

Sasol Limited

Positioning for an FCF inflection in 2H
FY24

Reiterate Rating: BUY | PO: 281.00 ZAR | Price: 143.05 ZAR

Lower FY24E/25E net income by 7%/3%; PO to ZAR 281

We lower our FY24E/25E net income estimates by 7%/3% as we increase our ending net debt, resulting in higher interest expenses. This is driven by significant working capital outflows in 1H24 of ZAR 7.7bn, resulting in 1H24 net debt of ZAR 83.5bn. As a result of a higher ending net debt, we lower our PO from ZAR 290/US\$16.11 to ZAR 281/US\$15.61. Sasol has also stated that it expects to announce a new dividend policy linked to free cash flows at FY24 results versus current policy based on payout ratio. For now, we assume dividends to equal to 50% of FCFs between FY25E and FY27E (see Exhibit 3 for our scenario analysis). We reiterate our Buy rating and see 2 key catalysts to help drive a re-rating: 1) improving chemicals cycle leading to an inflection in FCF and 2) gradual operational recovery.

Expect FCF inflection in 2H24 driven by chemicals recovery

Driven by an improving chemicals cycle along with low energy prices and better operations, we expect positive FCF in 2H FY24 of ZAR 13.7bn versus 1H24 of negative ZAR 6.5bn. We believe that this will help Chemicals America EBITDA grow over the course of the year, thereby generating free cash flows to help pay down US\$-denominated debt.

Operations recovery on track; further levers to 2030

While we noted that operational recovery was on track across all segments aside from the Eurasian business (see our [1H24 results first take](#) report), Sasol has stated that through the destoning process (FID expected in 4Q CY24) along with coal quality improvement solutions, it plans to increase Secunda production to >7.5mn tonnes by 2029 and c.7mn tonnes by 2030 versus previous guidance of 6.7mn tonnes by 2030. FID capex for destoning is included as part of the ZAR 27-34bn p.a. capex over the medium term.

Dividend policy reset driven by mismatch between EPS & FCF

Sasol expects to update its dividend policy at FY24 results, linking it to free cash flows versus the current payout ratio based on core HEPS given that depreciation reported by the company is c.50% of capex, leading to a mismatch between free cash flows and HEPS.

Estimates (Jun) (ZAR)	2022A	2023A	2024E	2025E	2026E
EPS (Adjusted Diluted)	67.5	45.3	46.2	56.7	60.9
EPS Change (YoY)	146.3%	-32.9%	2.1%	22.6%	7.5%
Dividend / Share	14.7	17.0	11.9	13.6	22.8
ADR EPS (Adjusted Diluted - US\$)	4.43	2.55	2.39	2.93	3.15
ADR Dividend / Share (US\$)	0.97	0.96	0.61	0.70	1.18
Valuation (Jun)					
P/E	2.12x	3.16x	3.09x	2.52x	2.35x
Dividend Yield	10.3%	11.9%	8.29%	9.49%	15.9%
EV / EBITDA*	2.53x	2.74x	2.65x	2.50x	2.22x
Free Cash Flow Yield*	20.0%	21.5%	7.64%	19.0%	31.9%

* For full definitions of *IQmethod*SM measures, see page 6.

27 February 2024

Equity

Key Changes

(ZAR)	Previous	Current
Price Obj.	290.00	281.00
2024E EPS	49.85	46.23
2025E EPS	58.52	56.67
2026E EPS	60.84	60.93
2024E DPS	18.90	11.85

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Stock Data

Price (Common / ADR)	143.05 ZAR / 7.70 USD
Price Objective	281.00 ZAR / 15.61 USD
Date Established	26-Feb-2024 / 26-Feb-2024
Investment Opinion	C-1-7 / C-1-7
52-Week Range	136.04 ZAR-279.21 ZAR
Market Value (mn)	91,357 ZAR
Shares Outstanding (mn)	638.6 / 638.6
Average Daily Value (mn)	19.48 USD
Free Float	66.2%
BofA Ticker / Exchange	SASOF / JNB
BofA Ticker / Exchange	SSL / NYS
Bloomberg / Reuters	SOL SJ / SOLJJ
ROE (2024E)	14.7%
Net Dbt to Eqty (Jun-2023A)	43.0%

c.: circa

FID: final investment decision

HEPS: headline earnings per share

PO: price objective

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Refer to important disclosures on page 7 to 10. Analyst Certification on page 5. Price Objective Basis/Risk on page 5.

