



Sasol Ltd (SOL SJ)

Date: 12 March 2021

Spotlight on earnings – latest profit drivers

- Sasol's spot earnings continue to rise as oil and chemical prices continue to rocket higher. FY21 spot core HEPS are at R27.46 and FY22 spot HEPS are now at R54.51. Refining margins are weak however and diesel cracks have fallen to \$3/bbl.
- Asian ethylene prices increased by 20% in the week and US ethylene prices moved 11% higher. Asian polymer prices also moved higher and US LDPE and LLDPE prices increased by 12% and 19% respectively. Integrated margins are approaching record levels. The potential upside to our FY22 earnings forecast due to current high chemical prices alone is 40%.

Global chemical news

- Shortages of critical components and repair personnel are slowing restarts in the USA and many plants remain offline. Inventories have been drawn down to unprecedented levels ([link](#)).
- Sasol's cracker in Louisiana operated through the spell of cold weather and the polyethylene plants have started up successfully. Sasol should benefit from the current high ethylene and polyethylene prices and margins in the USA.

	04/03/21	11/03/21	% change
R/\$	15.10	15.29	1.3%
Brent Oil	63.57	67.38	6.0%
Sasol ref margin	7.45	5.04	-32.3%
US Nat Gas	2.85	2.73	-4.2%

Ethylene	990	1 190	20.2%
Propylene	1 125	1 130	0.4%
LDPE	1 550	1 640	5.8%
LLDPE	1 110	1 200	8.1%
Polypropylene	1 420	1 470	3.5%
PVC	1 270	1 350	6.3%
Ammonia	225	225	0.0%
MEG	825	800	-3.0%
Ethane	22.00	22.50	2.3%

Sasol HEPS	Chronux	Spot 04/03/21	Spot 11/03/21	%change
FY21E	19.72	26.32	27.46	4.3%
FY22E	32.65	47.51	54.51	14.7%

FY21 balance sheet

Net debt (ex lease liabilities) (ZARbn)	(72.7)
Net debt:EBITDA (x)	1.4

Financial summary

ZARmn	FY19	FY20	FY21E	FY22E	FY23E
Revenue	203 438	190 711	197 982	211 060	222 752
EBITDA	47 051	34 976	42 854	53 127	53 895
Net Income	4 299	(91 109)	21 226	20 254	18 222
Headline EPS	30.54	(11.79)	30.20	32.65	29.25
Core headline eps	38.13	14.79	19.72	33.37	29.97
Dividend	5.9	0.0	0.0	0.0	11.0
Dividend yield	1.7%	0.0%	0.0%	0.0%	4.5%

Source: Company data, Chronux Research estimates

Analyst

Gerhard Engelbrecht
+27 82 885 0156

gerhard.engelbrecht@chronux.co.za

Rating

	R/share	OVERWEIGHT
Share price	203.00	
Target price	210.00	
Expected dividend	0	
Total expected return	3.4%	

Market cap	Rmn	128 699
Shares outstanding	mn	634

Fuel Prices

[Asian Chemical Prices](#)

[US Chemical Prices](#)

[Other Chemical Prices](#)

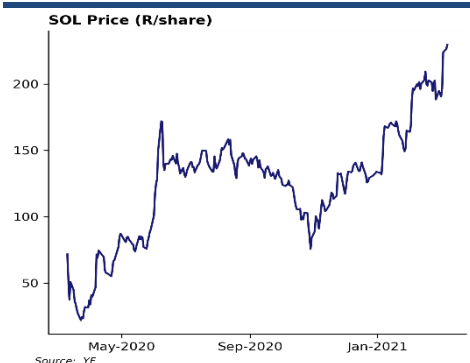
[Sasol Divisional Forecasts](#)

[Earnings Sensitivities](#)

[Spot Earnings](#)

Recent Research:

24/02/20: Investment case – corner turned?
17/02/21: 1H FY21 preview – messy result
15/02/21: US polyethylene prices in pictures
09/02/21: US Polyethylene, higher for longer
03/02/21: Earnings measures have lost utility
12/01/21: Outlook for 21 – Lower risk but volatile
07/12/20: Mozambican gas – talking to an expert
02/12/20: The big reveal, the jury will remain out
24/11/20: Gemini disposal, this time at value
12/11/20: Ethane market tighter in Texas
29/10/20: More downgrades and an upgrade
22/10/20: FY21 1Q BPM and updated guidance
02/10/20: LCCP disposal announced
01/10/20: Greenlight for class action lawsuit
28/09/20: Lower earnings on LCCP shut



