PSG Wealth

Sasol Limited

Energy

Company Update Report

Buy

The prevailing macro and operational conditions present ongoing difficulties

Analyst recommendation

Counter	Share price	Intrinsic value	Upside/(downside)
SOL-ZA	R81.01	R192	136%

As at 28 February 2025

Executive summary

On 24 February, Sasol released its 1H25 results, which were characterised by the following:

1. Turnover decreased by 10%, driven mainly by a 13% decrease in the average rand per barrel Brent crude oil price and a 5% decrease in sales volumes.
2. Sales volumes were lower mainly due to ongoing coal quality challenges, 1Q25 startup delays at Natref and a fire experienced in March 2024 at the East Cracker in the US which resulted in an outage until November 2024.
3. Expenses were well managed with the cash fixed cost decreasing by 1% to R35.2 billion.
4. Earnings per share (EPS) decreased by 52% to R7.22 due to the above while other items such as impairments and unrealised gains/losses on derivatives further negatively impacted earnings per share.
5. The new dividend policy allows dividends to be paid on 30% of free cash flows provided that net debt (excluding leases) is below $4 billion. Net debt (excluding leases) was $4.3 billion at the end of the period while free cash flows were in a deficit due to first order capital of R14.8 billion being more than the cash available from operating activities of R14.1 billion. This resulted in no interim dividend being paid.
6. Management lowered their guidance on most of its volume metrics for the year (table 2). Main reasons are the coal quality challenges, and the East Cracker outage mentioned above combined with a fire that occurred at Natref after the reporting period during January 2025.
7. Sasol will be having a capital markets day during May 2025 where more details are expected on its future strategies and further information on any potential IPOs or partnerships.

With no changes in our outlook and thesis we maintain our intrinsic value at R192 and therefore also our recommendation at a buy.

Analyst thesis

- **Attractive valuations with deep discounts outweighs the concerns.**
  This being reflected in our probability weighted intrinsic value upside of 136% and its discounts relative to commodity price relationships (graph 8 and 9), peer multiples where it is trading at a 82% discount to peer LyondellBasel (graph 11) and its own historic price to earnings ratio (graph 12) trading at a discount of 60% to its five-year average price to earnings ratio. It seems even the analyst with the most negative view sees value as all six analysts on FactSet having target prices with greater than 35% upside.
- **Various catalysts that should drive a recovery in its valuation.**
  1) Recovery in chemical industry margins will lead to significant increase in profits although it might take a couple of years as supply first needs to decline through significant closures to rebalance with demand.
  2) Reduction in debt to reduce financial risk uncertainty.
  3) Clarification in regulations such as carbon tax should remove uncertainty around profitability and its path to reducing carbon emissions.
  4) Increase in the rand oil price, although only to an extent as Sasol's share price relationship to the oil price has disconnected (graph 8).
  5) Return of capital to shareholders through asset disposals at these low share price valuation multiples or Sasol being acquired at a share price premium.

Financial results

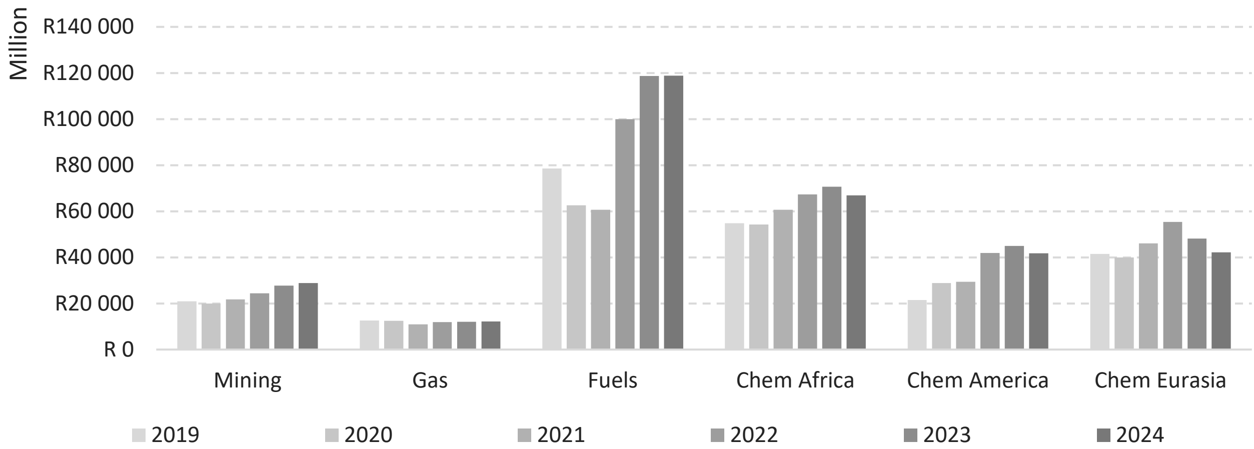
Table 1: Half-year results summary

Metric (million)	1H24	1H25	Y/Y %
Turnover	136 285	122 102	-10.4
Adjusted EBITDA	28 118	23 949	-14.8
L/EBIT	15 925	9 533	-40.1
Cash generated by operating activities	14 681	17 589	19.8
Net debt/EBITDA (x)	1.6	1.8	12.5
Brent crude (US$/bbl) average	85	77	-9.3
US Ethylene margin (US$c/lb) average	19	25	30.0
R/US$ average	18.69	17.94	-4.0
EPS (ZAR)	15.19	7.22	-52.5
HEPS (ZAR)	20.37	14.13	-30.6

Source: Company financials

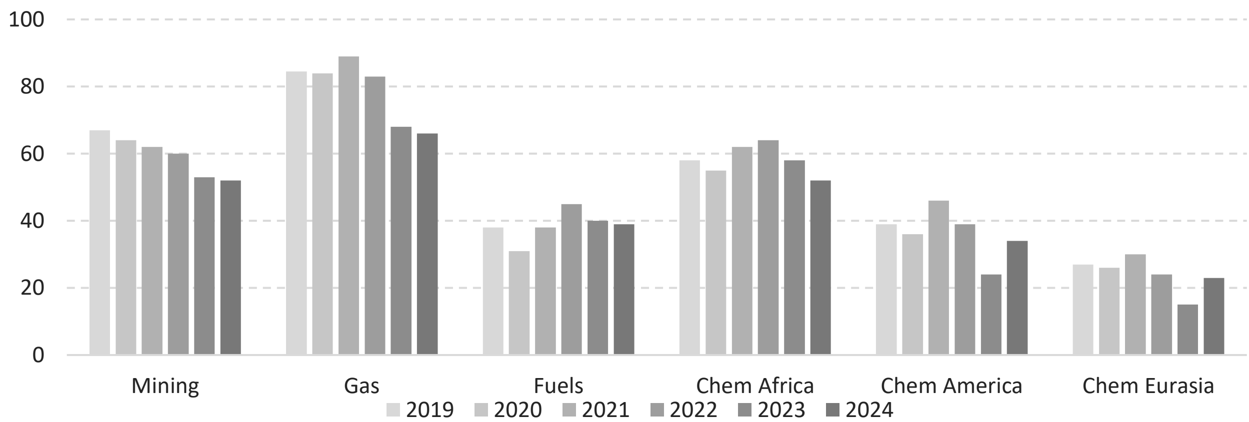
Note: | bbl – barrels | EBITDA – earnings before interest, tax, depreciation and amortisation | L/EBIT –loss/earnings before interest and tax |

