

South African Platinum Sector

Alert: Strikes – A Breakthrough at Last

Agreement in principle: AMS, IMP and LON put out statements on 12 June announcing that informal undertakings have been reached in principle with AMCU in respect of wages and employment. AMCU has subsequently taken the offer to its members to seek a mandate.

Terms of new wage proposals: Even though the companies did not mention the details of the new proposal, I-net and AFP news reports suggested that the companies are now offering a R1000 raise per month for the lowest paid workers each year over anything from three to five years. As far as we understand, previous offers included R800 over three years.

Implications: Should the revised offer be accepted, we estimate it will result in a CAGR of 13-15% increase for lowest paid workers over a three- to five-year period. We estimate that lowest paid workers form c.20% of employees. No new details were provided for higher-paid categories – we assume the previous 7.5%-8.5% remains.

PGM prices: We found it interesting that the dollar platinum and palladium prices retreated 2% and 3.5% respectively on the news. PGM prices have remained fairly constant during the strikes. We believe the sharp fall dollar prices may be due to short-term trading on the news. We maintain the a fair rand-basket price (4E) in the current supply/demand environment for PGMs is R13,300/ounce, 2.5% above current trading levels.

Maintain Buy IMP, Sell AMS: Even though AMS was best positioned to weather the impact of the strikes, we believe IMP is better positioned for longer term economic value delivery. AMS outperformed IMP and LON handsomely since the onset of the strike, something we expect to reverse from here forward. Please also refer to our theme note published today (13 June, 2014) on the SA platinum sector [“Head-to-Head: Anglo Platinum vs Impala vs Lonmin – IMP the winner”](#).

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Anglo American Platinum Ltd (AMSJ.J; R470.26; 3)

Valuation

Our target price for AMS is R400. We derive our valuation by applying a nominal WACC of 11.9% (beta 1.0, ERP 5.0%, RFR 8.5%), and discounting cash flows over the life of the group's individual assets. We apply a 10% premium to our DCF valuation of AMS to account for its strategic advantage due to its control of 55% of sector reserves. We do not apply similar premiums to most other SA platinum companies under our coverage.

Risks

Our valuation of AMS is exposed to macroeconomic developments affecting PGM prices and exchange rates, operational risks that might affect volumes and input costs, and political and regulatory risks that might affect costs and the company's reputation.

Macroeconomic risks: Our valuation of AMS is highly dependent on input assumptions for platinum, palladium, and rhodium prices, as well as the rand-dollar exchange rate. Upside risks to our view include higher-than-expected PGM prices and a weaker-than-expected rand.

Operational risks: We base our production and cost outlook for AMS's individual mines on management guidance and the application of our discretion to management's guidance and targets. The main downside risk to our view is that significantly more capex is required in order to sustain current production levels than is assumed in our valuation model. We also caution downside risk to our generally favorable cost assumptions, given the inflationary environment in which AMS operates. The main upside risk to our view is the platinum market moving into deficit, in which case AMS would be able to expand production above the current 2.5m ounce (Pt) level.

Political and regulatory risks: The company is exposed to government and regulatory-related risks in those countries in which it operates. Specific risks include higher-than-expected royalties, production delays from government intervention and labour unrest. If the impact from any of these factors proves to be more negative than we anticipate, the stock will likely have difficulty achieving our financial and price targets. However, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our targets.

Impala Platinum (IMPJ.J; R113.00; 1)

Valuation

Our target price for IMP is R160. We value IMP based on a sum-of-the-parts discounted cash flow (DCF) analysis. Our model uses a nominal WACC of 11.9% (beta 1.0, ERP 5.0%, RFR 8.5%) and discounts forecast cash flows over the life of the group's individual assets. We apply a 1.0x P/DCF exit multiple as we do not expect near- to medium-term PGM prices to rise substantially above our long-term price assumptions.

Risks

Our valuation of IMP is exposed to macroeconomic developments affecting PGM prices and exchange rates, operational risks that might affect volumes and input costs, and political and regulatory risks that might affect costs and the company's reputation.

