

Anglo American Platinum Ltd (AMSJ.J)

Mogalakwena: The Fairy Tale Is Priced In – Downgrade to Sell*

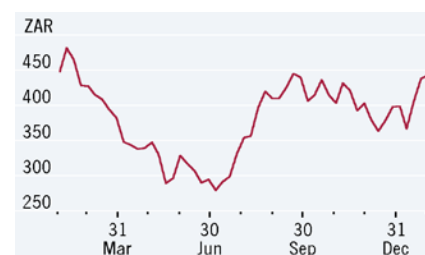
- **World-class mine:** There is little doubt that Mogalakwena is one of the best platinum mines in the world and that it holds significant potential. It is the highest-margin, most cash-generative mine in the platinum sector, if one takes into consideration the revenue from base metal credits (refer *Figures 1 and 2*).
- **What is it worth?** We estimate a R47.9bn NPV for Mogalakwena, based on the assumption that it can ramp up to 585,000 ounces by 2025 without major additional capital expenditure. We view our assumptions as fairly favourable, given AMS's statement in its results presentation that the mine can likely ramp up to 420,000 ounces by 2017, and 600,000 ounces longer term (without having to build additional BMR capacity and relocate communities). We also apply a R94.43bn (nominal) terminal value estimate to our 2030 FCF estimate. On this basis, Mogalakwena forms 51% of our valuation for AMS.
- **Expensive:** Despite our recognition of Mogalakwena's value, and despite full recognition of AMS's intended R3.8bn p.a. saving through its restructuring programme, we do not find value in AMS at current trading levels. We estimate FY 14, 15 and 16 HEPS of 1,067c, 1,445c and 1,354c, implying a 1-year forward PE of 41x and 3-year forward PE of 32x. Even though we do not value equities within the platinum sector on a PE basis, this does support the unfavourable result obtained from our SOTP DCF valuation.
- **Downgrade to Sell, TP R400:** We commend AMS management for steering the company on the right track over the past 18 months. Undoubtedly, this has clearly been recognised by the market – to such an extent that the stock has now become expensive, on our estimates. AMS now trades ~10% above our revised R400 TP. Downgrade to Sell.

*Correction: We amend our NPV for Mogalakwena in the second bullet point.

- Estimate Change
- Target Price Change
- Rating Change

Sell	3
from Neutral	
Price (03 Feb 14)	R440.89
Target price	R400.00
from R410.00	
Expected share price return	-9.3%
Expected dividend yield	0.4%
Expected total return	-8.8%
Market Cap	R118,900M
	US\$10,690M

Price Performance (RIC: AMSJ.J, BB: AMS SJ)



Anglo American Platinum Ltd (ZAR)

Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Sales (RM)	42,874.0	52,404.0	48,614.3	53,053.1	55,965.1
Net Income (RM)	-1,431.0	1,451.0	2,784.7	3,771.3	3,532.8
Diluted EPS (c)	-548	556	1,067	1,445	1,354
Diluted EPS (Old) (c)	-548	394	952	1,424	1,347
PE (x)	-80.4	79.3	41.3	30.5	32.6
EV/EBITDA (x)	23.8	13.0	14.1	11.5	11.6
DPS (c)	0	0	213	482	271
Net Div Yield (%)	0.0	0.0	0.5	1.1	0.6