Graph 1: Historic full year total turnover (including intersegment) per division



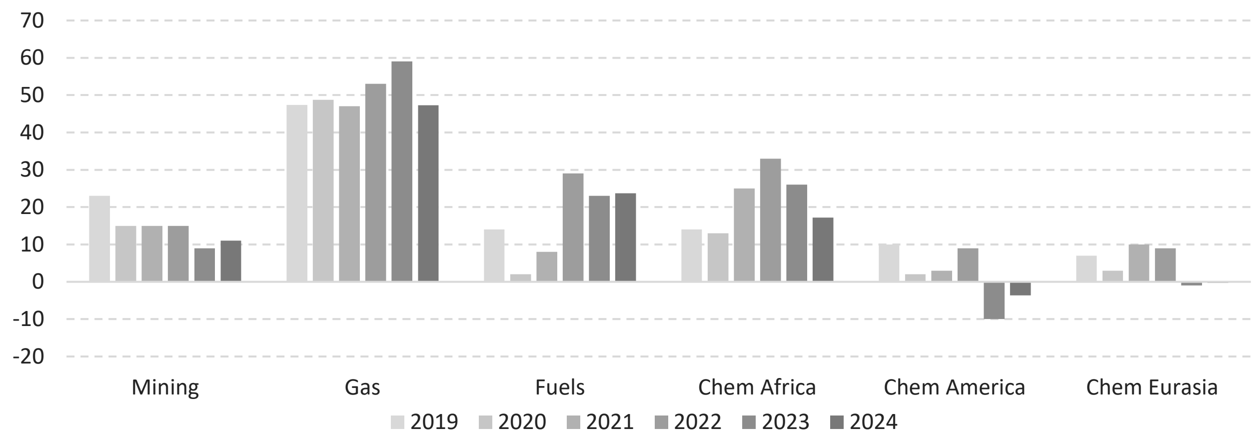
Source: Company financials

Graph 2: Historic full year gross margin percentage per division



Source: Company financials

Graph 3: Historic full year normalised EBIT margin percentage per division



Source: Company financials (normalised = excludes remeasurement items)

Table 2: 2025 management outlook

Metric	FY24 actual	1Q25 update FY25 outlook	2Q25 update FY25 outlook
Mining saleable production	30.2 million tons	30 - 32 million tons	30 - 32 million tons
Secunda operation volumes	7.0 million tons	7.0 million to 7.2 million tons	6.8 million to 7.0 million tons
Liquid fuels sales	51.7 million barrels	0% to 4% higher	In-line
Natref run rate	519 cubic meters per hour	0% to 10% higher	5% to 10% lower
Mozambique gas production	120.8 bscf	0% to 5% higher	0% to 5% higher
ORYX GTL (Qatar) production	2.9 million barrels	40% to 60% higher	50% to 70% higher
Chemicals Africa sales volumes	3 515 thousand tons	0% to 4% increase	In-line
Chemicals America and Eurasia sales volumes	2 790 thousand tons	In-line	4% to 8% lower
Maintain and transform capital expenditure	R29.3 billion	R28 billion to R30 billion	R28 billion to R30 billion

Source: Sasol financials

As per the second quarter 2025 production update, management lowered most of its guidance for the full year due to a fire experienced at the Natref refinery, ongoing coal quality challenges at Secunda operations and an outage at the East Cracker in the US.

Valuation and assessment

For our bear case we use a liquidation value method to incorporate a more conservative bear case outcome reflecting a more bearish view where the company had to close and sell off its operations.

In our base and bull case we forecasted Sasol's earnings per share with the most material assumptions relating to revenue per segment, normalised EBIT margins per segment and the group effective tax rate. The exit price to earnings multiple is also a material assumption in determining our intrinsic value. (refer to below table and graphs)

In our bear case, we assumed that there is no net value in the South Africa business as the SA fuels and chemical business challenges such as greenhouse gas reduction road map, carbon tax, infrastructure challenges and deteriorating coals challenges lead to no value after repaying debt. Similarly, we take the same approach in Eurasia business with the view that Sasol needs to be part of the significant closures in the industry that is needed to improve margins, leading to no value after all debt is paid. After these closures we therefore assume all debt is covered. To further support this view, Sasol for the FY24 had around R52 billion cash flow from operating activities yearly and has a R45 billion cash balance compared to total debt which is around R120 billion. We then value the Oryx GTL at R10.4 billion and Louisiana Integrated Polyethylene JV LLC (LIP JV) business at R26.7 billion based on their net asset values. As a bear case we view this approach as sufficiently conservative as peers such as LyondellBasell trade at price to book ratio of two times and this discount appropriately reflects a scenario where Sasol had to sell the assets in a distressed scenario. The 50% of the Louisiana Integrated Polyethylene JV LLC (LIP JV) business Sasol sold to LyondellBasell in 2020 was also estimated at $2 billion compared to our above value of R26.7 billion. Sasol also calculated in its most recent 2024 annual financial statements a recoverable amount of R47.6 billion for its chemicals America ethane value chain after a R59 billion impairment resulting from margin decreases, a longer-term depressed margin outlook and an increase in the weighted average cost of capital rate in its valuation assumptions. We acknowledge the bear case might play out in different ways such as which parts of the business are kept or sold off, but in our view, we believe it appropriately captures a worst-case scenario.

Our base case reflects a slow chemical margins recovery from closures or reduction in output by global chemical companies and we have no expectation of a recovery to 2022 levels as we view the increased global supply as a structural change. We also included a 10% reduction in the Eurasia volumes as we assume Sasol also needs to be one of the companies required to reduce supply through closures or downscaling. We lowered our earnings forecast in the fuels business as we forecast a $70 per barrel oil price from the $85 per barrel oil price average in 2024 financial year and we lowered our normalised EBIT margin to 10% from the average of 20% for the past four years. We deem a price to earnings ratio of six as fair for a slow growth company which is also below its ten-year average of 7.7.

Our bull case reflects a faster chemical margins recovery from closures or reduction in output by global chemical companies and with still no expectation of a recovery to 2022 levels as we view the increased global supply as a structural change. Again, we included a 10% reduction in the Eurasia volumes as we assume Sasol needs to be one of the companies required to reduce supply through closures or downscaling. We lowered our earnings forecast less in the fuels business as we forecast a $80 per barrel oil price from the $85 per barrel oil price average in 2024 financial year and we used a normalised EBIT margin to 20% in line with the average of 20% for the past four years. We used a slightly higher price to earnings ratio of seven compared to our base case which is still below its ten-year average of 7.7 as we believe even in a bull case scenario Sasol will face more challenges in the next 10 years than the past ten years due to global changes from environmental pressures.

