Analyst comments related to COVID-19 in this file include:

Sasol: Update highlights relaxed near-term covenants - Steven Friedman
Virus update - Trump's rally in Oklahoma to Chile, cases surge, while lower income countries abandon lockdown – Charles Robertson
ArcelorMittal SA: Depressed steel demand expectations drive large-scale restructuring – Positive – Kabelo Moshesha
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Sasol: Update highlights relaxed near-term covenants

Ticker: SOL SJ / SOLJ.J
Rating: **BUY**
Target price: ZAR100.0
Current price: ZAR143.6

Sasol released an update on their response to the oil price volatility and COVID-19 pandemic. The key message highlighted was that lenders have agreed to waive the covenant at June 2020 and lift the December 2020 covenant from 3x to 4x Net Debt to EBITDA. In addition, management reaffirmed that liquidity headroom will remain well above $1bn, with improved liquidity balances in Sasol's US dollar and Rand liquidity facilities. Management highlighted that c. 80% of Synfuels' liquid fuels exposure was hedged, translating to 6mmbbl, with 2mmbbl hedged so far for the remainder of FY21. We believe these initiatives should reduce the financial risk for the company as it navigates an elevated gearing environment. The operational performance update is broadly in line with our expectations and management guidance, with the exception of Oryx GTL where train 2 is guided to only be back in production in 2Q21. As part of their strategy to position the company for the future, management highlighted the discontinuation of all oil growth activities in West Africa. The core business will focus on Energy and Chemicals with an emphasis on speciality chemicals where management believes they have differentiated capabilities and strong market positions which can be expanded over time. As a result of the restructuring, management highlighted the need to potentially reduce the size of the workforce and have already embarked on Section 189 labour consultations in South Africa. Whilst the reduced financial risk should be positive for the share price, we believe this was largely expected by the market. We have a BUY rating and ZAR100 TP.

Full announcement on Sasol's update on response to the oil price volatility and COVID-19 pandemic below:

Sasol continues to make significant progress on the response plan measures announced on 17 March 2020 and 23 April 2020, to address the impacts of oil price volatility and the COVID-19 pandemic (COVID-19).

The situation remains highly dynamic, but as lockdown regulations are eased in South Africa and elsewhere, Sasol is now ramping up operations whilst taking action to ensure the safety of employees and service providers.

This announcement includes the following:

- Operational performance update
- Covenant update
- Status on financial position
- Future positioning of Sasol
- Change in Director's executive responsibilities and new Group Executive Committee structure

Operational performance update

As previously communicated an unprecedented decrease in fuel demand in South Africa as a result of COVID-19 resulted in us reducing our production rates at Secunda Synfuels Operations (SSO) and suspending production at the Natref Refinery in Sasolburg, in a joint decision with Sasol's partner, Total South Africa.

Sasol used this period of lower production to bring forward its planned September 2020 maintenance shutdown at SSO. This shutdown was successfully completed in May 2020 and ensures production will be uninterrupted for the remainder of the calendar year. Similarly, maintenance work planned for later during calendar year 2020 at Natref was successfully completed during the lockdown period.

Since the lockdown restrictions in South Africa were eased on 1 June 2020, SSO has ramped up production, and Natref is expected to start production by the end of June 2020 and will ramp up to full capacity as jet fuel demand resumes. The ammonia, nitric acid and chlor-vinyl plants in Sasolburg also started up in May 2020.

Outside South Africa, Sasol's operations are performing to plan. Oryx GTL's train 1 came back into operation at the beginning of June 2020, and train 2 is expected to be back in production in the second quarter of financial year 2021 following the extended planned shutdown of the plant.

Sasol previously guided the beneficial operation of the Ziegler and Guerbet units at the Lake Charles Chemicals Project (LCCP) by end June 2020 and is pleased to announce that the Ziegler unit achieved beneficial operation on 16 June 2020 and the Guerbet unit's beneficial operation is imminent. Remediation work on the low density polyethylene (LDPE) unit is progressing according to plan, and we expect to bring this unit into production before the end of the third quarter of calendar year 2020.

