

Equities

15 June 2011 | 40 pages

Royal Bafokeng Platinum (RBPJ.J)

'Happily Ever After' Priced In, But Not Guaranteed – Hold

- Company Update
- Initiation of Coverage

- **Initiate coverage with Hold/Medium Risk (2M) rating and R70 TP** — RBP's existing cash-generative assets, low-cost growth project and favourable geographic location give it a 'fairy tale-like' feel. However, we believe that these attributes are well reflected in its current market valuation. Further upside from here would require M&A to return to the agenda, in our view. Hold, TP R70.

- **The 'fairy tale' combination** — RBP's story has three characteristics that give it a 'fairy tale-like' feel: 1) its Boschkoppie mine is highly cash generative and holds further improvement potential; 2) its Styldrift project offers significant low-cost (Q1) growth within the next seven years; and 3) it is geographically and strategically well located to partake in industry consolidation.

- **Not without drama** — Even though we like the RBP story, most of this upside is reflected, in our view. Its current market valuation represents a c.20% premium to our R58 NPV; possibly as the market is pricing in further value-enhancing corporate action. We also highlight a likely R4-5bn funding shortfall for the development of Styldrift, a portion of which will likely be funded through equity, in our view.

- **'Happily ever after' not guaranteed** — As a result, we believe RBP requires M&A to return to the agenda in order to achieve additional upside from here. But M&A is not guaranteed, since its JV partner (AMS) holds several legal rights that can block a potential offer, as it did with IMP in October 2010.

- **Valuation: We prefer NHM over RBP** — As such, we initiate coverage on RBP with a Hold recommendation and R70 TP. Our TP is based on a 1.2x P/DCF exit multiple, which we view as applicable given RBP's favourable strategic position within the SA platinum sector. On a relative basis, however, we prefer NHM (Buy) over RBP. It has a similar story, but: 1) with a more appealing valuation; 2) without a JV partner that can block corporate activity; and 3) without dilution risk.

Hold/Medium Risk	2M
Price (13 Jun 11)	R67.21
Target price	R70.00
Expected share price return	4.2%
Expected dividend yield	0.0%
Expected total return	4.2%
Market Cap	R11,087M
	US\$1,634M

Price Performance (RIC: RBPJ.J, BB: RBP SJ)



Royal Bafokeng Platinum (ZAR)

Year to 31 Dec	2009A	2010A	2011E	2012E	2013E
Sales (RM)	1,154.7	2,106.1	3,171.7	3,610.5	4,065.8
Net Income (RM)	-122.8	271.8	495.9	644.9	805.5
Diluted EPS (¢)	-1,068	192	303	394	492
PE (x)	-6.3	34.9	22.2	17.1	13.7
EV/EBITDA (x)	na	14.9	10.5	9.0	8.1
DPS (¢)	0	0	0	0	0
Net Div Yield (%)	0.0	0.0	0.0	0.0	0.0

Johann Steyn
+27-11-944-0087
johann.steyn@citi.com

Craig Irwin
craig.irwin@citi.com

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

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Fiscal year end 31-Dec	2009	2010	2011E	2012E	2013E
Valuation Ratios					
P/E adjusted (x)	-6.3	34.9	22.2	17.1	13.7
EV/EBITDA adjusted (x)	na	14.9	10.5	9.0	8.1
P/BV (x)	1.4	1.0	1.0	0.9	0.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Per Share Data (¢)					
EPS adjusted	-1,068	192	303	394	492
EPS reported	-1,068	2,241	303	394	492
BVPS	4,975	6,686	6,622	7,097	7,671
DPS	0	0	0	0	0
Profit & Loss (RM)					
Net sales	1,155	2,106	3,172	3,610	4,066
Operating expenses	-969	-1,656	-2,395	-2,549	-2,669
EBIT	185	450	776	1,061	1,397
Net interest expense	-303	3	0	-50	-130
Non-operating/exceptionals	0	2,886	-78	-103	-132
Pre-tax profit	-118	3,339	698	908	1,135
Tax	-5	-172	-203	-263	-329
Extraord./Min.Int./Pref.div.	0	-1	0	0	0
Reported net income	-123	3,167	496	645	806
Adjusted earnings	-123	272	496	645	806
Adjusted EBITDA	331	830	1,326	1,611	1,947
Growth Rates (%)					
Sales	na	82.4	50.6	13.8	12.6
EBIT adjusted	na	146.3	70.0	36.7	31.6
EBITDA adjusted	na	150.9	59.8	21.5	20.8
EPS adjusted	na	118.0	57.4	30.0	24.9
Cash Flow (RM)					
Operating cash flow	241	785	1,154	1,300	1,445
Depreciation/amortization	145	373	550	550	550
Net working capital	-73	-51	30	2	-42
Investing cash flow	-412	-880	-1,563	-2,304	-2,898
Capital expenditure	-419	-719	-1,563	-2,304	-2,898
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	42	943	0	1,000	1,600
Borrowings	42	0	0	1,000	1,600
Dividends paid	0	0	0	0	0
Change in cash	-129	847	-409	-4	147
Balance Sheet (RM)					
Total assets	7,277	18,451	18,642	20,480	23,067
Cash & cash equivalent	52	899	491	487	633
Accounts receivable	592	1,047	634	722	813
Net fixed assets	3,652	7,338	8,351	10,105	12,454
Total liabilities	462	4,099	4,397	5,457	7,104
Accounts payable	97	415	713	773	819
Total Debt	0	0	0	1,000	2,600
Shareholders' funds	6,815	14,352	14,245	15,023	15,963
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	28.7	39.4	41.8	44.6	47.9
ROE adjusted	na	3.1	4.6	5.7	6.7
ROIC adjusted	na	2.4	3.3	4.4	5.2
Net debt to equity	-0.8	-6.3	-3.4	3.4	12.3
Total debt to capital	0.0	0.0	0.0	6.2	14.0

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please contact CIRA Data Services Europe at
CIRADataServicesEMEA@citi.com or +44-207-986-
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Contents

Summary	4
The Fairy Tale Combination	5
Low-cost, cash generative asset	5
Attractive medium to longer-term growth outlook	9
Ideally located to partake in industry consolidation	12
Not Without Drama	14
Upside more than reflected	14
Significant capex requirements will strain balance sheet, shareholders?	16
Happily Ever After Not Guaranteed	17
In need of M&A for further upside	17
Previous take-over attempt failed	18
There Are Better Stories Out There	19
We prefer NHM (Buy) over RBP (Hold)	19
Valuation and Risk	21
Initiate coverage with a Hold, TP R70	21
Risks	22
Sensitivity analysis	23
Input price assumptions	23
Company Overview	26
Organizational structure	26
Asset overview	26
Operational overview	27
Shareholder structure	30
Financial statements and ratio analysis	30
Appendix I: Cost curves	32
Royal Bafokeng Platinum	33
Appendix A-1	35

Summary

RBP's existing cash-generative assets, low-cost growth project and favourable geographic location give it a 'fairy tale-like' feel. However, we believe that these attributes are well reflected in its current market valuation. In order to achieve more upside from here, we believe it requires M&A to return to the agenda. We initiate coverage with a Hold, TP R70.