We aligned our view and therefore the weights provided to the bear, base and bull case to reflect:

- A lower oil price as oil production increases while demand slows, and the market loses faith in OPECs ability to control the oil price.
- The structural change in the chemical supply industry to reflect the increased competition from China.

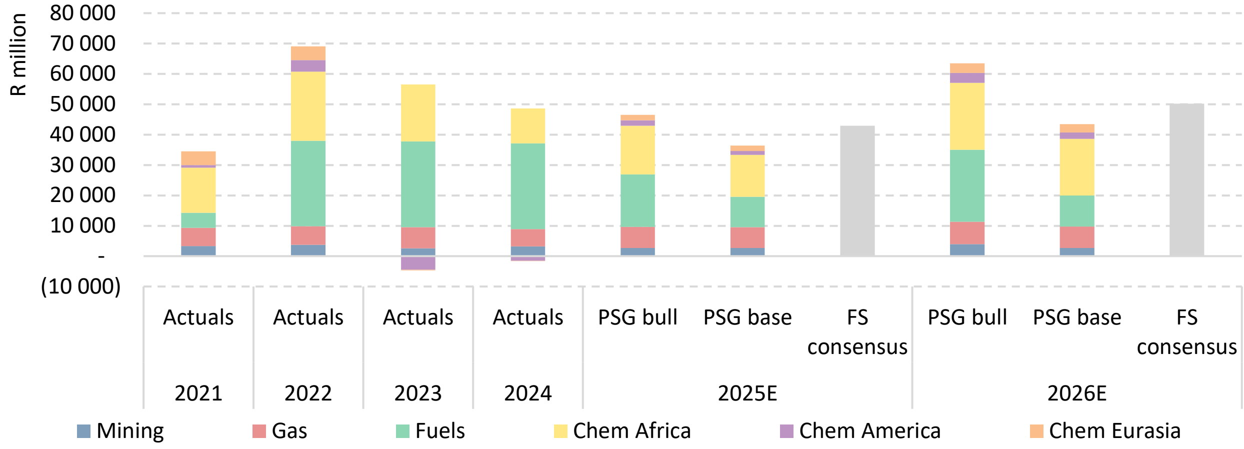
Table 3: Valuation

Case	Bear case	Base case	Bull case
FY2026 exit EBIT (R m)		42 418	62 429
PV of dividends (R per share)		6	17
Exit P:E applied on 2026 EPS		6	7
FY26 earnings per share (R per share)		38	59
Consensus FY26 earnings per share (R per share) *	43	51	62
FY26 target price (R per share)		225	410
PV of target price (R per share)		195	355
Bear liquidation value (R b)	37		
Intrinsic value (R per share)	55	202	372
Upside/downside per case	-33%	149%	359%
Weight	30%	50%	20%
Cost of equity	15%		
Weighted intrinsic value	192		

Source: FactSet

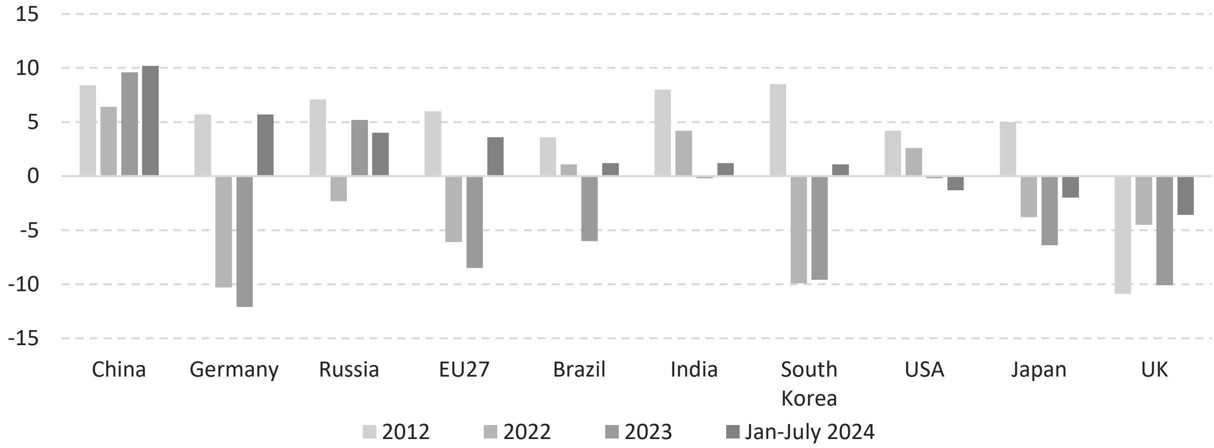
* FactSet sell side analysts minimum, median and maximum forecasts

Graph 4: Normalised EBIT forecast



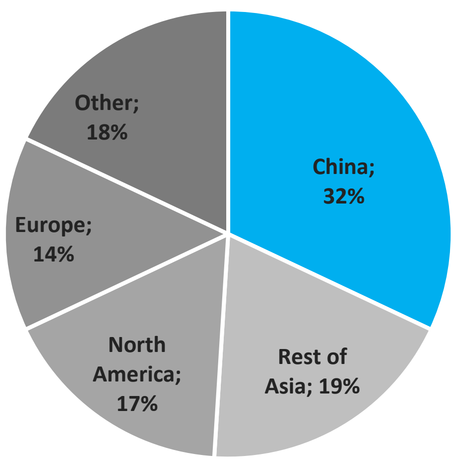
Source: FactSet

Graph 5: Chemicals production growth percentage for main countries



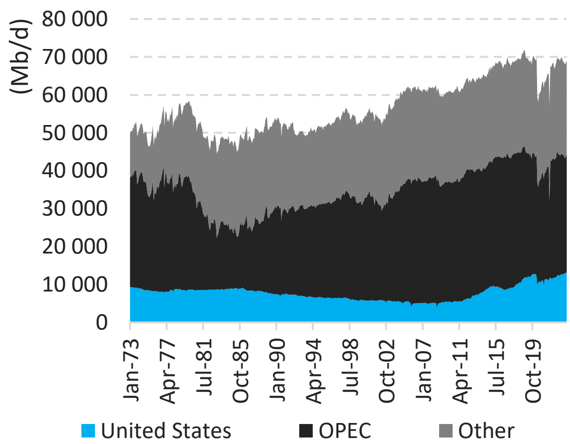
Source: Eurostat and Cefic analysis (2024)

