Context:

Performance Returns Table % (Annualised)

Returns	1M	3M	6M	YTD	1Y	3Y	5Y	10Y	20Y	IPO
SOL-ZA	1.90	-23.81	-19.89	-2.10	-28.03	6.51	-14.38	-7.06	6.67	13.54
All share	1.06	4.58	1.58	-3.11	0.59	9.84	10.79	8.60	13.70	9.60
Alpha	0.84	-28.39	-21.48	1.01	-28.62	-3.33	-25.18	-15.67	-7.03	3.93

Source: FactSet

Sasol's FY23 results were very disappointing. While productivity increased notably, so did costs, which appears to have been the running theme going into FY24.

FY23 result Highlights:

	FY23 Rm	FY22 Rm	%
Turnover	289 696	272 746	6▲
Gross margin	128 674	142 584	10▼
Cash fixed cost	(68 836)	(62 121)	11▲
Adjusted EBITDA (Rm)	66 305	71 843	8▼
Non cash cost (including depreciation and amortisation)	18 145	17 420	4▲
Remeasurement items	(33 898)	9 903	>100▲
Earnings before interest and tax (Rm)	21 520	61 417	65▼
Cash generated by operating activities (Rm)	64 637	56 138	15▲
Capital expenditure (Rm)	30 854	22 713	36▲
Earnings per share (R)	14,00	62,34	78▼
Core headline earnings per share (R)	47,71	68,54	30▼
Dividends per share (R)	10,00	14,70	32▼

Energy: (45% of revenue)

Mining (Coal): (2.2% of Revenue)

Sasol Mining operates six coal mines that supply approximately 40 million tons per annum of thermal coal feedstock to Sasol's operations in Secunda and Sasolburg, other South African customers and to the export market.

For Q1 FY24

- Productivity of 1 025 t/cm/s was 9% higher year-on-year (yoy)
- Productivity for the Secunda Collieries was 8% higher yoy, and
- Export sales remained flat as operational challenges at Transnet Freight Rail continued to impact the exports.

		% change 2024 vs 2023	YTD Sep 2024	YTD Sep 2023	Full year 2023
Production					
Saleable production	mm tons	3	**7,8**	7,6	30,8
Mining productivity (Total)	t/cm/s	9	**1 025**	939	951
Mining productivity (Secunda Collieries)[1]	t/cm/s	8	**1 087**	1 008	1 069
External purchases	mm tons	(9)	**2,1**	2,3	9,4
Internal sales					
Fuels	mm tons	2	**5,4**	5,3	23,1
Chemicals	mm tons	(3)	**3,3**	3,4	14,9
External sales					
International	mm tons	–	**0,5**	0,5	2,0

1 Secunda Collieries comprises Syferfontein, Bosjesspruit, Shondoni, Impumelelo and Thubelisha collieries, thus excluding Sigma in Sasolburg.

Source: Company report

Gas: (2.4% of revenue)

Sasol markets and distributes to customers in South Africa, natural gas produced in Mozambique and methane-rich gas produced in Secunda.

- In Mozambique, the gas production for Q1 FY24 was **11% higher** yoy
- Natural gas (NG) and Methane rich gas (MRG) sales volumes in South Africa were 4% and **7% higher** yoy, respectively.

sasfin Wealth

		% change 2024 vs 2023	YTD Sep 2024	YTD Sep 2023	Full year 2023
Production					
Natural gas – Mozambique (Sasol's 70% share)	bscf	11	**30,3**	27,2	113,8
External purchases[1]	bscf	14	**11,6**	10,2	43,3
External sales					
Natural gas – South Africa	bscf	4	**9,9**	9,5	36,2
Methane rich gas – South Africa	bscf	7	**6,0**	5,6	22,6
Natural gas – Mozambique	bscf	(2)	**4,2**	4,3	16,7
Condensate – Mozambique	m bbl	9	**44,8**	41,0	177,0
Internal consumption – Natural gas[2]	bscf	17	**27,8**	23,8	104,3
Fuels	bscf	16	**10,3**	8,9	45,2
Chemicals	bscf	17	**17,5**	14,9	59,1

1 Comprise volumes purchased from third parties (30% shareholding of our Pande-Temane Petroleum Production Agreement asset).
2 Includes volumes purchased from third parties.