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

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AMSJ.J: Fiscal year end 31-Dec						Price: R440.89; TP: R400.00; Market Cap: R118,900m; Recomm: Sell					
Profit & Loss (Rm)	2012	2013	2014E	2015E	2016E	Valuation ratios	2012	2013	2014E	2015E	2016E
Sales revenue	42,874	52,404	48,614	53,053	55,965	PE (x)	-80.4	79.3	41.3	30.5	32.6
Cost of sales	-41,948	-46,208	-43,313	-46,811	-50,083	PB (x)	2.3	2.3	2.2	2.1	2.0
Gross profit	926	6,196	5,301	6,242	5,883	EV/EBITDA (x)	23.8	13.0	14.1	11.5	11.6
Gross Margin (%)	2.2	11.8	10.9	11.8	10.5	FCF yield (%)	-4.5	-0.1	5.5	2.0	1.3
EBITDA (Adj)	5,055	9,556	8,647	10,281	10,082	Dividend yield (%)	0	0.0	0.5	1.1	0.6
EBITDA Margin (Adj) (%)	11.8	18.2	17.8	19.4	18.0	Payout ratio (%)	0	0	20	33	20
Depreciation	-4,747	-4,774	-4,382	-4,613	-4,814	ROE (%)	-12.4	-2.7	5.4	7.0	6.2
Amortisation	0	0	0	0	0	Cashflow (Rm)					
EBIT (Adj)	308	4,782	4,265	5,668	5,268	EBITDA	5,055	9,556	8,647	10,281	10,082
EBIT Margin (Adj) (%)	0.7	9.1	8.8	10.7	9.4	Working capital	-3,391	-3,214	4,982	0	0
Net interest	-215	-618	-263	-171	-130	Other	261	-264	-1,460	-1,870	-1,711
Associates	-659	-298	0	0	0	Operating cashflow	1,925	6,078	12,168	8,411	8,372
Non-op/Except	-7,015	-3,189	-52	-147	-127	Capex	-7,099	-6,234	-5,892	-6,106	-6,829
Pre-tax profit	-7,581	677	3,950	5,349	5,011	Net acq/disposals	14	69	202	202	202
Tax	897	-2,191	-1,145	-1,551	-1,453	Other	-806	-848	0	0	0
Extraord./Min.Int./Pref.div.	43	144	-20	-27	-25	Investing cashflow	-7,891	-7,013	-5,690	-5,904	-6,627
Reported net profit	-6,641	-1,370	2,785	3,771	3,533	Dividends paid	-532	0	-557	-1,257	-707
Net Margin (%)	-15.5	-2.6	5.7	7.1	6.3	Financing cashflow	5,880	-77	-557	-1,257	-707
Core NPAT	-1,431	1,451	2,785	3,771	3,533	Net change in cash	-86	-1,012	5,921	1,250	1,038
Per share data						FCF ex acquisns & explorn	-5,160	-87	6,478	2,507	1,744
Reported EPS (¢)	-2,544	-525	1,067	1,445	1,354						
Core EPS (¢)	-548	556	1,067	1,445	1,354						
DPS (¢)	0	0	213	482	271						
CFPS (¢)	737	2,329	4,662	3,223	3,207						
FCFPS (¢)	-1,982	-60	2,405	883	591						
BVPS (¢)	19,244	19,112	20,050	21,101	22,271						
Wtd avg ord shares (m)	261	261	261	261	261						
Wtd avg diluted shares (m)	261	261	261	261	261						
Growth rates											
Sales revenue (%)	-16.1	22.2	-7.2	9.1	5.5						
EBIT (Adj) (%)	-96.1	nm	-10.8	32.9	-7.1						
Core NPAT (%)	-140.1	201.4	91.9	35.4	-6.3						
Core EPS (%)	-140.2	201.4	91.9	35.4	-6.3						
Balance Sheet (Rm)											
Cash & cash equiv.	2,174	1,162	7,083	8,333	9,371						
Accounts receivables	2,708	3,624	4,861	4,861	4,861						
Inventory	15,937	19,668	14,098	14,098	14,098						
Net fixed & other tangibles	57,357	56,584	58,094	59,588	61,603						
Goodwill & intangibles	0	0	0	0	0						
Financial & other assets	8,189	7,989	7,989	7,989	7,989						
Total assets	86,365	89,027	92,126	94,869	97,922						
Accounts payable	6,425	7,858	8,508	8,508	8,508						
Short-term debt	4,561	3,132	3,132	3,132	3,132						
Long-term debt	8,104	9,486	9,486	9,486	9,486						
Provisions & other liab	16,757	18,543	18,543	18,543	18,543						
Total liabilities	35,847	39,019	39,669	39,669	39,669						
Shareholders' equity	50,238	49,882	52,331	55,074	58,128						
Minority interests	280	126	126	126	126						
Total equity	50,518	50,008	52,457	55,200	58,254						
Net debt	10,491	11,456	5,535	4,285	3,247						
Net debt to equity (%)	20.8	22.9	10.6	7.8	5.6						