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Timestamp: 26 February 2024 11:00PM EST

iQprofileSM Sasol Limited

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)	(7,204)	(2,985)	(2,605)
Tax Expense / Benefit	(13,869)	(5,181)	(5,543)	(6,795)	(8,139)
Net Income (Adjusted)	42,831	29,981	30,603	37,511	40,329
Average Fully Diluted Shares Outstanding	635	662	662	662	662

Key Cash Flow Statement Data

Net Income (Reported)	38,956	8,799	30,603	37,511	40,329
Depreciation & Amortization	14,073	16,491	16,913	17,601	18,680
Change in Working Capital	(10,953)	4,955	(5,111)	41.4	(780)
Deferred Taxation Charge	0	0	0	0	0
Other CFO	(918)	19,364	(1,820)	(2,159)	2,080
Cash Flow from Operations	41,158	49,609	40,585	52,995	60,310
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)	(7,603)	(7,448)	(8,530)
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)	(17,603)	(17,448)	(18,530)
Total Cash Flow (CFO + CFI + CFF)	10,220	8,376	(10,732)	(389)	10,138
FX and other changes to cash	1,689	2,410	0	0	0
Change in Cash	11,909	10,786	(10,732)	(389)	10,138
Change in Net Debt	(9,409)	8,694	732	(9,611)	(20,138)
Net Debt	77,983	86,677	87,409	77,798	57,659

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	37,759	37,665	38,418
Cash & Equivalents	43,140	53,926	43,194	42,805	52,944
Other Current Assets	41,713	44,287	48,276	47,364	46,897
Total Assets	419,548	433,838	445,659	462,918	486,624
Long-Term Debt	96,766	96,701	86,701	76,701	66,701
Other Non-Current Liabilities	37,810	33,566	33,566	33,566	33,566
Short-Term Debt	24,357	43,902	43,902	43,902	43,902
Other Current Liabilities	67,418	58,145	58,466	57,501	57,008
Total Liabilities	226,351	232,314	222,635	211,670	201,177
Total Equity	193,197	201,524	223,024	251,248	285,448
Total Equity & Liabilities	419,548	433,838	445,659	462,918	486,624

Business Performance*

Return On Capital Employed	14.1%	4.20%	9.82%	10.1%	11.2%
Return On Equity	25.6%	15.6%	14.7%	16.0%	15.2%
Operating Margin	22.5%	7.43%	14.4%	15.7%	18.0%
Free Cash Flow (MM)	17,889	19,362	6,871	17,060	28,668

Quality of Earnings*

Cash Realization Ratio	0.96x	1.65x	1.33x	1.41x	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%	39.2%	31.0%	20.2%
Interest Cover	8.91x	2.32x	4.21x	8.70x	11.1x

* For full definitions of iQmethodSM measures, see page 6.

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 12-month forward 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	17.10A
H2	21.99A	28.78E

Key Changes

(US\$)	Previous	Current
Price Obj.	16.11	15.61
2024E EPS	2.58	2.39
2025E EPS	3.03	2.93
2024E DPS	0.98	0.61

Model changes and valuation

FY24E/25E net income down 7%/3%; PO to ZAR 281

We lower our FY24E/25E net income estimates by 7%/3% as we increase our ending net debt, leading to higher interest expenses. This is driven by significant working capital outflows in 1H24 of ZAR 7.7bn, resulting in 1H24 net debt (excluding lease liabilities) of ZAR 83.5bn. We forecast FY24E net debt (excluding lease liabilities) at ZAR 87.4bn versus ZAR 84.4bn previously. As a result of a higher ending net debt, we lower our PO from ZAR 290 to ZAR 281 (3% change).

Sasol in its earnings call stated that it expects to update its dividend policy at FY24 results, linking it to free cash flows versus the current payout ratio based on core HEPS given that depreciation reported by the company is c.50% of capex, leading to a mismatch between free cash flows and core HEPS. The company paid a 1H24 dividend per share (DPS) of ZAR 2 at a payout ratio of 11%. 1H24 also witnessed negative free cash flows of ZAR 6.45bn, with ZAR 7.7bn related to working capital outflows. While it remains unclear to us what % of FCF will be linked to dividends in conjunction with the leverage ratio policy, we expect dividends to be 50% of FCF on average between FY25E and FY27E. For 2H24, we assume a DPS of ZAR 9.85, based on 45% of free cash flows being paid as dividends, implying a core HEPS payout ratio of 33%, with net debt/EBITDA of 1.5x (including lease liabilities) versus 1H24 at 1.6x. As a result of these changes, our new FY24E-26E DPS estimates are ZAR 11.9/13.6/22.8 versus ZAR 18.9/22.2/23.1 previously.

