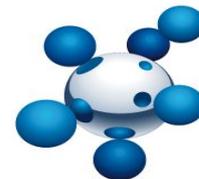




SASOL 5 ⁷/₈ 03/27/24 Corp

By Gleb Solntsev, Riley Mellinger, Caleb Yarbrough

sasol



I. Investment Overview

Buy SASOL 5 7/8 2024 at 1.0% by Selling Entire MA Position

1

All-In Yield Investors

- Our goal is to **take advantage of the bond's yield and hold it to maturity**, which means fluctuations in price due to increased price volatility will not affect our expected return

2

Lower Duration Play

- **Reduces our exposure to interest rate risk**
- It is **important to be well positioned in terms of duration** in the case we have to close the position in the future, as it is determinant for price fluctuations

3

South African Central Bank Ahead of Fed

- Hiking cycle began in November 2021, in **anticipation of high CPI predictions** (hitting the ceiling of the Central Bank's 3-6% target band in 2022's 1H)
- **25 bps hikes** at all SARB's remaining five meetings (expected 5.25% core rate)
- **Wider spreads compared to US counterparts**

4

Stable COVID outlook

- With lockdown and trade restrictions lifted around the globe, we believe in a **reduction in the supply chain disruption** and a **stable COVID outlook going forward**

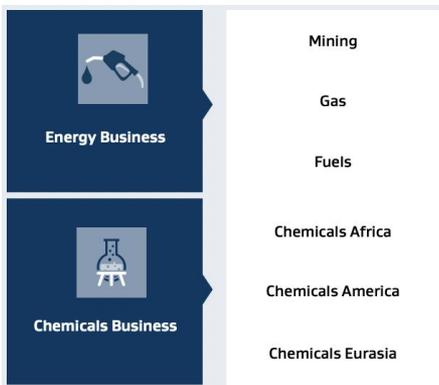
Business Description

- South Africa based integrated Energy and Chemicals Company
- Operates oil & gas exploration and production in Africa and Canada
- SASOL successfully shifted focus to worker safety, operational efficiency, ESG initiatives, and shareholder value
- 2021 earnings showed substantial revenue growth amid surging gas prices

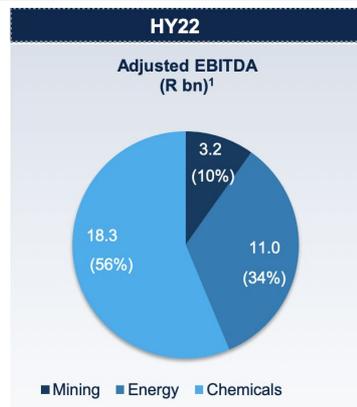
Company and Bond Statistics

Market Cap	15.1 B
Yield to Maturity	5.51%
Current Price	104.40
Modified Duration	1.856 years
G-Spread	406.4
Credit Rating	BB

Business Organization



EBITDA Breakdown

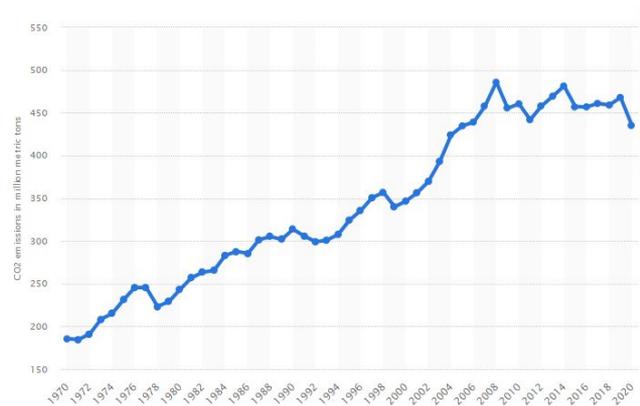


SASOL's Business Segments

- Energy Business Segments: Positioned well for sustainable growth and energy transition through leading fuel technologies, advantaged feedstock, and integrated value chain and scale
 - **Mining:** Production of 40 mt of saleable coal per year; agreement with Anglo that expires in 2026 that helps supplements coal produced in Secunda mining operations
 - **Gas:** Various exploration assets currently underway; 15 bscf of natural gas sold to Mozambican markets, 32-36 bscf to South African markets, and 100-110 bscf sold to Secunda and Sasolburg Operations; 200-250 m bbl of condensate exported
 - **Fuels:** Supply approximately 40% of South Africa's domestic fuel and 30-35% of South Africa's jet fuel demand; market approximately 60 million barrels of liquid fuels