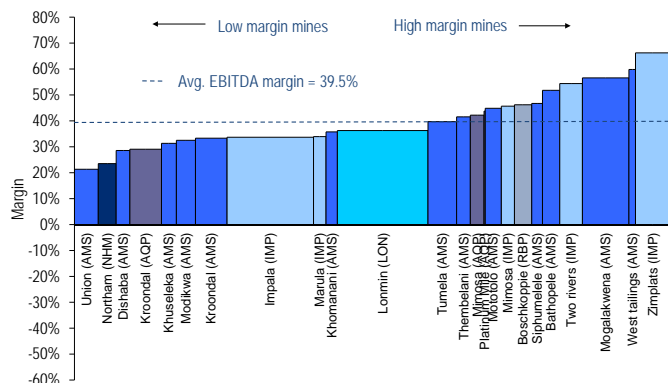
For definitions of the items in this table, please click [here](#).

Mogalakwena: The Fairy Tale Is Priced In

An industry-leading mine

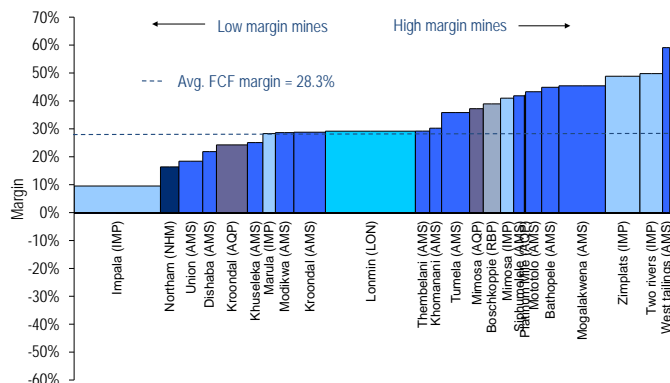
There is little doubt that Mogalakwena is one of the best platinum mines in the world and that it holds significant potential. As shown in Figures EBITDA and FCF margin charts below, Mogalakwena is the highest-margin, most cash-generative mine in the platinum sector, if one takes into consideration the revenue from base metal credits.

Figure 1. Jun-13 EBITDA margin chart* (% , 6E)**



Source: Company reports, Citi Research; *Basket price: R11,721/ounce, **Including base metal credits

Figure 2. Jun-13 FCF margin chart* (% , 6E)**



Source: Company reports, Citi Research; *Basket price: R11,721/ounce, **Including base metal credits

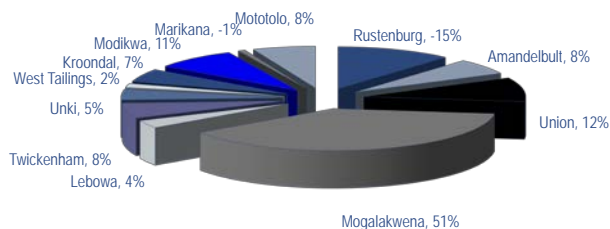
But everything has a price

Why, then, are we bearish on AMS? The short answer is that there is a price for everything. Mogalakwena already forms c.51% of our valuation of AMS (refer Figure 3). We give it the benefit of the doubt of growing to 585,000 ounces p.a. by 2025, without spending significantly more capital. In addition, we apply a R94.43bn terminal value to our 2030 final year cash flow estimate for this mine.

AMS stated in its results presentation that Mogalakwena can – in a best case scenario – achieve 420,000 ounces p.a. by 2017 and ramp up to 600,000 ounces thereafter, without having to spend significant capital and/or remove communities.

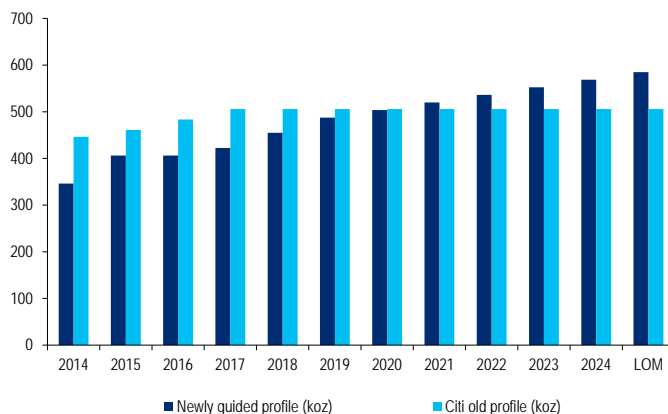
- Step 1: Improve base line production to 368,000 ounces in the next few years by spending minor capex on concentrator.
- Step 2: Grow to 420,000 ounces by 2017 by debottlenecking mining and concentrating. No additional base metal refining capacity needed.
- Step 3: Grow to 600,000 ounces through big expansion. Will require debottlenecking of base metal refinery. No communities will have to be moved.
- Step 4: Further potential exists, but will need significant capex and involve moving communities.

