Sasol Limited

Particularly attractive entry point post share price correction

Reiterate Rating: BUY | PO: 290.00 ZAR | Price: 147.24 ZAR

14 February 2024

Equity

Reiterate Buy with multiple medium-term catalysts

Sasol's share price correction by 45% since mid-October, driven by weak chemical & oil prices, has been overdone, in our view. Three reasons why we are bullish: 1) shares now imply a long-term (LT) oil price of US$62/bbl, US$8-10/bbl lower than the LT forward curve of US$73/bbl and BofAe LT of US$70/bbl (see Exhibit 8); 2) chemicals prices bottoming out, helping drive FY23-25E EBITDA CAGR of 5% (based on BofAe), ahead of consensus at 2%; 3) compelling valuation, with shares trading at an EV/EBITDA of 2.7x in FY24E, discount of 45% to its LT avg. We cut our FY24E EBITDA by 10%, factoring in weaker chemical prices and an underwhelming 1H24 trading update (EBITDA expected to fall 8-18% y/y). As a result, our PO falls to ZAR290 (vs ZAR346 previously).

Significant underperformance of shares vs ZAR oil price

Sasol's share price has underperformed oil price (ZAR/bbl) since April 22 by 52% driven by operational concerns vs long-term co-relation of 0.9. With production volumes gradually improving as witnessed in the recent operational update, we expect the spread to narrow (see Exhibit 7). Every US$2/bbl change in LT oil price, increases our DCF based NAV/sh by c.20%. Assuming spot USD:ZAR of 19, the shares currently imply a 2024E oil price of US$70/bbl (Exhibit 9) vs BofAe 2024E: US$80/bbl and spot oil at US$82/bbl.

Chemicals prices: potentially bottoming out

We forecast an improving outlook for polyethylene over the medium term and expect global operating rates to remain steady averaging 82% over 2024E-26E vs 81% over the past 2 years. We estimate incremental global capacity additions of c.10mn tonnes in 2024-26E, lagging demand growth of 13mn tonnes in the same period thereby helping a pricing recovery.

Estimates (Jun) (ZAR)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
EPS (Adjusted Diluted)	67.5	45.3	49.8	58.5	60.8
EPS Change (YoY)	146.3%	-32.9%	10.0%	17.4%	4.0%
Dividend / Share	14.7	17.0	18.9	22.2	23.1
ADR EPS (Adjusted Diluted - US$)	4.43	2.55	2.63	3.09	3.21
ADR Dividend / Share (US$)	0.97	0.96	1.00	1.17	1.22
Valuation (Jun)					
P/E	2.18x	3.25x	2.95x	2.52x	2.42x
Dividend Yield	9.98%	11.5%	12.8%	15.1%	15.7%
EV / EBITDA*	2.51x	2.72x	2.63x	2.48x	2.20x
Free Cash Flow Yield*	19.4%	20.9%	14.0%	18.5%	30.9%

* For full definitions of *iQmethod*SM measures, see page 20.

Key Changes

(ZAR)	Previous	Current
Price Obj.	346.00	290.00
2024E EPS	64.64	49.85
2025E EPS	61.33	58.52
2026E EPS	60.32	60.84
2024E DPS	24.51	18.90

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Stock Data

Price (Common / ADR)	147.24 ZAR / 7.71 USD
Price Objective	290.00 ZAR / 16.11 USD
Date Established	14-Feb-2024 / 14-Feb-2024
Investment Opinion	C-1-7 / C-1-7
52-Week Range	141.72 ZAR-306.89 ZAR
Market Value (mn)	94,033 ZAR
Shares Outstanding (mn)	638.6 / 638.6
Average Daily Value (mn)	18.70 USD
Free Float	66.2%
BofA Ticker / Exchange	SASOF / JNB
BofA Ticker / Exchange	SSL / NYS
Bloomberg / Reuters	SOL SJ / SOLJ.J
ROE (2024E)	15.9%
Net Dbt to Eqty (Jun-2023A)	43.0%

Timestamp: 13 February 2024 11:00PM EST

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Key Income Statement Data (Jun)	2022A	2023A	2024E	2025E	2026E
(ZAR Millions)					
Sales	272,746	289,696	290,799	289,947	296,423
EBITDA Adjusted	71,843	66,305	68,546	72,824	81,924
Depreciation & Amortization	(14,073)	(16,491)	(16,913)	(17,601)	(18,680)
EBIT Adjusted	61,417	21,520	41,850	45,452	53,473
Net Interest & Other Income	(5,876)	(7,006)	(5,548)	(2,830)	(2,677)
Tax Expense / Benefit	(13,869)	(5,181)	(5,808)	(6,820)	(8,127)
Net Income (Adjusted)	42,831	29,981	32,994	38,738	40,268
Average Fully Diluted Shares Outstanding	635	662	662	662	662
Key Cash Flow Statement Data					
Net Income (Reported)	38,956	8,799	32,994	38,738	40,268
Depreciation & Amortization	14,073	16,491	16,913	17,601	18,680
Change in Working Capital	(10,953)	4,955	(402)	(34.3)	(797)
Deferred Taxation Charge	0	0	0	0	0
Other CFO	(918)	19,364	(2,820)	(3,255)	2,080
Cash Flow from Operations	**41,158**	**49,609**	**46,685**	**53,049**	**60,231**
Capital Expenditure	(23,269)	(30,247)	(33,714)	(35,935)	(31,641)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other CFI	8,192	2,013	0	0	0
Cash Flow from Investing	**(15,077)**	**(28,234)**	**(33,714)**	**(35,935)**	**(31,641)**
Share Issue / (Repurchase)	NA	NA	NA	NA	NA
Cost of Dividends Paid	(908)	(14,187)	(10,725)	(11,878)	(13,946)
Increase (decrease) debt	2,500	19,480	(10,000)	(10,000)	(10,000)
Other CFF	(17,453)	(18,292)	0	0	0
Cash Flow from Financing	**(15,861)**	**(12,999)**	**(20,725)**	**(21,878)**	**(23,946)**
Total Cash Flow (CFO + CFI + CFF)	**10,220**	**8,376**	**(7,753)**	**(4,764)**	**4,644**
FX and other changes to cash	1,689	2,410	0	0	0
Change in Cash	11,909	10,786	(7,753)	(4,764)	4,644
Change in Net Debt	(9,409)	8,694	(2,247)	(5,236)	(14,644)
Net Debt	77,983	86,677	84,430	79,194	64,550
Key Balance Sheet Data					
Property, Plant & Equipment	233,937	237,157	254,278	272,932	286,213
Goodwill	NA	NA	NA	NA	NA
Other Intangibles	NA	NA	NA	NA	NA
Other Non-Current Assets	53,355	62,152	62,152	62,152	62,152
Trade Receivables	47,403	36,316	36,759	36,668	37,401
Cash & Equivalents	43,140	53,926	46,173	41,409	46,053
Other Current Assets	41,713	44,287	44,566	43,727	43,298
Total Assets	419,548	433,838	443,928	456,887	475,117
Long-Term Debt	96,766	108,686	98,686	88,686	78,686
Other Non-Current Liabilities	37,810	34,868	34,868	34,868	34,868
Short-Term Debt	24,357	31,917	31,917	31,917	31,917
Other Current Liabilities	67,418	56,843	57,164	56,199	55,706
Total Liabilities	226,351	232,314	222,635	211,670	201,177
Total Equity	193,197	201,524	221,293	245,218	273,941
Total Equity & Liabilities	419,548	433,838	443,928	456,887	475,117
Business Performance*					
Return On Capital Employed	14.1%	4.19%	9.84%	10.2%	11.4%
Return On Equity	25.6%	15.6%	15.9%	16.7%	15.5%
Operating Margin	22.5%	7.43%	14.4%	15.7%	18.0%
Free Cash Flow (MM)	17,889	19,362	12,972	17,114	28,590
Quality of Earnings*					
Cash Realization Ratio	0.96x	1.65x	1.41x	1.37x	1.50x
Asset Replacement Ratio	1.69x	1.87x	2.03x	2.08x	1.72x
Tax Rate	25.0%	35.7%	16.0%	16.0%	16.0%
Net Debt/Equity	40.4%	43.0%	38.2%	32.3%	23.6%
Interest Cover	8.91x	2.32x	4.96x	8.70x	11.1x

* For full definitions of *iQmethod*℠ measures, see page 20.

