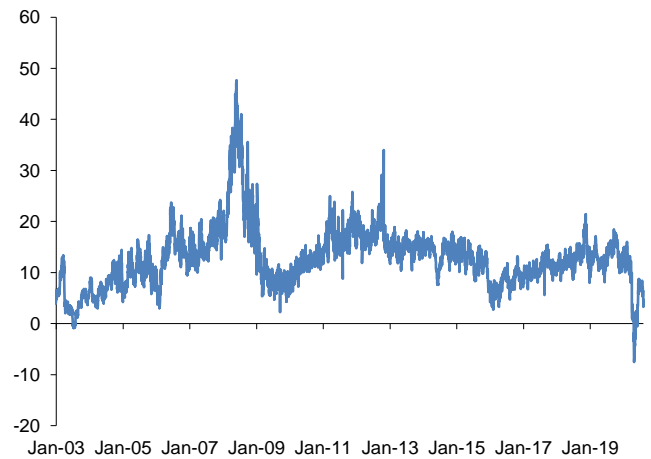
Source: Nymex, OilPrice.com

Figure 3 Petrol Crack spread, \$/bbl



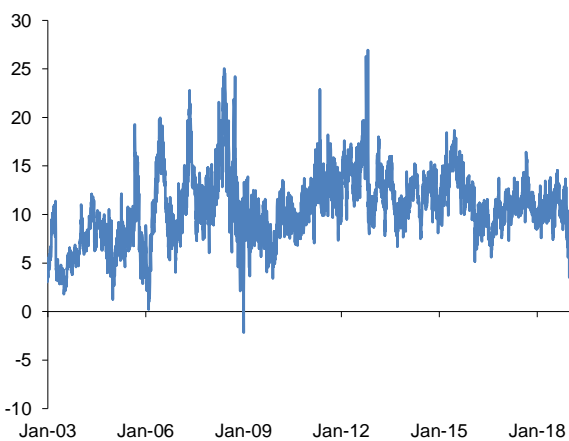
Source: Nymex, CEF, Sasol

Figure 4 Diesel crack spread, \$/bbl



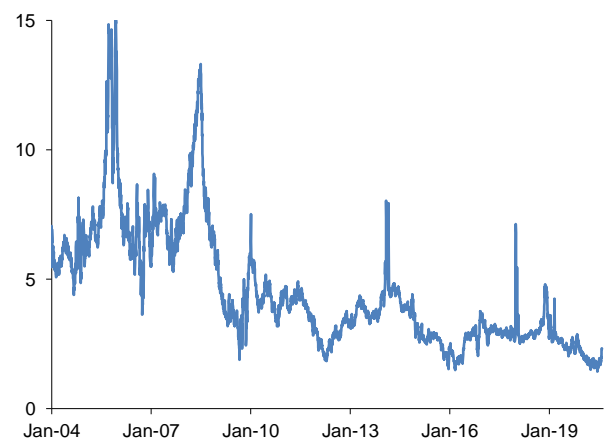
Source: Nymex, CEF, Sasol

Figure 5 Blended refining margin, \$/bbl



Source: Nymex, CEF, Sasol

Figure 6 Natural gas prices, \$/MMBtu