Exhibit 1: Valuation: summary of methods applied

Our PO of ZAR 281 is based on the equal-weighted average of SOTP-based multiple valuation method and DCF

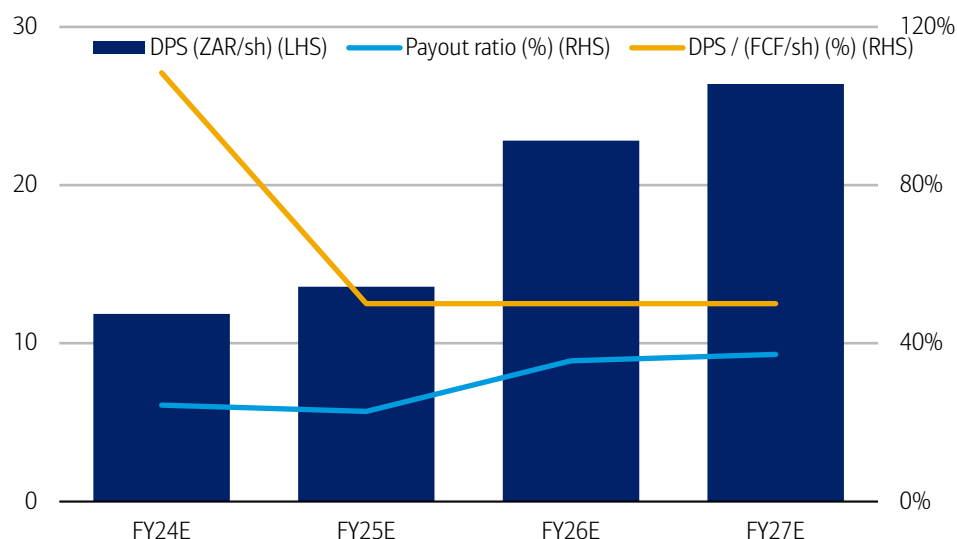
Valuation summary	Valuation (ZAR /share)	Implied FY 24E EV/EBITDA multiple
SOTP based multiple valuation method	242	3.56
DCF	320	4.28
PO (ZAR/share)	281	3.92

Source: BofA Global Research estimates

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Exhibit 2: DPS trend FY24E-27E versus DPS / (FCF/share) and payout ratio

We assume dividends to equal to 50% of FCFs on average between FY25E and FY27E

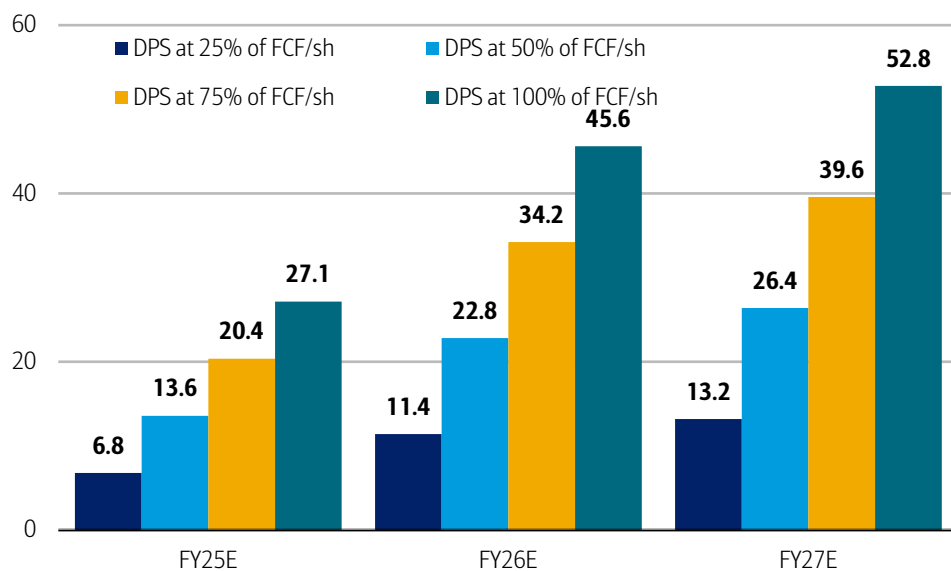


Source: BofA Global Research estimates. Note: Payout ratio is based on core HEPS

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Exhibit 3: Scenario analysis of DPS for varying payouts as a % of FCF/share

Our base-case assumption of DPS at 50% of FCF/share results in FY25E/26E/27E DPS of ZAR 13.6/22.8/26.4



Source: BofA Global Research estimates

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Price objective basis & risk

Sasol Limited (SASOF / SSL)

We derive our ZAR 281 (US\$15.61) PO based on the equal-weighted average of i) sum of the parts (SOTP)-based multiple valuation, ii) discounted cash flow (DCF) for the entire company.

