



Sasol Ltd (SOL SJ)

Date: 10 March 2021

WPC2021 – Cautious outlook remains in place

Key message: We are currently attending the virtual World Petrochemical Conference hosted by IHS Markit. We highlight the key themes that impact prices of Sasol's commodity chemical products.

- **Key themes:** The key themes at the conference are the changes facing the chemicals industry. These include the energy transition and decarbonisation, plastic waste and the circular economy as well as electrification of vehicles and the permanent effects of COVID-19.
- **Cautious outlook remains:** IHS remains cautious on petrochemical profits over the next three years. New capacity in the ethylene and propylene value chains will outpace demand growth and operating rates and margins are set to decline with a recovery only expected after 2023.
- **The year that was 2020:** The ethylene and propylene value chains benefitted from unexpected demand growth. Global polyethylene demand increased by 4% while polypropylene increased by 5% despite the contracting global economy. The need for PPE and packaging for PPE drove demand higher and increased in online shopping and a shift in consumer spending from services to goods also impacted demand.
- **Supply impacted by short term dislocations:** Supply for ethylene and propylene increased significantly in 2020 (Figure 1) but plant closures due to adverse weather and unplanned production interruptions offset these increases. Scheduled plant shutdowns also took longer than expected due to workplace COVID protocols. The recent cold weather in the US shut down more than 90% of polyethylene capacity. This and the shortage of containers prompted panic buying, pushing prices and margins to levels that match previous peaks (Figures 3 and 4).
- **Normalised market in 2H:** IHS expects polyethylene integrated margins will peak in 2Q2021 after which the lifting of the above constraints will return markets to normality. IHS expects the addition of 4.5mn tons (+4%) of new polyethylene capacity in China in 2021 of which 1.6mn tons will come to market in 1H2021. Operating rates and margins are expected to come under renewed pressure in 2H reaching a trough only in 2023. In the absence of plant closures, global operating rates are only expected to approach 90% in 2026 (Figure 2).
- **Margins under pressure:** Ethane cracking margins should come under pressure in all regions while non-integrated polyethylene margins could fall to zero in high cost regions. US integrated operations should maintain a cost advantage as a result of low ethane cracking costs.
- **Cautious view on MEG remains:** The addition of significant MEG capacity between 2019 and 2023 should see global operating rates drop as low as 60% in 2023 forcing margins lower in all regions.
- **Read through for Sasol:** We still hold a cautious view on commodity chemical prices through the next three years (Figure 6). There is significant upside to our profit forecasts for Sasol if prices remain at current levels for longer (+27% in FY21 and +40% in FY22). We maintain an Overweight position.

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Rating	OVERWEIGHT	
Share price	R/share	226.6
Target price	R/share	210.0
Expected dividend	R/share	0.0
Total expected return	%	-7.3%
Market cap	Rmn	143 677
Shares outstanding	mn	634

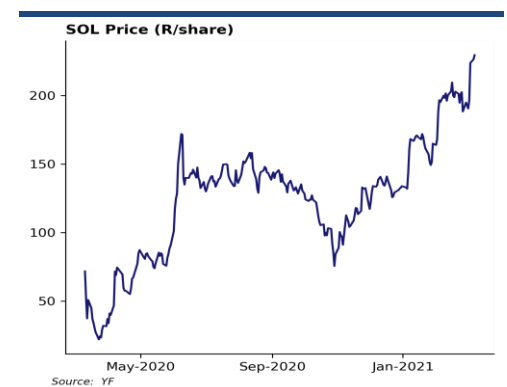
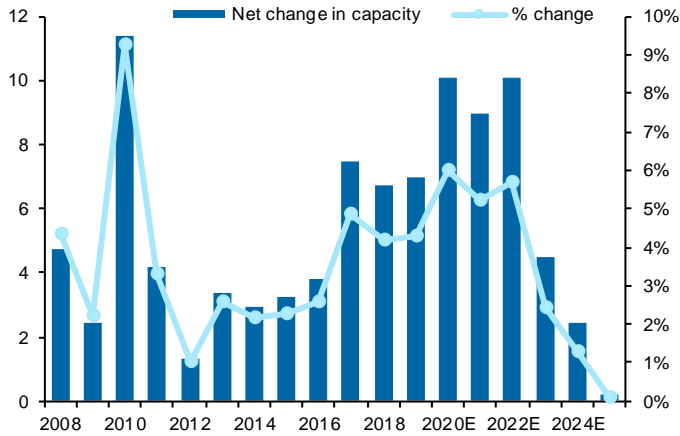
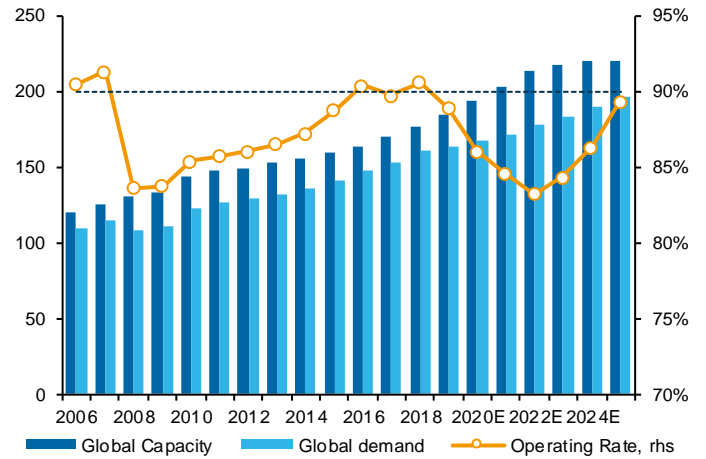