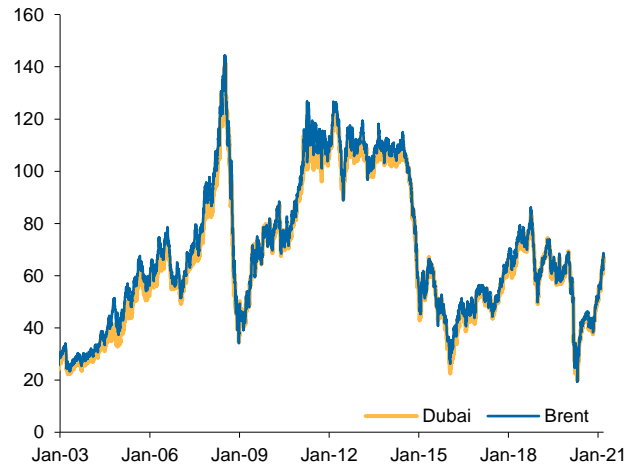
Fuel Prices

Figure 1 Exchange Rate, R/\$



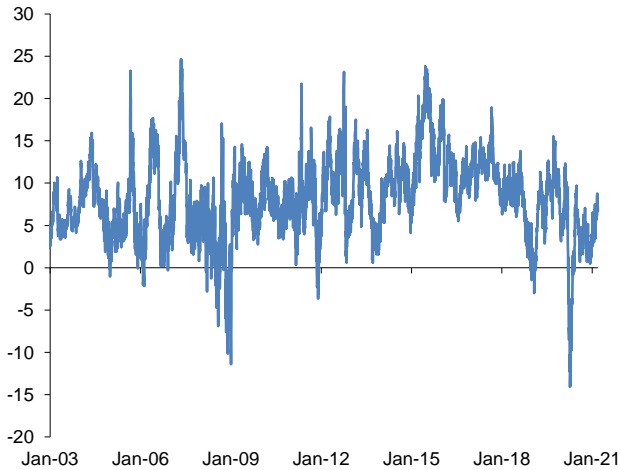
Source: CEF

Figure 2 Oil Price, \$/bbl



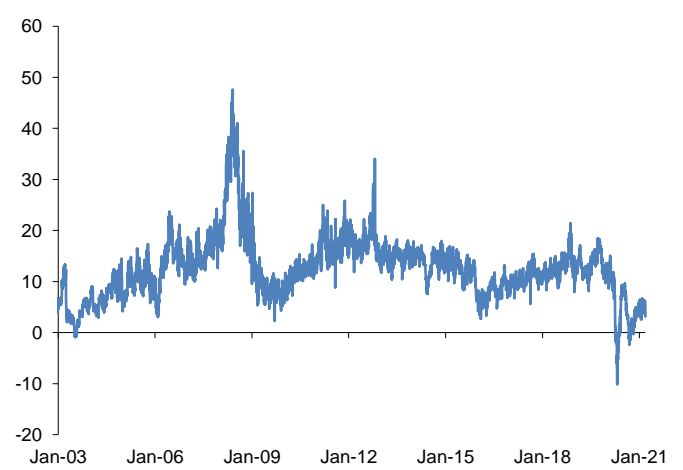
Source: Nymex, OilPrice.com

Figure 3 Petrol Crack spread, \$/bbl



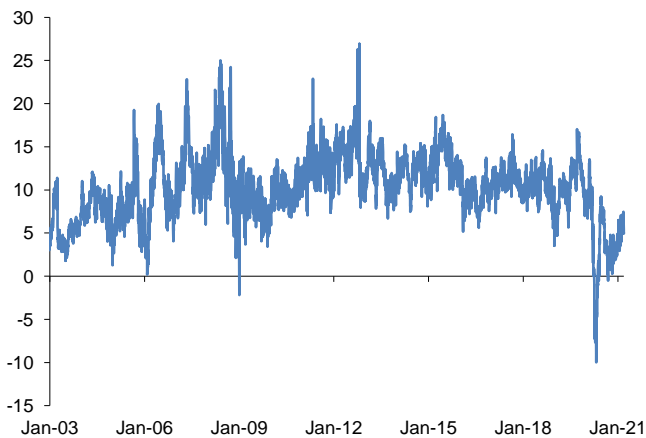
Source: Nymex, CEF, Sasol

Figure 4 Diesel crack spread, \$/bbl



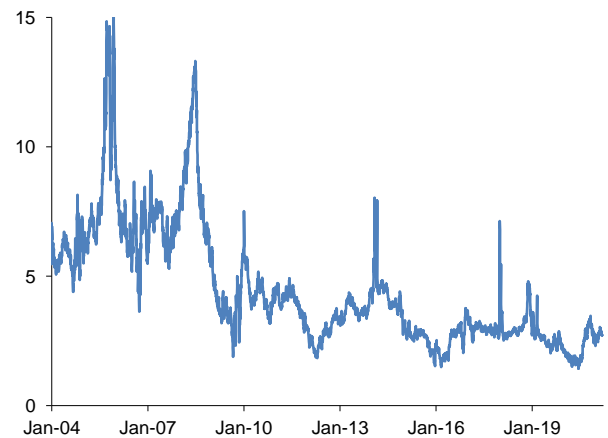
Source: Nymex, CEF, Sasol

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

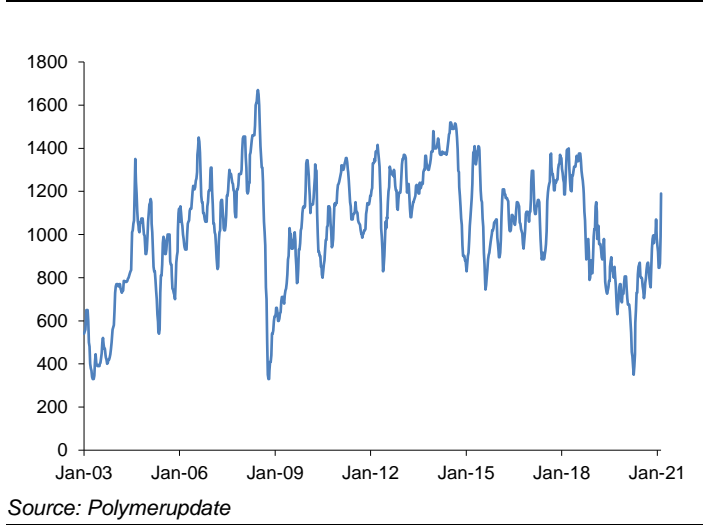


Figure 8 Asian propylene prices, \$/t



Figure 9 Asian LDPE prices, \$/t

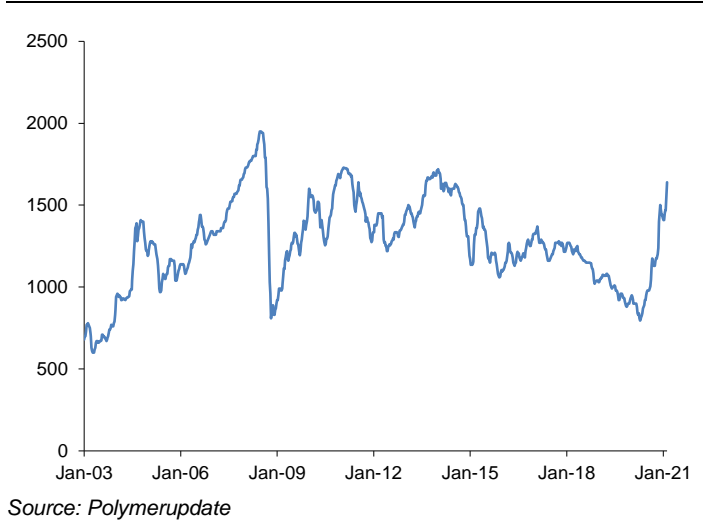


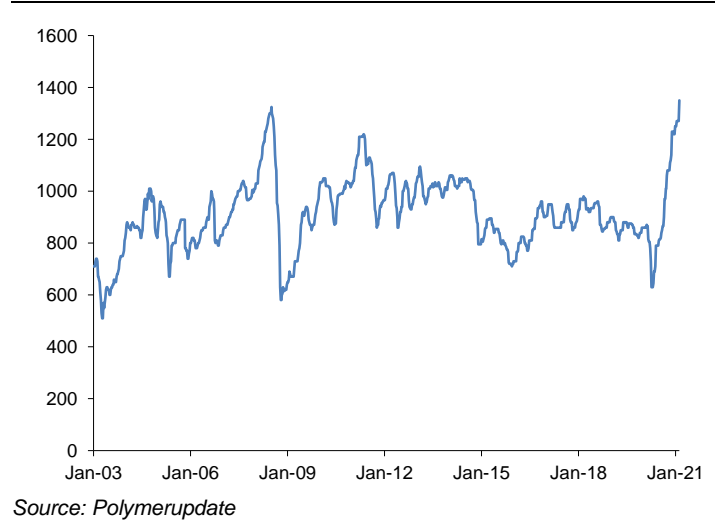
Figure 10 Asian LLDPE prices, \$/t



Figure 11 Asian polypropylene prices



Figure 12 Asian PVC prices, \$/t



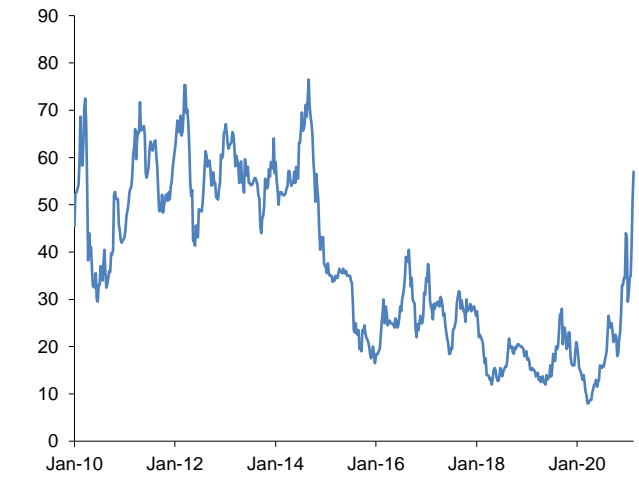
US petrochemical prices

Figure 13 US ethane prices, US\$/gal



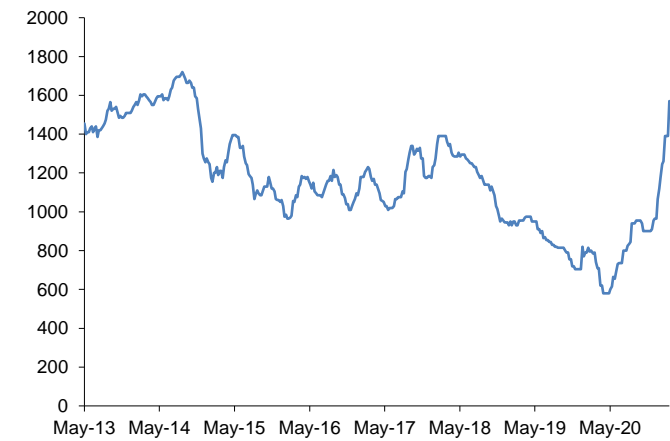