Figure 3. AMS NPV breakdown



Source: Citi Research estimates

Figure 4. Mogalakwena: newly guided vs Citi old production profiles (koz)



Source: Company data, Citi Research

AMS is too expensive

Even though we agree that Mogalakwena is an excellent mine, and even though we think AMS management has done very well restructuring and refocusing the business over the past 18 months, we struggle find value in AMS's current market value.

We model production to average 2.2m, 2.21m and 2.2m ounces in 2014, 15 and 16, respectively, while we give AMS the benefit of the doubt of controlling unit costs to escalate only 8% p.a. during this period. Yet, we only see AMS delivering 1,354c HEPS in 2016, implying a 3-year forward PE multiple of 32x.

In the absence of a significant rise in the rand basket price (above CitiE, refer *Figure 10*), we see downside for AMS's valuation from here.

FY13 Financial Overview

HEPS up y-o-y

AMS reported HEPS of 556c, up from a loss of -562c in FY12, and in line with recent guidance. The increase was due mainly to 273,000 ounces (Pt) being lost due to illegal strike activity in the previous comparative period. Included in HEPS is R1.46bn of restructuring charges (pre-tax); which implies that normal FY13 HEPS (excluding one-off restructuring costs) should be 947c per share.

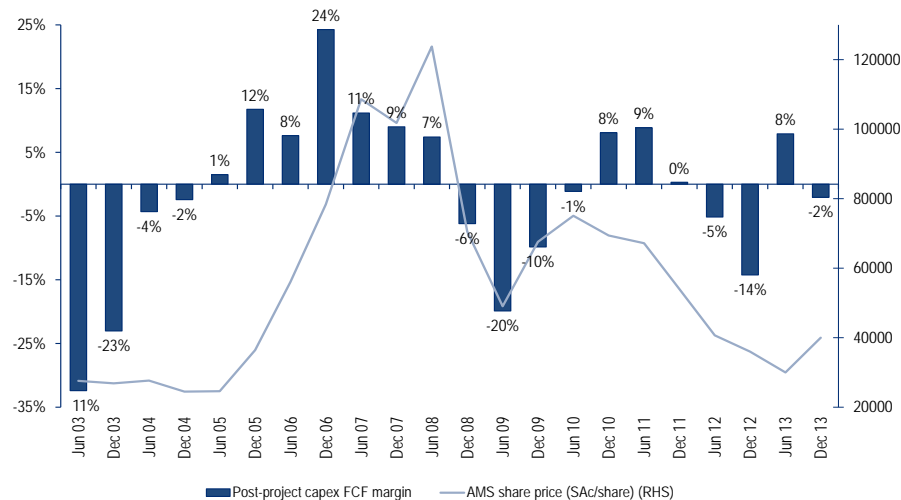
Figure 5. AMS income statement summary

	2H11	FY11*	1H12	2H12	FY12*	1H13	2H13	FY13	%chg HoH	% chg YoY
3PGE + Au basket price R/kg	331 017	311 643	350 774	340 434	345 789	324 867	387 389	355 617	19	3
ZAR/USD exchange rate	7.62	7.26	8.19	8.47	8.33	9.21	10.21	9.71	11	17
3PGE + Au basket price (USD/ounce)	1 351	1 335	1 332	1 250	1 291	1 097	1 180	1 139	8	-12
Att production (000 3PGE + Au ounces)	2.59	4.89	1.99	2.65	4.64	1.89	2.67	4.56	41	-2
Cash costs (USD/ounce)	1 020	1 072	1 173	946	1 044	1 241	849	1 011	-32	-3
Income statement (Rm)										
Revenue	26 639	50 949	21 687	28 084	49 772	19 134	32 181	51 315	68	3
Inventory change	-494	168	-2 155	-4 779	-6 934	5 189	-4 100	1 089	n/a	n/a
Less cash costs	20 113	38 035	15 005	22 196	37 201	18 823	22 611	41 434	20	11
Operating profit	6 717	13 600	4 405	1 231	5 637	5 319	5 651	10 970	6	95
Corporate costs	245	471	198	222	420	249	201	450	-19	7
Other operating expenses	661	450	1 482	-1 284	198	-43	1 007	964	n/a	>100
EBITDA	5 624	12 492	2 725	2 293	5 019	5 113	4 443	9 556	-13	90
EBITDA margin (%)	21%	25%	13%	8%	10%	27%	14%	19%	-48	85
Depreciation and amortisation	2 411	4 527	2 326	2 421	4 747	2 439	2 335	4 774	-4	1
