

Blyth Fund: Sasol Ltd (SASOY) Buy Proposal

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Stock Price (5/23/02): \$11.90

Market Cap: \$7.5B

Float: 37M

Shares Outstanding: 622M

Sales: \$5.1B

Price/Book: 2.6

Price/Earnings: 8.8

Price/Sales: 1.44

ROA: 17%

ROE: 36%

Debt/Equity: .41

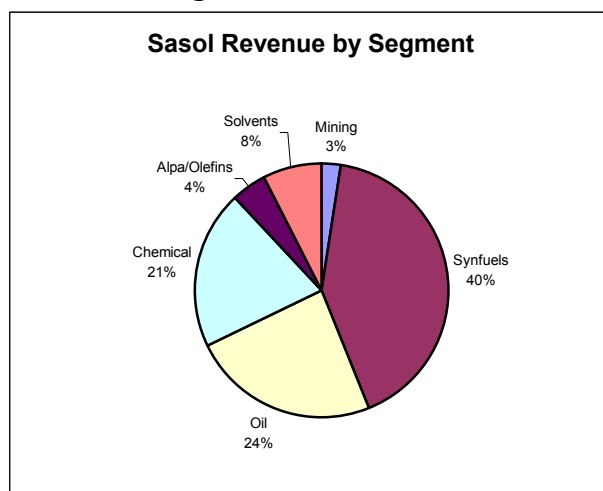
Gross Margins: 25%

Net Margins: 16%

Business Summary (from Yahoo! MarketGuide)

Sasol Ltd. is engaged primarily in the production (from coal and crude oil) and marketing of liquid fuels, pipeline gas, waxes, detergent range alcohols, solvents, petrochemicals, plastics, fertilizers and mining explosives, and the marketing and mining of coal. Sasol operates subsidiaries in the areas of chemicals, oils and fuels, explosives, agriculture, technology, mining and other. The Sasol group of companies comprises diversified fuel, chemical and related manufacturing and marketing operations, complemented by interests in technology development, oil and gas exploration and production. The Company's principal feedstocks are obtained from coal, which it converts into value-added hydrocarbons through Fischer-Tropsch process technologies and through other hydrocarbon feedstocks in its global petrochemicals plants. The Company also has interests in crude oil refining and chemicals production and marketing through a number of global partners or joint ventures worldwide.

Business Segments



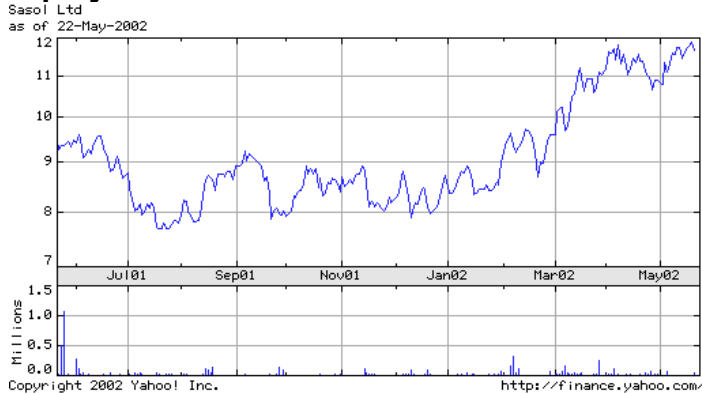
Synfuels – Sasol supplies 40% of South Africa's synthetic fuel and petrochemical needs. Operating income grew by 2% from 2000 to 2001 and the company expects higher operating margins in 2002.

Oil – Sasol is establishing a retail network for its oil products. Refining margins are expected to decline in 2002. The business grew by 12% between 2000 and 2001.

Chemical – Sasol's chemical business grew by 78% y-o-y between 2000 and 2001. The period was marked by weak global petrochemical prices, which appear to be recovering.

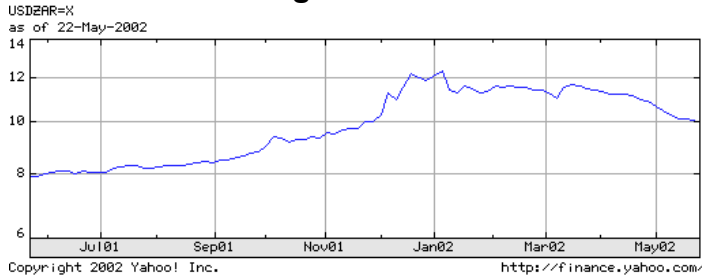
From the 2nd half of 2001, revenues rose 64% to RAN27.86 billion yoy, while net income increased 47% to RAN4.60 billion yoy.