The 'fairy tale' combination

RBP's story has three characteristics that give it a 'fairy tale-like' feel: 1) its Boschkopie mine is highly cash generative and holds further improvement potential; 2) its Styldrift project offers significant low-cost (Q1) growth within the next seven years; and 3) it is geographically and strategically well located to partake in industry consolidation.

Not without drama

Even though we like the RBP story, most of this upside is reflected, in our view. Its current market valuation represents a c.20% premium to our R58 NPV; possibly as the market is pricing in further value-enhancing corporate action. We also highlight a likely R4-5bn funding shortfall for the development of Styldrift, a portion of which will likely be funded through equity, in our view.

'Happily ever after' not guaranteed

As a result, we believe RBP requires M&A to return to the agenda in order to achieve additional upside from here. But M&A is not guaranteed, since its JV partner (AMS) holds several legal rights that can block a potential offer, as it did with IMP in 2010.

There is a better story out there

On a relative basis, however, we prefer NHM (Buy) over RBP. It has a similar story, but: 1) with a more appealing valuation; 2) without a JV partner that can block corporate activity; and 3) without dilution risk.

Figure 1. Comparative mining company valuations (calendarised)

	TP Curr.	Rating	Current price	TP % upside	CY11e DY (%)	ETR (%)	Current P/DCF	P/E			EV/EBITDA			
								2010	2011e	2012e	2010	2011e	2012e	
Xstrata	GBP	1M	13.34	20.11	50.7	1.8	52.5	0.7	12.5	8.4	7.6	7.3	5.1	4.5
African Rainbow	ZAR	1M	191.00	260.00	36.1	3.7	39.8	0.9	16.2	9.6	7.5	6.9	4.5	3.5
Barrick Gold	USD	1M	43.39	60.00	38.3	1.1	39.4	1.7	13.2	9.8	10.1	8.2	6.2	6.1
BHP Billiton	GBP	1M	22.80	30.00	31.6	2.7	34.3	0.8	11.8	8.7	8.5	7.2	5.6	5.1
Impala Platinum	ZAR	1M	182.85	240.00	31.3	3.0	34.3	0.6	20.4	14.4	11.5	10.5	7.6	6.2
Anglo American	GBP	1M	29.01	38.00	31.0	2.0	33.0	0.8	12.0	8.8	7.1	6.6	4.8	3.9
Northam	ZAR	1M	42.75	56.00	31.0	0.9	31.9	0.8	31.3	25.5	13.1	20.3	16.0	8.2
Randgold	GBP	1M	47.50	61.35	29.2	0.9	30.1	1.5	51.0	23.0	16.3	33.2	12.8	8.7
Rio Tinto	GBP	1M	41.06	52.00	26.7	1.8	28.5	0.8	9.4	6.9	7.3	5.0	3.2	3.0
Exxaro	ZAR	2M	160.70	190.00	18.2	4.6	22.8	1.0	12.0	7.8	7.1	15.5	9.9	8.4
Newcrest	AUD	2M	37.30	44.00	18.0	0.9	18.9	1.7	27.2	25.9	20.8	19.0	13.4	10.5
AngloGold Ashanti	ZAR	2M	290.50	340.00	17.0	1.2	18.2	1.5	-9.1	16.9	15.8	13.4	7.4	6.9
Lonmin	GBP	2M	14.76	16.88	14.4	1.6	16.0	1.0	29.6	16.2	10.1	10.8	6.6	4.3
Aquarius	GBP	2H	5.09	5.50	8.1	1.9	10.0	1.0	30.7	19.2	13.8	12.5	9.5	7.6
Newmont	USD	2M	51.90	55.00	6.0	1.2	7.2	1.5	12.7	10.8	13.0	5.9	5.2	5.8
RBP	ZAR	2M	67.21	70.00	4.2	0.0	4.5	1.2	37.6	22.4	17.1	16.2	10.6	9.0
Anglo Platinum	ZAR	3M	637.01	650.00	2.0	2.4	4.4	1.1	35.4	21.1	13.9	16.8	10.3	7.5
Kumba Iron Ore	ZAR	3M	465.00	430.00	-7.5	9.6	2.1	1.3	11.2	8.4	8.1	6.4	4.5	4.3
Gold fields	ZAR	3M	99.01	95.00	-4.1	2.8	-1.3	1.7	18.7	12.5	14.9	6.3	5.0	5.9
Harmony	ZAR	3M	87.10	85.00	-2.4	0.0	-2.4	1.6	74.4	32.6	30.4	17.4	11.3	8.9

Source: Citi Investment Research and Analysis

Prices as at close of 13 June 2011

The Fairy Tale Combination

RBP's story has three characteristics that gives it a 'fairy tale-like' feel: 1) its Boschkopie mine is highly cash generative and holds further improvement potential; 2) its Stydrift project offers significant low-cost (Q1) growth within the next seven years; and 3) it is geographically and strategically well located to partake in industry consolidation.

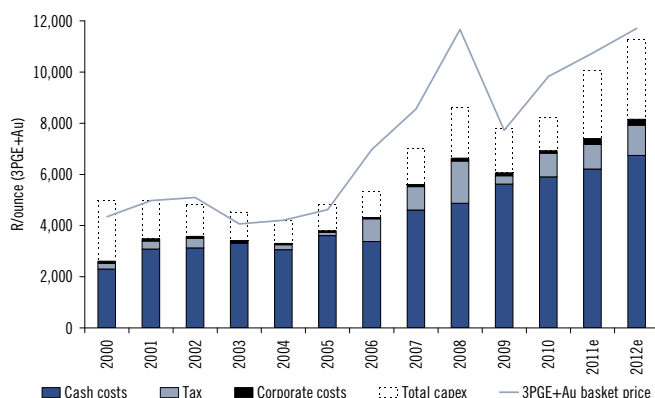
Low-cost, cash-generative asset

Boschkoppie has been highly cash generative...

Boschkoppie has been highly cash flow generative

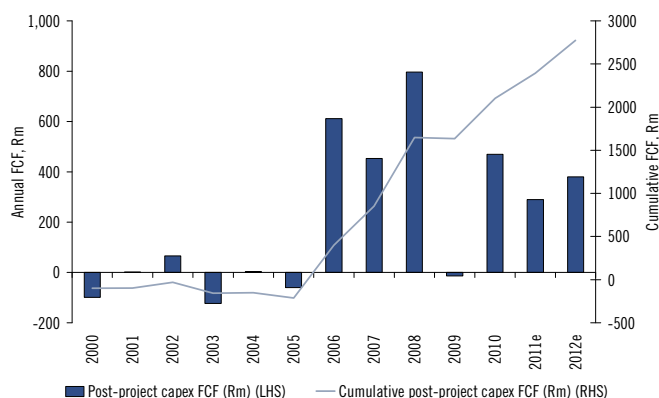
RBP's Boschkopie mine has been highly cash generative over the past decade, especially since 2006. We estimate that it generated a cumulative R2bn in post-project capex free cash flow between 2006 and 2010.