Source: Company report

Fuels: (40% of revenue)

[The] fuels business encompasses the established liquid fuels, bitumen, heating fuels and lubricants marketing activities of Sasol through our wholesale, commercial and retailing interests. Operations include fuel blending and storage facilities at our Secunda operations to turn components into market ready products."

- **Secunda Ops** production volumes in Q1 FY24 were **7% higher** yoy - soft base due to prior year shutdown.
- **Natref** delivered 568 m³/h in Q1 FY24 which was **7% higher** yoy – Crude through rate was lower due to illegal tapping of the Transnet pipeline.
- Liquid fuel **sales** were **6% higher** yoy
- **ORYX GTL** had stable operations, achieving a **96% utilisation rate** – planned maintenance and inspection of the line through Jan and Feb.

UBS has Brent likely to trade at **~$80-90/bbl** over the next 12 months. (Spot @ **75.50**; Implied upside of **6.6-13% upside)**

sasfin Wealth

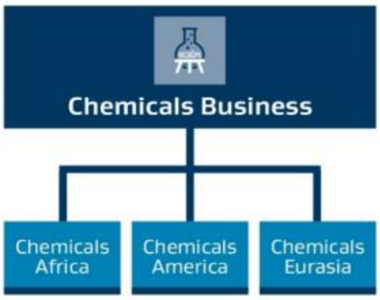
		% change 2024 vs 2023	YTD Sep 2024	YTD Sep 2023	Full year 2023
Secunda Operations production[1]	kt	7	**1 653**	1 539	6 935
Refined product	kt	11	**807**	726	3 375
Heating fuels	kt	(1)	**169**	171	652
Alcohols/ketones	kt	11	**140**	126	570
Other chemicals	kt	–	**353**	354	1 645
Gasification	kt	14	**184**	162	693
Secunda Operations total refined product	mm bbl	8	**7,0**	6,5	29,9
Natref					
Crude oil (processed)	mm bbl	6	**5,0**	4,7	17,8
White product yield	%		**87,5**	88,8	88,1
Total yield	%		**96,2**	96,3	96,5
Production	mm bbl	9	**4,9**	4,5	17,2
ORYX GTL					
Production	mm bbl	58	**1,41**	0,89	4,10
Utilisation rate of nameplate capacity	%		**96**	61	70
External purchases (white product)[2]	mm bbl	(27)	**1,1**	1,5	5,8
Sales					
Liquid fuels - white product[2]	mm bbl	8	**12,4**	11,5	51,0
Liquid fuels - black product	mm bbl	–	**0,7**	0,7	2,7

1 SO production volumes include chemical products which are further beneficiated and marketed by the Chemicals business.

2 YTD September 2023 sales and external purchases volumes have been restated by 0,4 million barrels respectively. The error relates to purchases and sales of inventory with the same counterparty that are entered into in contemplation of one another to facilitate sales to customers. These transactions were recorded on a gross basis instead of a single exchange transaction.

Source: Company report

Chemicals: (55% of revenue)



Source: Company report

The average sales basket price for Q1 FY24 was ~28% lower than Q1 FY23 and 7% lower than Q4 FY23 due to lower oil prices and continued weaker global demand.
The group’s Chemicals business is well-diversified across geographies and delivered when it came to production. The reduced basket price was truly the main driver for the group’s underperformance.

- Sales revenue from the **African** assets for Q1 FY24 was **23% lower** yoy, driven by lower prices and offset by higher sales volumes. **(23.37% of revenue)**
- Sales revenue from the **American** assets for Q1 FY24 was **28% lower** yoy, driven by lower prices and offset by higher volumes. **(15.37% of revenue)**
- Sales revenue from the **Eurasian** assets for Q1 FY24 was **33% lower** yoy, driven by lower volumes and prices. (16.42% of revenue)

- UBS - “We forecast Sasol's chemical margins in Africa, America and Eurasia to remain **below** 2022 levels for at least the **next two years**.”

Total Chemicals

		% change 2024 vs 2023	YTD Sep 2024	YTD Sep 2023	Full year 2023
Total					
External sales volume	kt	5	**1 596**	1 515	6 139
External sales revenue	US$m	(28)	**1 850**	2 556	8 993
Average sales basket price	US$/t	(31)	**1 159**	1 687	1 465

Source: Company report

Outlook

Sasol's management "expect pricing and demand volatility to continue through the remainder of FY24. Global market sentiment and petrochemical markets remain uncertain with the margin outlook for Chemicals looking more muted than previously expected."