Source: Nymex

Asian petrochemical prices

Figure 7 Asian ethylene prices, \$/t

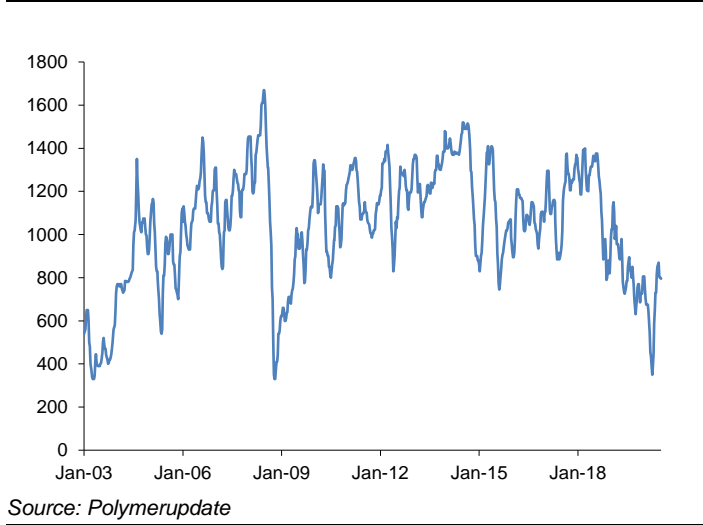


Figure 8 Asian propylene prices, \$/t



Figure 9 Asian LDPE prices, \$/t



Figure 10 Asian LLDPE prices, \$/t

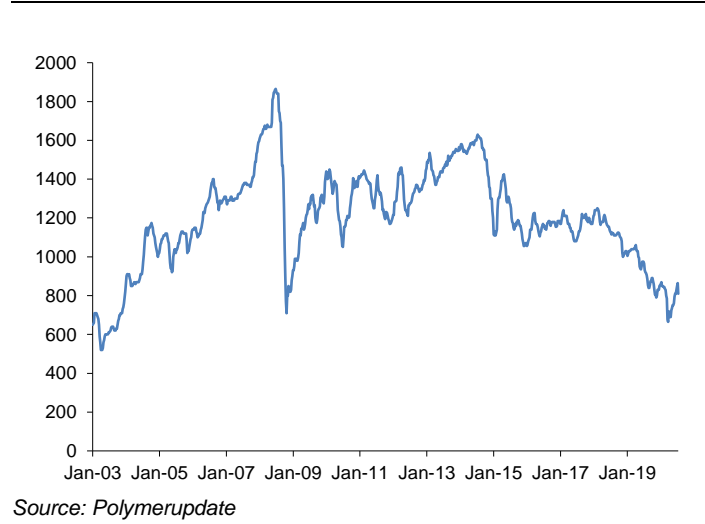


Figure 11 Asian polypropylene prices

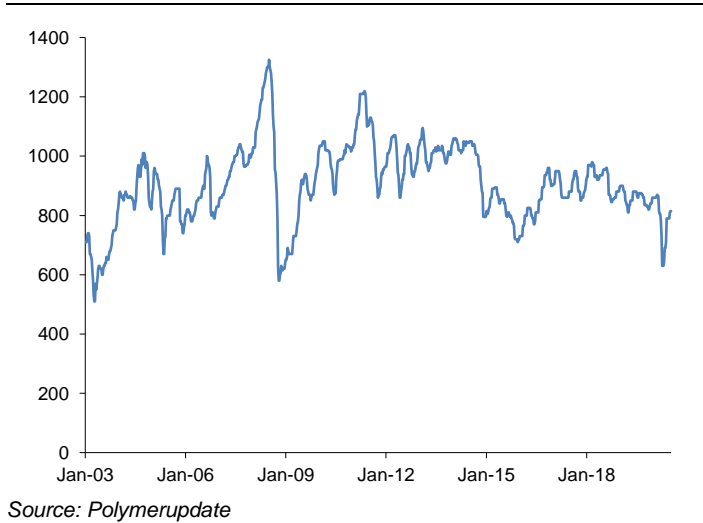
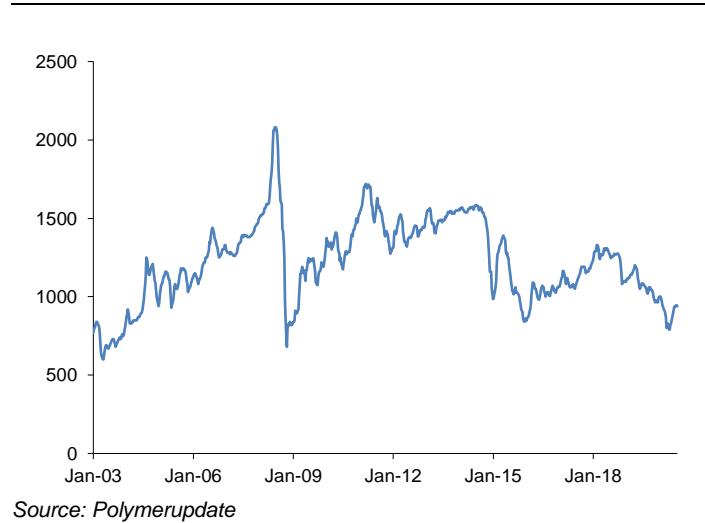