Graph 6: Global plastic materials production share in 2022



Source: Statista

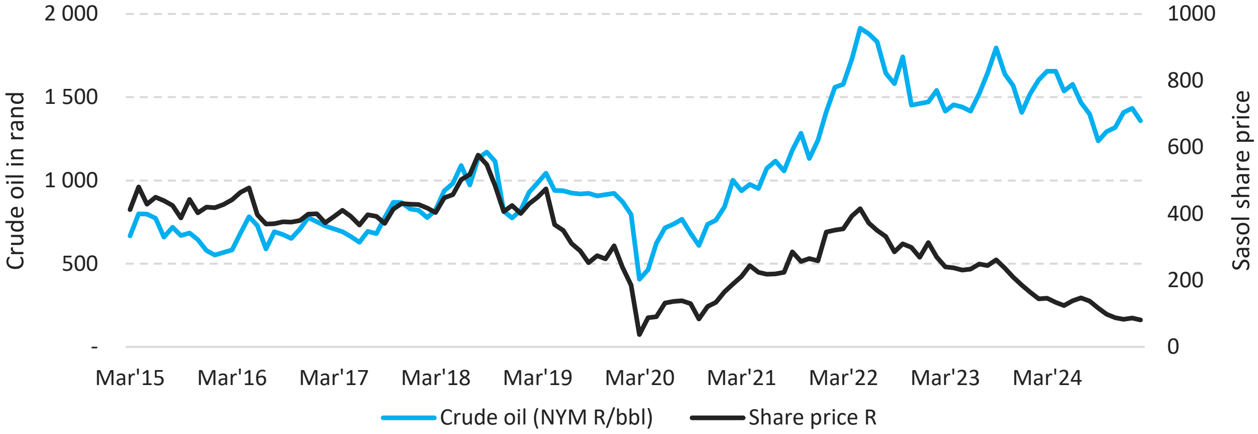
Graph 7: Crude oil including lease condensate production



Source: US Energy Information Administration

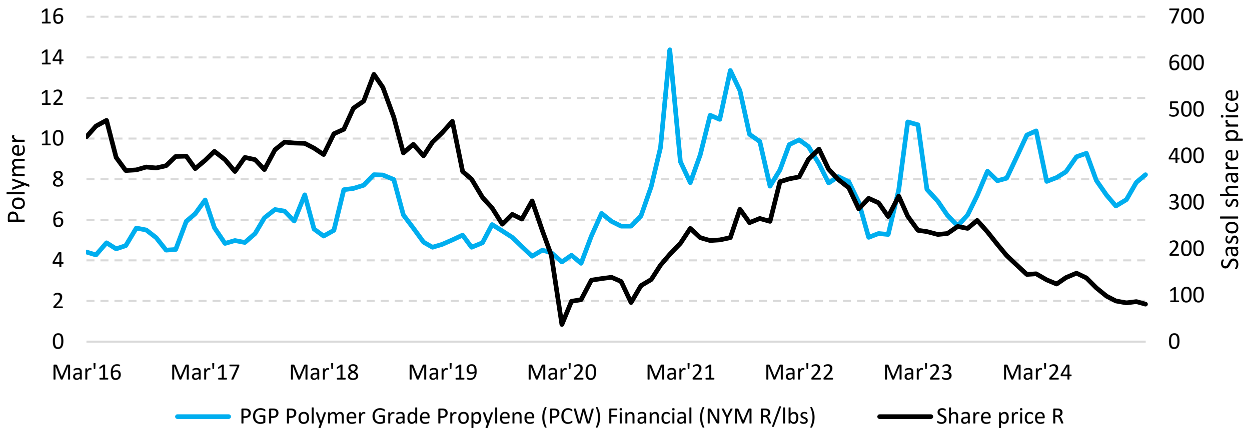
As per the International Energy Agency's February oil market report, global oil demand growth is projected to average 1.1 mb/d in 2025, up from 870 kb/d in 2024. China will marginally remain the largest source of growth, even as the pace of its expansion is a fraction of recent trends and driven almost entirely by its petrochemical sector. Supply was 1.9 mb/d higher than a year ago, with gains led by the Americas. Global oil supply is on track to increase by 1.6 mb/d to 104.5 mb/d in 2025, with non-OPEC+ producers accounting for the bulk of the increase if OPEC+ voluntary cuts remain in place.

Graph 8: Sasol share price versus rand crude oil price



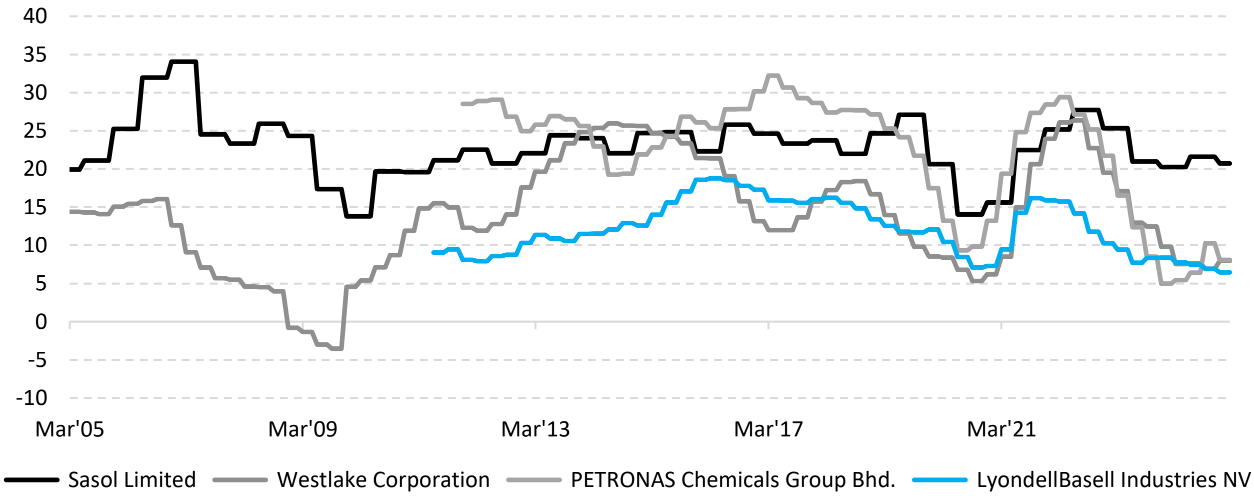
Source: FactSet

Graph 9: Sasol share price versus rand propylene price



Source: FactSet

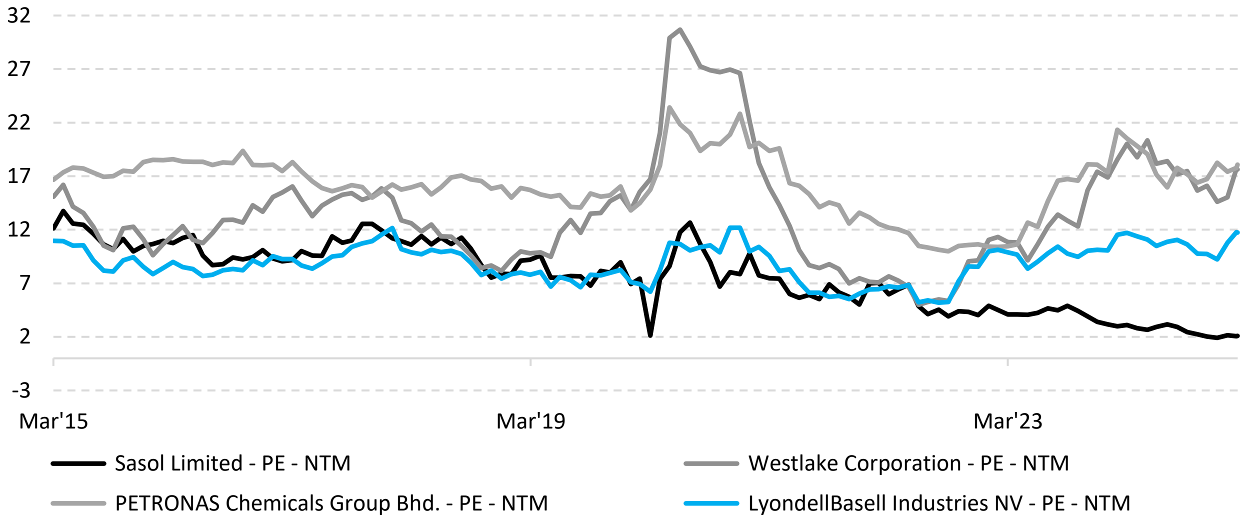
Graph 10: Chemical industry percentage operating margins