Company Sector

Oil & Gas Producers

Company Description

SOL is an international integrated energy and chemical company, producing synthetic fuel and chemicals from coal and gas. It is also engaged in the commercial production and marketing of chemicals (polymers, solvents, wax, olefins & surfactants) and liquid fuels. SOL's flagship operations are in South Africa, with a growing presence in the US.

Investment Rationale

The shares trade at an attractive discount to global peers on a 12M Fwd EV/EBITDA basis. We see the following catalysts helping drive a potential rerating in the stock: improving macro specially in chemicals, healthy free cash flow generation supporting dividends, improving operations and clearer path to GHG reduction target of 30% to 2030.

Stock Data

Shares / ADR	1.00
Price to Book Value	0.4x

Half-yearly Earnings Estimates

	2023	2024
H1	23.77A	18.64E
H2	21.99A	31.21E

Key Changes

(US$)	Previous	Current
Price Obj.	19.22	16.11
2024E EPS	3.41	2.63
2025E EPS	3.24	3.09
2026E EPS	3.18	3.21
2024E DPS	1.29	1.00

Model changes and valuation

FY24E EBITDA down 10%; PO to ZAR 290

We lower our FY24E EBITDA by 10% as we consider weaker chemical prices (we assume avg basket price broadly flat y/y vs previous estimate of up 13% y/y) as well as an underwhelming 1H24 trading update, that guided for EBITDA between ZAR 26.2bn-29.4bn down 8-18% y/y. Subsequently we lower our FY24E net income by 23%. We now forecast 1H24 EBITDA at ZAR 28.1bn. Sasol has also highlighted HEPS (headline earnings per share) between ZAR 17.9-22.2 (down 28-42% y/y) vs 1H23 at ZAR 30.9. We now forecast 1H24 HEPS at ZAR 18.2.

Despite operational improvements in SA, underperformance of the state-owned enterprises (Transnet) involved in Sasol's value chain and weaker global growth outlook continues to impact Sasol's business performance. As a result, we continue to assume volumes for FY24E at the lower end of the company guidance (see Sasol Limited: FY23 results first take: broadly in-line; FY24 volumes to pick-up marginally 23 August 2023).

Exhibit 1: EBITDA BofAe vs consensus (ZARmn)

We are on average 4% higher than consensus FY24E-26E EBITDA

	2024E			2025E			2026E		
	BofAe	Cons	BofA vs Cons	BofAe	Cons	BofA vs Cons	BofAe	Cons	BofA vs Cons
EBITDA	68,546	66,145	4%	72,824	69,161	5%	81,924	78,960	4%

Source: BofA Global Research estimates, Bloomberg estimates.

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Exhibit 2: Net income changes (ZAR mn)

We lower our FY24E/25E/26E net income on average by 9%

Company	2024E net income new	2024E net income old	% Change	2025E net income new	2025E net income old	% Change	2026E net income new	2026E net income old	% Change
Sasol	32,994	42,788	-23%	38,738	40,593	-5%	40,268	39,927	1%

Source: BofA Global Research estimates

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Our PO is based on the equal weighted average of i) SOTP based multiple valuation applied to each of the business segments. We apply a multiple to FY24E EBITDA for Fuels and the Chemicals segments and a reserve based multiple for the Mining and Gas segments, ii) DCF for the entire company. We use a DCF based valuation to consider the company future cash flow profile. We also incorporate a SOTP method in our valuation given it reflects the EBITDA generation profile for the company over the next 12 months.

We lower our PO from ZAR 346 to ZAR 290 (down 16%) driven mainly by lower FY24E EBITDA. Our SOTP based valuation methodology yields a NAV/sh of ZAR 246 vs ZAR 356 previously, while DCF yields ZAR 333 vs ZAR 336 previously.

Exhibit 3: Valuation: summary of methods applied

Our PO of ZAR 290 is based on the equal weighted average of SOTP based multiple valuation method and DCF

Valution summary	Valuation (ZAR /sh)	Implied FY 24E EV/EBITDA multiple
SOTP based multiple valuation method	246	3.56
DCF	333	4.35
PO (ZAR/sh)	**290**	**3.96**

Source: BofA Global Research estimates

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SOTP based multiple valuation method

We highlight below our working to arrive at an NAV/sh value of ZAR 246. For the Fuels segment and Chemicals Africa segment we now assume a 4.3x 12M Fwd est. EBITDA (vs 4x previously) given improving operations at SO (Secunda operations).

Exhibit 4: NAV/sh calculation using a sum-of-the-parts methodology
We arrive at a NAV/sh of ZAR 246

Division	Metric	Enterprise value (ZARmn)	Enterprise value (USDmn)	% of total EV
Energy business unit				
Mining	Coal Reserves- US$1.0/tn	22,116	1,164	9%
Gas	US$3/boe of reserves	5,221	275	2%
Fuels	4.3x 12M Fwd EBITDA	77,676	4,088	32%
Total		105,013	5,527	
Chemicals business unit				
Chemicals Africa	4.3x 12M Fwd EBITDA	126,189	6,642	52%
Chemicals America	5.0x 12M Fwd EBITDA	12,279	646	5%
Chemicals Eurasia	5.0x 12M Fwd EBITDA	363	19	0%
Total		138,831	7,307	
Total Enterprise value		**243,844**	**12,834**	
Net Debt		(84,430)	(4,444)	
Minority Interests		(4,620)	(243)	
Company Equity value		**154,794**	**8,147**	
No of shares (mn)		**628**		
NAV/sh (ZAR)		**246**		

Source: BofA Global Research estimates. Note: USD ZAR FX for calculating EV for each of the business divisions, net debt and company equity value based on FX assumption of 19.0

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DCF based valuation method

Exhibit 5: Discounted cash flow valuation (ZAR mn)
We arrive at NAV/sh of ZAR 333

PV of FCFF	**75,157**
Terminal value	351,679
PV of TV	223,212
Enterprise Value	**298,369**
Net debt	(84,430)
Minority Interest	(4,620)
Equity Value	**209,319**
Shares outstanding (mn)	628
NAV/sh (ZAR)	**333**

Source: BofA Global Research estimates, company data

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Exhibit 6: Sensitivity of NAV/sh to WACC (%) and growth rates (%)
We highlight various scenarios of our NAV/sh based on varying WACC and terminal growth rates

				WACC %		
		10.0%	11.0%	12.0%	13.0%	14.0%
	0.0%	358	309	268	234	204
Terminal growth %	1.0%	404	345	298	258	225
	2.0%	461	390	**333**	287	248
	3.0%	534	445	376	321	276
	4.0%	631	516	430	363	310

Source: BofA Global Research estimates. Note: Figure highlighted in blue represents our base case scenario

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Operations on an improving trajectory

1H24 operational & trading update takeaways

Overall production metrics improved y/y (for all segments except mining down 1% y/y). FY24 guidance remains unchanged for all segments except Oryx GTL (gas to liquids) refinery where utilisation rate has been lowered to 65-75% from 80-90% (given ongoing repair works).