We dislike Sasol specifically because of its heavy SA exposure and reliance on both Eskom and Transnet:

"Ongoing business disruptions due to Eskom and Transnet challenges which includes senior leadership changes in both state-owned entities." Fleetwood Grobbler – CEO

Valuation

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Alpha	0.84	-28.39	-21.48	1.01	-28.62	-3.33	-25.18	-15.67	-7.03	3.93

Source: Factset

sasfin Wealth

Consensus Rating		4.40
Buys	70.0%	7
Holds	30.0%	3
Sells	0.0%	0
12M Tgt Px	8/12	30725
Last Price		18443
Pricing Currency		ZAr
Return Potential		66.6%
LTM Return		-23.6%

Showing 11 of 13 sources

	Firm	Analyst	Recommendation	Tgt Px	Date	1 Yr Rtn	BARR	Rank
1)	Sadif Investment A...	Team Coverage	strong sell	13883	12/28/23	2.17%	2	
2)	Citi	Oliver Connor	buy	28000	12/15/23	-28.02%		
3)	ABSA Bank Limited	Gerhard Engelbrecht	equalweight	24500	12/15/23	-16.89%		4
4)	HSBC	Sriharsha Pappu	buy	26000	12/13/23	7.75%	1	2
5)	Goldman Sachs	Faisal Alazmeh	buy	27300	12/12/23	-27.76%		5
6)	Morgan Stanley	Christopher Nichols...	Overwt/Attractive	30000	11/01/23	-33.78%		
7)	Investec	Herbert Kharivhe	buy	30000	10/30/23	-27.76%		
8)	SBG Securities (Pt...	Adrian Hammond	buy	55000	10/17/23	-27.76%		
9)	JP Morgan	Alex Comer	neutral	24800	09/12/23	-5.94%	4	

Source: Bloomberg

An analysis of average target price from the *5 most recent* evaluations is: **R 271,16** an implied upside of **33.7%**

Another item to note on the above diagram are the constant ***downgrades*** to 12-month price targets over the last year.

Leaders & Laggards View All | WATC »

Ticker	Exp Ret	Last Price	12M Tgt	Cons Rtg	#Analysts
1) THA SJ	96.6%	1496.00	2941.37	4.00	6
2) SOL SJ	70.2%	18050.00	30725.00	4.40	10

Source: Bloomberg

Consensus implied upside on the aggregated evaluation of *10 sell side analyst* is **41.4%** on a share price **R307.25**

	A	B	C	D	E	F
1	**Cash Flow Statement**		1	2	3	4
2		**FY23**	**FY24f**	**FY25f**	**FY26f**	**FY27f**
39						
40						
41	PV of FCFF		13,529,202,998	14,747,724,377	14,418,003,968	12,571,917,182
42	Terminal growth (	3.00%				
43	Terminal value					306,641,343,277
44	PV of terminal value					217,631,507,519
45	Sum of PV of FCFF and TV		272,898,356,045.12			
46	WACC	8.95%				
47	Discounted FCFF Value (EV)		**272,898,356,045**			
48						
49	Net debt		84,905,000,000			
50	Borrowings					
51	Cash					
52						
53	Equity value		**187,993,356,045**			
54			**634,000,000**	# Of shares outstanding		
55			**R 296.52**	Fair Value		
56			R 179.90	CMP		
57			**39.3%**	Implied up/downside		
58						
59	Discounting free cash flows to firm (FCFF) at the weighted average cost of capital (WACC) yields the enterprise value. The firm's net					
60	If only the free cash flows to equity (FCFE) are discounted, then the relevant discount rate should be the required return on equity.					
61						
62	Tax rate	28%				
63						
64	WACC	8.95%				
65	Cost of Equity	10.00%				

Source: Sassec Wealth

Our own financial DCF (discounted cash flows) of Sasol Financials (And projected Financials as per Bloomberg), using their disclosed WACC (Weighted average cost of capital) at 8.95% as well as a 3% terminal growth rate, gave us a fair value of the share **R296.52**, an implied upside of **~39%.**

An average of all 3 of the methodologies yields a target share price of**: R291.67** price target an implied upside of **~38.3%.**

Consensus Recommendation

(SOL SDEM: **3%**; JALSH Weighting: **1.71%**): currently we are **Overweight.**

Factors to consider:

Emissions:
One of the main headwinds is the emissions profile of SOL, both SO^2 (sulphur) and general carbon emission (CO^2).