Figure 2. Boschkopie historical 'all-in cost' evolution (R/ounce)



Source: Company Reports and CIRA Estimates

Figure 3. Boschkopie historical post-project capex FCF (Rm)

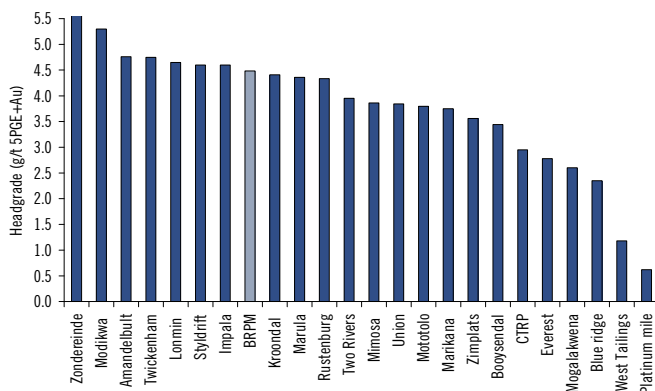


Source: Company Reports and CIRA Estimates

Mainly due to its high-grade reserves, favourable prill split and shallow mining depths...

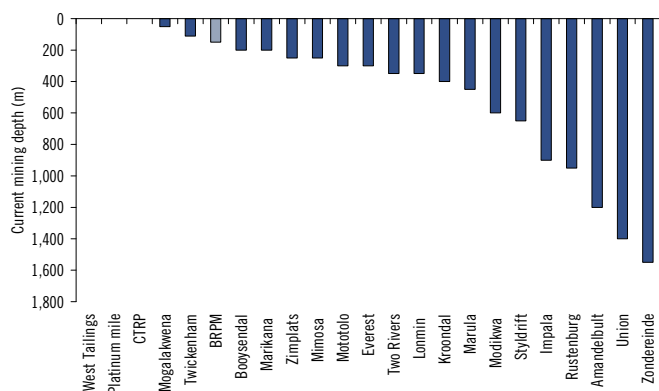
Boschkoppie's cash-generative capacity has been largely due to its high-grade reserves (4.5 g/t, 5PGE+Au), favourable prill split (Pt: 63%, Pd: 28%, Rh: 4%, Au: 5%) and shallow mining depths (150m).

Figure 4. Comparative head grades (5PGE+Au)



Source: Company Reports and CIRA Estimates

Figure 5. Comparative mining depths

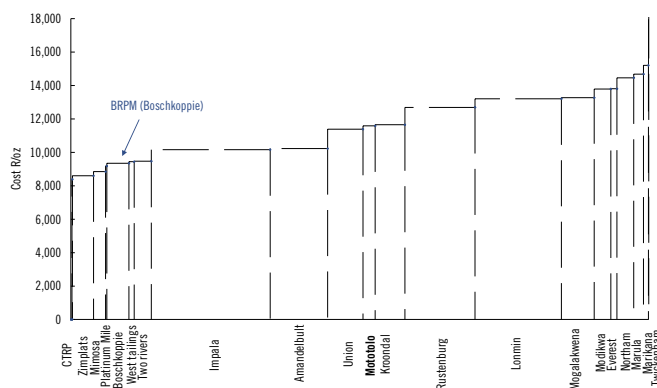


Source: Company Reports and CIRA Estimates

...which earned it a favourable position on the cost curve

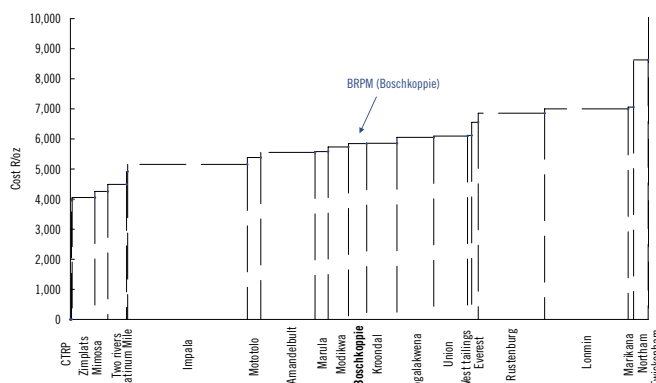
These characteristics have resulted in Boschkoppie occupying a favourable position on the global cost curve, especially on a 'per-platinum' ounce basis.

Figure 6. 2H10 platinum cash cost curve (R/oz, Pt)



Source: Company Reports and CIRA

Figure 7. 2H10 5PGE+Au cash cost curve (R/oz, 5PGE+Au)



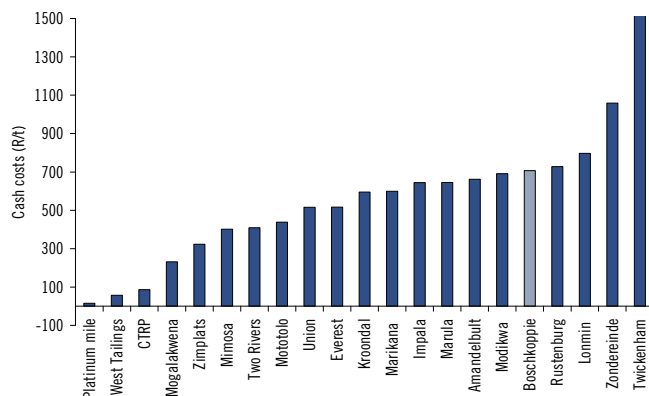
Source: Company Reports and CIRA

...despite previous operational inefficiencies

Boschkoppie's cash-generating capacity was despite historical operational inefficiencies

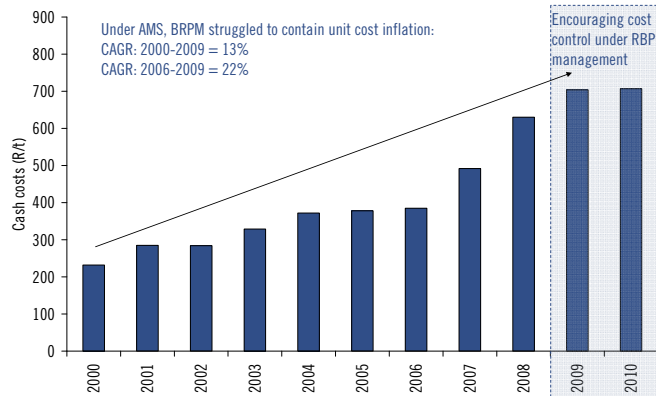
Even though Boschkoppie has been highly free cash flow (FCF) generative, we believe it has not performed to its full potential under the previous Anglo Platinum (AMS) management. This is as its 50th percentile cost curve position (on a 5PGE+Au basis) does not fully reflect its Q1 and Q2 positions on a mining depth and grade basis respectively. In fact, on a R/t basis, Boschkoppie ranks in Q3 of the cost curve (Figure 8). This is as it failed to control unit cost inflation in 2006 to 2009, during which period R/t costs increased by a CAGR of 22%.