Figure 12 Asian PVC prices, \$/t



US petrochemical prices

Figure 13 US ethane prices, US\$/gal

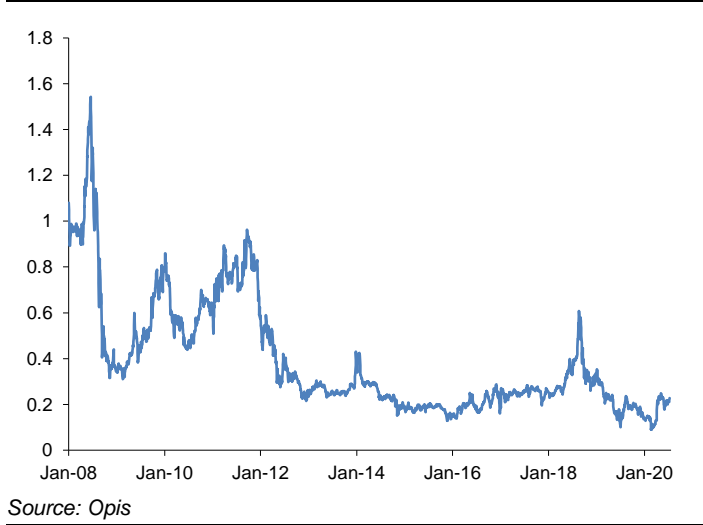


Figure 14 US ethylene prices, US\$/lb



Figure 15 US HDPE prices, \$/t



Figure 16 US LDPE price, \$/t

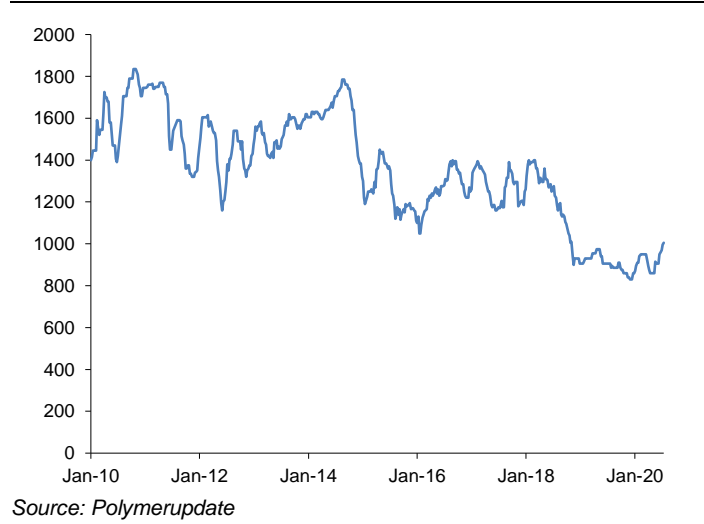


Figure 17 US LLDPE prices, \$/t

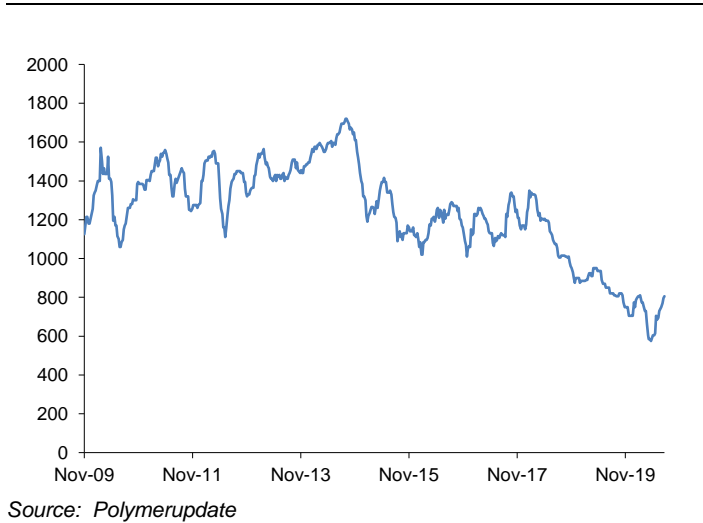
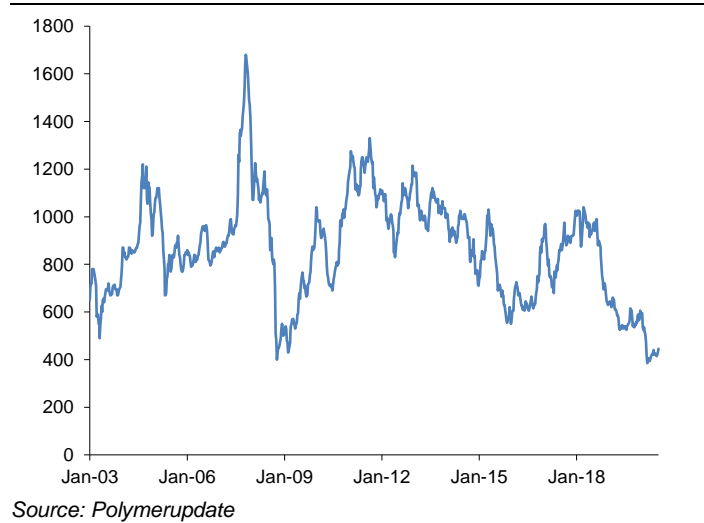
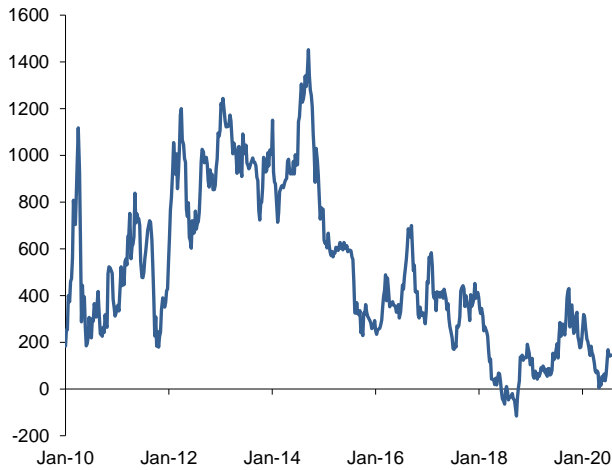