EBIT	3 213	7 965	399	-128	272	2 674	2 108	4 782	-21	>100
EBIT margin (%)	12%	16%	2%	0%	1%	14%	7%	9%	-53	>100
Net interest paid (received)	41	-	88	127	215	337	281	618	-17	>100
PBT	1 873	6 565	-423	-7 195	-7 617	2 202	-1 525	677	n/a	n/a
Tax	1 569	2 974	27	870	897	1 050	1 141	2 191	9	>100
Net earnings	304	3 591	-450	-8 065	-8 514	1 152	-2 666	-1 514	n/a	-82
Headline earnings	338	3 566	713	-2 144	-1 431	1 341	110	1 451	-92	n/a
No. of shares in issue (m)	262	262	261	261	262	261	261	261	0%	0
HEPS (SAc)	129	1 362	273	-821	-562	514	42	556	-92	>100
DPS (SAc)	200	699	0	-0	-0	0	0	0	-92	n/a

* Based on year-end exchange rates Source: Company reports, Citi Research

On a post-project capex basis, AMS delivered an average FCF margin of 3% (R1.33bn) in FY13.

Figure 6. Post-project capex FCF margin (%) (Jun03-Dec13)



Source: Company reports, Citi Investment Research and Analysis

Balance sheet: Net-debt increases y-o-y

AMS remained in a net-debt position of R11.46bn as at the end of FY13, up 9% y-o-y. At the end of FY13, AMS had a net-debt-to-equity ratio of 23% and net-debt to annualised EBITDA of 0.6x.

Figure 7. AMS balance sheet and cash flow summary

	2H11	FY11	1H12	2H12	FY12	1H13	2H13	FY13	%chg HoH	% chg YoY
Long-term borrowings	939	939	8267	8104	8104	12000	9486	9486	-21%	17%
Short-term borrowings	5019	5019	2602	4561	4561	3880	3132	3132	-19%	-31%
Cash	2296	2296	1327	2174	2174	2675	1162	1162	-57%	-47%
Net debt	3662	3662	9542	10491	10491	13205	11456	11456	-13%	9%
Shareholders' equity	56743	57065	55977	50100	50518	51512	50008	50008	-3%	-1%
Net debt to equity	6%	6%	17%	21%	21%	26%	23%	23%	-11%	10%
Net debt to annualised EBITDA	0.33	0.15	1.75	2.29	1.05	1.29	1.29	0.60	0%	-43%
Cash flow from operating activities	7278	12312	-1759	3684	1925	339	5739	6078	1593%	216%
Capex - net	-4340	-7228	-2996	-4103	-7099	-2305	-3929	-6234	70%	-12%
Cash flow before financing obligations	2938	5084	-4755	-419	-5174	-1966	1810	-156	-192%	-97%

Source: Company reports, Citi Research

Operational overview

FY13 production up 5% y-o-y

AMS reported FY13 equivalent refined platinum production of 2.3m ounces, (+5% y-o-y) in line with recent guidance. Production from Mogalakwena's increased 12% y-o-y to 336,000 ounces. This was due to increased throughput and recoveries at the concentrator.

Cash costs per equivalent refined platinum ounce increased 4.3% y-o-y to R17,063/ounce (CitiE: R16,964/ounce). The improved cost performance was mainly due to a high FY12 base, which was negatively affected by illegal industrial action.