Figure 8. CY10 unit cash costs (R/t)



Source: Company Reports and CIRA

Figure 9. BRPM (Boschkoppie) historical unit cost evolution (R/t)



Source: Company Reports

We see significant turnaround potential through a more focused approach by management

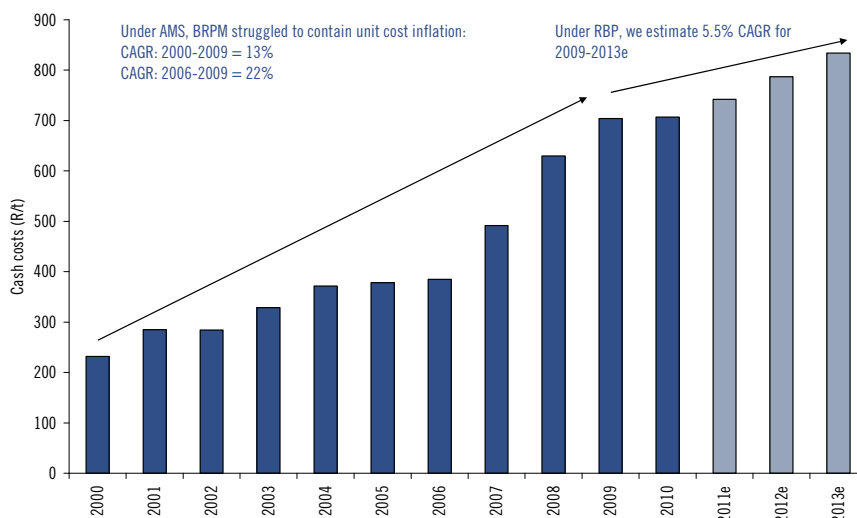
As a result, we believe significant turnaround potential exists through a more focused approach by the RBP management team. We have already observed the effect of a more focused management approach, as 2010 unit costs only increased by 2% y-o-y to R717/ton.

We believe Boschkoppie has 'easy wins' to reign in costs

RBP aims to keep costs flat in real terms

RBP aims to keep unit costs constant in real terms in the medium term. Using our CIRA SA CPI outlook, this implies unit cost inflation of 5-6% p.a. in nominal terms.

Figure 10. BRPM (Boschkoppie) unit cost outlook (R/t)

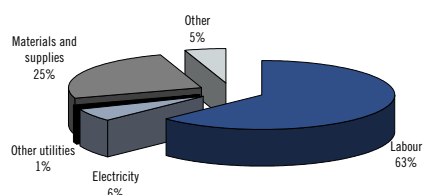


Source: Company Reports and CIRA Estimates

We believe this is achievable, and the biggest lever will be right-sizing its headcount

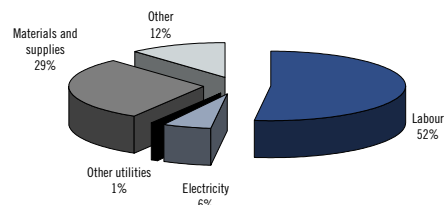
We believe that achieving this target is feasible. Probably the biggest lever for keeping costs flat in real terms would be to right-size its headcount to something more in line with that of its peers. Labour currently forms 63% of RBP's cost base, compared to 49% on average for its peers.

Figure 11. RBP cost breakdown



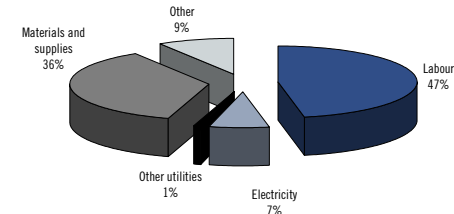
Source: Company Reports

Figure 12. AMS cost breakdown



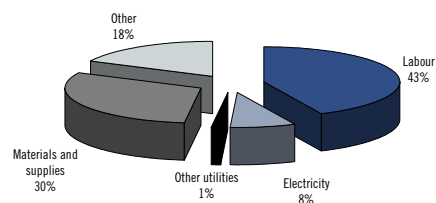
Source: Company Reports

Figure 13. IMP cost breakdown



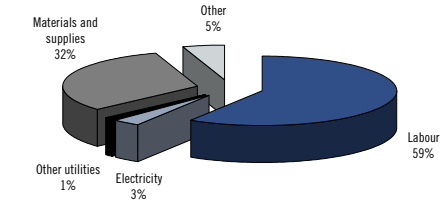
Source: Company Reports

Figure 14. NHM cost breakdown



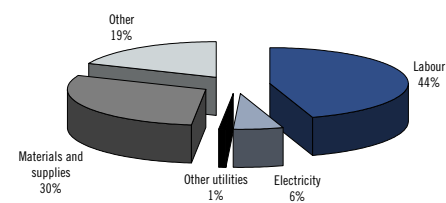
Source: Company Reports

Figure 15. LON cost breakdown



Source: Company Reports

Figure 16. AQP cost breakdown



Source: Company Reports

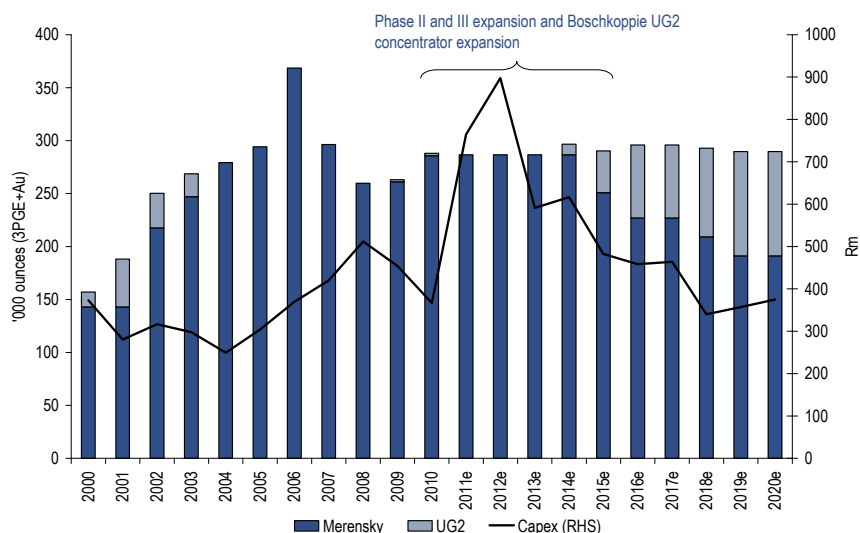
Contract labour forms 35% of RBP's labour costs. As a result, right-sizing through laying off contract labour would be a feasible method for reigning in costs, in our view.

RBP also cites revisiting its current mine design and delivering on-the-ground operational efficiency improvement initiatives (like improving drill patterns) as additional levers for controlling unit cost inflation going forward.