Source: FactSet

When comparing Sasol to chemicals industry peers we note that it's not only Sasol that has seen a decrease in its operating margins. We believe that these lower operating margins are cyclical as it relates to customers destocking, a slowdown in demand due to a monetary tightening cycle and excess supply capacity.

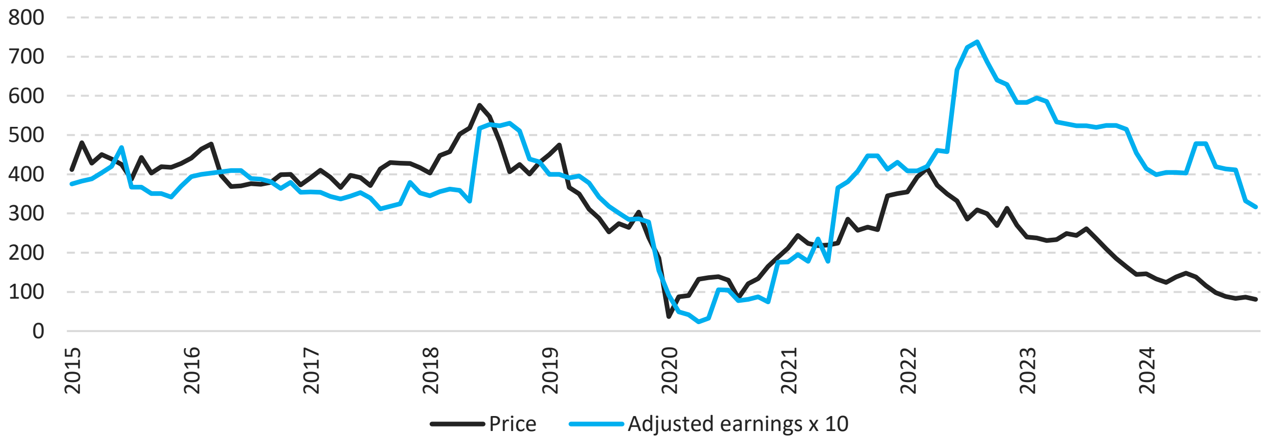
Graph 11: Chemical peers NTM P:E ratios



Source: FactSet

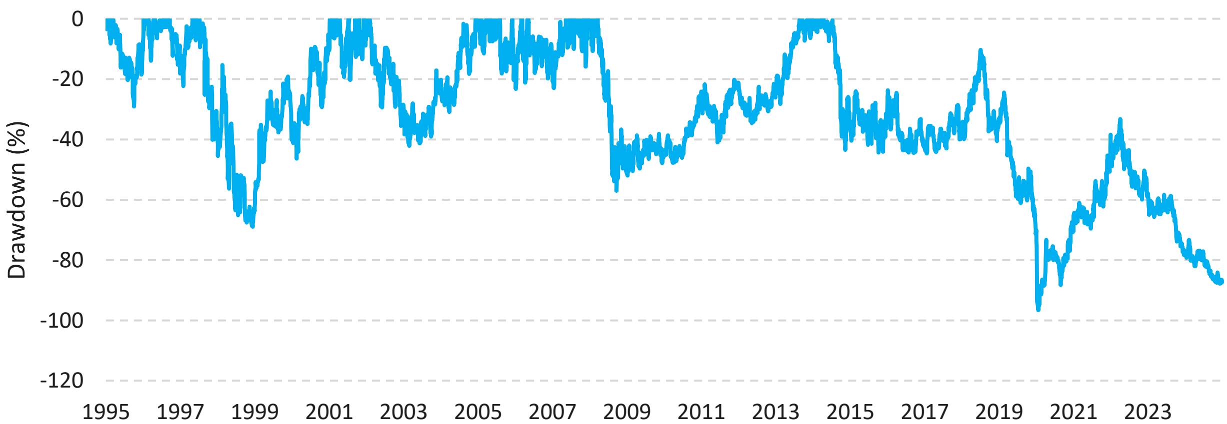
Even though chemical peers have seen a decrease in their multiples like Sasol, they were able to recover after mid-2022. LyondellBasell Industries especially traded at a similar historical multiple to Sasol but at the moment Sasol it trading at a significant 82% discount to LyondellBasell's forward P:E. Taking this into account combined with Sasol's operating margin relative to peers (graph 10), we see Sasol as having derated too much due to the long term uncertainties in its South African operations which represents about half of the business on revenue basis.

Graph 12: Sasol share price vs its NTM earnings per share x 10



Source: FactSet

Graph 13: Sasol share price historical drawdowns



Source: FactSet

Table 4: Qualitative summary

Factor review	Rating	Description
Growth		Expected three-year sales CAGR of 1.5%. Earnings growth impacted by once off impairments with the most recent financial year loss expected to return to a profitable R33.1 billion over three years. Growth outlook challenged with operational and ESG challenges. Recovery in chemical margins should lead to growth although timing and extent not clear.
Valuation		Trading at deep discounts to its own history, peers and commodity price relationships. Upside to intrinsic value is 136%.
Dividend yield		The forward dividend yield for Sasol Limited is 5.2%. Sasol recently changed its dividend policy to align to cash flows and ensure debt levels remain healthy which could place some pressure on dividends in the near term.
Issuance		Total shares have slightly increased over the years.
Catalyst		• Unexpected rise in gas and oil prices being sustained at a higher level than market expectations. • Unexpected increase in chemical business margins. • Depreciation of the Rand. • Being acquired at a premium to its share price or the return of capital through disposals of assets while share price is trading at low valuation multiples. • Reduction in debt levels. • Stronger production and sales volumes than guided. • Delivering solutions on operational and ESG challenges. • Investments being more successful than anticipated.
Quality of earnings		Earnings are susceptible to large swings from commodity and currency prices. History of once-off items requiring judgement such as impairments and remeasurements contributing to further instability of earnings.
Moat		Moat in South Africa, but not in the global operations.
Management and governance		Management still to prove themselves. CEO was replaced by Simon Baloyi (previously the executive vice president of energy operations and technology) effective April 2024. Simon Baloyi has been 11 years at Sasol. CFO was replaced by Walt Bruns (previous positions includes CFO of Sasol SA and CFO global chemicals business) effective September 2024. Walt Bruns has been 15 years at Sasol.
Balance sheet		Sasol Limited has cash and short-term investments of R40 billion. Total liabilities are R117 billion, of which R15 billion is short-term debt. Net debt to EBITDA is approximately 1.8x. Although debt levels are reasonable in our opinion the volatility of its earnings does create a higher risk.
Risks		• Decline in gas and oil prices. • Appreciation of the Rand. • Lower chemical margins and demand. • ESG risks pertaining to the environment including risks associated with greenhouse gas emissions. • Investments being value destructive. • Disruptions to operations. • Weaker production and sales volumes than guided. • Political and social risks. • Litigation and other legal risks. • Above risks could increase financial risk to repay its debt.
Regulation		Changes in mining, tax and ESG legislation. Sasol faces ESG risks associated with greenhouse gas emissions, particularly in South Africa, which may affect future investment.