Macroeconomic risks: Our valuation on IMP is highly dependent on input assumptions for platinum, palladium, and rhodium prices, as well as the rand-dollar exchange rate. Downside risks to our view include lower-than-expected PGM prices and a stronger-than-expected rand.

Operational risks: We base our production and cost outlook for IMP's individual mines on management guidance and by applying our discretion to management's guidance and targets. The main downside risk to our view is that significantly more capex is required in order to sustain current production levels than is assumed in our valuation model. Other operational risks include IMP failing to ramp up its Merensky shafts on time, and a deterioration in political conditions in Zimbabwe, which could prevent further growth for IMP in this country (note that we only include Zimplats phase II in our valuation).

Political and regulatory risks: IMP's operations and future projects are based in SA and Zimbabwe. The company is subsequently exposed to government and regulatory-related risks in these countries. Specific risks include higher-than-expected royalties, production delays from government intervention and labour unrest.

If the impact from any of these factors proves to be more negative than we anticipate, the stock will likely have difficulty achieving our financial and price targets. However, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

Lonmin PLC (LMI.L; £2.58; 2)

Valuation

Our target price for Lonmin is £2.77. We value Lonmin based on a sum-of-the-parts discounted cash flow (DCF) analysis. Our model uses a nominal WACC of 9% and discounts forecast cash flows over the life of the group's individual assets. We apply a 1.05x P/NPV multiple to our £2.64 NPV.

Risks

Our valuation of LON is exposed to macroeconomic developments affecting PGM prices and exchange rates, operational risks that might affect volumes and input costs, and political and regulatory risks that might affect costs and the company's reputation.

Macroeconomic risks: Our valuation of LON is highly dependent on input assumptions for platinum, palladium, and rhodium prices, as well as the rand-dollar exchange rate. Upside risks to our view include higher-than-expected PGM prices and a weaker-than-expected rand. Conversely, downside risks to our view include lower-than-expected PGM prices and a stronger-than-expected rand.

Operational risks: We base our production and cost outlook for LON's individual mines on management guidance and by applying our discretion to management's

guidance and targets. The main downside risk to our view is that significantly more capex is required in order to sustain current production levels than that assumed in our valuation model. We also caution downside risk to our generally favorable cost assumptions, given the inflationary environment in which LON operates. The main upside risk to our view is the platinum market moving into deficit, in which case LON might be able to expand production above our forecast levels.

Political and regulatory risks: LON's operations and future projects are based in SA. The company is subsequently exposed to government and regulatory-related risks in SA. Specific risks include higher-than-expected royalties, production delays from government intervention and labour unrest.

If the impact from any of these factors proves to be more negative than we anticipate, the stock will likely have difficulty achieving our financial and price targets. However, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

Appendix A-1

Analyst Certification

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IMPORTANT DISCLOSURES

Anglo American Platinum Ltd (AMSJ.J)

Ratings and Target Price History Fundamental Research

Analyst: Johann Steyn



Date	Rating	Target Price	Closing Price
1 25-Jul-11	3M	*610.00	600.00
2 29-Sep-11	*2M	610.00	555.00
3 4-Oct-11	2M	*580.00	540.00
4 7-Oct-11	Stock rating system changed		
5 7-Oct-11	*2	580.00	550.50
6 8-Nov-11	*3	*550.00	572.79

* Indicates change

Date	Rating	Target Price	Closing Price
7 13-Feb-12	3	*510.00	548.00
8 15-Apr-12	3	*500.00	514.98
9 16-Jul-12	3	*400.00	423.10
10 24-Sep-12	3	*420.00	440.79
11 16-Jan-13	3	*410.00	458.20
12 21-Jan-13	3	*440.00	438.48

Date	Rating	Target Price	Closing Price
13 14-Apr-13	*2	*380.00	344.00
14 21-May-13	*1	380.00	288.50
15 14-Jul-13	1	*350.00	291.24
16 10-Sep-13	*2	*470.00	422.00
17 13-Jan-14	2	*410.00	380.01
18 4-Feb-14	*3	*400.00	423.36