- The Energy segment improved operational performance in 1H24 vs 1H23 following the implementation of operational mitigation plans. SO (Secunda operations) increased production volumes mainly due to a phased shutdown vs total shutdown in the prior year, along with better equipment reliability and operational stability.
- Mining productivity fell in 2Q24 vs 1Q24 to 986 vs 1,025 tons/continuous miner/shift, mainly due to safety-related incidents and unplanned engineering downtime. The coal stockpile remains above the minimum safety threshold.
- The rollout of the full potential program started at Shondoni and Thubelisha collieries in 1H24. Rollout of phase 1 at Syerfontein Colliery was completed in 1Q.
- FY24 maximum gas price application was approved by NERSA in November 2023.
- The Chemicals business saw continued pricing pressure. The average basket sales price for 1H24 was 24% lower y/y and 6% higher q/q in 2Q24. Despite pricing pressure, chemical sales volumes were 4% higher than 1H23, mainly due to higher ethylene and PE sales in the US, improved production and supply chain performance in Africa, offset by weak demand in Eurasia. Q/Q sales volumes fell 2% due to lower production in Africa and demand in Eurasia.
- Outlook: pricing and demand volatility looks set to continue for the rest of the year.
- SA suppliers and customers continue to face business disruptions due to challenges at Eskom and Transnet.

Trading update: 1H24 EBITDA expected to drop 8-18% y/y

Despite operational improvements in South Africa, underperformance of the state-owned enterprises (Transnet) involved in Sasol's value chain and the weaker global growth outlook continue to impact Sasol's business performance. Weaker oil and petchem prices also led to an EBITDA guidance drop of 8-18% y/y. Core HEPS is expected to drop between 19-33% y/y while HEPS is expected to drop between 28%-42% y/y.

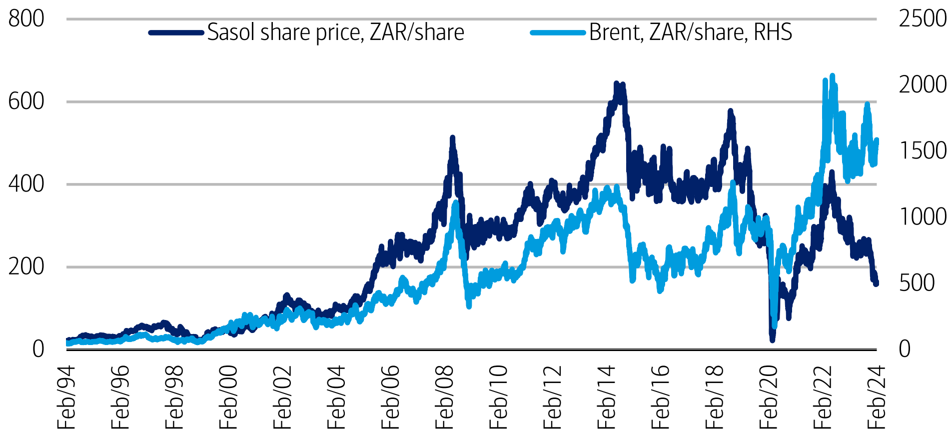
- EBITDA is expected between ZAR 26.2bn-29.4bn in 1H24 vs 1H23 at ZAR 32.0bn. 1H24 BofAe is at ZAR 28bn.
- Core HEPS is expected between ZAR 16.43-19.86 in 1H24 vs 1H23 at ZAR 24.55. 1H24 BofAe is at ZAR 19.6.
- HEPS is expected between ZAR 17.9-22.22 in 1H24 vs 1H23 at ZAR 30.9. 1H24 BofAe is at ZAR 18.2.
- Sasol also realised net non-cash losses of ZAR 3.1bn during the period
    - ZAR 2.7bn of unrealised gains on the translation of monetary assets and liabilities, and valuation of financial instruments and derivative contracts
    - Impairment losses of ZAR 5.8bn (vs impairment losses of ZAR 35bn related to full impairment of Secunda refinery in FY23).

- ZAR 3.9bn relates to the Secunda liquid fuels refinery, which was -vely impacted by an increase in forecast Eskom electricity tariffs and lower short-term Brent Crude oil prices.
- ZAR 0.6bn related to Chemicals Africa Chlor Alkali and PVC (polyvinyl chloride), CGU and ZAR 0.5bn partial impairment of polyethylene CGU.

Underperformance vs ZAR oil price

Sasol's share price has underperformed oil price (ZAR/bbl) since April 22 by 52% driven by operational concerns vs long-term co-relation of 0.9. With production volumes gradually improving as witnessed in the recent operational update, we expect the spread to narrow. We forecast oil to be rangebound this year with Brent to average US$80/bbl in CY24E based on BofAe.

Exhibit 7: Sasol's share price in ZAR vs oil price in ZAR/bbl
Sasol's share price in ZAR has underperformed oil price in ZAR/bbl since April 2022 by 52% driven by operational concerns vs a historical long-term co-relation of 0.9



Source: Refinitiv

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Sensitivity analysis to oil price and FX

Shares now imply a LT oil price of US$62/bbl vs forward curve LT average of US$73/bbl and BofAe LT of US$70/bbl assuming a long-term USD: ZAR of 17 (see below). Every US$2/bbl change in oil price assumption increases our DCF NAV/sh, by c.20%.

Exhibit 8: DCF NAV sensitivity (ZAR/sh) to LT oil price and LT USD/ZAR
Figure highlighted in blue represents our base case scenario

	LT oil price (US$/bbl)						
USD ZAR	60	62	64	66	68	70	72
15	NM	NM	NM	49	96	139	181
16	NM	48	95	143	191	236	281
17	94	142	190	238	285	333	381
18	189	237	284	332	380	430	481
19	283	331	379	427	474	528	581

Source: BofA Global Research estimates. Note: figure highlighted in blue represents our base case scenario. We do not take into account hedges in the sensitivity analysis

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Assuming spot USD: ZAR of 19, the shares currently imply a FY24E oil price of US$70/bbl (see below), vs BofAe CY 2024E: US$80/bbl and spot oil at US$82/bbl.

Exhibit 9: Valuation (ZAR/sh) sensitivity to FY24E oil price and FY24E USD/ZAR
Figure highlighted in blue represents our base case scenario

	FY24E avg oil price - June end (US$/bbl)						
USD ZAR	70	72	77	82	87	92	97
17	55	74	137	201	265	329	393
18	98	118	181	245	309	373	437
19	141	163	226	290	354	418	482
20	185	208	271	335	399	463	527
21	229	253	316	380	444	508	572

Source: BofA Global Research estimates. Note: figure highlighted in blue represents our base case scenario. We do not take into account hedges in the sensitivity analysis

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Exhibit 10: FY24E EBITDA (ZAR mn) sensitivity to oil price and USD/ZAR
Figure highlighted in blue represents our base case scenario

	FY24E avg oil price - June end (US$/bbl)						
USD ZAR	70	72	77	82	87	92	97
17	17,381	21,357	34,458	47,559	60,659	73,760	86,861
18	27,636	31,851	44,952	58,052	71,153	84,254	97,355
19	37,890	42,345	55,446	68,546	81,647	94,748	107,849
20	48,145	52,839	65,939	79,040	92,141	105,242	118,342
21	58,400	63,332	76,433	89,534	102,635	115,735	128,836

Source: BofA Global Research estimates. Note: figure highlighted in blue represents our base case scenario. We do not take into account hedges in the sensitivity analysis

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Exhibit 11: FY24E net debt/EBITDA sensitivity to oil price and USD/ZAR
Figure highlighted in blue represents our base case scenario

	FY24E avg oil price - June end (US$/bbl)						
USD ZAR	70	72	77	82	87	92	97
17	5.54	4.40	3.79	3.41	3.16	2.97	2.83
18	3.30	2.79	2.18	1.81	1.55	1.36	1.22
19	2.28	1.98	1.37	1.00	0.74	0.55	0.41
20	1.69	1.49	0.88	0.51	0.25	0.06	-0.08
21	1.31	1.16	0.55	0.18	-0.08	-0.26	-0.40

Source: BofA Global Research estimates. Note: figure highlighted in blue represents our base case scenario. We do not take into account hedges in the sensitivity analysis