Source: Opus

Figure 14 US ethylene prices, US\$/lb



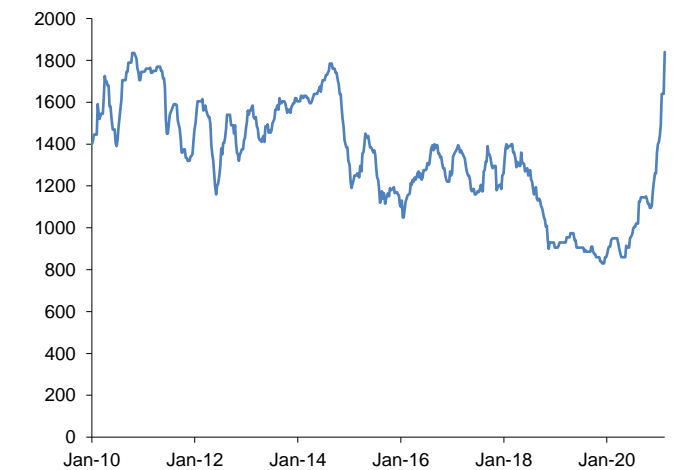
Source: Polymerupdate

Figure 15 US HDPE prices, \$/t



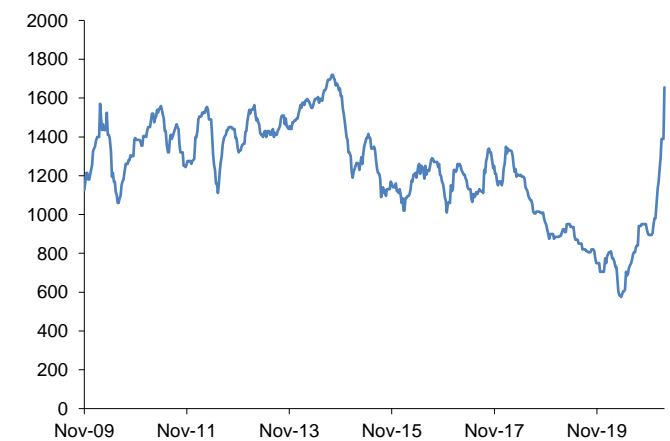
Source: Polymerupdate

Figure 16 US LDPE price, \$/t



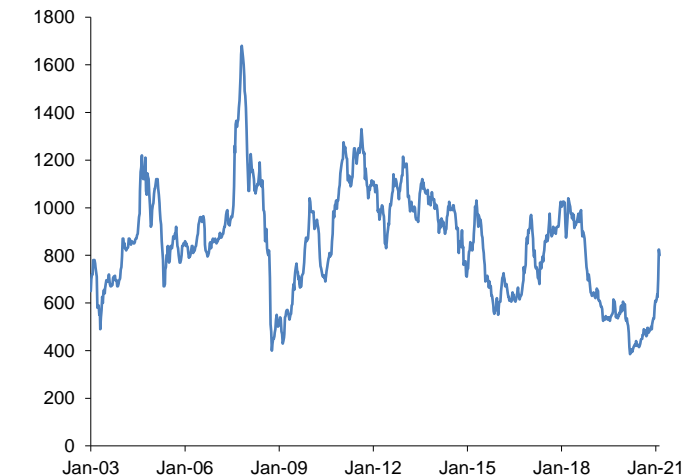
Source: Polymerupdate

Figure 17 US LLDPE prices, \$/t



Source: Polymerupdate

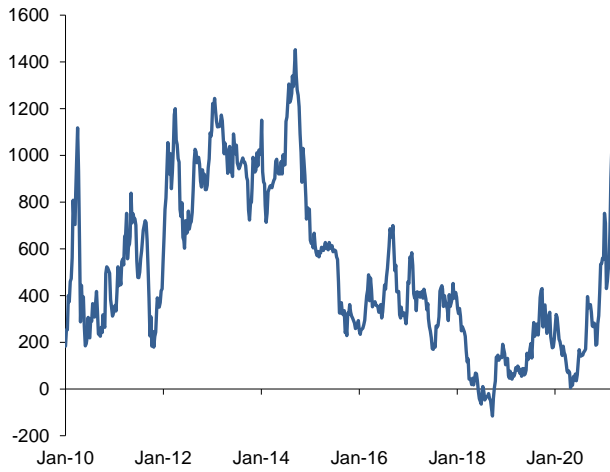
Figure 18 SEA MEG, \$/t



Source: Polymerupdate

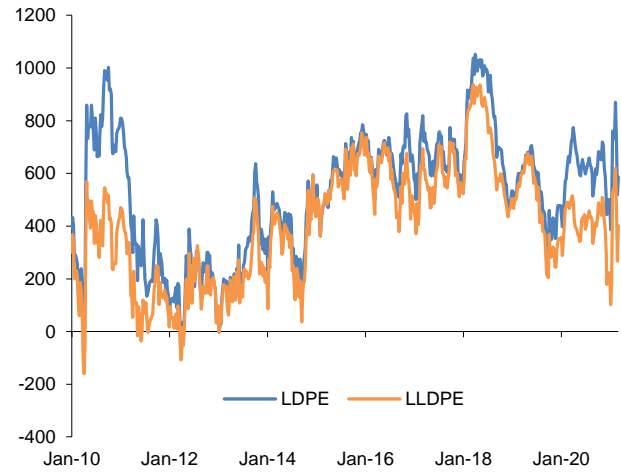
Other chemical and energy prices

Figure 19 US ethylene margin, \$/t



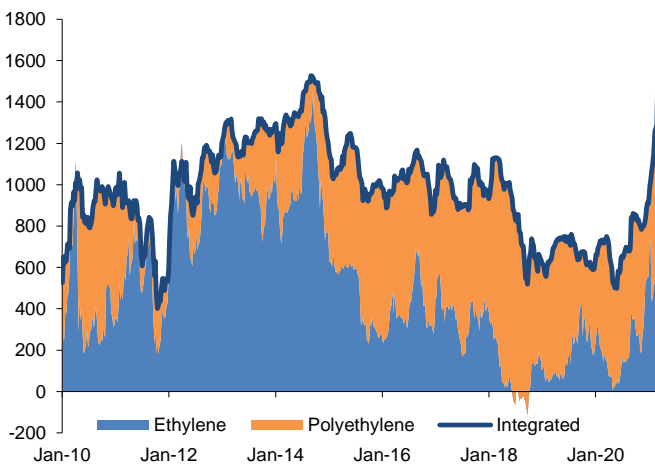
Source: Polymerupdate, Chronux Research

Figure 20 US polyethylene margins, \$/t



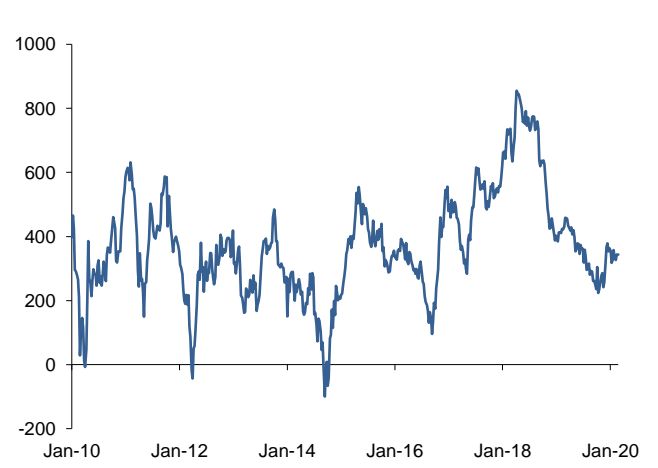
Source: Polymerupdate, Chronux Research

Figure 21 US integrated polyethylene margin, \$/t



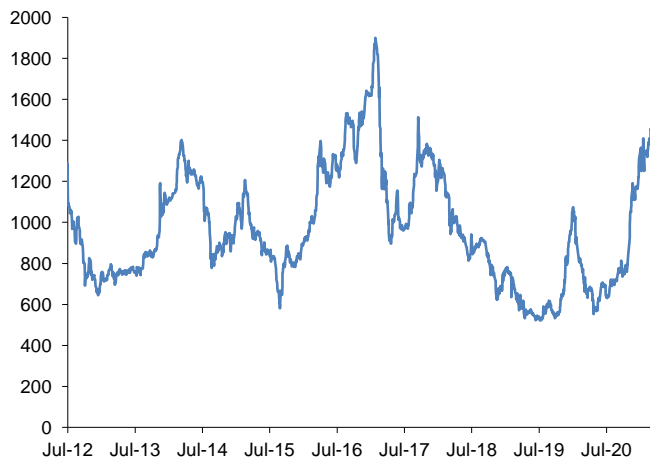
Source: Polymerupdate, Chronux Research

Figure 22 US MEG Conversion margin, \$/t