Equity Price Performance



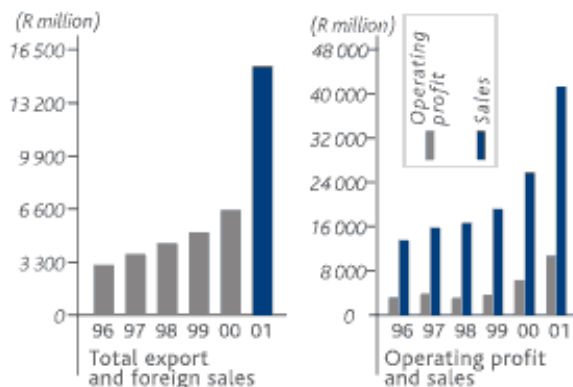
- Sasol broke out of its \$8 and \$9 in late January 2002.
- Shares appear to be forming a nice cup-and-handle pattern.
- The price movement is confirmed by improving fundamentals.
- Sasol's small float of 37 M shares means greater upside potential as fundamentals continue to improve.

Rand/US \$ Exchange Rate

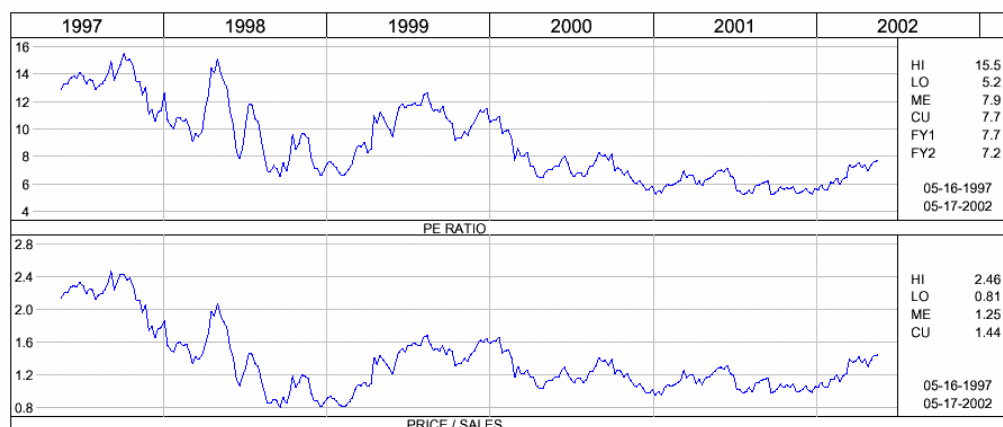


Sasol as a hedge. The South African rand has strengthened by 16% over the dollar during the past 5 months, since the Federal Reserve stopped easing interest rates in December 2001 – currently at 1.75%. Should the dollar continue to weaken, foreign firms with dollar denominated debt will benefit from a decline in the value of their obligations. From a portfolio perspective, Sasol could be viewed as a hedge against a weak dollar, since Sasol's revenues are derived from South Africa.

Strength of the rand may decrease the value of \$ exports. Overseas revenue comprises 39% of Sasol's sales in 2001. North American sales comprise 10% of revenues. Should the rand continue to strengthen against the dollar, exports may decrease. Sasol's margins may come under pressure since its costs are rand-based. The degree of impact is difficult to quantify.



Valuation



Sasol is trading near 5 year lows in terms of P/E and P/S.

- **Sasol is relatively undervalued.** As a group, the independent oil and gas sector trades at a P/E of 20. These include companies such as Apache, Anadarko, and Burlington Resources. Sasol trades at a P/E of 8.
- **Sasol boasts a 33% return on equity while employing modest leverage at .41 of equity.** The group average is 10%, with comparables employing greater leverage - debt to equity ratios of .51 (Apache), .87 (Anadarko), 1.34 (Burlington Resources).

Summary: Reasons to Buy

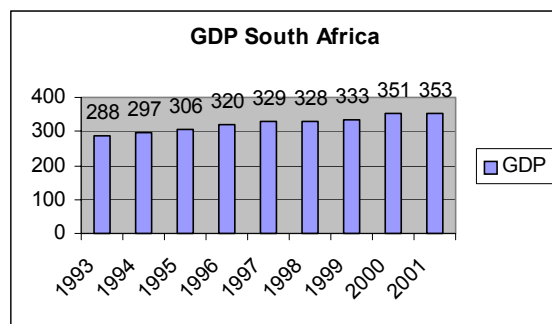
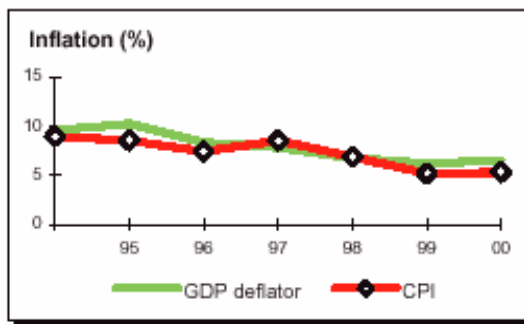
- **Stability.** Sasol, a company that pays a hearty dividend yield of 3%, has been in business since 1950. In the past, the Blyth Fund has opted for a more technology-centric portfolio. Heading for the summer break, it would nice to own a security that offers a stable dividend yield plus capital appreciation. This is a hedge against the dollar, which represents 100% of our portfolio.
- **Flagship enterprise of South Africa.** The South African government launched Sasol in 1950 to “establish a synthetic fuel industry in South Africa to protect the country's

balance of payments.” It is a blue chip on the Johannesburg Stock Exchange – one of South Africa’s top 2 companies. Sasol is similar to GE in the US. This is relevant, because interest in South Africa is increasing. When institutional investors seek investments in South Africa, the initial benefactors will be the country’s leading enterprises – including Sasol. Blue chips tend to lead the beginning of a market move. Sasol is much like the US-regulated utilities and other government-backed enterprises such as Warren Buffett’s beloved Fannie Mae.