SA Political Climate

- Based on South Africa's rapid growth in GHG emissions, it is beginning to take aggressive actions to fight climate change
- CO2 Emissions in SA (1970-2020). 2021 saw increase in 10%



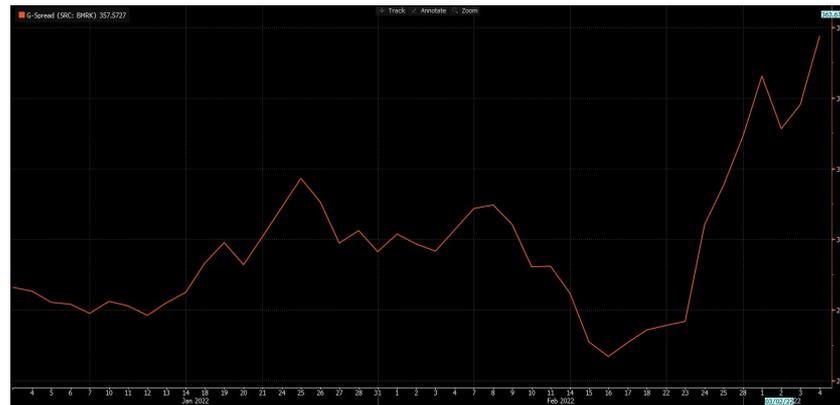
- October 2021: SA president said electrical sector would be the first one to decarbonize
- January 2022: Increase in carbon tax was announced, which will hurt companies like Sasol's margins
- But Sasol has carbon tax free allowance that it possess until 2026-2030 (well after bond matures)

Bond

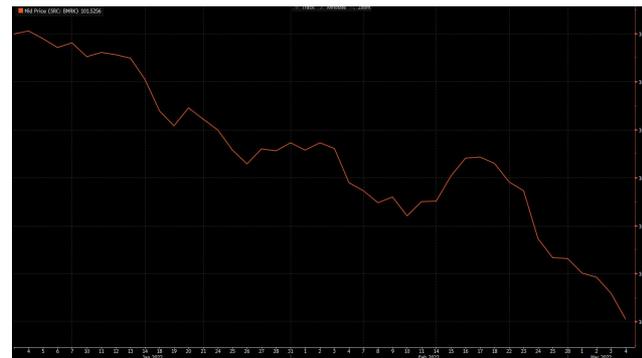
- CUSIP: 80386WAA3
- Coupon Rate: 5.875%
- Current Price: \$100.37
- Duration: 1.796
- YTM: 5.67%
- YTW: 5.67%
- Maturity Date: 03/27/2024
- Callable: N/A (make whole)
- Frequency: S/A
- Issuance/Outstanding: 1,500,000/1,500,000
- Ratings: BB (S&P), Ba2 (Moody's)

Bond Price, G spread

G-Spread vs Time



Mid-Price vs Time





Prudential Financial, Inc.

- American Fortune 500 company that provides various financial products and services
- Own 85,324 SASOL bonds in total, representing 5.69% of issued bonds
- PGIM Total Return Bond Fund - single biggest portfolio that holds SASOL bonds



Goldman Sachs Group, Inc.