Since COPE 2017/2018 where the 30% reduction in emissions was agreed on by the wider world, Sasol has found itself in catch up mode.

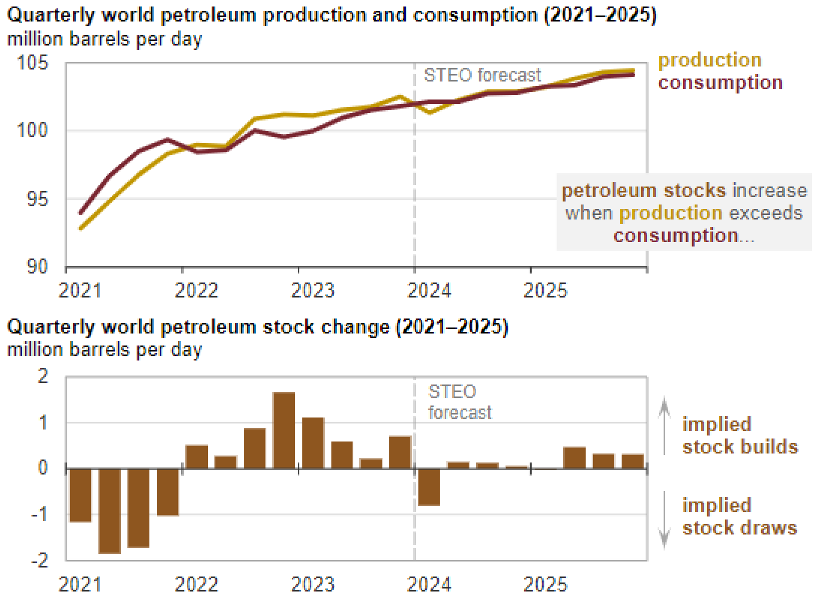
Sasol relies on very low quality/grade of coal to use in its hydrocarbon cracking process in South Africa (Secunda).
In recent years to try meet their emissions targets the group proposed reducing the use time of boilers rather than changing the inputs to the recipe they use (Coal + Gas + Oxygen (hydrogen) Fischer-Tropsch method. This solution was subsequently rejected by minister Barbra Creasy and has put the pressure back on Sasol to find a more suitable solution. The most obvious solution would be to increase the use of LNG gas as a substitute to the Coal. However, since the Russia/Ukraine war and closing of Nordstream Pipelines prices of LNG are expected to remain higher for longer. This substitution would greatly *reduce* the cracking margins from even current levels of 12$/tn. A target date of **2025** has been put in place by government and we eagerly await to hear how SOL intends to resolve this issue, keeping in mind they must find a way reduce said emissions 30% by 2030 (using 2017 as baseline).

Carbon Tax:
Government's newly introduced carbon tax, with a proposed increase, is another major headwind for this company. Although the deadline for this increase has been extended (from this year to an indefinite date as government considers Sasol's submission) the uncertain outcome of this process poses much risk. Although we acknowledge that SOL can defer this cost in the short-term; a long-term resolution is necessary with the capital pressure already on the group. We are pessimistic on the possible outcomes to these negotiations. While we believe government has an incentive to keep Sasol alive, we are unsure at what level of profitability.

In FY23, Sasol's carbon tax increased 86% yoy to ~R1.1bn with the disclosed R159/t per tonne carbon tax implying an ~88% emission allowance on our calculations. UBS forecasts Sasol's carbon tax increasing to *~R3*.1bn pa by 2030E as the 30% greenhouse gas reduction target is offset by a higher carbon tax of >R400/t and an 85% emission allowance. If the allowance is removed however, this would increase almost 6x to ~R20bn pa (~25% of EBITDA) which would be a disaster.