Figure 18 SEA MEG, \$/t



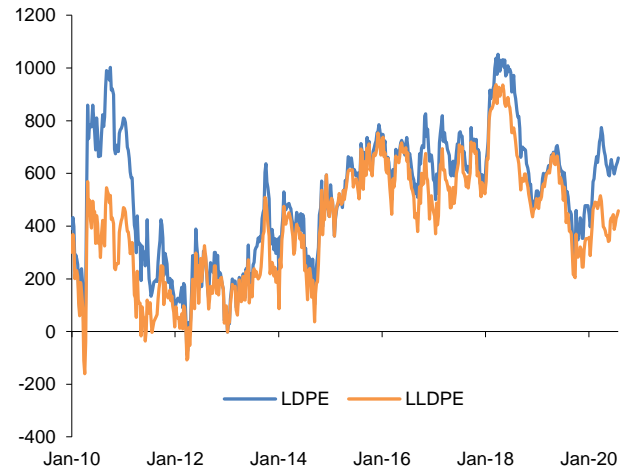
Other chemical and energy prices

Figure 19 US ethylene margin, \$/t



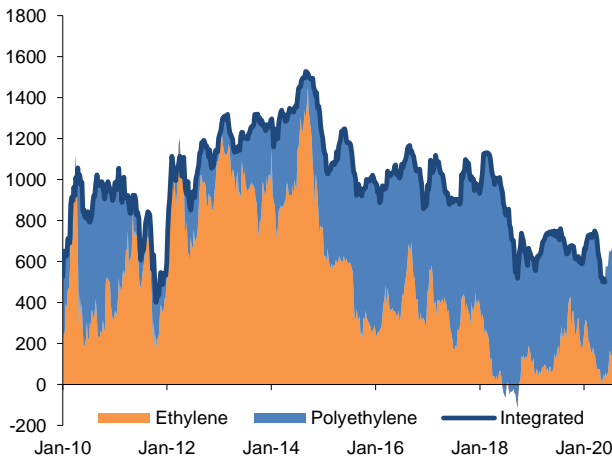
Source: Polymerupdate, Chronux Research

Figure 20 US polyethylene margins, \$/t



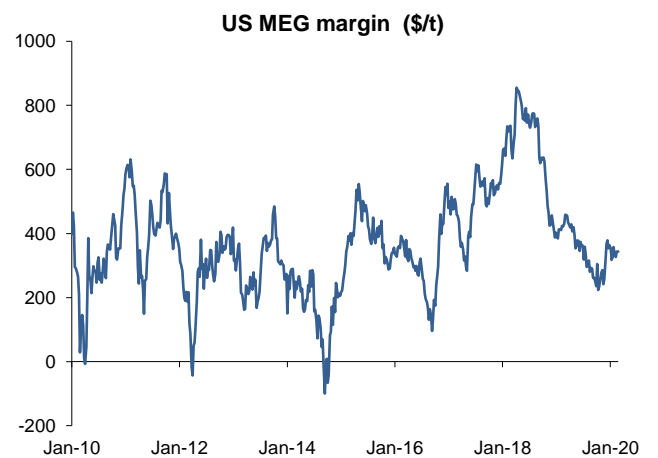
Source: Polymerupdate, Chronux Research

Figure 21 US integrated polyethylene margin, \$/t



Source: Polymerupdate, Chronux Research

Figure 22 US MEG Conversion margin, \$/t



Source: Polymerupdate, Chronux Research

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



Source: Nymex

Figure 24 Richards Bay coal prices, \$/t



Source: Nymex

Figure 25 Sasol divisional forecasts

		FY18	FY19	FY20E	FY21E	FY22E
Oil Price	US\$/bbl	61.02	69.77	54.53	45.00	55.00
Exchange Rate	R/US\$	12.83	14.06	15.44	17.20	16.85
Refining margin	US\$/bbl	13.53	10.27	9.34	7.76	11.16
Coal prices	US\$/t	93.67	89.20	65.03	68.00	63.67
Ethane	USc/gal	26.30	33.18	17.02	14.00	16.33
Ethylene Price (Asia)	US\$/t	1 168	992	707	649	755
Ethylene price (US)	US\$/t	492	450	362	299	405
Propylene	US\$/t	901	935	745	723	814
LDPE	US\$/t	1 200	1 076	920	869	931
LLDPE	US\$/t	1 187	1 063	830	802	891
Polypropylene	US\$/t	1 169	1 199	935	908	999
MEG	US\$/t	1 042	892	593	511	575
Solvents	US\$/t	1 041	966	798	727	862
BC Basket price	US\$/t	918	924	775	726	812
PC Basket price	US\$/t	1 862	1 844	1 672	1 591	1 713
To June (Rm)						
		FY18	FY19	FY20E	FY21E	FY22E
Mining		19 797	20 876	19 479	22 254	23 013
EPI		4 198	5 184	5 599	5 952	8 063
Energy		69 773	83 803	65 347	70 978	83 421
International Energy		0	0	0	0	0