Figure 1 Increase in ethylene capacity, kt



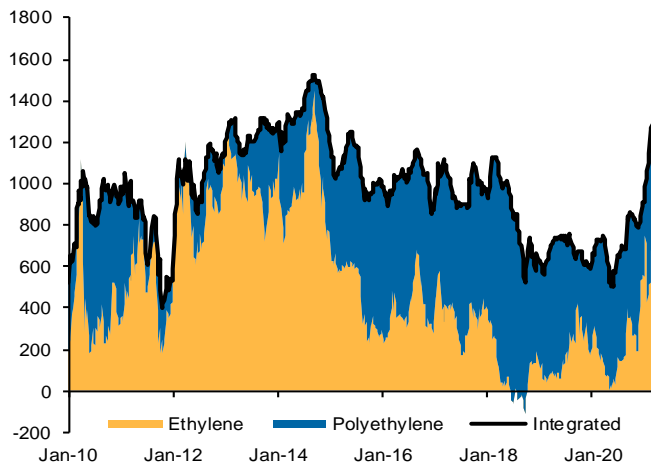
Source: IHS, Chronux Research estimates

Figure 2 Ethylene supply and demand, kt



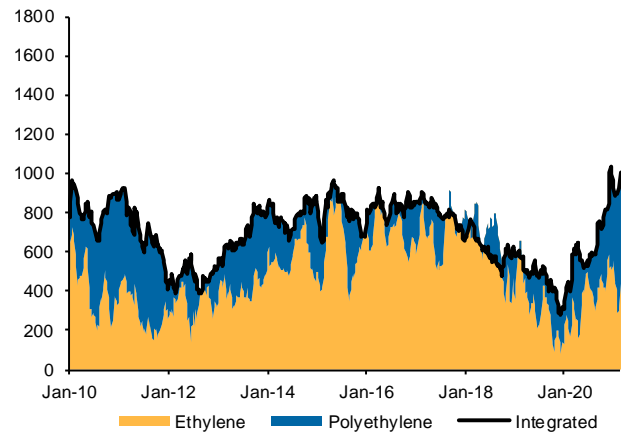
Source: IHS, Chronux Research estimates

Figure 3 US Integrated polyethylene margin, \$/t



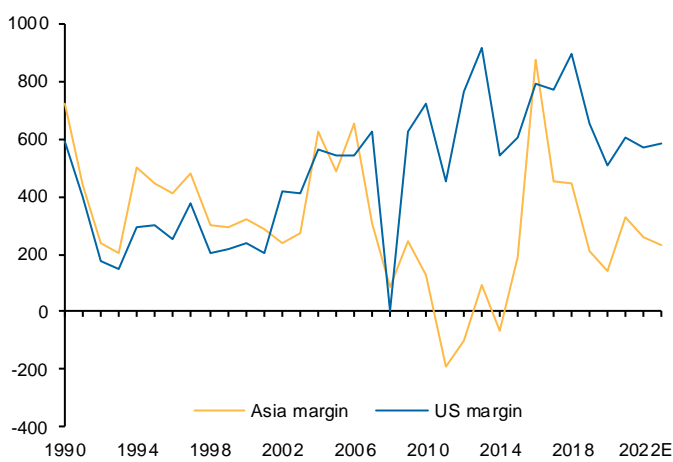
Source: PolymerUpdate, Chronux Research estimates

Figure 4 Asian integrated polyethylene margin, \$/t



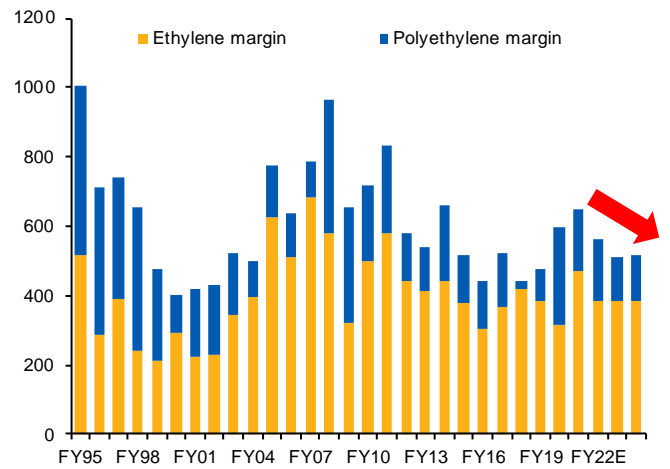
Source: PolymerUpdate, Chronux Research estimates

Figure 5 Ethylene conversion margins, \$/t



Source: IHS, PolymerUpdate, Chronux Research estimates

Figure 6 Sasol polyethylene prices



Source: PolymerUpdate, Chronux Research estimates

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