Figure 8. Production and unit cash costs (000 ounces, R/oz equivalent refined Pt)

	Equivalent refined platinum production (000 ounces)						Cash on-mine costs (R/oz equivalent refined Pt)					
	Dec-11	Jun-12	Dec-12	Jun-13	Dec-13	%chg H-o-H	Dec-11	Jun-12	Dec-12	Jun-13	Dec-13	%chg H-o-H
Rustenburg	288	288	202	294	209	-29%	14703	15102	21246	15963	20777	30%
Amandelbult	213	180	182	171	184	8%	13158	14035	16572	16619	17236	4%
Union	128	117	78	96	82	-15%	13885	14683	20618	17840	21171	19%
Mogalakwena	159	160	140	164	171	4%	13327	12844	18462	15622	16653	7%
Twickenham	0	0	0	0	2	>100	0	0	0	0	0	n/a
Unki	29	33	30	29	34	16%	15039	14945	23100	17933	18964	6%
West Tailings	21	24	24	31	28	-12%	11145	10356	10102	8636	10364	20%
Kroondal	99	97	117	116	127	10%	15805	15804	17040	15297	16631	9%
Modikwa	69	50	69	57	59	4%	14312	19282	17293	19360	19099	-1%
Marikana	30	26	0	0	0	n/a	16743	19833	81048	0	0	n/a
Mototolo	55	58	60	58	65	14%	12509	12144	13289	13517	12815	-5%
Third parties	161	142	140	162	180	11%	0	0	0	0	0	n/a
Total Angloplat	1 253	1 176	1 042	1 178	1 142	-3%	14 072	14 478	18 494	16 284	17 846	10%

Source: Company reports, Citi Research

- **Rustenburg:** Production decreased 29% H-o-H to 209,000 ounces due to a 30% decrease in tonnes milled. Cash costs increased 30% to R20,777/ounce.
- **Amandelbult:** Equivalent refined platinum production increased 8% H-o-H to 184,000 ounces as a result of a 22% increase in head grade to 5.5g/t. Despite the increased production, unit cash costs increased 4% to R17,236/ounce.
- **Unki:** Equivalent refined platinum production increased 16% H-o-H to 34,000 ounces, due mainly to an 8% increase in tonnes milled. Unit cash costs increased 6% H-o-H to R18,964/ounce.
- **Mogalakwena:** Equivalent refined platinum production increased 4% H-o-H to 171,000 ounces as a result of a 4% increase in tonnes milled. Despite the increased production, unit cash costs increased 7% to R16,653/ounce.

Outlook

AMS guided to FY14 production of 2.2–2.4m ounces (equivalent refined platinum) and unit costs of R18,000-19,000/ounce. AMS expects capex to be R6.0-7.3bn during FY14; we see significant upside risk to this number medium term.

Valuation and risks

Changes to our outlook

We increase our FY14e HEPS expectation by 12% to 1,067c, due mainly to lower restructuring cost assumptions. In addition, we mark-to-market the FY13 results and make minor operational adjustments to our outlook assumptions.

Figure 9. FY13 results effect on forecasts

	FY12a	FY13a	FY14e	FY15e
Production (koz) - new	2219	2320	2205	2209
Production (koz) - old	2219	2255	2226	2224
% change	0%	3%	-1%	-1%
Cash costs (R/oz) - new	16366	17053	18081	19975
Cash costs (R/oz) - old	16366	16964	17988	19809
% change	0%	1%	1%	1%
HEPS (SAc) - new	-548	556	1067	1445
HEPS (SAc) - old	-548	394	952	1424
% change	0%	42%	12%	1%

Source: Company data, Citi Research estimates

Valuation

Incorporating the changes above and lowering our Mogalakwena outlook further out, we have downgraded our TP 2% to R400. We also downgrade our previous Neutral recommendation to a Sell. We value AMS on a sum-of-the-parts discounted cash flow (DCF) basis. 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 valuation of AMS relative to its peers to account for its strategic advantage due to its control of 55% of sector reserves.