Base Chemicals		43 873	48 813	46 046	48 551	53 233
Performance Chemicals		65 984	68 296	68 064	73 181	77 192
Lake Charles Project		0	0	9 153	21 349	25 578
Group functions		52	78	0	0	0
Revenue (internal and external)		203 677	227 050	213 689	242 266	270 500
Mining		5 296	4 765	2 653	4 817	4 273
EPI		271	1 166	1 527	1 681	2 628
Energy		14 053	16 043	8 265	6 470	12 590
International Energy		0	0	0	0	0
Base Chemicals		4 697	3 831	(1 121)	291	1 504
Performance Chemicals		8 247	7 940	6 003	5 401	7 053
Lake Charles Project		0	(3 791)	(4 314)	7 143	10 714
Group functions		(6 326)	(3 288)	(3 556)	(1 517)	(361)
Operating profit		26 238	26 665	9 457	24 288	38 402
Other (cost savings)		0	0	960	1 440	0
Capital Items		(9 901)	(18 645)	0	0	0
Translation gains (losses)		(1)	604	1 762	(584)	(625)
Total operating income		16 336	8 623	12 180	25 144	37 778
Income from associates		1 443	1 074	(105)	547	1 247
Profit before interest and tax		17 779	9 697	12 075	25 691	39 024
Interest paid		(7 327)	(8 195)	(10 027)	(9 922)	(10 497)
Interest received		1 716	787	1 077	963	1 272
Interest capitalised		3 568	6 942	2 779	2 299	2 155
Net interest		(2 043)	(466)	(6 171)	(6 660)	(7 070)
Profit before tax		15 736	9 231	5 904	19 031	31 954
Tax		(5 578)	(3 157)	(1 335)	(5 292)	(8 255)
Profit after tax		10 158	6 074	4 569	13 739	23 699
Minorities		(1 417)	(1 776)	(980)	(1 468)	(1 693)
Attributable earnings		8 741	4 298	3 590	12 271	22 007
Headline adjustment		8 069	14 643	0	0	0
Headline earnings		16 810	18 941	3 590	12 271	22 007
Headline earnings per share		27.29	30.54	5.80	19.80	35.50

