CAMmuniqué

CADIZ ASSET MANAGEMENT INVESTMENT UPDATE

cadiz ASSET MANAGEMENT

Invest For The Future

MARCH 2021

Sibanye Stillwater

Sibanye-Stillwater (SSW) is a leading international precious metals producer, which mines and processes platinum group metals (PGMs) and gold.

The PGM basket is largely constituted of platinum, palladium, and rhodium. SSW has a geographically diverse portfolio of operations and projects in the US and South Africa. In 2016, Sibanye embarked on a massive acquisition spree, acquiring several PGM mines which fundamentally changed the company from a 100% gold counter to one of the largest precious metals mining companies, where c.90% of their EBITDA now comes from PGM's. The acquisitions were made when the PGM market was at the bottom of the commodity cycle and the assets were acquired cheaply. In retrospect, this represents s a shrewd and astute piece of business by the management of the company. As a result, Sibanye has now emerged as the world's largest primary producer of both platinum and rhodium and second largest primary producer of palladium.

Investment case

The main source of demand for PGMs is motor vehicle auto catalysts which are installed in the vehicle's exhaust line where it converts pollutants from the combustion of fuel into harmless gases. Despite the demand decrease in automobiles globally over the last couple of years, the increase in carbon emissions standards globally has meant that loadings of these PGMs per car have increased. This in turn has led to increased demand for these metals and with the PGM market being in a structural deficit this has resulted in higher PGM prices.

The PGM basket price is the main factor in the investment case for SSW as the revenues and earnings of the business are largely dependent on the prevailing market prices, with the prices of these PGM commodities having soared since the SSW acquisition. The price of rhodium has surged by 3000%, palladium has returned over 350% and platinum has also gained 25%.

The increase in the prices of these PGMs has meant that the company has been able to generate solid earnings and has also managed to de-leverage the business into its current cash-flush state. At current spot prices for the PGMs, SSW has a free cash flow yield of over 20%. This means that if the prices of the PGM metals stay where they are, the business will generate significant surplus cash to either reinvest to grow the business or pay cash back to shareholders.

The medium-term outlook for the PGMs is also positive, with expected supply deficits in the rhodium and palladium markets helping to support current prices. Notably, too the current surplus in the platinum market also expected to narrow in the first half of the decade.

Turning to the balance sheet, the financial risk of this business is low, with the business finding itself in a net cash position, which means that current cash on hand is greater than outstanding debt. Most of the debt used to make the PGM acquisitions has been paid off and the liquidity profile of the business is not a concern with cash on hand being sufficient to meet its upcoming debt maturities.

The business was also able to reward shareholders with an industry-leading dividend yield of 8.7% on the average share price over the year, declaring a dividend of R3.71 for the full year. The dividend is in addition to strong gains investors would have realised as the counter gained over 50% for the year.

OUR POSITION

We are happy to remain invested in SSW as the outlook for the PGM market looks favourable for the medium term as supply deficits continue in rhodium and palladium support higher prices. In addition to the strong fundamentals of the metal markets, the business has low financial risk, is highly cash generative and is expected to return cash to shareholders, with a pay-out ratio of between 25-35% of earnings. From a valuation perspective, at a current forward PE ratio of less than 6 times, we feel that there is still significant upside to the current share price of R70. •

Physical Address: Alphen Estate, Alphen Drive, Constantia 7848, Cape Town / **www.cadiz.co.za**