Covenant update

Sasol is pleased to announce the successful conclusion of discussions with lenders regarding increased balance sheet flexibility in the context of COVID-19 impacts and market volatility. Our lenders have agreed to waive the covenant at June 2020 and lift the December 2020 covenant from 3 times to 4 times Net Debt : Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA).

This additional flexibility is subject to conditions which are customary for such covenant amendments and consistent with Sasol's broader capital allocation framework. These include provisions to prioritise debt reduction at this time, such as commitments that there will be no dividend payments nor acquisitions while Sasol's leverage is above 3 times Net Debt : EBITDA. Sasol will also reduce the size of its facilities as debt levels are reduced, whilst continuing to maintain a strong liquidity position.

In conjunction with these amendments and in light of Sasol's two notch credit rating downgrade earlier this year, the interest costs across Sasol's debt facilities will increase by approximately US$40 million per annum, before any reduction in borrowings through any self-help measures or disposals. The applicable interest rate will reduce in the event that Sasol's credit rating improves.

Update on financial position

Management continues to progress with the execution of its crude oil hedging programme for financial year 2021. For quarter 1 financial year 2021, approximately 80% of Synfuels' liquid fuels exposure was hedged, translating to 6 million barrels. This consists of 2,5 million barrels of zero cost collars at a put strike price of US$31 per barrel and a call strike price of US$39 per barrel, and 3,5 million barrels of put options at an average net strike price of US$37 per barrel. Oil hedges for the remainder of financial year 2021 are in progress with 2 million barrels using put options hedged at an average net strike price of US$30 per barrel and 0,5 million barrels hedged using zero cost collars at a put strike of US$36 per barrel and a call strike of US$45 per barrel. These oil hedges will significantly protect liquidity during the forthcoming months

Sasol made significant progress with the implementation of its self-help measures as communicated on 17 March and 23 April 2020. For financial year 2020 Sasol is well on track to achieve the targets set, whilst for financial year 2021 plans to achieve the targets set have been developed to a high level of probability.

Sasol reaffirms that liquidity headroom will remain well above US$1 billion, with improved liquidity balances in Sasol's US dollar and Rand liquidity facilities. Several focussed management actions over the past couple of months have improved our liquidity position.

Sasol remains committed to the delivery of its response plan to bring leverage back in line with target levels and mitigate the impacts of recent market volatility and COVID-19.

The process to accelerate and expand our asset disposal programme has yielded good progress for several of Sasol's assets despite the macro environment volatility in recent months. Any divestment or similar activity will be executed in line with balance sheet, shareholder value and strategic objectives, including the potential for partnering options at Sasol's US Base Chemicals business.

Further updates on the progress of the disposal transactions will be made as and when appropriate.

Positioning Sasol for the future

As previously communicated, a key part of Sasol's response plan is to look beyond the near-term measures and position the business for sustained profitability in a low oil price environment. The new strategy will focus on Sasol's core portfolios of chemicals and energy. A focused and robust review of the business, and the associated workforce structures, is underway and a detailed update will be provided to stakeholders alongside the full year results.

A key decision as a result of this includes the discontinuation of all oil growth activities in West Africa. The reset of the strategy necessitates a revised operating model, which is still under development and will be announced in the second quarter of financial year 2021.

The review has identified that the future Sasol business – "Sasol 2.0" – will be focused on two core businesses, Chemicals and Energy (the Businesses). The revision of our strategy aims to have a greater focus on enhanced cash generation, value realisation for shareholders and business sustainability. The Chemicals Business will focus on its activities in specialty chemicals where it has differentiated capabilities and strong market positions which can be expanded over time. The Energy Business will comprise the Southern African value chain and associated assets and will pursue greenhouse gas emission reduction (GHG) through focus on gas as a key feedstock and renewables as a secondary energy source. This will be a key enabler to achieve the 2030 and longer term aspirations to shift to a lower carbon economy.

Our two market-facing Businesses will each be responsible for its own profit and loss, management of resources and capabilities. A lean corporate centre will enable the Businesses by fostering synergies and integrating activities, setting strategic boundaries and allocating capital.

The redesign of the organisation to enable our sustainability at lower oil prices will have an impact on our workforce structure. We have accordingly issued a notice to our representative trade unions in South Africa in terms of section 189 of the Labour Relations Act number 66 of 1995, inviting them to enter into consultation with Sasol. A similar process will be followed with the relevant recognised bodies in our other jurisdictions.