Figure 10. AMS sum-of-the-parts DCF valuation

NAV calculation	DCF (Rm)	Exit multiple (x)	Market value (Rm)	% of total
Rustenburg	-14 381	1.10	-15 819	-15
Amandelbult	7 574	1.10	8 331	8
Union	11 632	1.10	12 795	12
Mogalakwena	47 899	1.10	52 689	51
Lebowa	3 743	1.10	4 117	4
Twickenham	7 291	1.10	8 020	8
Unki	5 052	1.10	5 557	5
West Tailings	1 984	1.10	2 182	2
Kroondal	6 275	1.10	6 902	7
Modikwa	10 240	1.10	11 264	11
Marikana	-874	1.10	-962	-1
Mototolo	7 837	1.10	8 621	8
Operational value	94 271	1.10	103 698	100
Net (debt)/cash	-11 456	1.0	-11 456	
Investments	3 301	1.0	3 301	
Overhead costs	-2 805	1.0	-2 805	
Financial obligations	-10 960		-10 960	
NAV	83 311		92 738	
Equity value (Rm)	92 738			
Market cap (Rm)	156 660			
Number of shares in issue (m)	261			
CitiE target price (ZAR/share)	400			

Source: Citi Research estimates

Figure 11. CitiE mining comparatives table (calendarised)

	TP Curr.	RIC code	Rating	Current price	TP	CY14e DY (%)	ETR* (%)	Current P/DCF	P/E			EV/EBITDA			FCF yield (%)	
									2013	2014e	2015e	2013	2014e	2015e	2013	2014e
Lonmin	GBP	LMI.L	Buy	3.1	4.6	0.2	49.6	0.7	24.8	22.8	22.2	6.8	5.4	5.3	8.7	1.5
Impala Platinum	ZAR	IMPJ.J	Buy	115.1	165.0	2.6	45.9	0.6	20.6	15.9	13.5	6.5	6.6	6.0	2.9	4.9
Rio Tinto	GBP	RIO.L	Buy	32.6	40.0	3.7	26.3	0.8	10.2	9.0	8.5	5.5	4.7	4.2	2.0	9.2
BHP Billiton	GBP	BLT.L	Buy	18.0	21.0	4.4	21.3	0.9	12.3	10.8	10.7	6.0	5.3	5.0	2.5	7.1
Gold fields	ZAR	GFIJ.J	Neutral	38.5	45.0	0.5	17.4	1.5	-35.0	67.1	14.5	4.2	4.6	3.4	10.4	8.7
Aquarius	GBP	AQP.L	Neutral	0.4	0.4	0.0	11.4	0.9	-37.2	25.3	9.6	12.0	8.1	4.9	-6.6	16.4
Kinross	USD	KGC.N	Neutral	4.6	5.1	0.0	10.9	0.8	14.9	51.7	21.9	4.8	6.7	5.5	-17.2	-0.4
Kumba Iron Ore	ZAR	KIOJ.J	Neutral	445.0	450.0	9.5	10.6	1.0	7.8	9.4	15.0	4.3	5.1	7.8	13.1	13.1
Newmont	USD	NEM.N	Neutral	21.6	23.0	2.8	9.3	0.7	13.9	27.0	12.0	8.3	9.9	7.1	-2.7	2.2
Barrick gold	USD	ABX.N	Buy	19.5	21.0	1.0	8.7	0.9	7.8	18.5	13.5	6.6	8.7	7.0	-1.8	-0.8
Northam	ZAR	NHMJ.J	Neutral	41.3	44.0	0.5	7.2	0.9	31.5	19.5	12.1	18.1	11.6	7.6	-5.7	1.7
African Rainbow	ZAR	ARIJ.J	Buy	218.0	225.0	3.0	6.2	0.9	10.5	11.6	11.5	4.9	5.2	4.8	2.4	7.9
Goldcorp	USD	GG.N	Buy	25.2	26.0	2.4	5.7	0.9	29.0	59.0	22.9	15.3	14.6	9.5	-6.0	-4.4
RBPlat	ZAR	RBPJ.J	Neutral	62.8	65.0	0.0	3.5	1.0	31.2	32.3	24.4	12.2	11.6	10.5	-2.7	-15.2
Anglo American	GBP	AAL.L	Neutral	14.3	14.0	3.6	1.7	1.0	11.7	14.2	13.7	5.1	5.3	5.3	16.5	3.2
Harmony	ZAR	HARJ.J	Sell	31.4	31.0	0.0	-1.1	1.6	118.0	-33.4	-16.9	4.8	6.1	5.8	-5.0	-3.6
Newcrest	AUD	NCM.AX	Sell	9.7	9.0	0.0	-7.2	1.1	13.7	12.8	10.0	7.4	7.1	5.5	-6.8	9.1
Anglo Platinum	ZAR	AMSJ.J	Sell	440.9	400.0	0.5	-8.8	1.2	79.3	41.3	30.5	13.0	14.1	11.5	-0.1	5.5
AngloGold Ashanti	ZAR	ANGJ.J	Sell	165.3	145.0	0.3	-12.0	2.1	9.1	39.1	14.5	5.5	7.5	5.2	-11.6	2.9
Freeport-McMoRan	USD	FCX.N	Sell	31.9	26.0	3.9	-14.7	1.3	12.3	12.8	11.2	6.1	6.2	5.5	2.5	3.1
Randgold	GBP	RRS.L	Sell	43.1	35.5	0.4	-17.2	1.0	23.6	21.4	17.3	11.6	9.2	7.4	-2.7	5.5
Assore	ZAR	ASRJ.J	Sell	400.5	290.0	2.6	-25.0	1.3	9.2	10.1	11.5	7.2	7.5	8.1	7.0	8.0
Sibanye	ZAR	SGLJ.J	Sell	16.9	11.2	2.3	-31.6	2.4	4.8	13.3	14.3	1.9	2.0	1.9	39.3	-3.2