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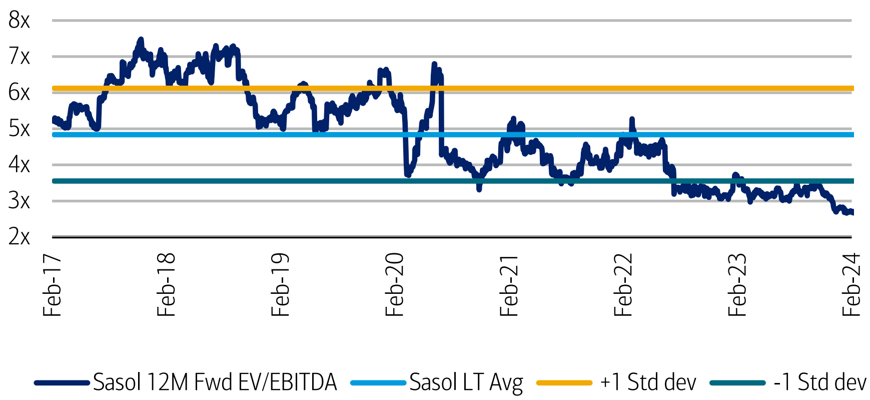
Steep valuation discount to LT average

Sasol trades on a FY24E EV/EBITDA of 2.7x, a c.45% discount to LT 12M Fwd EV/EBITDA average. It trades on a FY24E PE of 3x, a c.55% discount to LT 12M Fwd PE average. It also trades on a FY24E dividend yield of 13%, 2.6x its LT 12M Fwd div yield average. Finally, it trades on a 65%/75% discount to blended refining and chemical peers on FY24E EV/EBITDA and FY24E PE.

Exhibit 12: Sasol's long-term 12M Fwd EV/EBITDA
Sasol currently trades below its Avg-1 Std Dev of its LT 12M Fwd EV/EBITDA



Source: Refinitiv

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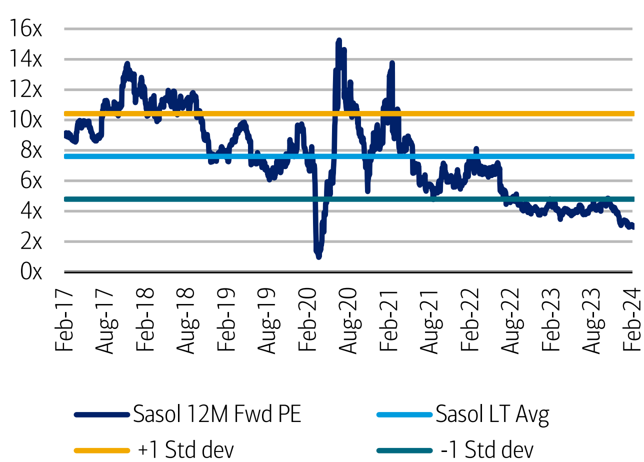
Exhibit 13: Sasol's long-term 12M Fwd P/E
Sasol currently trades below its Avg-1 Std Dev of its LT 12M Fwd P/E



Source: Refinitiv

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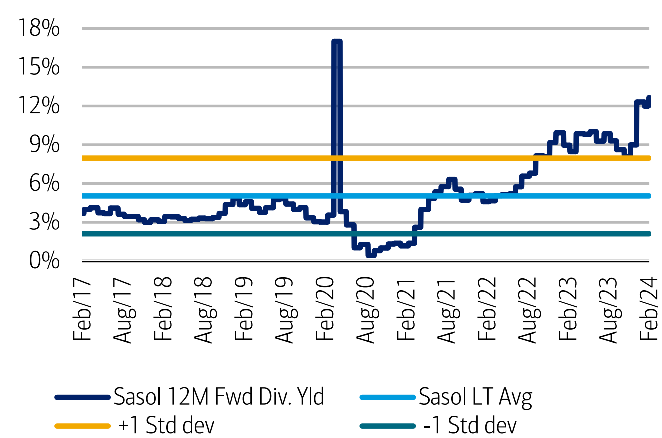
Exhibit 14: Sasol's long-term 12M Fwd Div. Yld
Sasol currently trades above its Avg +1 Std Dev of its LT 12M Fwd Div. yld



Source: Refinitiv

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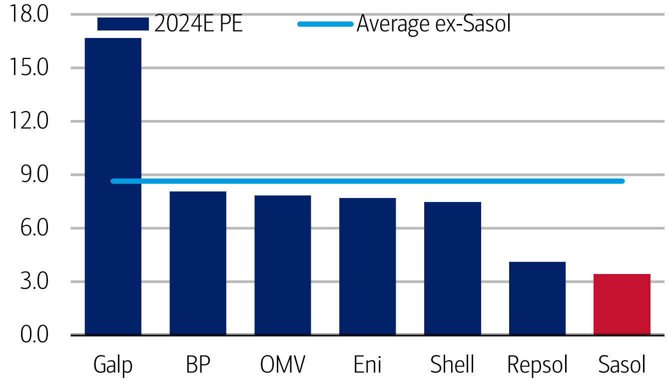
Exhibit 15: Sasol vs global refining peers – 2024E PE
Sasol trades at a c.60% discount to global refining peers



Source: BofA Global Research estimates

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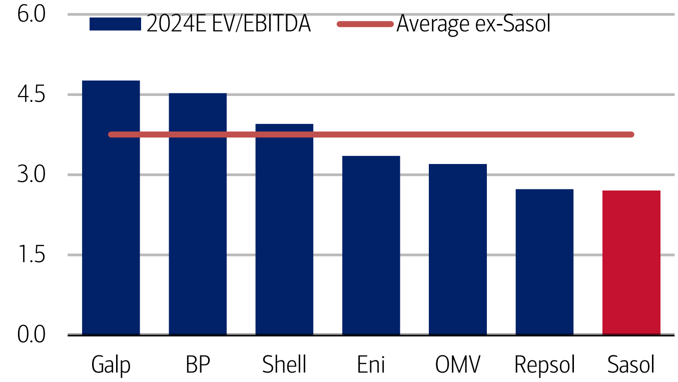
Exhibit 16: Sasol vs global refining peers – 2024E EV/EBITDA
It trades a c.28% discount to global refining peers



Source: BofA Global Research estimates

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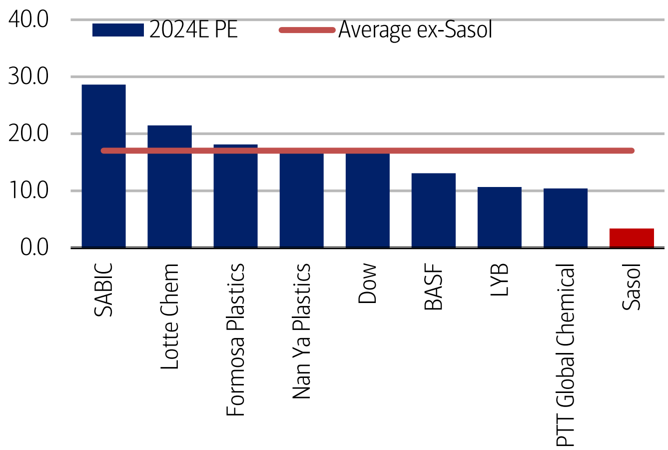
Exhibit 17: Sasol vs global chemicals peers – 2024E PE
Sasol trades at a c.80% discount to global chemicals peers



Source: BofA Global Research estimates

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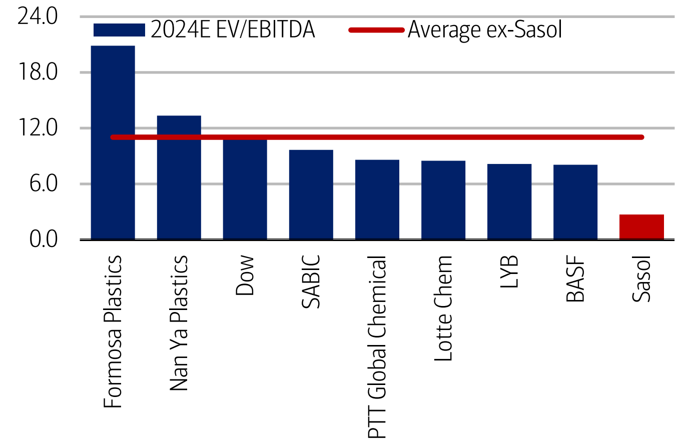
Exhibit 18: Sasol vs global chemicals peers – 2024E EV/EBITDA
And also trades a c.75% discount to global chemicals peers