ESG		The industry is highly exposed to CO^2 emissions and possible workforce injuries.
Momentum price		Price momentum is negative.
Momentum earnings		In the last three months, earnings for the next financial year have been revised downwards by 17.7%.
Piotroski score		Sasol's Piotroski score ranks five out of nine.

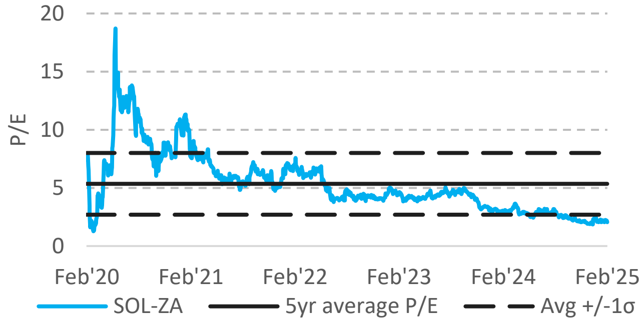
Sources: PSG Wealth research team, FactSet and company financials

Table 5: Company data

52-week high	R173.80
52-week low	R72.58
Market value (bn)	R52.4
Price momentum	Negative
3m earnings revision	-17.7%
Fiscal year end	2025/06/30

Source: FactSet

Graph 14: Price to earnings



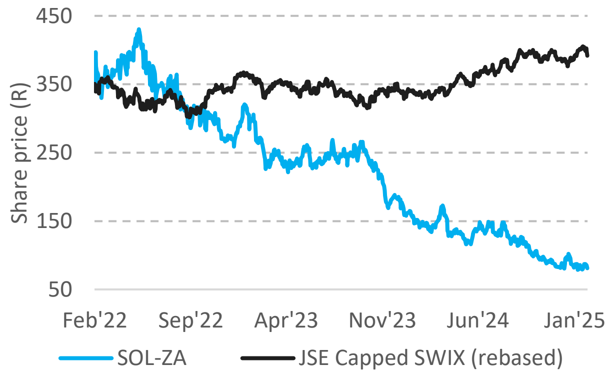
Source: FactSet

Table 6: Valuation multiples

Multiple	***Latest:***	***Last note:***
	Mar-2025	**Nov-2024**
P/E	2.1x	2.3x
P/S	0.2x	0.3x
P/B	0.3x	0.4x
P/CF	1.2x	1.4x
EV/EBITDA	2.7x	2.6x
EV/EBIT	3.7x	3.5x
EV/SALES	0.6x	0.6x
Dividend yield	5.2%	6.2%
FCF yield	-	-

Source: FactSet

Graph 15: Share price history vs benchmark



Source: FactSet

Table 7: Performance versus benchmark

Period	**YTD**	**MTD**	**3M**	**6M**	**1Y**	**2Y**	**3Y**	**5Y**	**10Y**
Sasol Limited	-2.7%	0.0%	-10.0%	-39.6%	-44.7%	-69.9%	-79.6%	-57.0%	-80.4%
JSE Capped SWIX	2.1%	0.0%	0.1%	2.4%	17.5%	11.1%	7.9%	54.5%	31.9%

Source: FactSet

Table 8: Key financials and ratios

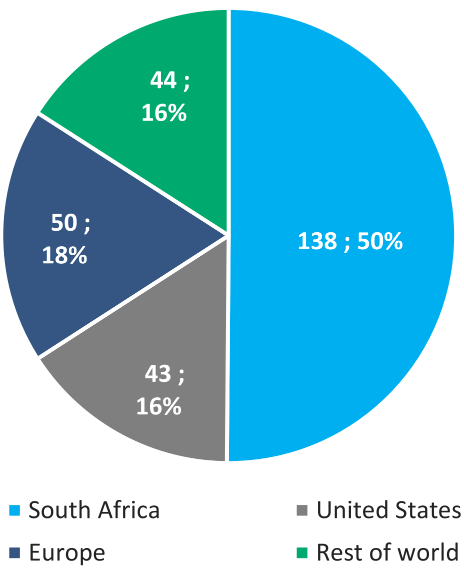
Income statement (ZAR bn)	2019	2020	2021	2022	2023	2024		5Yr CAGR	2025E	2026E
Turnover	203.6	190.4	201.9	272.7	289.7	275.1		6.21%	252.4	267.5
Y/Y growth (%)	-	*-6.5*	*6.1*	*35.1*	*6.2*	*-5.0*			*-8.3*	*6.0*
Gross income	107.2	94.3	111.2	142.6	128.7	127.9		3.59%	-	-
Y/Y growth (%)	-	*-12.1*	*17.9*	*28.3*	*-9.8*	*-0.6*			-	-
Adjusted EBITDA	47.6	35.0	48.4	71.8	66.3	60.0		4.73%	49.5	58.5
Y/Y growth (%)	-	*-26.6*	*38.4*	*48.4*	*-7.7*	*-9.5*			*-17.6*	*18.4*
L/EBIT	8.4	-111.9	16.6	61.4	21.5	-27.3		N.M.	-	-
Y/Y growth (%)	-	*N.M.*	*N.M.*	*269.6*	*-65.0*	*N.M.*			-	-
Net income	4.3	-91.8	9.0	39.0	8.8	-44.3		N.M.	-	-
Y/Y growth (%)	-	*N.M.*	*N.M.*	*331.3*	*-77.4*	*-603.1*			-	-
EPS	7.0	-148.5	14.6	62.3	14.0	-69.9		N.M.	31.3	43.0
Y/Y growth (%)	-	*N.M.*	*N.M.*	*327.9*	*-77.5*	*N.M.*			*-144.7*	*37.5*