Source: Powered by dataCentral, priced as at 03/02/2014

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 on AMS is highly dependent on input assumptions of the 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 on the application of our discretion to management's guidance and targets. 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.

CitiE price assumptions

Figure 12. Citi metal price assumptions

	2013a	2014e	2015e	2016e	2017e	2018e	LT real
Platinum price (USD/ounce)	1 490	1 538	1 650	1 700	1 750	1 850	1 763
Palladium price (USD/ounce)	728	820	925	925	950	925	780
Rhodium price (USD/ounce)	1 069	1 150	1 250	1 650	2 000	2 500	3 292
Gold price (USD/ounce)	1 411	1 250	1 350	1 370	1 400	1 205	1 050
3PGM +Au basket price (R/ounce)	11 853	13 331	14 360	14 992	15 762	16 738	15 600

Source: INET, Citi Research estimates

Company narratives

Anglo American Platinum Ltd

Company description

Anglo Platinum (AMS) is the world's largest platinum producer, with 41% global market share. The company holds 17 operating assets located in South Africa. The Rustenburg and Amandelbult assets currently make up 43% of AMS's production and constitute 39% of AMS's NAV, on our estimates. AMS holds a strategically important open pit mine, Mogalakwena, which currently forms 51% of our NAV estimate.

Investment strategy

We rate AMS Sell. We've been encouraged by AMS's recent operational performance, but we think the c.30% rally in its share price of late means it is now overvalued.

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.

Appendix A-1

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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

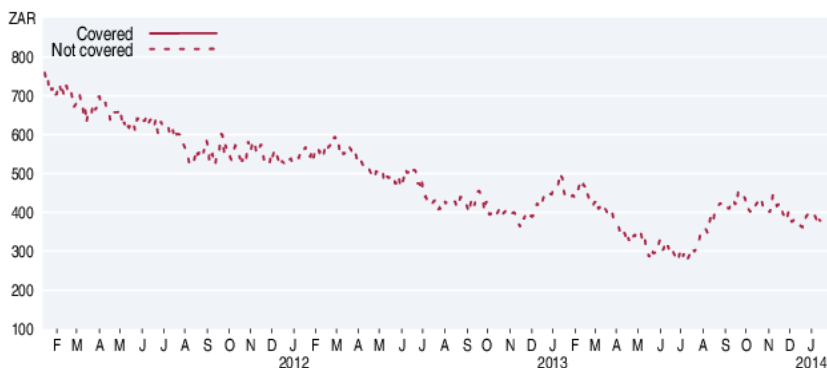
	Date	Rating	Target Price	Closing Price
13	14-Apr-13	*2	*380.00	344.00
14	21-May-13	*1	380.00	288.50
15	14-Jul-13	1	*350.00	291.24
16	10-Sep-13	*2	*470.00	422.00
17	13-Jan-14	2	*410.00	380.01

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

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 31 Dec 2013

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