RBP will have to invest R200-250m in order to maintain current production levels at Boschkoppie

Also, in order to achieve its cost targets, RBP will have to increase the current 200ktpm concentrating capacity at Boschkoppie to 230-250ktpm. This is needed in order to offset the effect of a declining Merensky profile by treating a larger amount of lower-grade UG2 ore (and thus to maintain its current 5PGE+Au output). Its current concentrator can treat a maximum of 5-8% UG2 ore and this needs to be increased to approximately 11%. We estimate R200-250m in capex for this concentrator upgrade.

Figure 17. Boschkoppie production and capex profile ('000 ounces, Rm)



Source: Company Reports and CIRA Estimates

Attractive medium- to longer-term growth outlook

Styldrift will add 344,000 ounces by 2017E

In addition to Boschkoppie, RBP is in the process of developing its Styldrift project which we estimate will add 344,000 ounces (3PGE+Au) by 2017. We highlight some of the project's parameters in Figure 18 below.

Figure 18. Styldrift project parameters

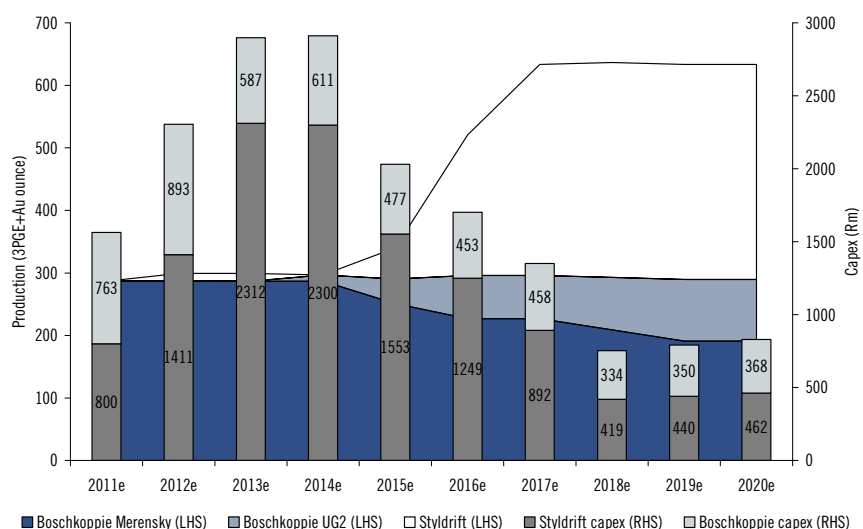
Project parameter	Units	Value
Steady-state volumes	000 tonnes	2750
Merensky head grade	g/t, 3PGE+Au	4.45
UG2 head grade		4.00
Merensky recovery	%	86%
UG2 recovery		78%
PGM production	000 ounces	344
Platinum production		220
Unit cash costs	R/t	560
Year in which steady-state achieved	year	2017
Project capex	Rbn	11.2
Sustaining capex	% of opex	12%

Source: Company Reports and CIRA Estimates

Styldrift will add 344,000 ounces by 2017E...

The development of Styldrift, together with the expansion projects at Boschkoppie, will result in significant capital requirement for RBP over the next seven years. We estimate peak capex of approximately R3.0bn p.a. in 2013 and 2014 respectively.

Figure 19. RBP production profile and capex, including Styldrift I



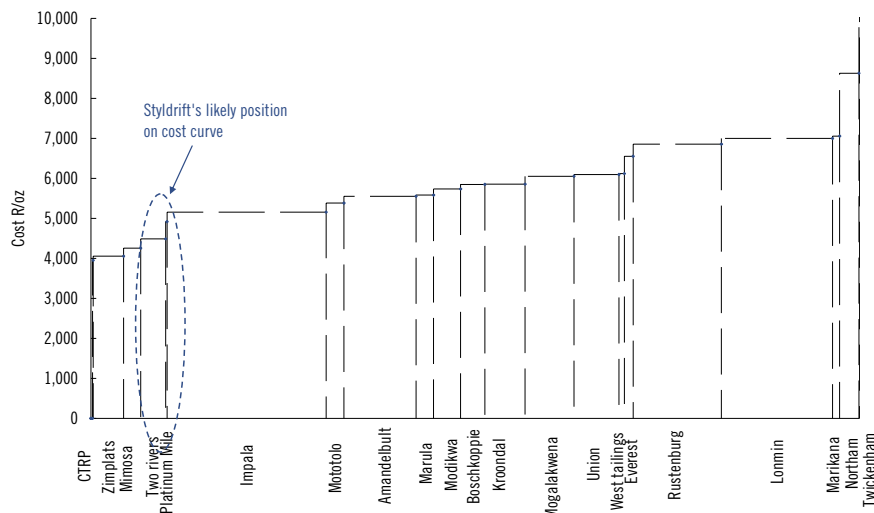
Source: CIRA Estimates, Company Reports

We expect Styldrift to come online in Q1 of the cost curve

Based on the feasibility numbers, we expect Styldrift to produce at steady-state unit costs of R560/t, real. On a per-ounce basis (5PGE+Au), this translates into approximately R4,450/ounce. As a result, we expect Styldrift to be positioned in Q1 of the cost curve.

...and should be positioned in Q1 of the cost curve...

Figure 20. Styldrift's estimated position on the 5PGE+Au cash cost curve, in 2010 real terms (R/ounce, 5PGE+Au)

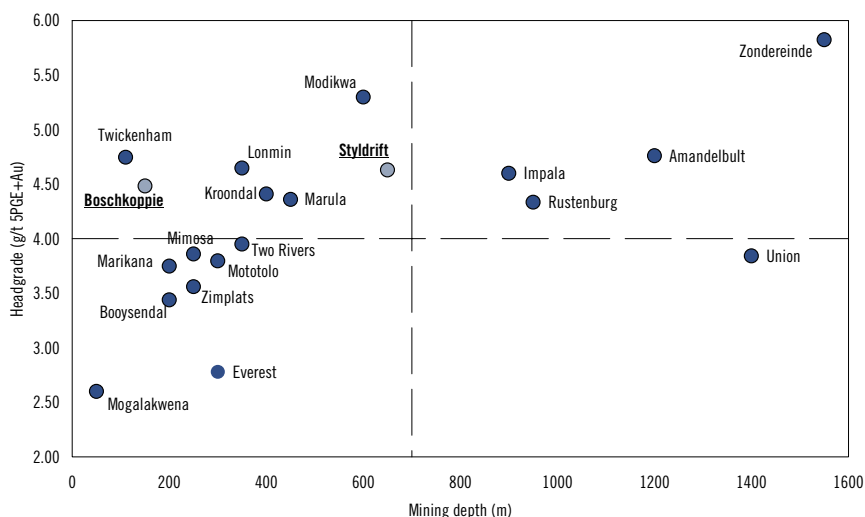


Source: Citi Investment Research and Analysis, Company Reports

...mainly due to its high-grade and shallow reserves

This low-cost position is despite its similar head-grade and deeper mining depth compared to Boschkopie, and mainly due to a broader reef width (Styldrift: 1.3-2.5m, Boschkopie: 80cm) that will lend itself to mechanised mining.