Energy security:
With the rise of geopolitical volatility, we anticipate energy security to continue to be a worldwide theme. We anticipate oil prices to increase as rates come down and wider market activity increases.
We believe that energy security will remain a theme globally but question if this short-term catalyst is sustainable and whether or not long-term oil markets are over supplied. Seen by the recent price cut by Saudi Arabi and rise in supply by OPEC.

https://www.reuters.com/markets/commodities/oil-slips-higher-opec-supply-saudi-price-cuts-offset-mideast-worries-2024-01-08/



Source: U.S Energy Information Administration

Governance:

Another concerning occurrence at Sasol recently has been the occurrence of governance concerns.
The outgoing chairman and non-executive director, Sipho Nkosi. was recently flagged for potential conflict of interest with the companies doing exploration for Sasol in Mozambique. This conflict culminated in his resignation.
We view negatively the governance concerns and the recent resignation of CEO, Mr. Grobbler, and his replacement by Mr. Baloyi an Exec VP in their Energy Operations and Technology Business.
Although Simon comes from the mining side of the business and has a great repour and reputation within the market, the number of changes at key positions in rapid succession is quite concerning.

Conclusion:

Our final analyst recommendation would be to **Hold** the stock as we anticipate it will rally into the year; but with the clear intention to **Sell** at near our above-mentioned target prices.
Sasol is has historically been viewed as a high-quality low growth stock. Its cyclicality is mainly due to its relationship with crude oil, which makes it a high beta stock that over time has *rarely* delivered an adequate risk-adjusted return profile.

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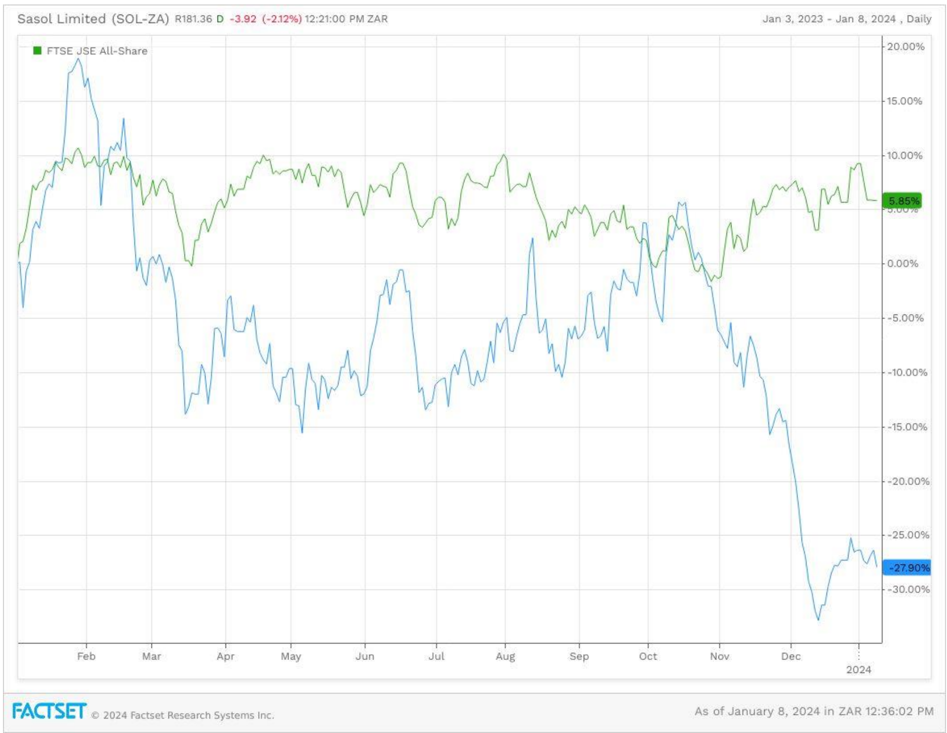
Source: Factset

The share is quite beaten up, down **~29%** last year, with brent crude oil down only **~5%** on the year. So, we do anticipate a short-term recovery in the share price, as it does historically run a high correlation with brent crude due to its fuels business.

