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'It's not transition at any cost': Sasol says it won’t kill itself chasing change

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Sasol's Secunda plant produces synthetic fuels from coal and is the single largest emissions point of greenhouse gas emissions on the planet.
(Supplied/ Sasol)

- **Sasol is in pursuit of growth options away from dirty coal, but promises to be disciplined in its approach.**
- **If there are no viable options to pursue, the group will return cash to shareholders.**
- **The company reported an annual loss on Tuesday as the chemicals price outlook darkens.**
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While Sasol is hard at work to assess growth opportunities that can reduce its dependence on dirty coal, it hasn't ruled out the possibility that there may be no viable transition pathways for it to pursue just yet.

The synthetic fuels and chemicals group, which produces a wide range of products using coal and gas as feedstock, is under pressure to put its business on a cleaner, greener trajectory.

While the company has consistently affirmed its commitment to transform, it is yet to put forward a credible transition plan as its pathway to a more environmentally sustainable company appears obstructed by various challenges.

"We are seeing various opportunities, like renewable energy, where Sasol could play a bigger role," said Sasol CEO Simon Baloyi in a results presentation on Tuesday. "We will explore all of those, and I can assure you we are going to be very disciplined. Because It is not transition at any cost … if we see that there are no projects or possible pathways, we will always maximise the outcome and return cash to shareholders."

As Sasol faces dwindling gas supply and growing pressure over its greenhouse gas emissions (of which Secunda is the single largest emissions point on the globe), the group has committed to provide a detailed update on its probe into new sustainable growth opportunities at a Capital Markets Day planned for the second quarter of next year.

"He's absolutely right," said Abdul Davids, head of research at Camissa Asset Management. "You need to have a viable plan that makes sense and then doesn't compromise your business model and doesn't compromise your existence."

To an extent "sanity has prevailed," he said. "The key to Sasol’s advantage is the fact that they have access to an abundant feedstock. Now, it's coal, and it's environmentally very unfriendly, but … to ditch that and to go to something else where you rely on gas imports out of Mozambique or third parties to provide your feedstock, you just lose whatever advantage you had."

On Tuesday, Sasol reported a R27-billion loss for the year ending in June, compared to a R21-billion profit in the year prior.

Much of this was due to accounting reasons with R56.7 billion in write-downs, the bulk of which pertained to Sasol’s chemicals business in the US, specifically a facility at the Lake Charles Chemicals Project in Louisiana, as the market price outlook has significantly deteriorated.

As noted by Sasol's outgoing CFO Hanré Rossouw in an interview with News24, the Sasol share price has already fallen in response to this deteriorated chemicals price outlook. The company's share price was down 5% to trade at around R130 on Tuesday. The stock is 43% lower over the past year.

But the company’s underlying earnings were also hit, falling 66% to R11.5 billion for the year ended in June amid very weak chemicals market prices.

Christiaan Bothma, investment analyst at Sanlam Private Wealth, said the continued underperformance at Sasol’s coal mines – due to geological challenges there – also led to below-optimal output from the group’s Secunda facility.

Positively, "it was encouraging to finally see some fruit from their cost-saving initiatives, with fixed costs increasing by only 1% year-on-year," Bothma noted. "These savings, along with better working capital management, resulted in much-improved cash generation for the second half of the financial year."

Davids said he saw more positives than negatives in the full-year results numbers, viewing the performance out of Synfuels and the coal mining business as surprisingly good, having shown some improvement compared to their deteriorated performance in recent years.

Synfuels and Secunda remain the crown jewel of the business and is by far the largest cash generator. "So to have an improved performance there, I think, far outweighs the negatives of the severely impaired chemical business in the US, and of not paying a final dividend," Davids said.

With net debt of $4.1 billion (about R73 billion) at the very top end of its target range, Sasol did not pay a final dividend, in line with a new policy to pay out a portion of free cash flow, provided debt is under $4 billion on a sustained basis.

"The decision to rebase the dividend to free cash flow was widely expected given the increasing disconnect between earnings and cash flows," said Bothma, noting that prioritising debt reduction is the right decision at this stage of the cycle.

Davids said forgoing a final dividend will help to alleviate the pressure on cash flows. "I think it is actually quite a sensible dividend policy now", he noted.

While the future remains uncertain, the group is working to put itself on a firm footing so that it can take hold of potential opportunities. Measures include the focus on debt reduction, as well as the implementation of a new operating model that seeks to improve focus, accountability, and collaboration.

Baloyi said Sasol would also closely review its assets globally to ensure they all contribute to the group’s profitability.

"Looking to financial year 2025, we must step up delivery as we define credible pathways to fuel performance and strengthen our balance sheet," Baloyi said. "We now have a more robust organisation that is better positioned to drive improved performance in our journey to reach full potential."

A key issue for Sasol to still address is the replacement of gas in its processes as it begins to run out of natural gas feedstock which is piped to its facilities from gas fields in Mozambique.

Industrial customers which have been reliant on Sasol for gas supply are now banding together to find alternative supply – likely to be liquefied natural gas (LNG) imports.

Sasol says it is keen to play a role in this initiative, but it is yet to determine whether LNG would even be an economically viable solution for itself.

"We're going to have to look at our own use," said Rossouw. "We've got gas turbines, so we can transform gas into electricity, and we can transform gas into product, especially at Sasolburg. So, it will depend on the prices, the aggregation, the volumes, and long-term pricing."