Figure 21. SA platinum mine comparative head-grades and mining depths (5PGE+Au, m)



Source: Company Reports and CIRA Estimates

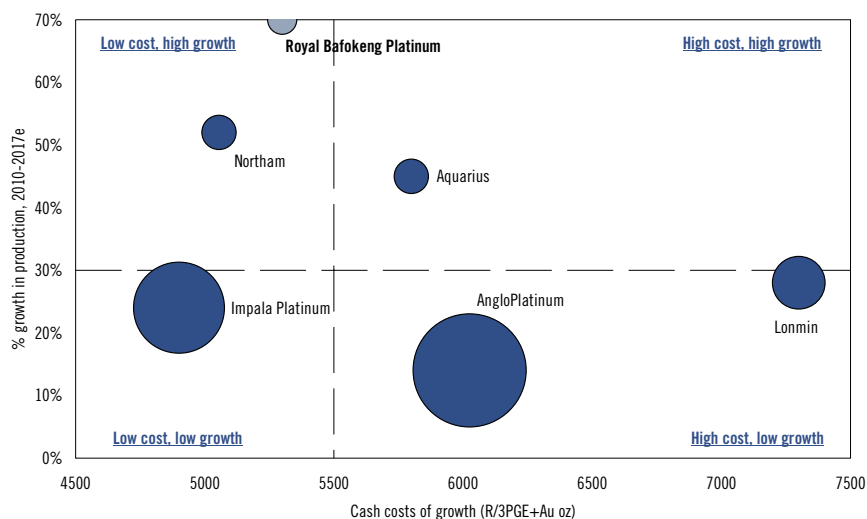
This, together with its very favourable head-grade and mining depth, should make Styldrift (and RBP) very cost competitive relative to its peers.

Relative to its peers, RBP offers a superior seven-year growth outlook...

Styldrift should provide RBP with superior low-cost growth

The ramp-up of Styldrift provides RBP with a superior growth outlook relative to its peers, at attractively low-cost. We expect RBP to grow production by 120% between 2010-17, compared to NHM 52%, Aquarius Platinum (AQP) 45%, Lonmin (LON) 28%, IMP 25% and AMS 15%.

Figure 22. Comparative growth*, and cost of growth, outlook for SA platinum companies (% R/ounce)



Source: Company Reports and CIRA Estimates

* RBP's growth limited to 70% on this chart for presentation purposes. Actual growth is estimated at 120%.

...and further longer-term upside exists through Styldrift Phase II

Further longer-term upside exists through Styldrift Phase II

RBP holds additional long-term expansion potential through Styldrift Phase II, which is not incorporated in our outlook at this stage. Styldrift II is currently in conceptual phase and contains an estimated 54m ounces of Measured and Indicated resources, and 21m ounces of Inferred resources (3PGE+Au). The existing drill programme will continue until the end of 2011. We expect the pre-feasibility study to commence early in 2012 and feasibility in 2013. At best, we expect development to commence in 2015.

The magnitude, capex requirements and cost estimates for Styldrift II are difficult to estimate at this early stage. However, given that it will be deeper than Styldrift I, we expect Styldrift II's unit costs and capital requirements to be higher.

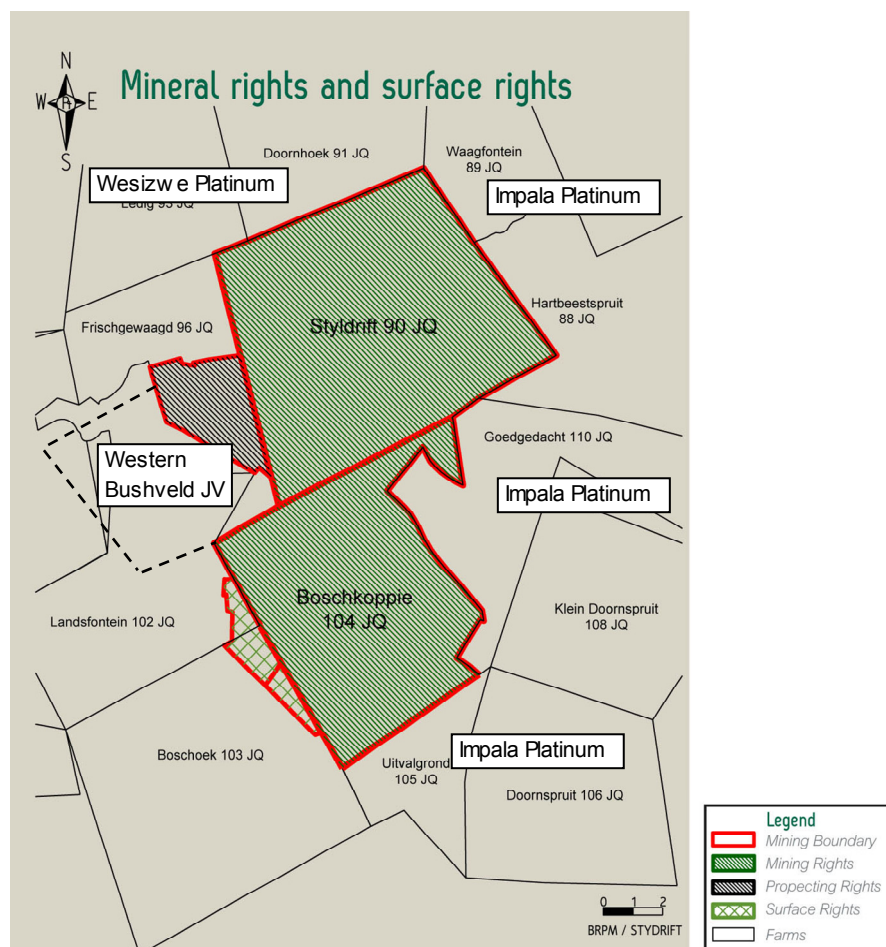
Well positioned to partake in industry consolidation

Geographically well positioned...

RBP is geographically and strategically well positioned to partake in industry consolidation

The Bafokeng Rasimone Platinum Mine (BRPM) operations and mineral and surface rights are neighboured by three of its peers, namely: 1) IMP from the north-east to the south; 2) Wesizwe Platinum (WEZ) in the north; and 3) AMS's Western Bushveld JV (WBJV) with WEZ and Platinum Group Metals in the west.

Figure 23. RBP mining rights and surrounding companies



Source: Company reports and CIRA

...as well as strategically

It also holds the key to shallow, low-cost and long-life mining in the Western-limb complex. These attributes are highly in demand in the SA platinum sector, especially since existing mines are getting deeper and more costly to operate. IMP, in particular, faces this outlook at its lease area, which co-incidentally lies directly adjacent to BRPM.