- Goldman Sachs is a multinational investment bank and financial services company
- Own 65,525 SASOL bonds in total, representing 4.43% of issued bonds
- The bond is held by various Emerging Markets and Global FI¹ portfolios



Neuberger Berman Group LLC

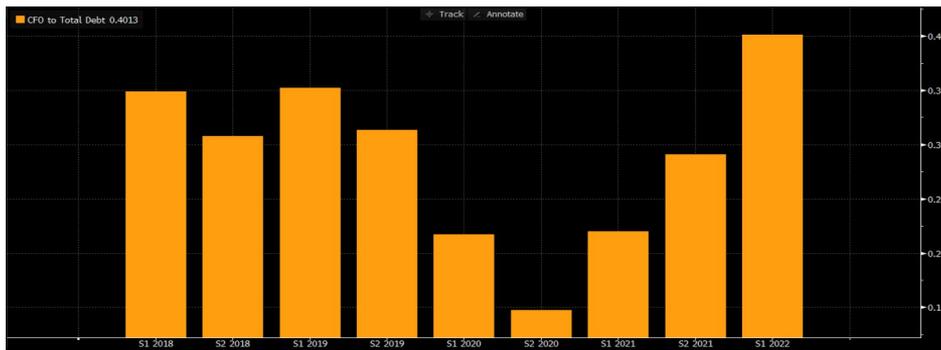
- Neuberger Berman Group is a private, employee-owned investment management firm
- Own 51,490 SASOL bonds in total, representing 3.43% of issued bond
- The bond is part of different Strategic Income and Emerging markets Funds

The bond is held by firms with good track record and great industry expertise

(46.76% are owned by various institutional investors)

COVID

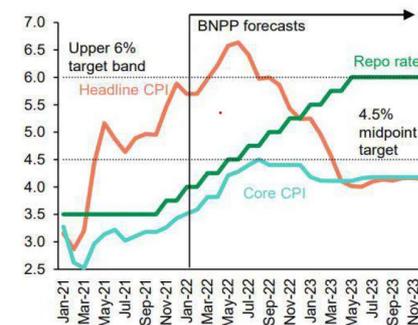
- Downgraded during the pandemic following a series of credit negative developments, mostly due to collapse in oil prices, widening impact of the coronavirus outbreak and weakening of South Africa's sovereign credit quality, which diminished returns and affected the company's cash flow generation
- October 2021: **S&P revised SASOL's outlook from negative to positive** due to significant deleverage, stronger cash flow generation and liquidity, and restored headroom in financial profile
- Expectation that rating upside could materialize in the next 12 months** if SASOL maintains its FFO/Net Debt ratio well above 30%



Central Bank

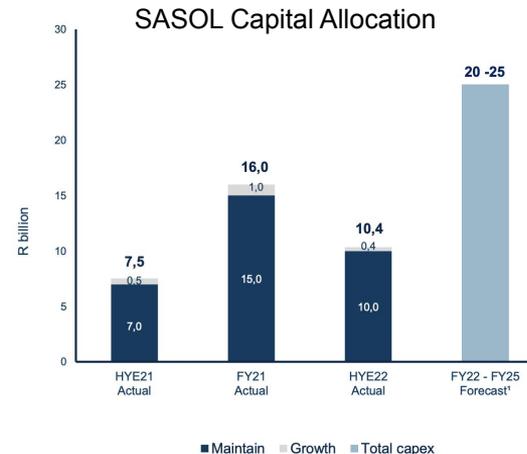
- South African Reserve Bank is likely to deliver 25bps hikes at all five meetings in 2022**, following a recent hike November, as inflation moves sharply higher and growth outlook remains well supported
- Particular **focus on global food and oil prices**, as they are key drivers of local inflation
- The fact that **SARB is ahead of the FED in the hiking cycle** means we can take advantage of slightly wider spreads, as spreads in the US continue to be very tight

Fig 1: A breach of the upper target bound now likely from early Q2



Sources: Stats SA, SARB, BNP Paribas forecasts

- Amid Russia and Ukraine crisis, oil has surged to more than **\$120 per barrel**, with expectations of more than \$150 being reached in 2022
- Industry wide **ESG initiatives** have reaffirmed oil & gas's position in the world energy market, while reducing waste and emissions
- Oil and Gas exploration in Africa is on the rise, with supply dwindling in 2020 and dropping even further in 2021
 - Large scale private and government **investment** expected for exploration initiatives by African Energy Chamber (AEC) in 2022
- Chemical prices have been spurred by oil gains, heavily benefiting SASOL who aim to return to target production growth
 - Worker safety and weather related delays led to lower volumes which were offset by higher prices