Balance sheet and cash flow (ZAR bn)	2019	2020	2021	2022	2023	2024		5Yr CAGR	2025E	2026E
Capex	56.3	35.0	16.4	23.0	30.7	30.3		-11.65%	30.4	29.4
Cash generated by operating activities	51.4	42.4	45.1	56.1	64.6	52.3		0.36%	-	-
Free cash flow	-24.8	-12.2	15.4	18.6	20.4	8.1		N.M.	-	-
Y/Y growth (%)	-	*-50.8*	*N.M.*	*20.7*	*9.8*	*-60.3*			-	-
Cash and ST investments	16.5	35.4	32.7	43.5	55.7	48.9		24.27%	-	-
Total assets	470.0	474.5	360.7	419.5	433.8	365.0		-4.93%	-	-
ST debt	3.8	43.5	7.3	24.2	43.7	3.9		0.86%	-	-
LT debt	127.4	147.5	97.1	82.5	82.3	115.9		-1.86%	-	-

Ratios	2019	2020	2021	2022	2023	2024		5Yr Average	2025E	2026E
Gross margin (%)	52.7	49.5	55.1	52.3	44.4	46.5		49.6	-	-
EBIT margin (%)	4.1	-58.8	8.2	22.5	7.4	-9.9		-6.1	-	-
Net income margin (%)	2.1	-48.2	4.5	14.3	3.0	-16.1		-8.5	-	-
Current ratio	1.6	1.1	1.8	1.4	1.5	2.3		1.6	-	-
Borrowings to shareholders equity	63.8	139.9	82.1	55.7	63.1	82.3		84.6	-	-
ROA (%)	0.9	-19.4	2.2	10.0	2.1	-11.1		-3.3	-	-
ROE (%)	1.9	-49.5	6.1	23.2	4.6	-26.0		-8.3	-	-

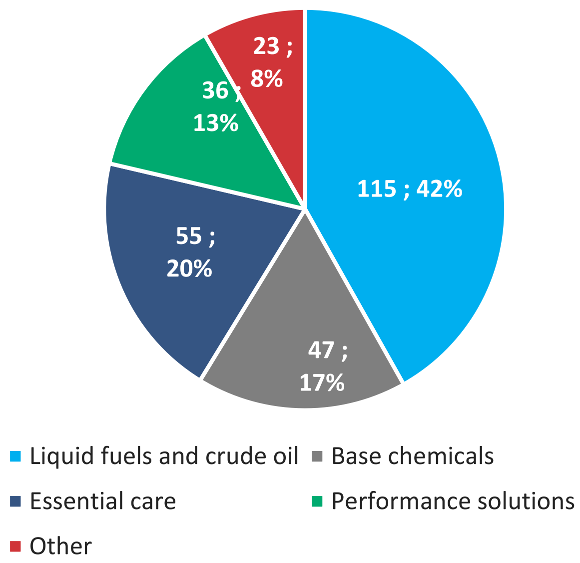
Source: FactSet E = FactSet consensus forecast

Graph 16: Revenue per geography (ZAR bn)



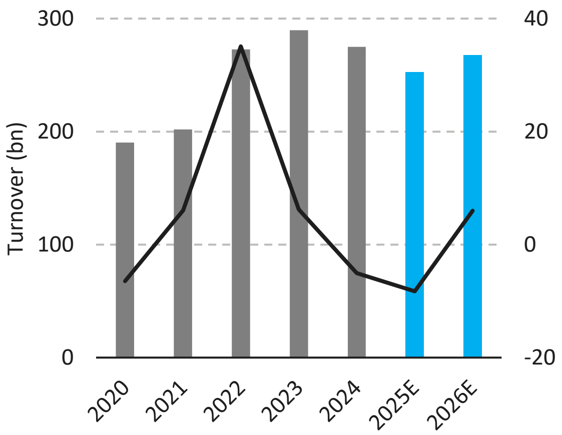
Source: 2024 full year company financials

Graph 17: Revenue per segment (ZAR bn)



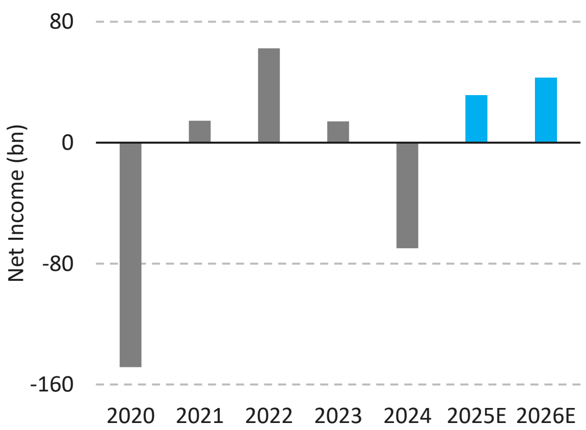
Source: 2024 full year company financials

Graph 18: Annual turnover



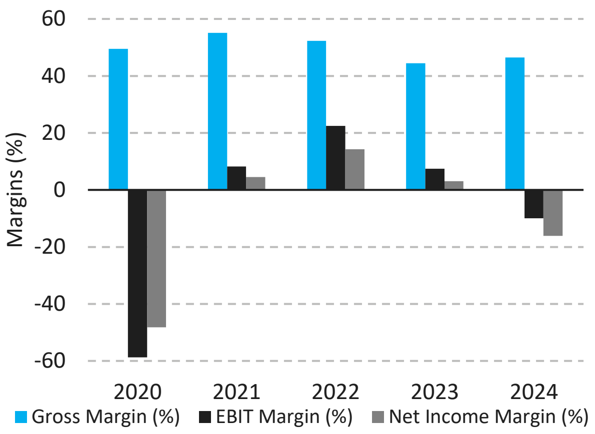
Source: FactSet E = FactSet consensus forecast

Graph 19: Annual earnings per share



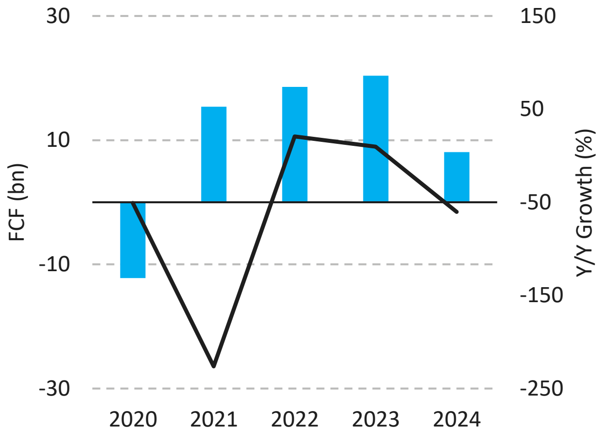
Source: FactSet E = FactSet consensus forecast