- Forward looking management.** The OPEC oil-crisis of the early seventies presented Sasol with the opportunity to increase its synfuels production capacity as well as assist in reducing South Africa's dependence on expensive imported crude oil. The company grew 10 fold during the period from 1976 to 1980. In the oil industry, it is imperative that companies buy up assets and do all they can in bad times to ensure the future success of the enterprise. This is clearly seen in Apache when Raymond Plank purchased and explored a plethora of prime opportunities and assets. Similarly, Sasol has launched a joint venture with Mozambique to develop a natural gas pipeline that will increase the GDP of Mozambique by 20% when it comes online in 2004. The pipeline will bring natural gas 865 km to Secunda, South Africa.

- Quintessential value-play in the South African equity market.** The average price to sales ratio of the independent oil and gas production companies is 3. These include companies such as Apache, Anadarko, and Burlington Resources. Sasol trades at a P/E of 1.4. Even with a 50% discount to compensate for the inherent risk associated with investing in developing markets such as South Africa, you would arrive at a price sales ratio of 3 which is right in line with the counter parts in the US which don’t have the same exposure to “corruption” in the government. This does not account for any risks inherent in Enron, Dynegy and other US based counterparts. Raymond Plank, the CEO of Apache Corporation, is suing Dynegy which failed to make good on a paper trade in the energy market. Thus, the price to sales ratio exhibited by companies in the US may not reflect exposure to systematic risk which may still exist with these energy firms.

- Improving macroeconomic fundamentals.** The strength of the rand is driven by real fundamental improvements in the South African economy. From 1994 to 2000, inflation declined from 10% to 5%, while GDP has grown consistently from 297B rand to 353B rand.



• **Stalwart of Political stability.** According to BusinessMap, a not-for-profit think tank on the African economy, South Africa “stands apart quite significantly from other countries. The South African economy has proved to be more resilient. In 2001, even with a weaker rand, South Africa has proved to be an attractive place to invest.” The rand has begun to strengthen in the first quarter of 2002, which bodes well for the economy. The BusinessMap survey, which weighs up the risk factors which potential investors scrutinise - political stability, transaction costs, extent of privatisation, and labour and infrastructure costs, ranked South Africa the highest.

Investment suitability
South Africa: 72.1%
Uganda: 70%
Tanzania: 60.3%
Zambia: 59.5%
Mozambique: 56.6%
Zimbabwe: 25.4%

Management Bios

• **Seasoned Management.** The core management at Sasol has served at the company for an average of 25 years. Over the same period, the stock price has appreciated 25 fold. The company is dedicated to creating long term shareholder value – with its original listing on the Johannesburg Stock Exchange in 1979 and US ADR listing in 1982.

• **History of philanthropy and commitment to Sasol.** Kruger has been with Sasol since 1964 with over 38 years of service. He has a track of demonstrating philanthropy as a member of the SA Foundation, as well as the Rand Afrikaans University, a top university of South Africa.

• **Influential and sterling management.** By sitting on the board of ABSA, the largest financial institution in South Africa, Kruger provides Sasol wide access to the South African capital markets – ensuring continued liquidity and favorable borrowing costs.

P du P Kruger

Non-executive chairman, BSc. Eng (Mining), MBL

Chancellor of the Rand Afrikaans University, vice-president of the SA Foundation and past chairman of Business South Africa and the Industrial Environmental Forum. Director of several companies, among others, Schumann Sasol International AG and ABSA Bank Limited. Joined the Group in 1964 and appointed non-executive chairman in 1997. Appointed to the board in 1986.

Pieter Cox

Deputy chairman and chief executive, BSc Eng (Mining), BSc Eng (Metall)

Director of several companies in the Group. Joined the Group in 1971. At the end of 1985 he was promoted to Sasol head office in Johannesburg as general manager responsible for the Group’s mining, explosives and personnel functions. He was appointed MD and CEO of Polifin Limited in October 1993, executive director of Sasol Limited in January 1996, chief operating officer of Sasol Limited in May 1996, managing director and chief executive officer of Sasol Limited in January 1997 and deputy chairman and chief executive in March 2001. Appointed to the Board in 1996

Pat Davies

Executive director, BSc Eng (Mech)

Director of several companies in the Group. Responsible for Sasol Petroleum International (Pty) Limited, Sasol Synfuels International (Pty) Limited, Sasol Mining (Pty) Limited, the Group’s globalisation initiative based on its gas-to-liquids (GTL) technology, Group resources and natural gas. Joined the Group in 1975 and has held various positions in engineering design, project management, operations management and corporate affairs. Appointed to the Board in 1997