Change in director's executive responsibilities and new group executive committee structures

As a first step towards this long-term trajectory, the new senior leadership end-state structure will consist of the President and Chief Executive Officer (CEO) and six Executive Vice President (EVP) portfolios. An additional EVP Sasol 2.0 Transformation role will be in place for up to 24 months to help execute our restructuring initiative and mitigate risks to ongoing operations. Changes in the roles of EVPs will be effective from 1 November 2020. This new structure will also increase our gender and diversity representation at GEC level.

The EVP portfolios will be structured as follows:

- The Energy Business Unit will comprise two EVP portfolios;
    - Priscillah Mabelane, whose appointment we announced on 2 June 2020, will lead Sasol's liquid fuels marketing and sales activities, upstream gas, sourcing and marketing, and supporting functions associated with the Energy value chain.
    - Bernard Klingenberg will lead operations and technical functions within the Energy value chain, as well as mining, to ensure continuity in our ability to deliver across our integrated value chain.
- The Chemicals Business Unit will be led by Brad Griffith. He will be fully accountable for the full end-to-end chemicals business, from feedstock sourcing through operations, marketing and sales and associated supporting activities and functions.

The Corporate Centre will be made up of three EVP portfolios:

- Chief Financial Officer, Paul Victor.
- Human Resources and Stakeholder Relations, led by Charlotte Mokoena.
- Strategy, Sustainability and Integrated Services, led by Executive Director Vuyo Kahla. Corporate portfolio strategy, sustainability, enterprise-wide risk management as well as enterprise-wide SHE policy and reporting will be added to his current responsibilities. Supply chain will move from his current portfolio of responsibilities and form part of the business units.

In addition to the permanent roles described above, Marius Brand will be appointed as EVP Sasol 2.0 Transformation to lead the Group-wide Transformation Programme to Sasol 2.0 and delivering the long-term sustainability targets by the third quarter of financial year 2021.

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Virus update - Trump's rally in Oklahoma to Chile, cases surge, while lower income countries abandon lockdown

The Economist Expresso daily digest does not mention the coronavirus today – which shows you how the world's media has moved on.

There's actually more stories today worth looking at than in quite a few days – but not Beijing, where already new cases are dropping. I'd see a 95-99% chance that China beats this latest outbreak, as they did on the Russian border in May.

SA is easing lockdown despite a boom in cases. They imposed a lockdown on Thursday 26th March (I think), just three days after the UK on 23rd March. The UK recorded about 5,000 cases a week at that time – but I suspect the figure would have been 55,000 if a better run country like Italy or Germany had been doing the tests. SA recorded less than 1,000 cases at that time, and that was probably realistic. Now SA has recorded 25k in the past week while the UK is down to 9k.

As we warned in March, lockdowns were not affordable in low income countries and this has been accepted in SA, south Asia, Armenia, Ghana, etc, and from the beginning in Belarus, Brazil, Tanzania and others (some preventative measures have been encouraged in these countries though).

The good news as we've been saying since Feb/March is that young countries have much less to fear from the virus than old countries (see age vulnerability graph lower down).

The bad news is that the virus will spread much much further.

Our "cheat sheet" of % of positive tests tells us which US states and which countries will see a big rise in cases.

For SA, this figure was around 2-3% from March until early May, but then rose by 1pp a week to 10% as of 14 June. The virus is spreading more quickly than testing. In the UK, the figure is going the other way, dropping from 8% in early May to 2% now.

The first wave surge is continuing to spread in the southern US states. After 5 US states in Tuesday's data, only one US state saw record high cases yesterday – Oklahoma – but it is Tulsa, Oklahoma (where Chandler started smoking again because smoking restrictions were lighter there), that is due to host a Trump rally on Saturday. He says a million people have asked to come but the capacity of the stadium is just 19,000. Cue talk of Philadelphia parade and the 1918/19 Spanish flu.