Source: Company data, Chronux Research

Earnings Sensitivities

Figure 26 FY21E Earnings Sensitivity, ZAc/share

	FY Average exchange rate (R/US\$)										
	15.00	15.50	16.00	16.50	17.00	17.50	18.00	18.50	19.00	19.50	20.00
18.00	(5 035)	(5 063)	(5 056)	(4 794)	(4 495)	(4 286)	(4 325)	(4 365)	(4 406)	(4 483)	(4 587)
20.00	(4 528)	(4 569)	(4 553)	(4 260)	(3 968)	(3 743)	(3 766)	(3 790)	(3 816)	(3 878)	(3 966)
22.00	(4 098)	(4 095)	(4 058)	(3 749)	(3 441)	(3 200)	(3 207)	(3 216)	(3 226)	(3 272)	(3 345)
24.00	(3 633)	(3 615)	(3 562)	(3 236)	(2 913)	(2 656)	(2 648)	(2 642)	(2 639)	(2 678)	(2 743)
26.00	(3 168)	(3 134)	(3 065)	(2 724)	(2 385)	(2 113)	(2 095)	(2 082)	(2 069)	(2 093)	(2 148)
28.00	(2 702)	(2 652)	(2 569)	(2 212)	(1 862)	(1 585)	(1 559)	(1 539)	(1 519)	(1 536)	(1 579)
30.00	(2 236)	(2 171)	(2 072)	(1 717)	(1 367)	(1 083)	(1 047)	(1 012)	(978)	(981)	(1 009)
32.00	(1 775)	(1 708)	(1 614)	(1 248)	(883)	(585)	(535)	(485)	(437)	(425)	(440)
34.00	(1 339)	(1 267)	(1 159)	(778)	(399)	(86)	(22)	41	104	130	129
36.00	(912)	(825)	(703)	(308)	85	348	422	495	567	612	638
38.00	(485)	(384)	(248)	161	484	747	832	916	1 000	1 057	1 094
40.00	(58)	57	208	548	871	1 146	1 243	1 338	1 433	1 501	1 550
42.00	332	448	588	924	1 259	1 545	1 653	1 760	1 866	1 946	2 006
44.00	674	801	953	1 301	1 647	1 944	2 063	2 182	2 299	2 390	2 462
46.00	1 016	1 154	1 318	1 677	2 034	2 343	2 474	2 603	2 732	2 835	2 918
48.00	1 358	1 508	1 683	2 053	2 422	2 742	2 884	3 025	3 166	3 279	3 374
50.00	1 700	1 861	2 048	2 429	2 809	3 141	3 295	3 447	3 599	3 724	3 830
52.00	2 042	2 215	2 412	2 805	3 197	3 540	3 705	3 869	4 032	4 169	4 286
54.00	2 384	2 568	2 777	3 182	3 585	3 939	4 115	4 291	4 465	4 613	4 743
56.00	2 726	2 922	3 142	3 558	3 972	4 338	4 526	4 713	4 899	5 058	5 196
58.00	3 068	3 275	3 507	3 934	4 360	4 737	4 936	5 135	5 332	5 501	5 642
60.00	3 410	3 629	3 872	4 311	4 748	5 136	5 347	5 556	5 765	5 937	6 088
62.00	3 752	3 982	4 237	4 687	5 135	5 536	5 757	5 978	6 190	6 372	6 535
64.00	4 094	4 336	4 602	5 063	5 523	5 935	6 168	6 395	6 614	6 807	6 981
66.00	4 436	4 689	4 967	5 440	5 911	6 334	6 576	6 808	7 038	7 243	7 428
68.00	4 778	5 043	5 332	5 816	6 299	6 733	6 978	7 221	7 462	7 678	7 874
70.00	5 120	5 396	5 696	6 192	6 686	7 125	7 380	7 634	7 887	8 113	8 321

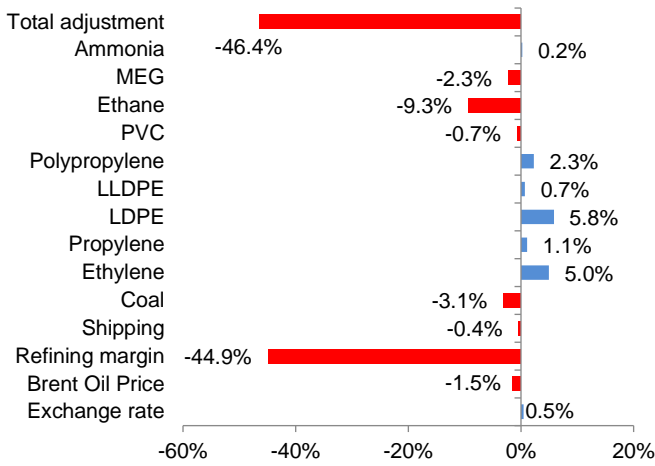
Figure 27 FY22E Earnings Sensitivity, ZAc/share