Source: BofA Global Research estimates

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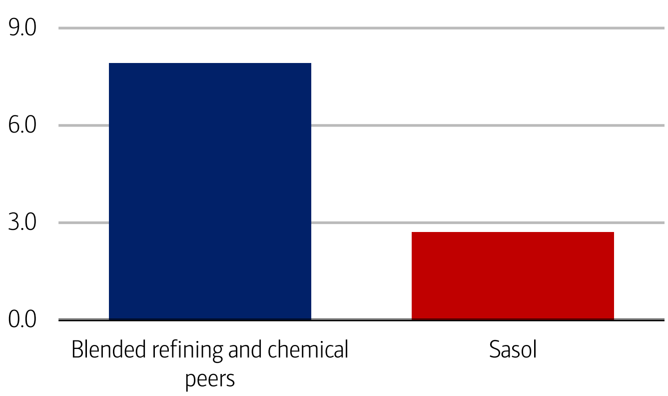
Exhibit 19: Sasol vs blended refining and chemicals peers – 2024E EV/EBITDA
Sasol trades at a c.65% discount



Source: BofA Global Research estimates

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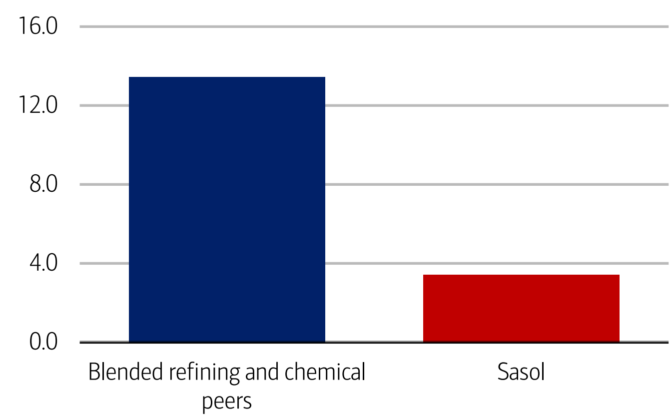
Exhibit 20: Sasol vs blended refining and chemicals peers – 2024E PE
And also trades at a c.75% discount vs peers



Source: BofA Global Research estimates

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Polyethylene: potentially bottoming out

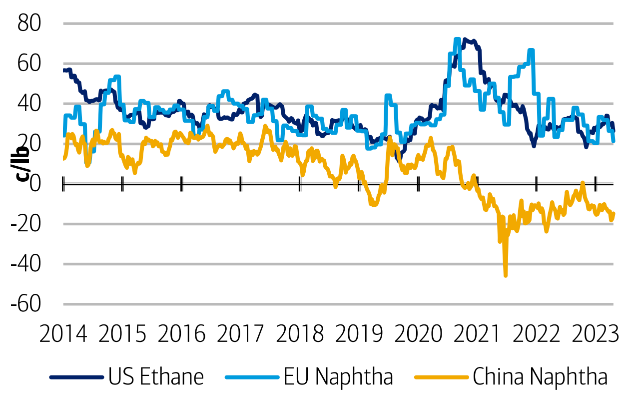
We forecast an improving outlook for PE (polyethylene) over the medium-term and expect global operating rates to remain steady averaging 82% over 2024E-26E, slightly higher than 81% over the past 2 years. We estimate incremental global capacity addition of c.10mn tonnes over 2024E-26E, lagging demand growth of 13mn tonnes during this period, thereby supporting a gradual recovery in prices.

The global PE industry witnessed a wave of new capacity additions of 36mn tonnes over 2018-23E, equivalent to 25% of the current global PE capacity. Bulk of this capacity growth came from China and US. Demand on the other hand, lagged, with an incremental increase of only 20mn tonnes over this period. Consequently, global PE prices have remained under pressure over the last few years, except in 2020, when demand surprised to the upside during the pandemic. Spot PE prices are 15% below the 10-year average, due to the prevailing oversupply in the industry.

We expect capacity growth to slow over the medium term, helping the market absorb excess supply currently. China's demand is improving slowly supported by its stimulus package. We forecast global PE demand to grow at a CAGR of 4% over 2023E-26E, broadly in-line with 2018-22 average. On margins, PE-naphtha spreads across all three grades (HDPE, LDPE and LLDPE) continue to trade at a decade low in Dec-23 due to the current oversupply in the market. We believe that PE prices will start transitioning from its current trough only in 2H24, supported by a global demand recovery.

North American market will likely perform better than Asia over the medium-term, as there are no meaningful capacity additions in the region between 2024E-26E. China may continue to remain challenged driven by very slow demand recovery continued capacity additions. We expect China's PE operating rates at 82% over 2024E-26E, lower than 86% in 2023E and 2017-2022 average of 92%.

Exhibit 21: Global PE Margins based on feedstock mix (c/lb)
Chinese naphtha-based margins continue to be negative due to relatively low-end product prices and high naphtha prices



Source: Chemical Market Analytics by OPIS, a Dow Jones Company, Bloomberg, BofA Global Research

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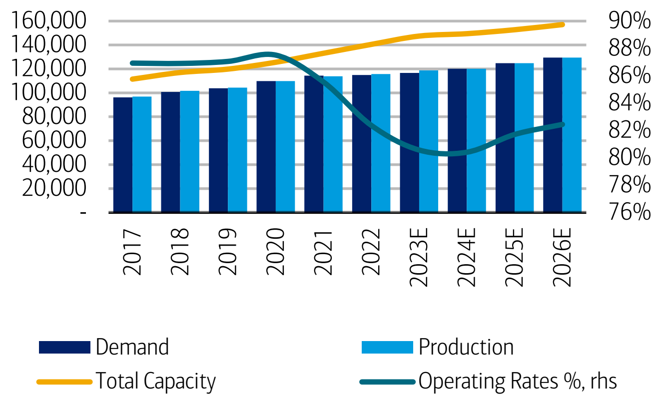
Exhibit 22: Global polyethylene supply-demand model (k tons)

We forecast average operating rates of 81% from 2023E-26E vs 2018-22 avg of 86%



Source: BofA Global Research, Chemical Market Analytics by OPIS, a Dow Jones Company

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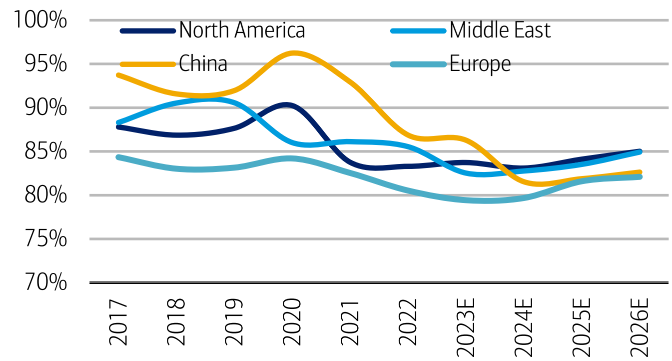
Exhibit 23: Global polyethylene operating rates by region %

China's operating rate have declined significantly since 2020 on new capacity additions



Source: BofA Global Research, Chemical Market Analytics by OPIS, a Dow Jones Company

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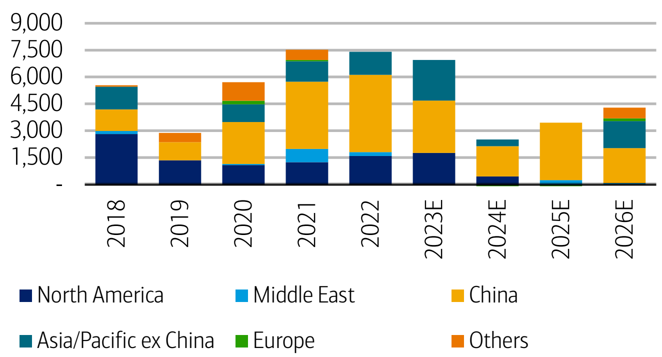
Exhibit 24: Capacity addition by region (k tons)

Significant new capacity adds in China over 2020-23E. No capacity addition in North America in 2025E/26E.