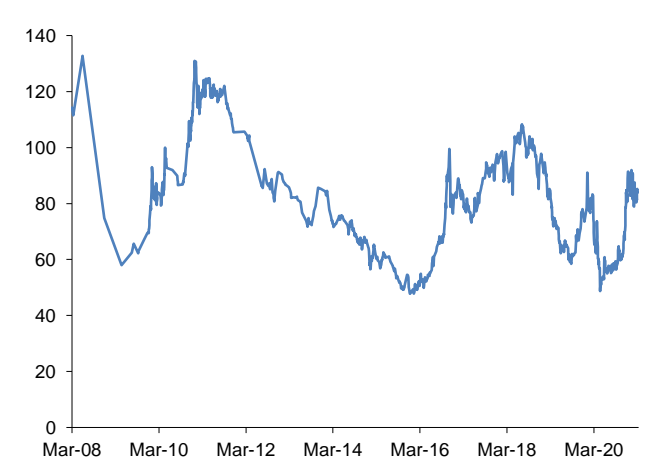
Source: Polymerupdate, Chronux Research

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



Source: Nymex

Figure 24 Richards Bay coal prices, \$/t



Source: Nymex

Figure 25 Sasol divisional forecasts

		FY19	FY20	FY21E	FY22E	FY23E
Oil Price	US\$/bbl	69.77	54.53	49.25	55.00	55.00
Exchange Rate	R/US\$	14.06	15.44	15.85	15.75	16.55
Refining margin	US\$/bbl	10.27	9.34	4.83	9.91	10.53
Coal prices	US\$/t	89.20	65.03	70.00	66.30	67.63
Ethane	USc/gal	33.18	17.02	23.00	24.23	24.62
Ethylene Price (Asia)	US\$/t	991.88	706.83	843.99	808.57	781.70
Ethylene price (US)	US\$/t	450.00	362.00	543.99	508.57	381.70
Propylene	US\$/t	935.46	745.07	855.99	816.73	815.77
LDPE	US\$/t	1 076	920	1 174	1 051	958
LLDPE	US\$/t	1 063	830	933	968	897
Polypropylene	US\$/t	1 199	935	1 050	1 011	1 011
MEG	US\$/t	892	593	607	573	547
Solvents	US\$/t	961	872	987	990	1 005
BC Basket price	US\$/t	905	770	828	779	766