	FY Average exchange rate (R/US\$)										
	15.00	15.50	16.00	16.50	17.00	17.50	18.00	18.50	19.00	19.50	20.00
18.00	(5 827)	(5 530)	(5 276)	(4 939)	(4 649)	(4 360)	(4 072)	(3 785)	(3 499)	(3 213)	(2 929)
20.00	(5 365)	(4 998)	(4 738)	(4 430)	(4 124)	(3 819)	(3 516)	(3 213)	(2 912)	(2 611)	(2 311)
22.00	(4 893)	(4 570)	(4 244)	(3 921)	(3 599)	(3 279)	(2 960)	(2 642)	(2 325)	(2 009)	(1 693)
24.00	(4 435)	(4 091)	(3 750)	(3 411)	(3 074)	(2 738)	(2 404)	(2 070)	(1 738)	(1 406)	(1 075)
26.00	(3 972)	(3 613)	(3 256)	(2 901)	(2 548)	(2 197)	(1 847)	(1 499)	(1 151)	(804)	(496)
28.00	(3 509)	(3 134)	(2 761)	(2 391)	(2 023)	(1 657)	(1 291)	(927)	(567)	(267)	(5)
30.00	(3 045)	(2 655)	(2 267)	(1 882)	(1 498)	(1 121)	(750)	(386)	(88)	182	452
32.00	(2 582)	(2 176)	(1 773)	(1 382)	(999)	(621)	(244)	64	346	627	908
34.00	(2 118)	(1 708)	(1 311)	(916)	(524)	(132)	191	486	780	1 073	1 365
36.00	(1 686)	(1 274)	(864)	(455)	(48)	296	602	908	1 213	1 518	1 822
38.00	(1 267)	(840)	(416)	6	376	695	1 013	1 331	1 647	1 963	2 278
40.00	(848)	(407)	31	433	764	1 095	1 424	1 753	2 081	2 408	2 735
42.00	(428)	26	465	809	1 153	1 495	1 836	2 176	2 515	2 854	3 192
44.00	(9)	460	830	1 186	1 541	1 894	2 247	2 598	2 949	3 299	3 648
46.00	411	826	1 196	1 563	1 929	2 294	2 658	3 021	3 383	3 744	4 105
48.00	797	1 180	1 561	1 940	2 317	2 694	3 069	3 443	3 817	4 190	4 562
50.00	1 140	1 534	1 926	2 317	2 706	3 093	3 480	3 866	4 251	4 635	5 019
52.00	1 482	1 888	2 292	2 694	3 094	3 493	3 891	4 288	4 685	5 080	5 475
54.00	1 825	2 242	2 657	3 071	3 482	3 893	4 302	4 711	5 119	5 526	5 931
56.00	2 168	2 596	3 023	3 447	3 871	4 292	4 713	5 133	5 553	5 971	6 378
58.00	2 510	2 950	3 388	3 824	4 259	4 692	5 125	5 556	5 987	6 408	6 825
60.00	2 853	3 305	3 754	4 201	4 647	5 092	5 536	5 979	6 414	6 844	7 273
62.00	3 196	3 659	4 119	4 578	5 036	5 492	5 947	6 398	6 839	7 280	7 720
64.00	3 538	4 013	4 485	4 955	5 424	5 892	6 358	6 811	7 264	7 716	8 167
66.00	3 881	4 367	4 851	5 332	5 812	6 291	6 761	7 225	7 689	8 152	8 614
68.00	4 224	4 721	5 216	5 709	6 201	6 687	7 163	7 639	8 114	8 588	9 061
70.00	4 567	5 075	5 582	6 086	6 589	7 078	7 566	8 052	8 538	9 024	9 508