Graph 20: Gross, EBIT, net margins



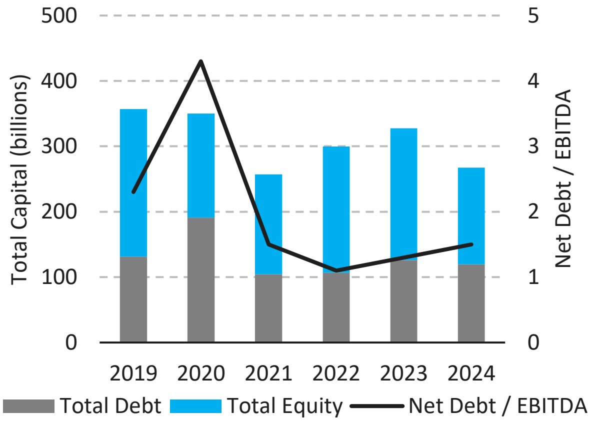
Source: FactSet

Graph 21: Free cash flow



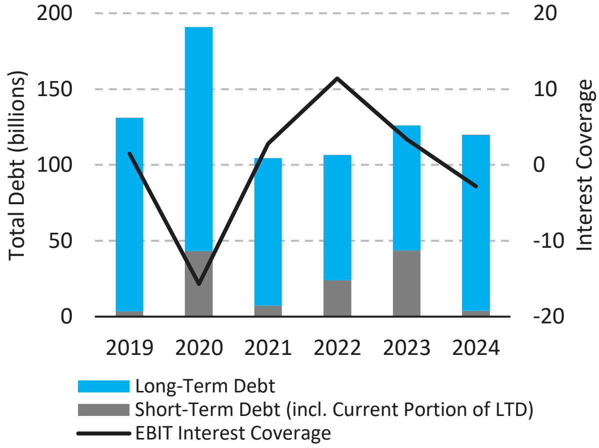
Source: FactSet

Graph 22: Capital structure and net debt/EBITDA



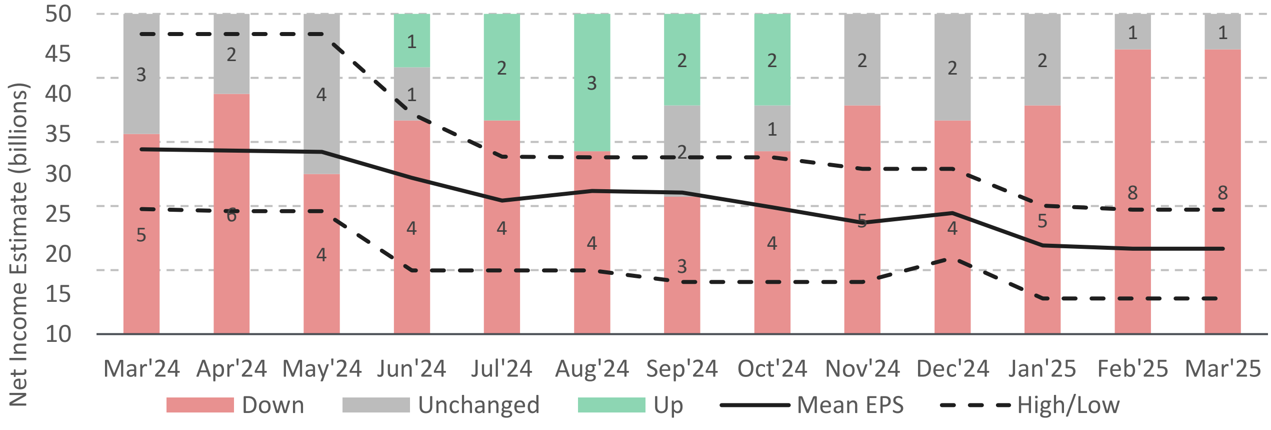
Source: FactSet

Graph 23: Total debt and interest coverage



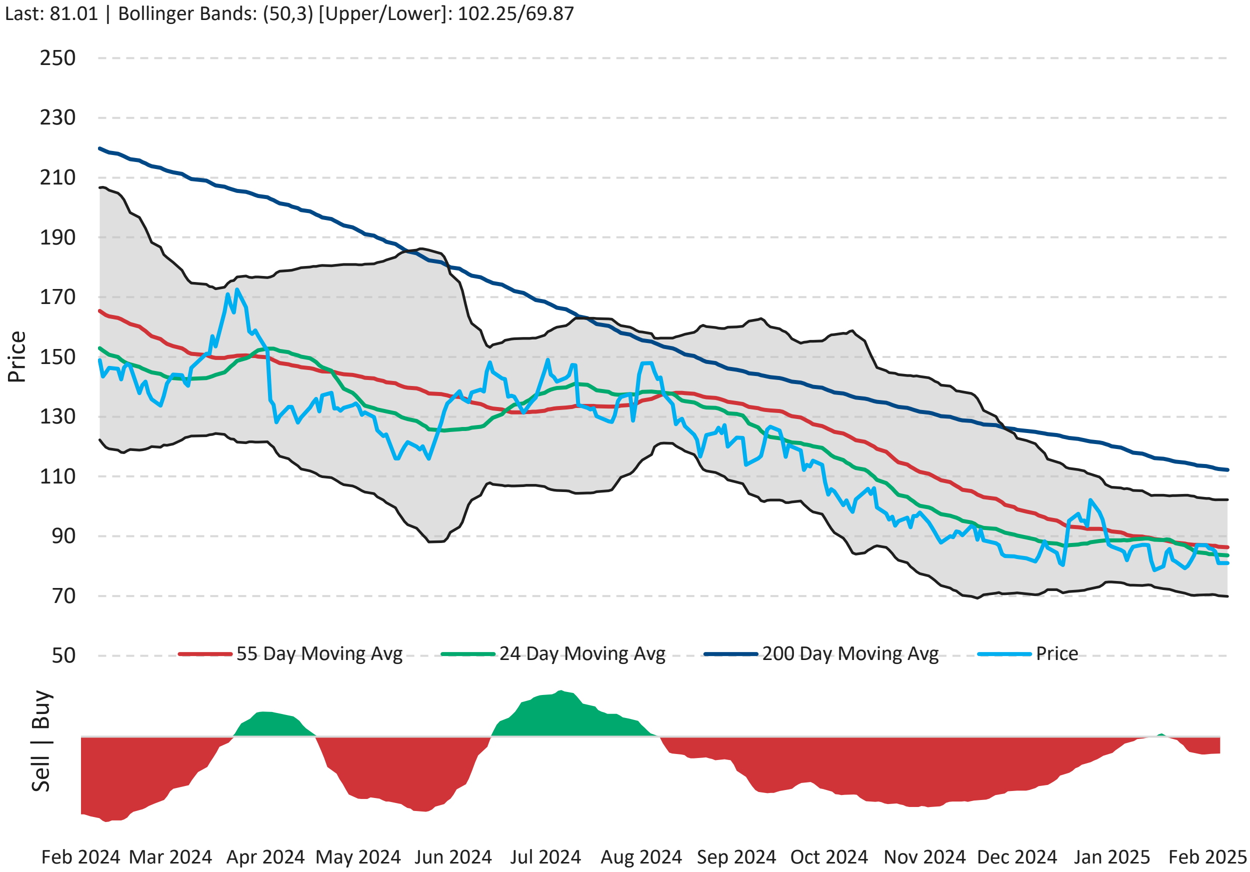
Source: FactSet

Graph 24: Earnings revision



Source: FactSet

Graph 26: Price momentum



Source: FactSet

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*Share price as at closing.

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