RBP has already been involved in a number of corporate actions

Not surprising it has been involved in numerous corporate actions

RBP's location and access to low-cost shallow ounces make it strategically well positioned to benefit from value-enhancing JV agreements and any future consolidation of the SA platinum sector.

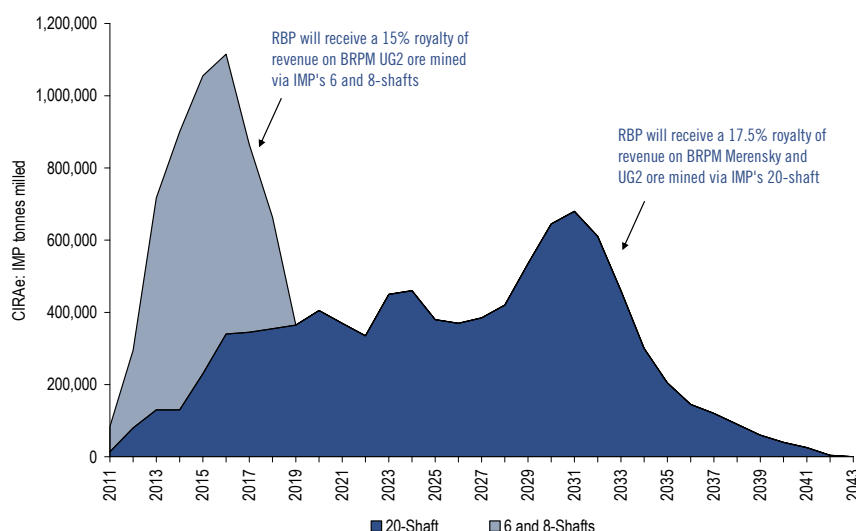
It is therefore of no surprise that it was approached by IMP in a takeover attempt in October 2010. This attempt was, however, vetoed by AMS.

To date, RBP has also entered into two value-enhancing royalty agreements with: 1) IMP's 6- and 8-shafts; and 2) IMP's 20-shaft.

■ **IMP 6- and 8-shaft royalty agreement:** Pre its listing in November 2010, RBP entered into an agreement with IMP whereby RBP would earn a royalty of 15% of IMP's revenue generated from the mining of the BRPM UG2 ore body in close proximity to IMP's 6- and 8-shafts. The ore body contains approximately 780,000 ounces of 3PGE+Au ounces and will be mined over an eight-year period.

■ **IMP 20-shaft royalty agreement:** In 2011, RBP also agreed terms with IMP to mine a further portion of the BRPM Merensky and UG2 resources via IMP's 20-shaft at the far northern section of the Boschkoppe property. The ore body contains approximately 2.2m ounces of 3PGE+Au resources and will be mined over a 30-year period. RBP will receive a royalty from IMP of 17.5% of revenue.

Figure 24. Estimated volume profile of RBP's existing royalty agreements (tonnes)



Source: Company Reports and CIRA Estimates

In both these agreements, RBP has been granted a section 79 exemption by the Department of Mineral Resources (DMR) whereby the safety, health and environmental responsibilities are legally transferred to and assumed by IMP.

Not Without Drama

Even though we like the RBP story, most of this upside is reflected, in our view. Its current market valuation represents a c.20% premium to our R58 NPV; possibly as the market is pricing in further value-enhancing corporate action. We also highlight a likely R4-5bn funding shortfall for the development of Styldrift, a portion of which will likely be funded through equity, in our view.

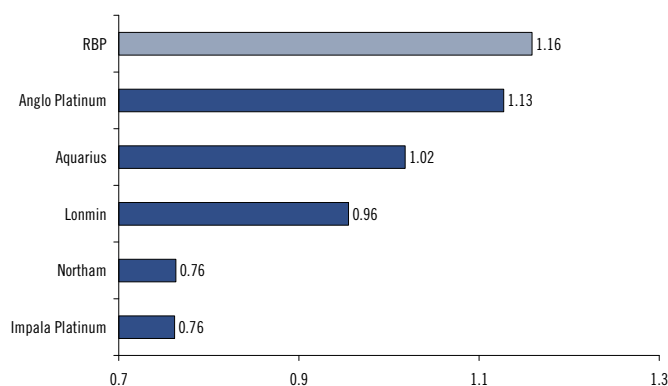
Upside more than reflected

RBP's market valuation reflects most of the upside...

RBP trades at rich levels relative to its peers...

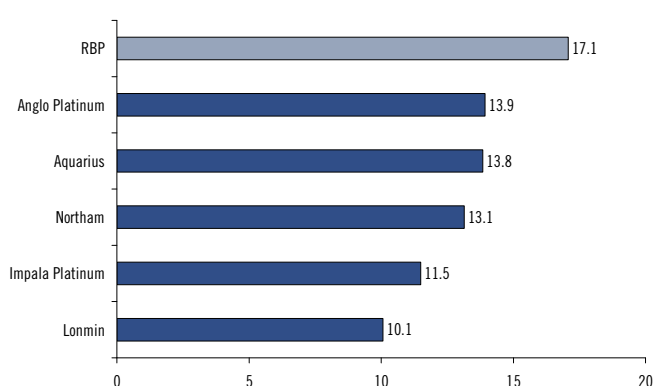
Even though we like the RBP story, we believe that most of the upside is currently reflected in its market value. It trades on a CY12e PE of 17.1x, EV/EBITDA of 9.0x, P/DCF of 1.16 and dividend yield of 0%. On this basis, RBP appears expensive compared to its peers.

Figure 25. Relative P/DCF



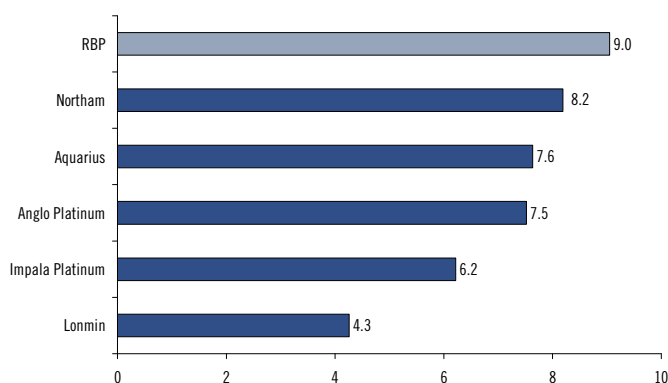
Source: Citi Investment Research and Analysis

Figure 26. CY12e P/E



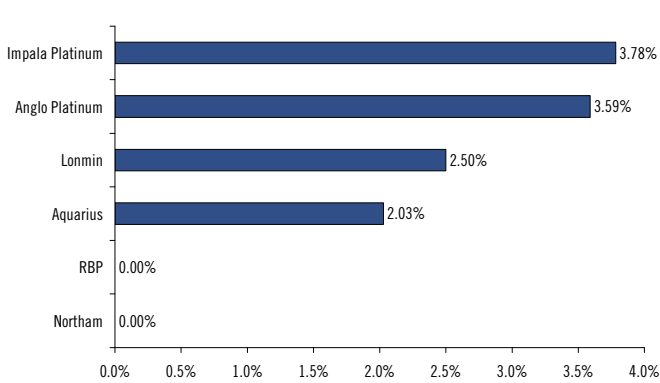
Source: Citi Investment Research and Analysis