In our SOTP-based method, we arrive at an NAV/share of ZAR 242. 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 12-month forward EBITDA.

For the Chemicals business unit, we apply a 12M forward 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 151,815mn, which we divide by no of shares to arrive at ZAR 242/share.

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 weighted-average cost of capital (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/share of ZAR 320 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	ADNOC DRI 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				
	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

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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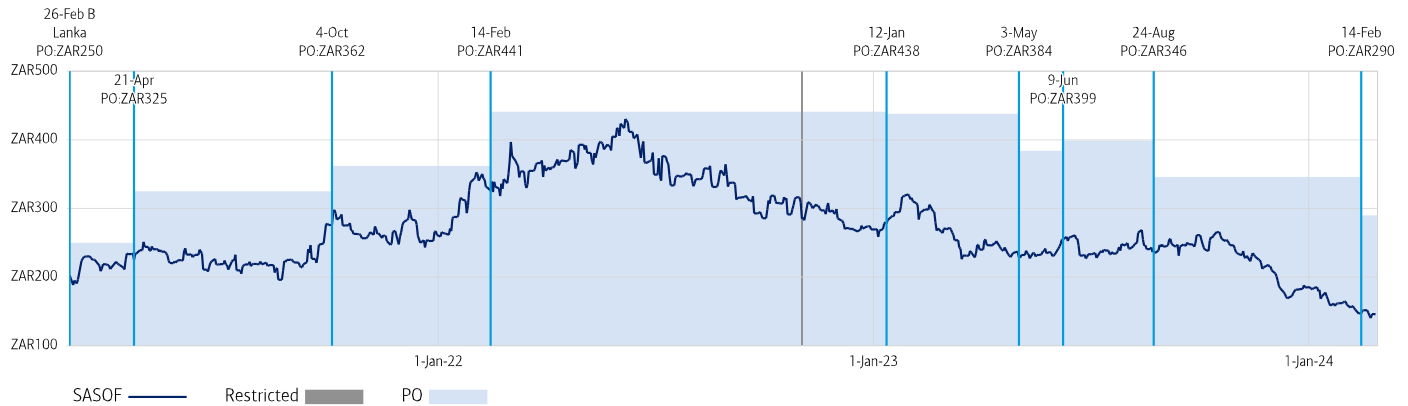
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Disclosures

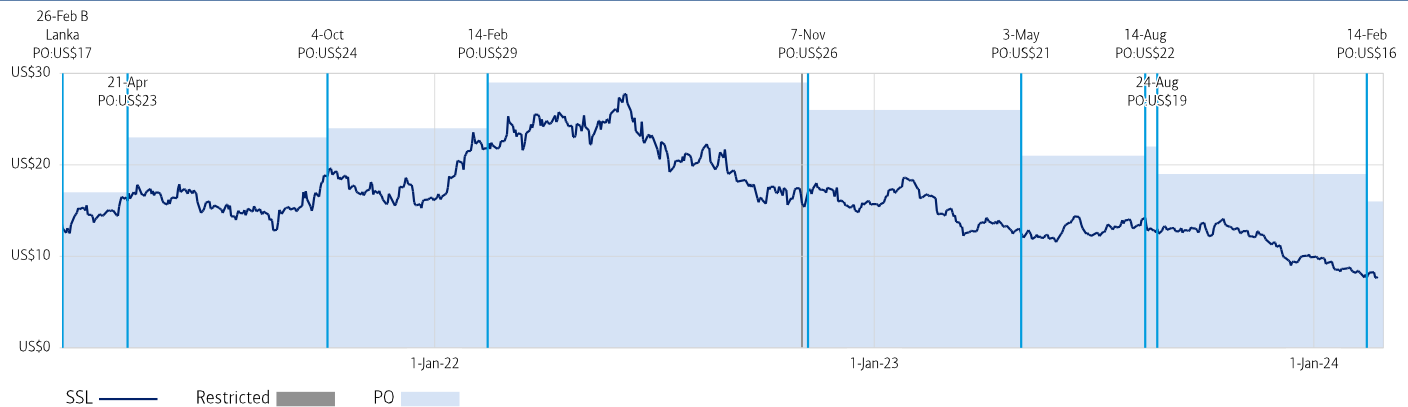
Important Disclosures

Sasol Limited (SASOF) Price Chart



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



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.

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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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