PC Basket price	US\$/t	1 844	1 729	1 743	1 766	1 763
To June (Rm)						
		FY19	FY20	FY21E	FY22E	FY23E
Mining		20 876	19 891	22 089	22 966	24 512
EPI		5 184	5 204	5 101	5 314	5 650
Energy		83 803	67 907	64 248	76 435	80 753
International Energy		0	0	0	0	0
Base Chemicals		48 813	45 526	50 673	47 553	49 130
Performance Chemicals		68 296	66 689	66 416	69 909	73 920
Lake Charles Project		0	9 860	14 741	15 426	16 832
Group functions		78	30	30	0	0
Revenue (internal and external)		227 049	215 107	223 299	237 603	250 798
Mining		6 570	4 959	6 911	6 907	7 565
EPI		2 971	3 205	2 075	2 250	2 325
Energy		21 373	11 348	12 442	13 665	14 531
International Energy		0	0	0	0	0
Base Chemicals		8 620	6 070	9 166	6 042	5 182
Performance Chemicals		11 679	10 079	10 000	10 600	10 818
Lake Charles Project		(3 791)	(966)	2 076	8 118	8 974
Group functions		(2 534)	(5 424)	3 765	281	181
EBITDA		44 887	29 271	46 434	47 863	49 575
Depreciation & Amortisation		(18 222)	(22 578)	(17 378)	(17 831)	(18 933)