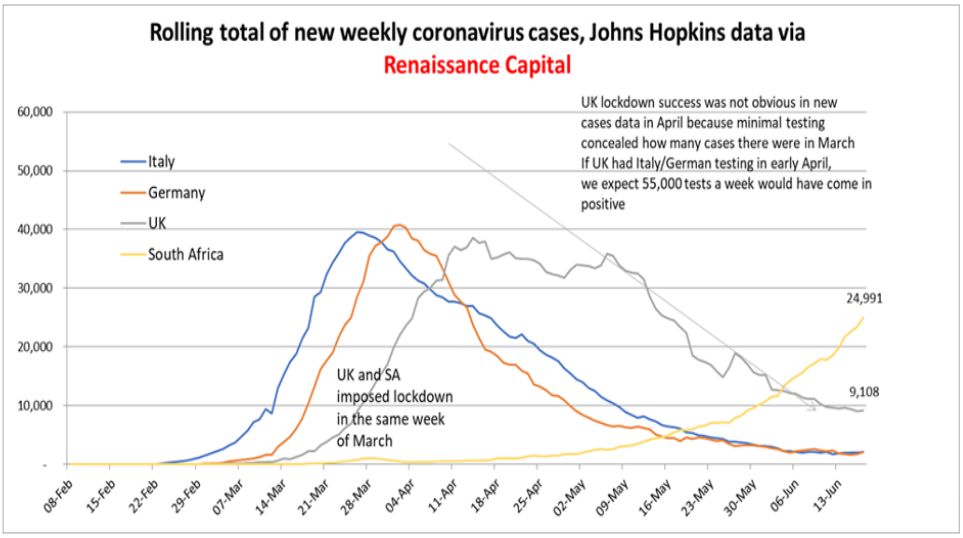
I was looking at places that had 10% or more positive ratios in recent months, and many saw a 4-10 fold increase in cases in the 2-8 weeks following such ratios. Not all, but many. The implication is that India will rise from 367k cases confirmed to date, to maybe 3m if enough tests are done to show this. Pakistan up from 160k to maybe 1.5m. I'd guess SA takes longer or sees a less dramatic rise because it did lockdown for longer, while Nigeria's 18k cases will become at least 100-200k if enough tests are done to show this. But the disease symptoms are similar enough to malaria that perhaps many won't get tested.

The world is now split between NE USA, Europe and east/north Asia and some islands where the virus has been massively suppressed – and the poorer part of the world plus about quarter of the US states and Sweden – where the virus is spreading. The global total of 8m will soon be in the tens of millions.

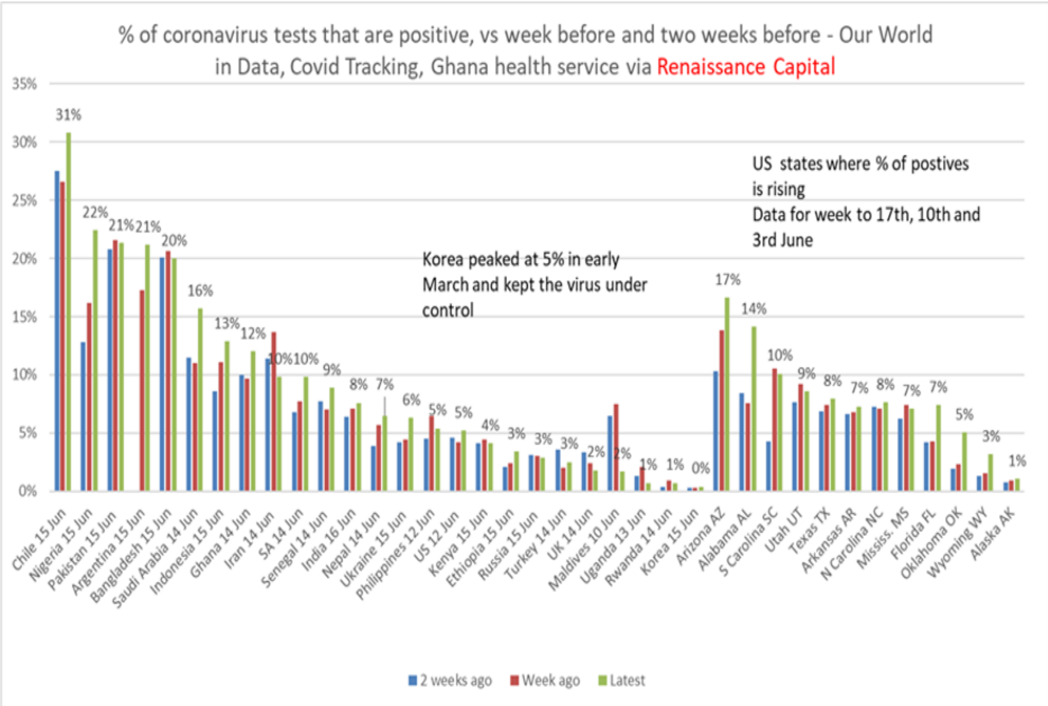
We think we will see a sustained V shaped recovery in retail and low cost aviation (ie intra-China or intra-EU) in Europe, ANZ and east Asia. Virus number or % of positive results are positive for central Europe and Greece. We might see similar in Russia (high numbers but low positive ratio) and Turkey (slight pickup recently). I am really not sure about Belarus, Armenia (in the top 3 most infected countries in the world today), Romania, Moldova (big surge).