Rating/target price changes above reflect Eastern Standard Time

Anglo American Platinum Ltd (AMSJ.J)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Johann Steyn



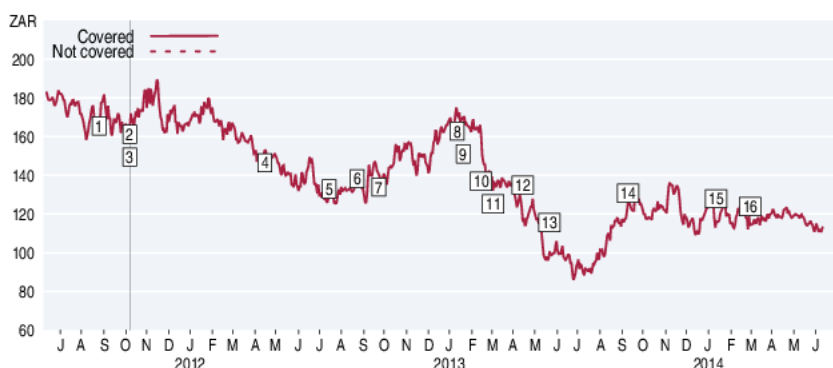
* Indicates change

Impala Platinum (IMPJ.J)

Ratings and Target Price History

Fundamental Research

Analyst: Johann Steyn



Date	Rating	Target Price	Closing Price
1 25-Aug-11	1M	*220.00	165.50
2 7-Oct-11	Stock rating system changed		
3 7-Oct-11	*1	220.00	165.00
4 16-Apr-12	1	*205.00	153.15
5 16-Jul-12	1	*190.00	128.60
6 23-Aug-12	1	*180.00	135.60

* Indicates change

Date	Rating	Target Price	Closing Price
7 24-Sep-12	1	*185.00	141.55
8 11-Jan-13	*2	*172.00	172.50
9 21-Jan-13	2	*190.00	169.05
10 14-Feb-13	2	*170.00	161.00
11 4-Mar-13	*1	170.00	132.00
12 15-Apr-13	1	*160.00	116.02

Date	Rating	Target Price	Closing Price
13 22-May-13	1	*130.00	100.59
14 10-Sep-13	1	*170.00	125.70
15 13-Jan-14	1	*165.00	116.15
16 28-Feb-14	1	*160.00	114.00

Rating/target price changes above reflect Eastern Standard Time

Impala Platinum (IMPJ.J)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Johann Steyn



Date	Rating	Target Price	Closing Price
1 12-Oct-11	*ADD MP	-	169.50
2 21-Jun-13	*REM MP	-	94.69

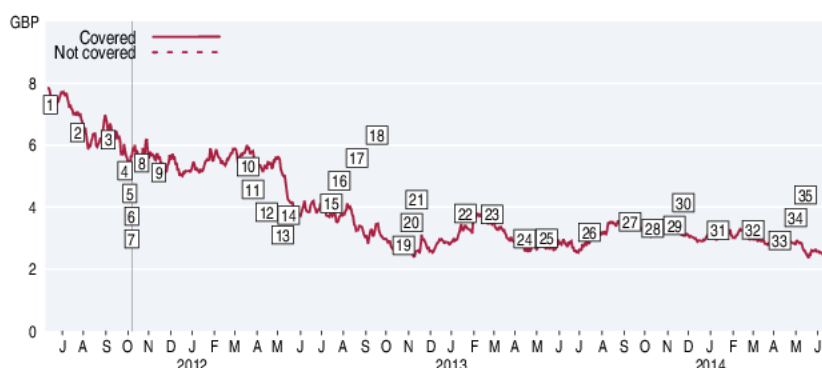
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Date	Rating	Target Price	Closing Price
3 21-Jun-13	*ADD MP	-	94.69
4 7-Mar-14	*REM MP	-	116.50