Source: Chronux Research

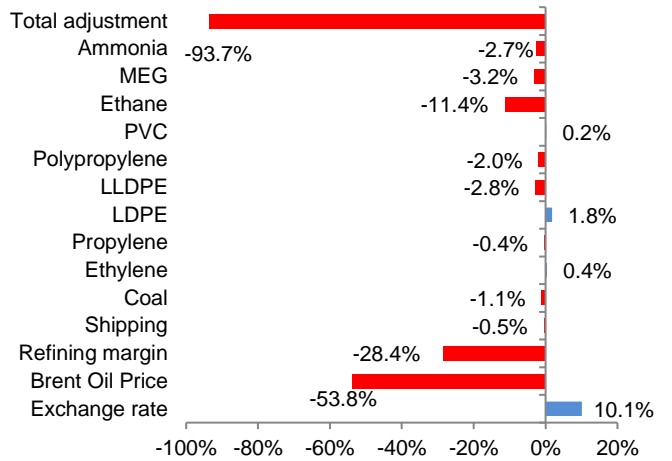
Spot earnings

Figure 28 FY21E spot HEPS, % deviation: R10.61



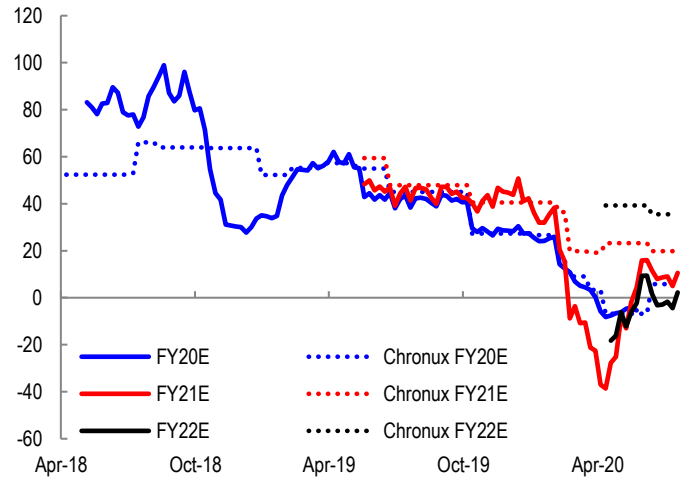
Source: Chronux Research

Figure 29 FY22E spot HEPS, % deviation: R2.22



Source: Chronux Research

Figure 30 FY20-FY22E 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

Figure 31 Sasol peer group metrics

Company	Year end	Market cap (US\$)	PE Ratio			EV/EBITDA			Div yield	ROE	ROCE	Debt/Equity
			historic	curr year	next year	historic	curr year	next year				
Sasol	Jun-19	5 133	5.02	40.17	12.88	6.37	8.51	6.30	0.0%	2%	7.9%	63%
Oil Majors			7.66	178.7	21.2	7.5	8.7	6.2	8%	6%	10%	47%
ExxonMobil	Dec-19	174 879	8.69		26.1	11.4	14.4	8.7	8.4%	7%	9.6%	28%
Chevron	Dec-19	154 474	10.25	525.6	37.0	8.5	10.5	7.6	6.2%	2%	9.3%	21%
BP	Dec-19	74 131	5.89	122.7	15.7	5.3	5.5	4.5	11.5%	4%	10.2%	79%
RD Shell	Dec-19	118 929	6.02	35.4	13.4	6.6	6.0	4.3	4.3%	8%	10.9%	52%
Total	Dec-19	97 932	7.46	31.0	13.6	5.6	7.1	5.5	8.0%	10%	9.6%	54%
Emerging oils			8.01	20.3	11.7	5.9	6.9	5.6	7%	19%	11%	54%
Petrobras	Dec-19	55 198	9.48		14.3	5.8	5.8	4.7	0.0%	10%	9.4%	119%
Rosneft	Dec-19	54 391	7.03	24.0	7.5	4.5	6.3	4.9	9.2%	17%	12.5%	78%
Novatek	Dec-19	43 884	13.27	23.6	13.7	17.5	19.2	13.8	3.2%	69%		10%
Lukoil	Dec-19	49 660	5.81	20.9	10.0	3.6	4.8	3.9	10.7%	16%	16.6%	17%
Kunlun	Dec-19	6 290	8.40	7.3	6.5	5.0	4.3	4.7	5.0%	12%	11.8%	70%
CPCC	Dec-19	69 344	5.71	25.2	9.4	4.1	5.0	4.1	9.9%	8%	9.4%	47%
Petrochina	Dec-19	117 668	8.13		21.1	3.7	5.6	5.0	5.5%	4%	6.8%	52%
CNOOC	Dec-19	50 696	6.23	21.0	10.7	3.4	4.5	3.3	8.9%	14%	13.4%	35%
Developed Chemicals			6.99	25.2	13.5	9.7	9.5	7.8	5%	15%	16%	114%
Dow	Dec-19	29 214	7.35	33.8	17.1	8.9	8.9	7.7	7.1%	-8%	11.2%	141%
LyondellBasell	Dec-19	21 060	5.59	13.1	8.3	8.0	9.1	7.3	6.7%	37%	24.0%	168%
Eastman	Dec-19	9 283	8.33	11.6	9.9	8.6	8.8	8.0	3.9%	13%	11.8%	100%
Westlake	Dec-19	6 522	6.54	38.0	23.2	8.8	9.3	8.5	2.1%	7%	14.0%	67%
Huntsman	Dec-19	3 729	5.06	45.4	12.6	9.7	10.6	6.5	3.8%	15%	17.8%	105%
Celanese	Dec-19	9 940	7.64	12.5	9.4	13.9	10.5	8.6	2.9%	31%	24.0%	164%
BASF	Dec-19	51 465	8.45	21.8	14.3	10.4	9.3	8.0	6.7%	7%	10.2%	49%
Emerging Chemicals			7.71	21.1	25.5	14.3	10.3	9.5	4%	-3%	10%	23%
Braskem	Dec-19	3 658	6.55		66.8	7.1	7.9	7.4	0.0%	-48%		908%
Sinopec	Dec-19	5 016	3.49	12.3	8.5	3.3	2.5	2.0	6.4%	7%	18.6%	8%
Formosa Plastics	Dec-19	17 941	10.57	20.8	15.6	21.2	20.6	19.1	5.3%	11%	6.0%	21%
Nan Ya	Dec-19	17 316	9.52	24.9	17.8	23.7			3.4%	6%	6.0%	37%
Formosa Chemicals	Dec-19	14 330	8.43	26.3	18.8	16.0			5.3%	8%	7.9%	28%

Source: Factset, Chronux Research estimates

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