Source: BofA Global Research, Chemical Market Analytics by OPIS, a Dow Jones Company

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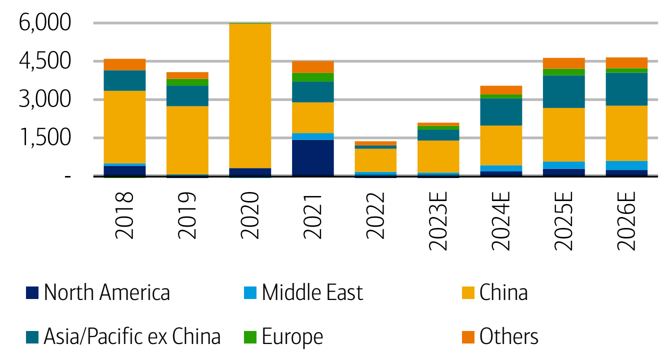
Exhibit 25: Demand addition by region (k tons)

Global demand growth slowed down and remained weak in 2022 and 2023E with a gradual and slow recovery expected from 2024E onwards



Source: BofA Global Research, Chemical Market Analytics by OPIS, a Dow Jones Company

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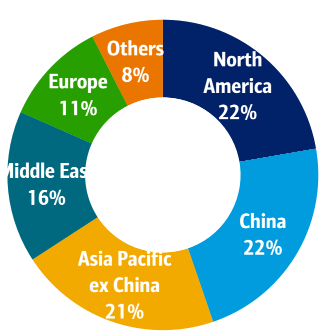
Exhibit 26: Capacity breakup by region % - 2023E

Asia represents c.43% of global PE capacity



Source: Chemical Market Analytics by OPIS, a Dow Jones Company

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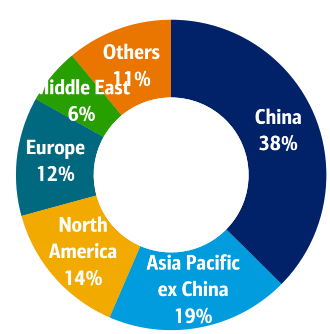
Exhibit 27: Demand breakup by region % - 2023E

China represents 38% of global PE demand



Source: Chemical Market Analytics by OPIS, a Dow Jones Company

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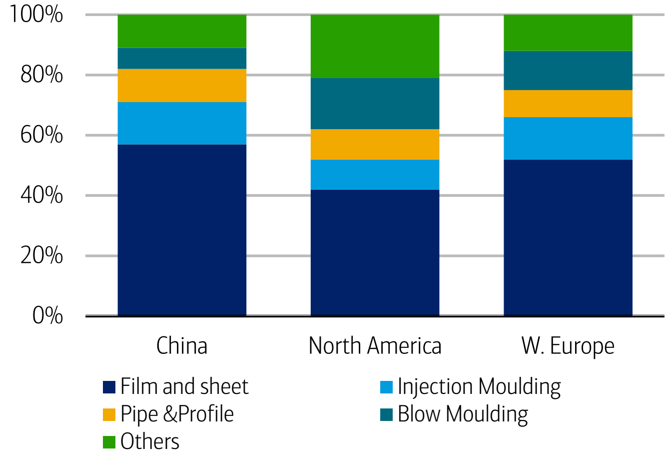
Exhibit 28: PE demand by end-use – 2023E

c.60% and 50% of China and W. Europe PE is used in film and sheets application, respectively.



Source: Chemical Market Analytics by OPIS, a Dow Jones Company

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Exhibit 29: HDPE-naphtha spreads (US$/t)

HDPE- naphtha spreads continue to remain at multi-year lows

Source: Bloomberg

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Rangebound oil

Our commodities team in its report *"Can (geo)politics Trump fundamentals?"*, dated Jan 7th, lowered its it's 2024 Brent price forecast to US$80/bbl from US$90/bbl and WTI to US$75/bbl from US$86/bbl.

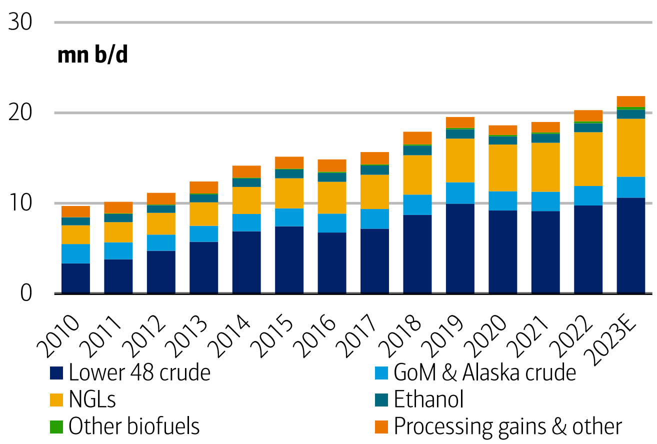
The cut is mainly driven by rising non-OPEC+ supply, fractures within OPEC+ that have softened fundamentals along with a weak macro backdrop currently. For 2025E, our price forecast is US$80/bbl (no change vs previous estimate) vs forward curve average of US$75/bbl. Low petroleum inventories, low spec net length, and elevated geopolitical tensions continue to present upside price risk.

Expanding US shale supply meets weak OPEC + commitment to limit volumes

While prices are lower than where they were three months ago, the geopolitical backdrop has not improved (see Geopolitics create oil asymmetries). It is precisely this volatile political and geopolitical backdrop that could keep the oil market on edge over the course of 2024, as fundamentals paint a softer picture. As explained in our Commodity team's 2024 Year Ahead (see Year Ahead 2024: Energy outlook), the oil market needs firm OPEC+ cuts to support Brent prices above $80/bbl this year. In that regard, the fact that total US liquids production reached a record 21mn b/d at the end of last year) driven by a very large expansion in shale supply across various basins is a huge headwind for the producer group.

Exhibit 30: Total US liquids production

Total US liquids production reached a record 21mn b/d at the end of last year...



Source: EIA

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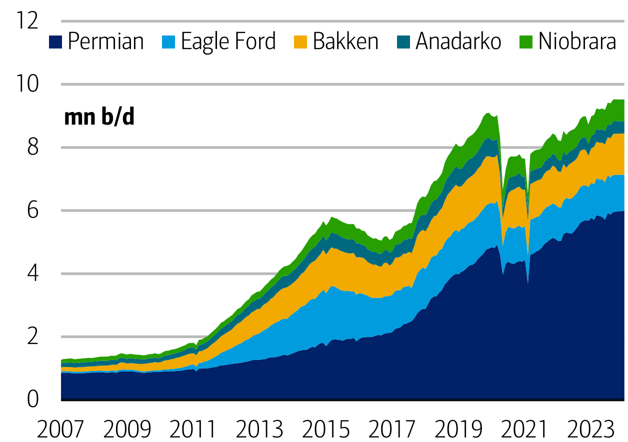
Exhibit 31: US oil production by major shale basins

