

Sasol Limited

1H24 results first take: broadly in-line; dividend misses expectations

Maintain Rating: BUY | PO: 290.00 ZAR | Price: 146.00 ZAR

1H24 EBITDA, HEPS broadly at mid-point of guidance

Sasol released its 1H24 results this morning. 1H24 adjusted EBITDA at ZAR 28.1bn, came broadly in-line with BofAe. Guidance range was ZAR 26.2-29.4bn. HEPS came in at ZAR 20.37 vs guidance range of ZAR 17.99-22.2. DPS missed BofAe and consensus, with 1H24 DPS at ZAR 2 (c.11% payout ratio vs 1H23 payout ratio at 29%) vs BofAe at ZAR 7 and visible alpha consensus at ZAR 6. Net debt/EBITDA came in at 1.6x vs company's target of <1.5x, which in our view led to the dividend miss and a payout ratio lower than 36% of core HEPS. **Earnings call today at 9 am SA / 7 am UK.**

1H24 leverage higher than target, leading to dividend cut

Sasol's dividend policy states a payout ratio range of 36-40% provided Net debt/EBITDA <1.5x and Net debt<US\$4bn (excluding leases). The company's net debt/EBITDA at the end of 1H24 was 1.6x, higher than the target of <1.5x, with net debt (excluding leases) at US\$4.56bn. This led to the payout ratio in 1H24 at 10.9% vs expectations of 36% payout ratio. Sasol's closing debt in 1H24 was ZAR 125bn, with US\$ loans comprising 95% of total debt. A weak closing ZAR does impact the leverage ratio negatively as well.

FY24 operational guidance unchanged; recovery underway

Sasol has left its FY24 operational guidance unchanged, which implies low-mid single digit % y/y pick-up in volumes. On a y/y basis, an operational recovery was evident in all segments except for the Eurasian business, where sales volumes were down 4% given destocking and a weak economic environment. FY24 capex guidance was also unchanged with nominal capex of ZAR 33-34bn with US\$1bn related to growth capex.

Chemicals America turning the corner?

Chemicals America reported a 1H24 EBITDA of ZAR 1.27bn vs 1H23 EBITDA loss of ZAR 1.03bn. This was helped by higher sales volumes (+12% y/y) and a recovery in margins supported by lower ethane prices (down 45% y/y) offsetting the weakness in chemical prices. A potential recovery in chemical prices in 2H24 + continued weakness in ethane prices supported by healthy supply from US shale producers + continued operational recovery, we believe will help the Chemicals America EBITDA to grow over the course of the year (2HFY24E EBITDA: ZAR 1.79bn) thereby generating free cash flows to help paydown the US\$ denominated debt.

26 February 2024

Equity

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Stock Data

Price (Common / ADR)	146.00 ZAR / 7.70 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	138.87 ZAR-279.21 ZAR
Market Value (mn)	93,241 ZAR
Shares Outstanding (mn)	638.6 / 638.6
Average Daily Value (mn)	19.88 USD
Free Float	66.2%
BofA Ticker / Exchange	SASOF / JNB
BofA Ticker / Exchange	SSL / NYS
Bloomberg / Reuters	SOL SJ / SOLJJ
ROE (2024E)	15.9%
Net Dbt to Eqty (Jun-2023A)	43.0%

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Refer to important disclosures on page 3 to 6. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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Timestamp: 26 February 2024 02:14AM EST

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% ($R_f = 10\%$, 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.

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Sasol Limited (SASOF) Price Chart



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Sasol Limited (SSL) Price Chart



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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%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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