Other (cost savings)		0	0	(2 500)	1 700	700
Capital Items		(18 645)	(110 834)	3 300	0	0
Translation gains (losses)		604	(6 542)	4 320	(44)	(298)
Total operating income		8 624	(110 683)	34 176	31 687	31 044
Income from associates		1 074	(347)	591	1 012	1 075
Profit before interest and tax		9 697	(111 030)	34 767	32 700	32 119
Interest paid		(8 195)	(10 823)	(8 296)	(4 970)	(5 343)
Interest received		787	922	1 137	936	792
Interest capitalised		6 942	3 520	1 185	1 227	1 214
Net interest		(466)	(6 381)	(5 974)	(2 807)	(3 336)
Profit before tax		9 232	(117 411)	28 793	29 892	28 783
Tax		(3 157)	26 139	(7 028)	(8 137)	(8 840)
Profit after tax		6 075	(91 272)	21 765	21 755	19 943
Minorities		(1 776)	163	(542)	(1 501)	(1 721)
Attributable earnings		4 299	(91 109)	21 223	20 254	18 222
Headline adjustment		14 643	83 824	(2 492)	0	0
Headline earnings		18 942	(7 285)	18 727	20 254	18 222
Headline earnings per share		30.54	-11.79	30.20	32.65	29.25