Outlook

- Making progress towards break-even oil price needed to be about **\$30-\$35/bbl**
- Strong improvement in credit metrics: net debt **< \$5B** and net debt/EBITDA **< 1.5x**
 - Management has continued to divest from non-core assets leading to inflows of \$520M that will largely be used to pay down debt
- **Dividend resumption** expected sooner by analysts - MS Research
- Management reaffirmed that \$1/bbl oil move results in about a \$45M USD change in EBIT excluding any hedging – [extrapolated] translates to \$1.2B change in EBIT in last month
- Successful **ESG** and **Safety** initiatives to lower fatalities and emissions in oil production

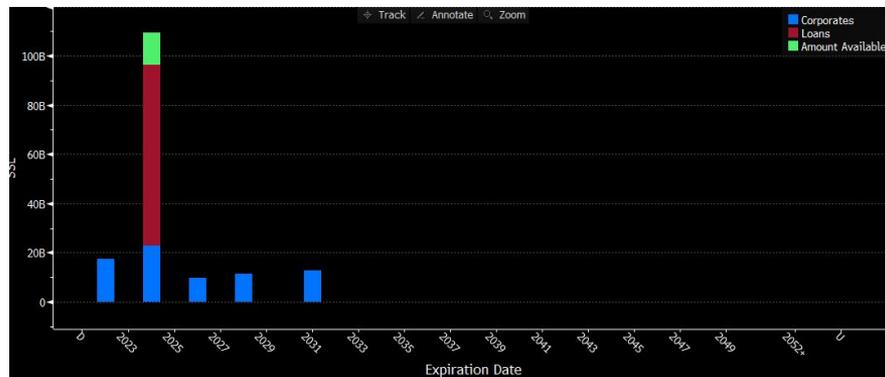


III. Financials and Credit Metrics

Outlook

- SASOL has a **large debt wall in 2024** during the same year as our bond matures
- Desired SASOL bond matures the first (in March), and **will be the 1st one to be paid off in 2024**

2024 Debt Wall



SASOL 2024 PMT Schedule

Type	Maturity	AMT	Currency
SASOL 5 7/8 2024	03/27/2024	1,500.00 MM	USD
SASOL TL SR USD	06/03/2024	25,074.39MM	USD
SASOL REV SR USD	06/03/2024	2,279.49MM	USD
SASOL REV GUAR USD	11/23/2024	46,139.15MM	USD

Company	Moody's Rating	Market Cap	Leverage & Coverage			Profitability			Liquidity	
			Total Debt / EBITDA	Financial Leverage	EBITDA / Interest Expense	5Y Sales Growth	T12 FCF Margin	ROIC	Current Ratio	Cash Ratio
SASOL	Ba2	\$15.26B	4.39	2.42	8.59	8.01	14.59	5.81	1.43	0.38
REPSM	Baa2	\$19.43B	2.53	2.82		14.68	4.86	5.99	1.30	0.41
WLK	Baa2	\$14.32B	1.58	2.33	24.20	18.45	14.74	15.51	2.25	0.81
Average		\$16.34B	2.83	2.52	16.40	13.71	11.40	9.10	1.66	0.53

G-Spreads (bps)

- **SASOL 5.785 03/27/2024: 357.6**
- REPSM 0.125 03/27/2024: 86.1*
- WLK 0.875 08/15/2024: 66.5

Key Takeaways

- Has **lower than average financial leverage**
- The **biggest G-Spread among competitors'** bonds with the same year of maturity
- Recent earnings call show that **SASOL has safe coverage for short-term liabilities**