We suspect that loosening lockdown will lift retail sales (see US figures for May) in the virus ridden part of the world, but might then double dip where the virus spreads IF consumers get worried that eating out or travelling will put them at risk. We think this is less of a threat in the youngest countries like Ghana, Nigeria, Tanzania and so on – and more of an issue in southern US states. Not sure how this plays out for SA but it is young.

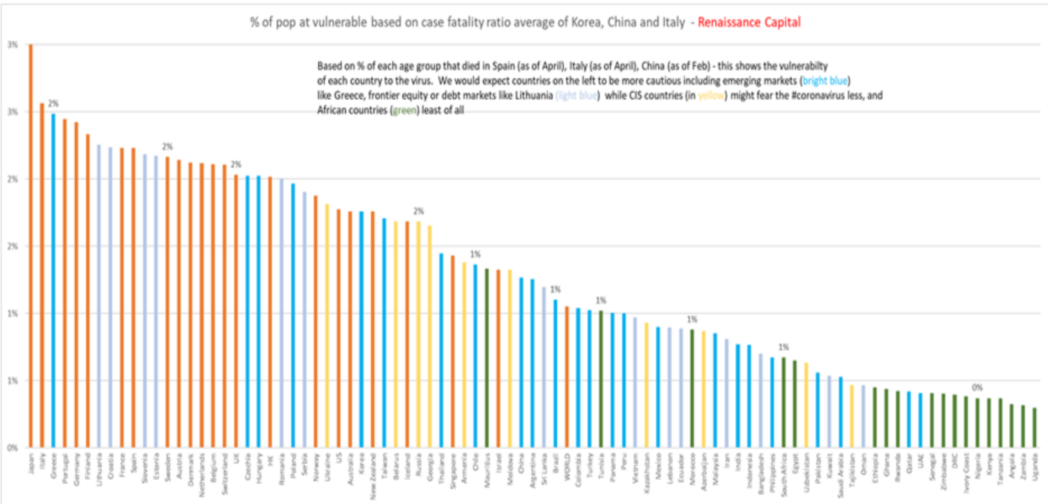
CONCLUSION: Virus numbers are going to rise faster than ever globally as lockdown is abandoned in lower income countries from south Asia to SA. We suspect localised double dips are likely in southern US states, but in EM and Frontier it depends on how fearful the mostly young populations of lower income countries react. If most see this as similar to malaria, ending lockdown is probably a net positive for the economy. If headlines encourage stay at home behaviour, then renewed weakness after a post-lockdown surge in retail sales is a threat to domestic consumption.