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
Brent Oil Price (US\$/bbl)	18.00	(2 626)	(2 785)	(2 646)	(2 482)	(2 383)	(2 561)	(2 706)	(2 845)	(3 023)	(3 198)	(3 371)
	20.00	(2 188)	(2 295)	(2 194)	(2 032)	(1 890)	(2 045)	(2 202)	(2 361)	(2 523)	(2 692)	(2 864)
	22.00	(1 761)	(1 897)	(1 732)	(1 557)	(1 412)	(1 544)	(1 693)	(1 844)	(1 994)	(2 146)	(2 298)
	24.00	(1 332)	(1 451)	(1 284)	(1 155)	(1 039)	(1 136)	(1 234)	(1 334)	(1 471)	(1 608)	(1 745)
	26.00	(990)	(1 071)	(937)	(797)	(670)	(757)	(844)	(931)	(1 020)	(1 109)	(1 198)
	28.00	(665)	(734)	(590)	(439)	(302)	(377)	(453)	(530)	(607)	(685)	(764)
	30.00	(340)	(398)	(243)	(81)	67	3	(63)	(129)	(195)	(262)	(330)
	32.00	(14)	(62)	104	277	436	382	328	273	217	161	104
	34.00	311	274	451	634	804	762	718	674	629	584	538
	36.00	636	610	798	992	1 173	1 141	1 109	1 075	1 041	1 007	972
	38.00	962	946	1 145	1 350	1 542	1 521	1 499	1 477	1 453	1 430	1 406
	40.00	1 287	1 283	1 492	1 708	1 910	1 900	1 890	1 878	1 866	1 853	1 839
	42.00	1 612	1 619	1 839	2 066	2 279	2 280	2 280	2 279	2 278	2 276	2 273
	44.00	1 938	1 955	2 186	2 424	2 648	2 660	2 670	2 681	2 690	2 699	2 707
	46.00	2 263	2 291	2 534	2 782	3 017	3 039	3 061	3 082	3 102	3 122	3 141
	48.00	2 589	2 628	2 881	3 140	3 386	3 419	3 451	3 483	3 514	3 545	3 575
	50.00	2 914	2 964	3 228	3 498	3 754	3 799	3 842	3 885	3 926	3 968	4 009
	52.00	3 239	3 300	3 575	3 856	4 123	4 178	4 232	4 286	4 339	4 391	4 443
	54.00	3 565	3 637	3 922	4 214	4 492	4 558	4 623	4 687	4 751	4 814	4 877
	56.00	3 890	3 973	4 269	4 572	4 861	4 938	5 014	5 089	5 163	5 237	5 311
58.00	4 216	4 309	4 616	4 930	5 230	5 317	5 404	5 490	5 575	5 660	5 744	
60.00	4 541	4 646	4 964	5 288	5 599	5 697	5 795	5 891	5 988	6 083	6 178	
62.00	4 867	4 982	5 311	5 646	5 968	6 077	6 185	6 293	6 400	6 506	6 612	
64.00	5 193	5 318	5 658	6 004	6 336	6 457	6 576	6 694	6 812	6 929	7 046	
66.00	5 518	5 655	6 005	6 362	6 705	6 836	6 966	7 096	7 224	7 353	7 480	
68.00	5 844	5 991	6 353	6 720	7 074	7 216	7 357	7 497	7 637	7 776	7 914	
70.00	6 169	6 328	6 700	7 078	7 443	7 596	7 748	7 899	8 049	8 199	8 345	

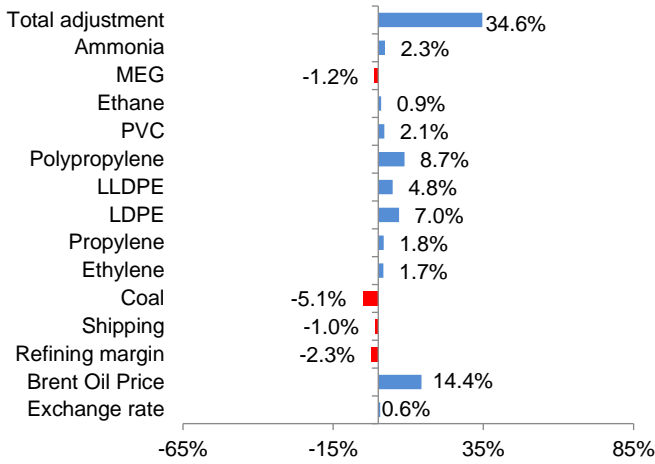
Figure 27 FY22E Earnings Sensitivity, ZAc/share