(\$ in millions)	2018	2019	2020	2021	Current/LTM	CAGR/Growth 18 -22
Total Business Revenue	\$ 11,794.97	\$ 13,232.44	\$ 12,373.86	\$ 13,124.15	\$ 14,940.45	6.65%
% Growth		12%	-6%	6%	14%	
Long Term Debt	\$ 6,262.56	\$ 8,761.68	\$ 10,616.84	\$ 7,217.80	\$ 6,353.75	
Cost of Goods Sold	\$ 4,979.39	\$ 5,888.29	\$ 5,857.09	\$ 5,549.05	\$ 3,653.33	
Gross Profit	\$ 6,815.58	\$ 7,344.16	\$ 6,516.77	\$ 7,575.10	\$ 8,419.13	
% Margin	57.8%	55.5%	52.7%	57.7%	56.4%	
Operating Expenses	\$ 5,755.10	\$ 6,822.92	\$ 13,344.18	\$ 6,905.93	\$ 7,323.68	
EBITDA	\$ 2,128.10	\$ 1,689.16	\$ (5,554.77)	\$ 1,638.98	\$ 1,927.90	-9.41%
% Margin	18.0%	12.8%	-44.9%	12.5%	12.9%	
Adjusted EBITDA	\$ 2,771.67	\$ 2,944.50	\$ 1,723.80	\$ 3,142.36	\$ 3,215.29	
Total CAPEX	\$ (3,467.69)	\$ (3,625.77)	\$ (2,285.66)	\$ (1,036.62)	\$ (1,213.81)	
% of Total Revenue	29%	27%	18%	8%	8%	
Free Cash Flow	-1,237.80	-803.60	-298.55	1,208.16	2,179.84	-276.11%
% Conversion	-58%	-48%	5%	74%	113%	
Interest Expense	\$ 38.87	\$ 81.45	\$ 483.54	\$ 464.17		
% of Long Term Debt	1%	1%	5%	6%		
Levered Free Cash Flow	\$ 325.32	\$ 335.59	\$ (517.24)	\$ 435.32		

Revenue:

- From 2018 to Q1 2022, Total Business Revenue increases at a 6.65% CAGR, driven by growth across all 3 business segments mining and gas, fuels and chemicals
- The forecast for SASOL's Revenue for 2023 is approximately \$16.7B

Gross Margin:

- Favorable margin trend probably driven by quick recovery from COVID and fully restoring operations
- The forecasted Gross Profit for 2023 is lower than current amount probably due to high oil and chemical prices

Long Term Debt:

- Decreasing trend in Long Term Debt driven by the Sasol 2.0 transformation program, which pivots towards a highly cash generative business

		Risks	Mitigants
1	Uncertainty in Bond's Price	<ul style="list-style-type: none"> The price of the desired SASOL bond on Fidelity fluctuates a lot relative to the price offered on the market 	<ul style="list-style-type: none"> Ability to buy the bond when the price is in line with the market eliminates this risk
2	Current Weak Liquidity	<ul style="list-style-type: none"> Low liquidity increases the default risk of the desired bond SASOL is not positioned well in terms of liquidity comparing to competitors 	<ul style="list-style-type: none"> Currently transforming the company into a more cash generating business - Sasol 2.0 transformation program SASOL's liquidity has been improving in the last 2 years
3	Foreign Investment Risk	<ul style="list-style-type: none"> Bonds of international companies entail additional risks, such as changes in currency exchange rates or various unexpected political events 	<ul style="list-style-type: none"> There is no currency exchange risk because it is a dollar denominated bond, but there does still remain some political risk.
4	Transition to a low-emission future	<ul style="list-style-type: none"> Sasol's business can be harmd by a rapid transition to green energy In January 2022, an increase in carbon tax was announced in South Africa 	<ul style="list-style-type: none"> Posses carbon tax-free allowance (it will be fully removed between FY26 and FY30) Lifted the GHG reduction target by 2030 to 30% from initial 10%

Buy SASOL 5 7/8 2024 at 1.0% by Selling Entire MA Position

- All in yield investors in this case (5.67 YTM) by investing in something short duration EM area
- Gives significantly higher yield than anything in US BB without significant credit risk

Why Hold SASOL over the AGG

- Helps trim our largest position in portfolio(3.46%) and diversify into specific company positions.

	Duration	Yield
SASOL 5 7/8 2024	1.76 Years	5%[depending on fill price]
AGG	6.5 Years	1.97%

Changes in Composite Portfolio Credit Rating

Average portfolio credit rating barely remains at an A- (closer to BBB+ now). However, it is very likely we'll see an upgrade from KHC, so we should see the portfolio credit rating improve.

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