Rating/target price changes above reflect Eastern Standard Time

Lonmin PLC (LMIL) **Ratings and Target Price History** **Fundamental Research**

Analyst: Jon H Bergtheil



Date	Rating	Target Price	Closing Price
1 13-Jun-11	2M	*8.98	7.85
2 22-Jul-11	2M	*8.16	7.08
3 5-Sep-11	2M	*7.25	6.42
4 28-Sep-11	2M	*6.58	5.84
5 5-Oct-11	2M	*6.02	5.37
6 7-Oct-11	Stock rating system changed		
7 7-Oct-11	*2	6.02	5.65
8 21-Oct-11	2	*5.68	5.49
9 15-Nov-11	2	*5.88	5.55
10 20-Mar-12	2	*5.98	5.90
11 27-Mar-12	2	*5.91	5.81
12 16-Apr-12	2	*5.85	5.23

* Indicates change

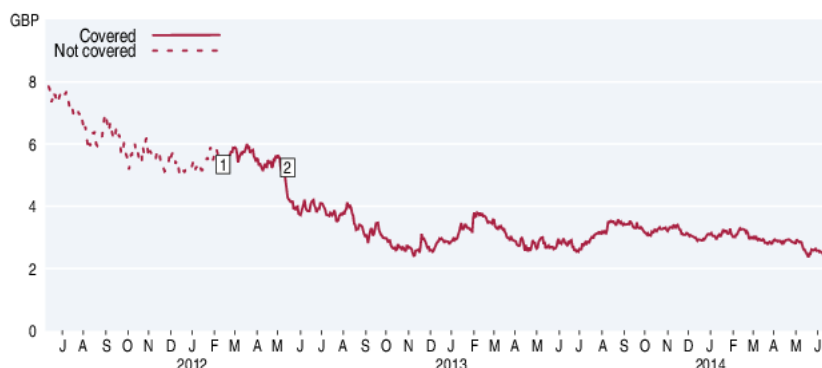
Date	Rating	Target Price	Closing Price
13 8-May-12	2	*5.83	5.04
14 16-May-12	2	*5.16	4.22
15 16-Jul-12	2	*4.13	3.76
16 26-Jul-12	2	*4.04	3.69
17 21-Aug-12	2	*3.47	3.26
18 18-Sep-12	2	*3.51	3.46
19 25-Oct-12	2	*2.91	2.65
20 6-Nov-12	2	*2.81	2.62
21 13-Nov-12	2	*2.64	2.58
22 21-Jan-13	*1	*4.11	3.43
23 27-Feb-13	1	*4.25	3.45
24 15-Apr-13	1	*3.74	2.57

Date	Rating	Target Price	Closing Price
25 15-May-13	1	*3.86	2.68
26 15-Jul-13	1	*3.74	2.84
27 10-Sep-13	1	*4.18	3.53
28 11-Oct-13	1	*4.20	3.15
29 12-Nov-13	1	*4.53	3.36
30 25-Nov-13	1	*4.52	3.08
31 13-Jan-14	1	*4.56	3.06
32 3-Mar-14	1	*4.57	2.97
33 9-Apr-14	1	*4.47	2.89
34 1-May-14	1	*4.43	2.79
35 15-May-14	*2	*2.77	2.54

Rating/target price changes above reflect Eastern Standard Time

Lonmin PLC (LMIL) **Ratings and Target Price History** **Best Ideas Research** **Relative Call (3 Month)**

Analyst: Jon H Bergtheil



Date	Rating	Target Price	Closing Price
1 14-Feb-12	*ADD LP	-	5.41

* Indicates change

Date	Rating	Target Price	Closing Price
2 15-May-12	*REM LP	-	4.28

Rating/target price changes above reflect Eastern Standard Time

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<i>Data current as of 31 Mar 2014</i>	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	49%	40%	12%	1%	98%	1%
% of companies in each rating category that are investment banking clients	55%	53%	45%	58%	53%	42%

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Citigroup Global Markets (Pty) Ltd	Johann Steyn
Citigroup Global Markets Ltd	Jon H Berghel

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