		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
Brent Oil Price (US\$/bbl)	18.00	(4 573)	(4 428)	(4 290)	(4 176)	(3 984)	(3 807)	(3 664)	(3 517)	(3 370)	(3 223)	(3 075)
	20.00	(4 135)	(3 932)	(3 739)	(3 600)	(3 440)	(3 278)	(3 116)	(2 953)	(2 789)	(2 626)	(2 463)
	22.00	(3 346)	(3 452)	(3 278)	(3 101)	(2 922)	(2 744)	(2 565)	(2 386)	(2 208)	(2 029)	(1 850)
	24.00	(3 177)	(2 984)	(2 791)	(2 597)	(2 403)	(2 208)	(2 014)	(1 820)	(1 626)	(1 432)	(1 238)
	26.00	(2 721)	(2 511)	(2 302)	(2 092)	(1 882)	(1 673)	(1 463)	(1 253)	(1 044)	(834)	(645)
	28.00	(2 263)	(2 037)	(1 812)	(1 587)	(1 362)	(1 137)	(912)	(687)	(489)	(323)	(158)
	30.00	(1 804)	(1 563)	(1 322)	(1 082)	(842)	(605)	(389)	(211)	(33)	145	323
	32.00	(1 345)	(1 090)	(837)	(585)	(336)	(146)	44	227	408	590	771
	34.00	(893)	(625)	(358)	(131)	62	254	447	639	832	1 024	1 216
	36.00	(444)	(172)	32	236	440	644	848	1 051	1 255	1 458	1 662
	38.00	(42)	173	389	604	819	1 034	1 249	1 463	1 678	1 893	2 107
	40.00	292	518	745	971	1 197	1 423	1 649	1 875	2 101	2 327	2 553
	42.00	626	864	1 101	1 339	1 576	1 813	2 050	2 287	2 524	2 761	2 998
	44.00	960	1 209	1 458	1 706	1 955	2 203	2 451	2 699	2 948	3 196	3 444
	46.00	1 294	1 554	1 814	2 074	2 333	2 593	2 852	3 112	3 371	3 630	3 889
	48.00	1 628	1 899	2 170	2 441	2 712	2 983	3 253	3 524	3 794	4 064	4 335
	50.00	1 962	2 245	2 527	2 809	3 091	3 373	3 654	3 936	4 217	4 499	4 780
	52.00	2 297	2 590	2 883	3 176	3 469	3 762	4 055	4 348	4 641	4 933	5 226
	54.00	2 631	2 935	3 240	3 544	3 848	4 152	4 456	4 760	5 064	5 368	5 671
	56.00	2 965	3 281	3 596	3 912	4 227	4 542	4 857	5 172	5 487	5 802	6 117
58.00	3 299	3 626	3 953	4 279	4 606	4 932	5 258	5 584	5 911	6 237	6 562	
60.00	3 633	3 971	4 309	4 647	4 984	5 322	5 659	5 997	6 334	6 671	7 008	
62.00	3 967	4 317	4 666	5 014	5 363	5 712	6 060	6 409	6 757	7 105	7 454	
64.00	4 302	4 662	5 022	5 382	5 742	6 102	6 461	6 821	7 181	7 540	7 899	
66.00	4 636	5 007	5 379	5 750	6 121	6 492	6 863	7 233	7 604	7 974	8 345	
68.00	4 970	5 353	5 735	6 117	6 500	6 882	7 264	7 645	8 027	8 409	8 791	
70.00	5 304	5 698	6 092	6 485	6 878	7 272	7 665	8 058	8 451	8 843	9 236	

Source: Chronux Research

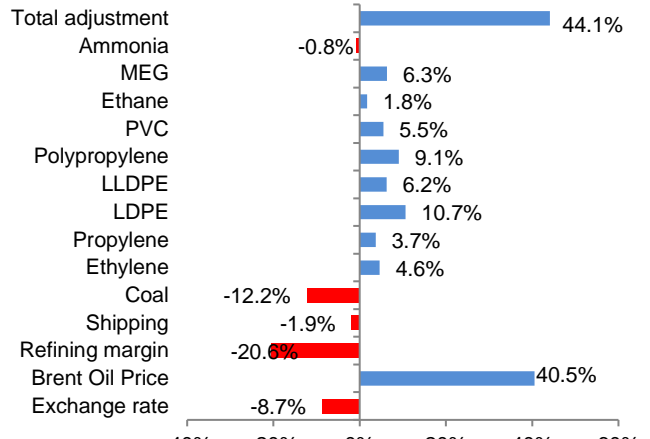
Spot earnings

Figure 28 FY21E spot HEPS, % deviation: R27.46



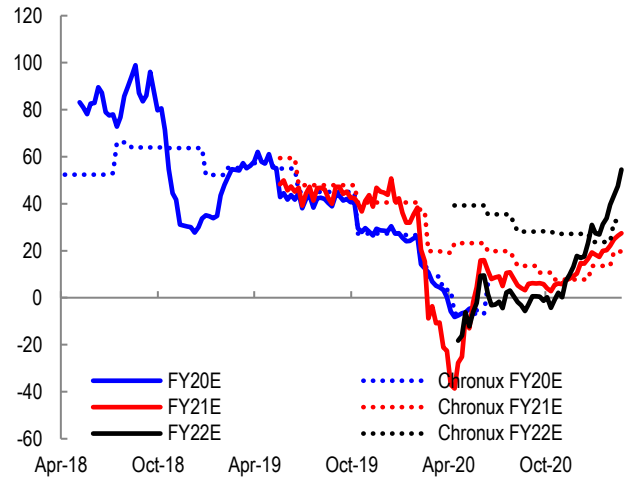
Source: Chronux Research

Figure 29 FY22E spot HEPS, % deviation: R54.51



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*

Disclaimer:

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