...driven by a very large expansion in shale supply across various basins



Source: Bloomberg

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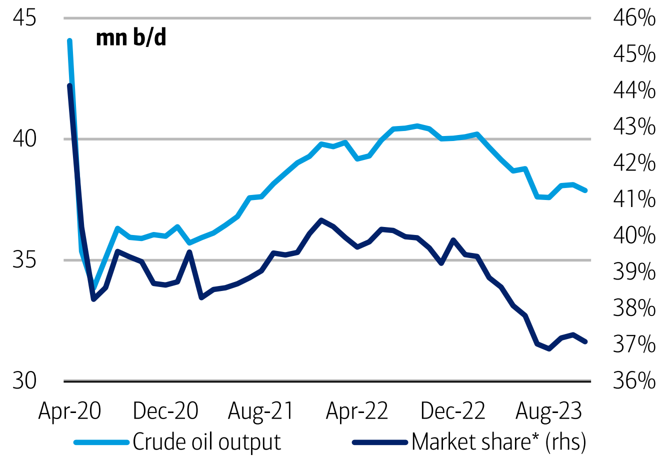
Precisely because of rapidly rising US shale supplies, as well as ongoing production growth in Guyana, Brazil, Canada, and other corners of the market, OPEC+ production and market share has come down significantly in the past year. Yet Saudi Arabia has carried most of the weight of the output cuts in the last 18 months with its voluntary production reductions. Although Saudi hoped to build goodwill to encourage others to join in the cuts, the unilateral action has led to a breakdown in OPEC cohesion and internal tensions. As the group gathered in their last meeting of 2023, some players like Angola refused to play by the new rules, ultimately leaving the organization and triggering a confidence crisis in the producer group.

Exhibit 32: OPEC+ crude oil production and market share (vs global liquids supply)
While OPEC+ production and market share has come down significantly in the past year...



Source: IEA, BofA Global Research

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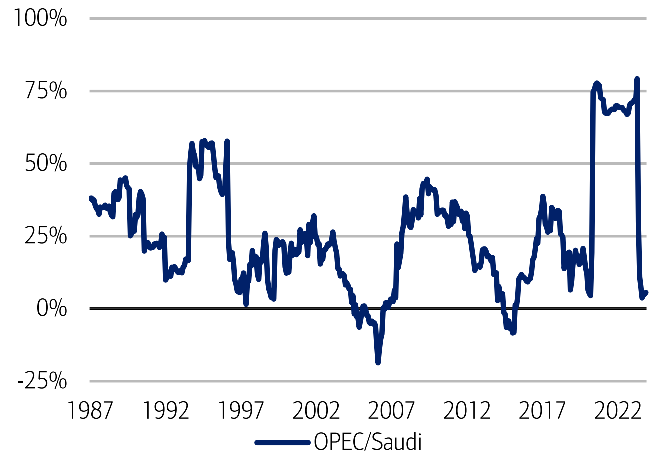
Exhibit 33: OPEC cohesion (correlation between Saudi supply changes and other OPEC supply changes)
...Saudi Arabia has carried most of the weight, leading to a breakdown in OPEC cohesion



Source: IEA, BofA Global Research estimates

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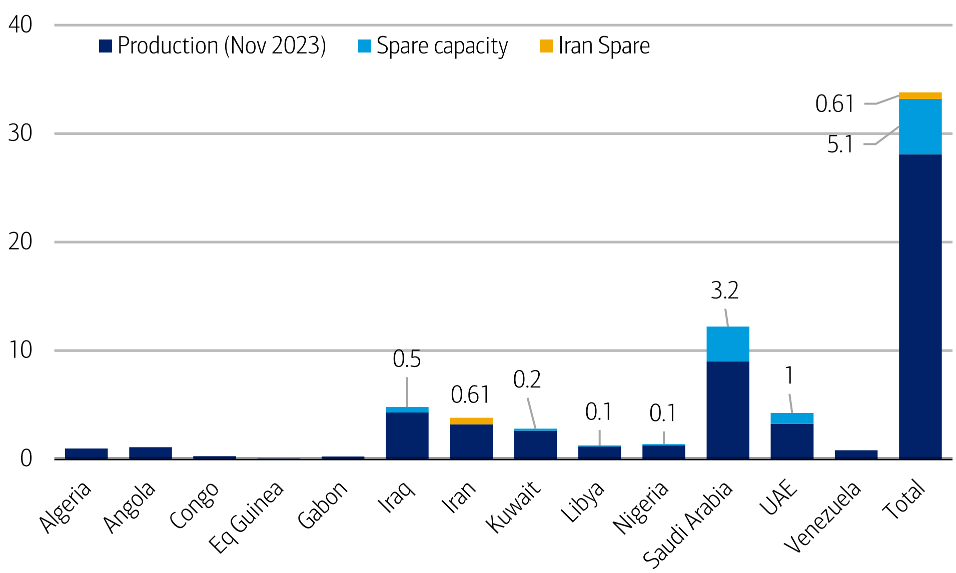
Balances look soft unless OPEC+ curbs output

Will OPEC+ cohesion increase in 2024 with others joining Saudi to manage production and ultimately market prices? This is one of the key questions for the oil market over the next few quarters. Fundamentals have softened since November. While Saudi has done its fair bit, contributions from other members will be needed to prevent global oil balances from deteriorating further. While we assume additional cuts from other OPEC+ members, we think the group will fall short of its headline 2.2mn b/d 'cut'. Internal disagreements dominated the November meeting, so the group has spent time trying to convince the market that the level of internal cohesion is still high despite the Angolan exit. We also note that OPEC + currently has spare capacity of 5.7mb/d (including Iran), with c.3mb/d from Saudi.

Exhibit 34: Spare capacity is located mainly in the Gulf with Saudi accounting for the lion's share of spare capacity
OPEC's spare capacity as of Nov end is 5.1mb/d ex-Iran or c.5.7mb/d including Iran



Source: IEA, BofA Global Research estimates

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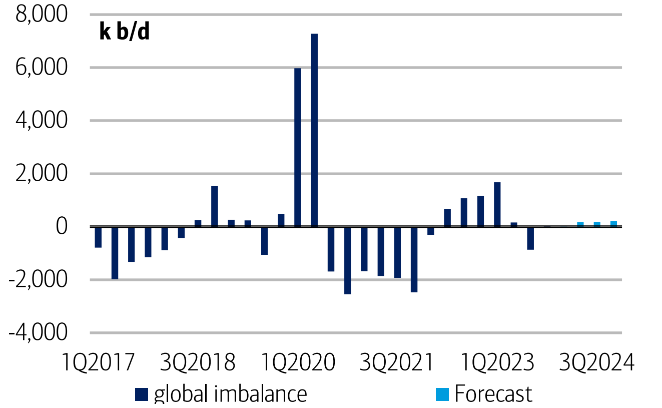
Exhibit 35: Global oil surplus (current)
Balances have softened since November 2023...



Source: IEA, BofA Global Research estimates

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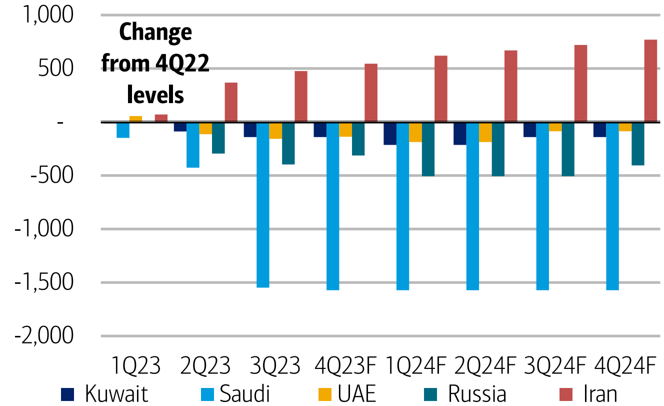
Exhibit 36: Change in supply from select countries
...and we assume Saudi oil production volumes of c.9mn b/d during 2024 and cuts from other members to prevent balances from weakening further