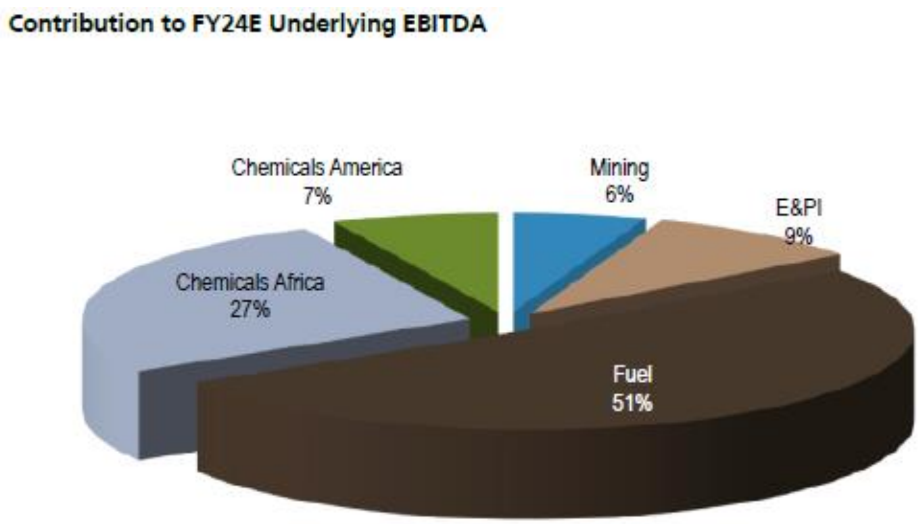
After that, little is clear about the strategic direction the firm will take or how it will deal with its structural headwinds, which is why we would recommend staying out Sasol long term.

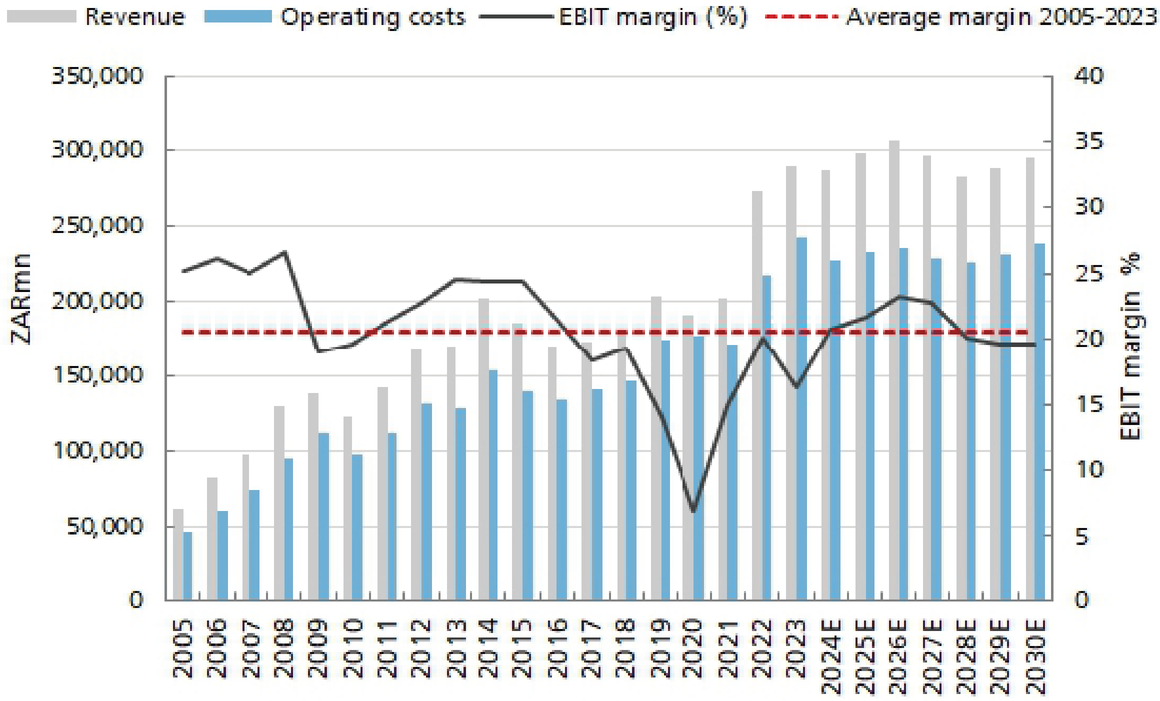
Sasol doesn't seem to be in control of its own fate at the moment, and although we are optimistic about the group's ability to adapt; until we get more clarity on the abovementioned concerns, we are cautiously pessimistic.

Appendix:



Source: Factset




Revenue
Operating costs
EBIT margin (%)
Average margin 2005-2023
ZARmn
EBIT margin %
350,000
300,000
250,000
200,000
150,000
100,000
50,000
0
40
35
30
25
20
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2026E
2027E
2028E
2029E
2030E

Source: UBS