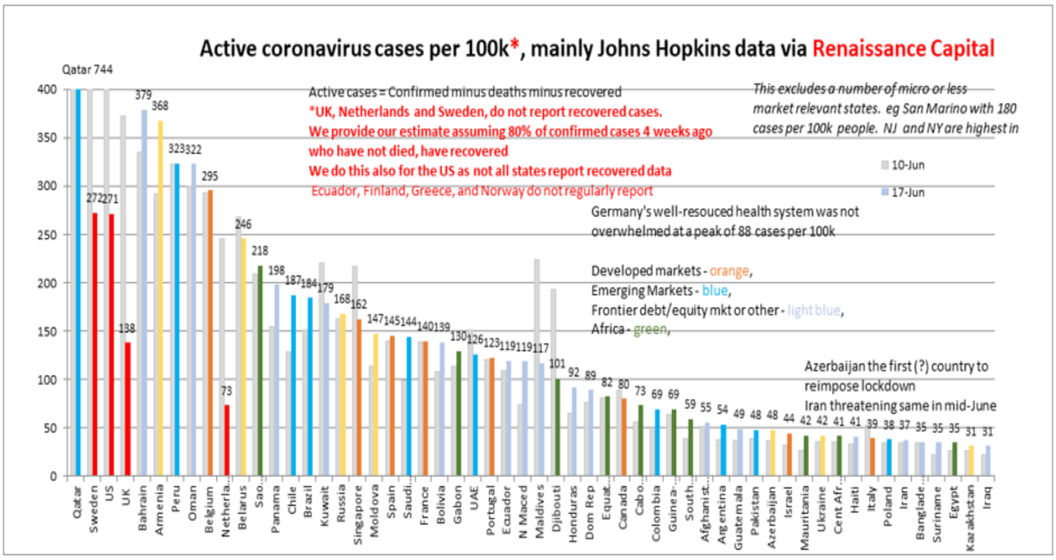
Source: Johns Hopkins



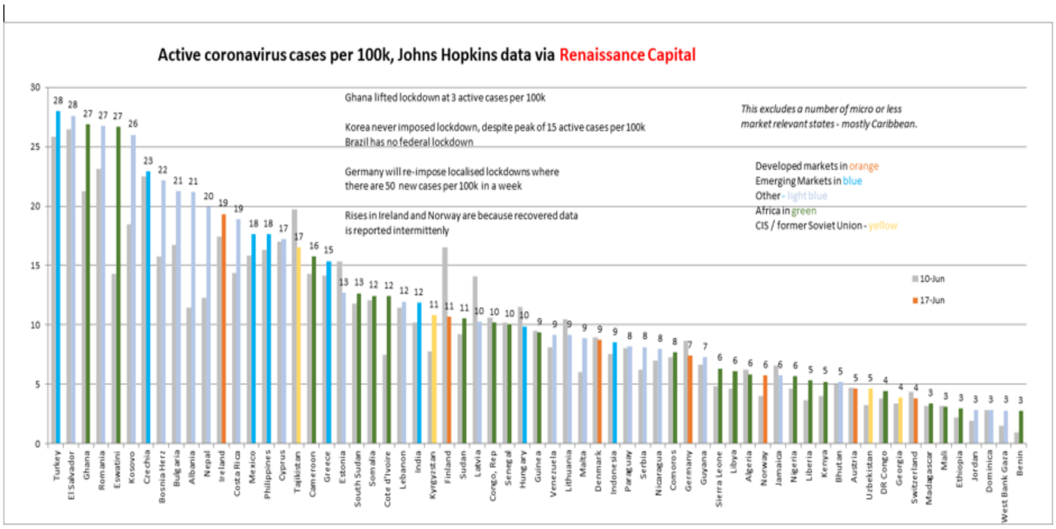
Source: Covid Tracking, Our World in Data, Ghana ministry of health



Source: Local health ministries, UN, Renaissance Capital



Source: Johns Hopkins



Source: Johns Hopkins

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ArcelorMittal SA: Depressed steel demand expectations drive large-scale restructuring – Positive

Ticker: ACLJ.J / ACL SJ
Rating: **SELL**
Target price: ZAR0.80
Current price: ZAR0.64

Today (18 June), ArcelorMittal SA (AMSA) announced that it has commenced a consultation process in terms of Section 189(3) of the Labour Relations Act 66 of 1995. This process targets a large-scale labour force restructuring with the number of jobs impacted dependant on the alternatives identified and agreed through the consultation process as sufficient to mitigate the negative COVID-19 impact on steel demand and its operations. The restructuring follows management's decision to keep a significant part of the company's available production capacity unutilised for an extended period as it expects a slow recovery in near-term crude steel demand. We view this news positively for AMSA as the company implements measures to right size its operations and reduce its cost base in order to potentially increase its profitability as it meets expected reduced levels of demand. We have a SELL rating and ZAR0.80 TP.