Source: IEA, BofA Global Research estimates

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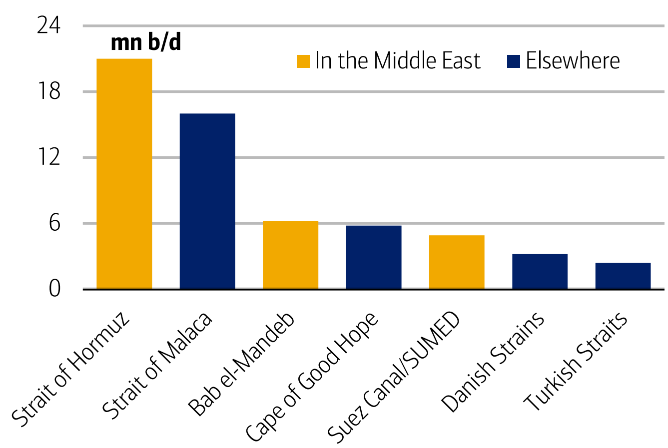
Geopolitical tensions in the Gulf keep rising…

Even then, we remain very worried about (geo)politics. Not only are military tensions high across the world, but we are also facing a historical election year where over 60 countries representing about half of the world's population, from India to the US to the European Parliament, will go to the polls. Energy prices matter to voters the world over and the Biden Administration has been dealing with foes for much of the past 18 months to ensure ample supplies, allowing Russia, Iran, or Venezuela to increase their export volumes relative to market expectations. Against a slowing demand and growing supply backdrop, we note growing risks at key energy trading choke points from the Persian Gulf to the Red Sea to the Panama Canal, as well as the sharp increase in conflict deaths witnessed in 2022 and 2023 due to both the Ukraine and Gaza wars. NATO can hardly afford to stretch itself thinner into more global conflicts ahead of major elections, and autocrats are taking notice.

Exhibit 37: EIA chokepoints
Against this slowing demand and growing supply backdrop, we note growing risks at choke points...



Source: EIA (estimates as of 2019), BofA Global Research

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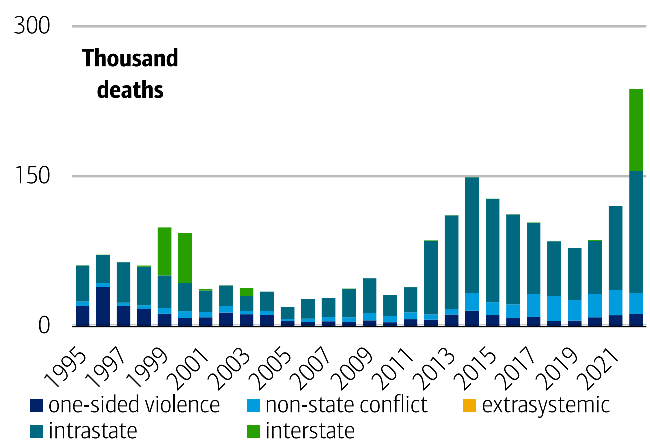
Exhibit 38: Deaths in armed conflicts
...and the sharp increase in conflict deaths witnessed in 2022 and 2023 due to both the Ukraine and Gaza wars



Source: United Nations Office for the Coordination

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Price objective basis & risk

Sasol Limited (SASOF / SSL)

We derive our ZAR 290 (US$16.11) PO based on the equal weighted average of i) SOTP based multiple valuation, ii) DCF for the entire company.

In our SOTP based method we arrive at an NAV/sh of ZAR 246. For the Energy business unit, we apply a reserve based multiple for the Mining (US$1/t) and Gas (US$3/boe) segments. For the Fuels segment we apply an EV/EBITDA of 4.3x to the segment's 12M Fwd EBITDA.

For the Chemicals business unit, we apply a 12M Fwd EV/EBITDA multiple of 5x for the America and the Eurasia segments. For the Chemicals Africa segment, we apply a multiple of 4.3x.

Our equity value is ZAR 154,794mn, which we divide by no of shares to arrive at ZAR 246/sh.

We incorporate a DCF-based valuation to better capture the company's cash flow profile. We use a terminal value growth rate of 2.0% and a WACC of 12.0%. We derive our WACC using: (1) cost of equity of 16.6% (Rf= 10%, market risk premium of 13% and beta of 2.2) and (2) 4.3% cost of debt post tax. We arrive at an NAV/sh of ZAR 333 using this approach.

Downside risks: Decline in oil price or contraction in downstream margins, stronger than expected ZAR, lower than expected cost-saving measures and higher than expected carbon taxes and capex.

Analyst Certification

I, Sashank Lanka, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EEMEA - Energy & Industrials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	ADNOC Drilling	XDPPF	ADNOCDRI UH	Sashank Lanka
	Advanced Petrochemicals Company	XAECF	APPC AB	Sashank Lanka
	Aramco	XHURF	ARAMCO AB	Sashank Lanka
	Empower	XWEGF	EMPOWER UH	Sashank Lanka
	Industries Qatar	XQITF	IQCD QD	Sashank Lanka
	OCI Global	OCINF	OCI NA	Sashank Lanka
	SABIC Agri-Nutrients Co	XDUAF	SAFCO AB	Sashank Lanka
	Salik Company PJSC	XIWXF	SALIK UH	Sashank Lanka
	Sasol Limited	SASOF	SOL SJ	Sashank Lanka
	Sasol Limited	SSL	SSL US	Sashank Lanka
	Sipchem	XSRPF	SIPCHEM AB	Sashank Lanka
	Tupras	TUPRF	TUPRS TI	Sashank Lanka
NEUTRAL				
	Fertiglobe PLC	XFTGF	FERTIGLB UH	Sashank Lanka
	MOL	MOLFF	MOL HB	Sashank Lanka
	OQ Gas Networks SAOG	XGVGF	OQGN OM	Sashank Lanka
UNDERPERFORM				
	Maaden	XSDRF	MAADEN AB	Sashank Lanka
	Saudi Basic Industries Corporation	XAUBF	SABIC AB	Sashank Lanka
	Saudi Kayan	XAMBF	KAYAN AB	Sashank Lanka

EEMEA - Energy & Industrials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	YANSAB	XUYNF	YANSAB AB	Sashank Lanka

iQmethod SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

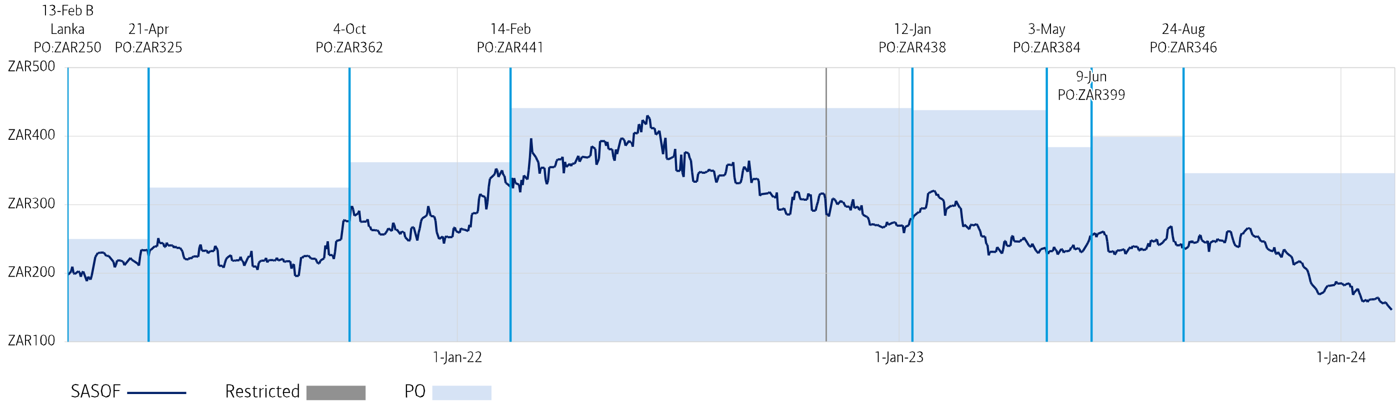
iQmethod SM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase ® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

Disclosures

Important Disclosures

Sasol Limited (SASOF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Sasol Limited (SSL) Price Chart

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. INVESTMENT RATINGS reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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