Previously announced cost-saving initiatives alone are not enough

Management guides that previously announced cost-saving initiatives are no longer able to offset the impact of the extended reduced demand on its operations. The interventions that had been targeted prior to today's announcement of a large-scale restructuring included the following: 1) curtailment of expenditure on non-critical goods and services; 2) salary reductions for all employees with effect from April 2020 for a likely period of three months; 3) the reduction of sub-contractors, reconfiguration of the operating model; 4) the various corporate actions to strengthen the balance sheet (including non-core asset disposals) as announced in February 2020; and 5) accessing measures introduced by the government to assist companies and employees, including the revised UIF benefits.

Challenging export market

The company expects that it will take some time for its crude steel production levels to return to historical levels or its planned 2020 levels. Therefore, management guides to a significant part of the company's available production capacity remaining unutilised for an extended period. We view the extended downtime as telling for AMSA's competitiveness in the export market at current steel prices, rand exchange rates and raw material prices make it unfavourable for it to increase its export sales.

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LabelVie – Aradei Capital management call

Ticker: LBV MC
Rating: **BUY**
Target price: MAD3,730
Current price: MAD3,047

We have concluded our investor call with the management of LabelVie's c.48%-owned Aradei Capital for a general update on recent developments. Below are the key highlights:

COVID-19

The state of emergency has been extended to 10 July, but the government has started to gradually lift some of the restrictions in place. Throughout the lockdown, which started on 20 March, c. 60% of Aradei Capital's GLA remained open, which represents c. 51% of the company's revenue. As of today, c. 78% of GLA is back to normal, with the re-opening of the remaining c. 22% expected either on Sunday or Monday. Aradei Capital has also managed to resume construction work since the beginning of June, but the sites are still running at c. 70% efficiency. Despite the 2-3 month delay, management believes it will be on target to meet all development commitments. As for support measures, interest rates have been cut a total 75 bpts to a record 1.5% and government-backed facility programmes have been offered to SMEs at low rates and relaxed payment terms.

Modern retail

The informal/traditional sector is still very sizable in Morocco, which proved quite problematic for the government during the crisis because of unregistered workers. According to management, the government has become very motivated to encourage the shift to the modern/formal sector and having all employees enrolled to the social security programme. On the consumer side, there has been a growing preference toward modern retail on safety and health concerns. In a recent survey, c. 60% of customers showed that they are willing to drive 12 more minutes to shop through modern channels. Management also highlighted that there is an inventory issue in Morocco, which has been going on for a while now and has deteriorated further on the back of recent events. The company believes that this could give birth to discounters and outlets on a much wider scale.

Commercial real estate

According to management, formal commercial real estate has been gaining a lot of market share. The company sees growing demand in the industrial space, aided by the "Made in Morocco" campaign, logistics and office buildings, with old residential apartments currently in use proving inefficient and substandard. The latter, however, is only expected to gain real traction in 18-24 months. Management also sees big potential for sale and lease back agreements, especially as the banking and industrial sectors still have the majority of the real estate assets on their books. Under the recently passed REIT legislation, companies can contribute assets for shares and benefit from a 50% tax break on gains.

Aradei Capital

The company is looking to diversify its portfolio via expanding in the industrial and office space. Aradei had a GLA of 312,000 m2 (with an occupancy rate of 94-95%) as of December 2019, and plans to add a further 40,000 m2 this year, excluding potential acquisitions of operating assets. The company's land bank stands at 250,000 m2, which it plans to utiltise over 6-7 years (only 80,000 m2 are in active design at the moment) to minimise development risk. Given current events, management is delaying some land bank acquisitions and focusing more on sale and lease back agreements. The company expects to offer some rent concessions for the lockdown period and does not expect a material increase in operating expenses on the back of COVID-related measures; any rate reduction beyond the shutdown period is unlikely. According to management, asset yields stood at 8.5-8.6% in 2019 and are expected to continue their decline. The company assumes 150 bpts as a development cost for small assets and 250-300 bpts for large ones.

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