Figure 27. CY12e EV/EBITDA



Source: Citi Investment Research and Analysis

Figure 28. CY12e dividend yield (%)



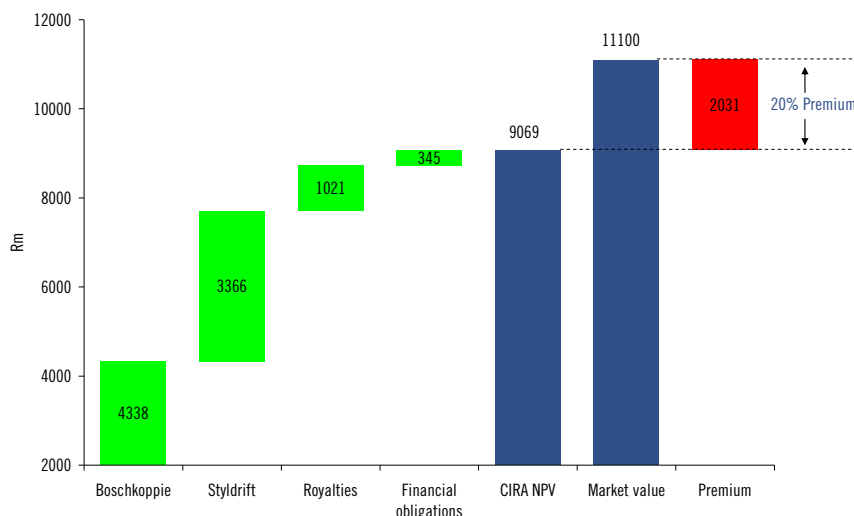
Source: Citi Investment Research and Analysis

... and a little more, potentially pricing in further corporate activity

The fact that RBP trades at a c.20% premium to our NPV might suggest that the market is pricing in further corporate activity. We do not believe that there are value-enhancing royalty agreement opportunities that would justify this 20% premium. As a result, we view it as likely that this may represent a potential acquisition premium.

...possibly pricing in more corporate action

Figure 29. RBP market valuation reflects a 20% premium to our NPV



Source: Citi Investment Research and Analysis

However, M&A will not be easy

AMS holds three legal rights that can block future M&A

Even though we agree that RBP holds attractive assets and is well situated to partake in future M&A in the sector, we caution that a takeover might not be easy. This is as its current JV partner, AMS, holds three legal rights that can block a takeover attempt by a potential suitor:

- **Veto right:** As a 13% minority owner, AMS hold the right to veto any takeover attempt of RBP by IMP. This right expires in December 2012.
- **Off-take agreement:** RBP has a concentrate off-take agreement with AMS. This agreement is renewable on a five-yearly basis, with two years notice required if RBP intends to cancel the agreement. The next contract renewal is due in August 2012. RBP did not give any notice that it intends to cancel the agreement in August 2010. As a result, RBP will continue to have this agreement with AMS at least until August 2017. The next opportunity for RBP to indicate that it would like to cancel the off-take agreement with AMS will be in August 2015.
- **Right of first refusal (ROFR):** AMS holds an indefinite ROFR on any offer that is made for RBP.

This last mentioned point could either play in RBP's favour in the case of any bidding war, or could prevent potential suitors from making an offer in the first place.

Significant capex requirements will strain balance sheet, shareholders?

R4-5bn medium-term funding gap

We estimate a R4-5bn cumulative funding gap for RBP...

The development of Styldrift, together with the expansion projects at Boschkopie, will result in significant capital requirement for RBP over the next seven years. We estimate peak capex of approximately R3.0bn p.a. in 2013 and 2014 respectively. Cash flows from Boschkopie will not be sufficient to cover its capital commitments and we estimate that R4-5bn (R2.7-3.4bn attributable) in additional funding would be required (Figure 30).

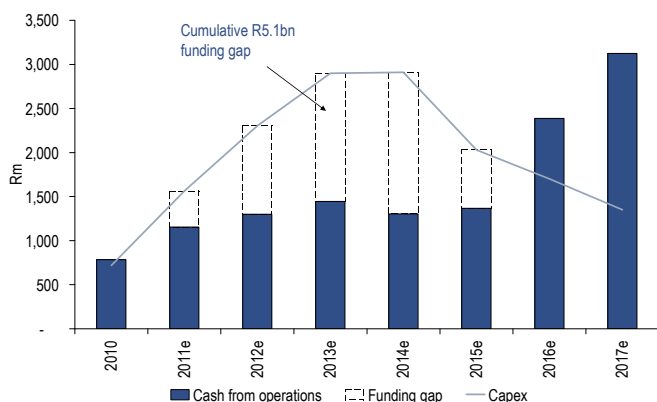
Too big for balance sheet to absorb

...a part of which is likely to be funded through equity

Given the analysis above, we estimate that close to 50% (R4.5bn) of its capex commitments can be funded through cash generated by Boschkopie. If one assumes that the 50% balance will be completely funded through debt, we estimate that RBP's net debt to EBITDA will rise to 2.5x by 2014/15 and net debt to equity to 0.25 (Figure 31).

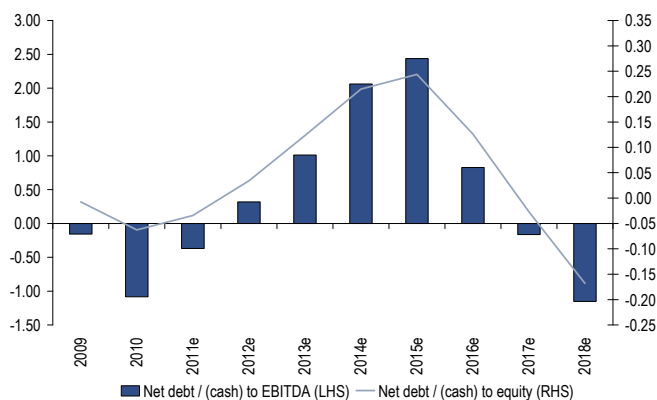
We see this as uncomfortably high levels of debt for RBP. As a result, we view it as likely that a part of the R4-5bn funding shortfall will be made up of equity. Shareholders should therefore be aware of potential dilution risk, probably in 2013/14. In fact, RBP has flagged this previously in its public presentations.

Figure 30. RBP potential funding gap (Rm, 100% basis)



Source: Company Reports and CIRA Estimates

Figure 31. Strength of RBP's balance sheet if funding shortfall is completely funded through debt



Source: Company Reports and CIRA Estimates

Happily Ever After Not Guaranteed

As a result, we believe RBP requires M&A to return to the agenda in order to achieve additional upside from here. But M&A is not guaranteed, since its JV partner (AMS) holds several legal rights that can block a potential offer, as it did with IMP in 2010.

In need of M&A for further upside

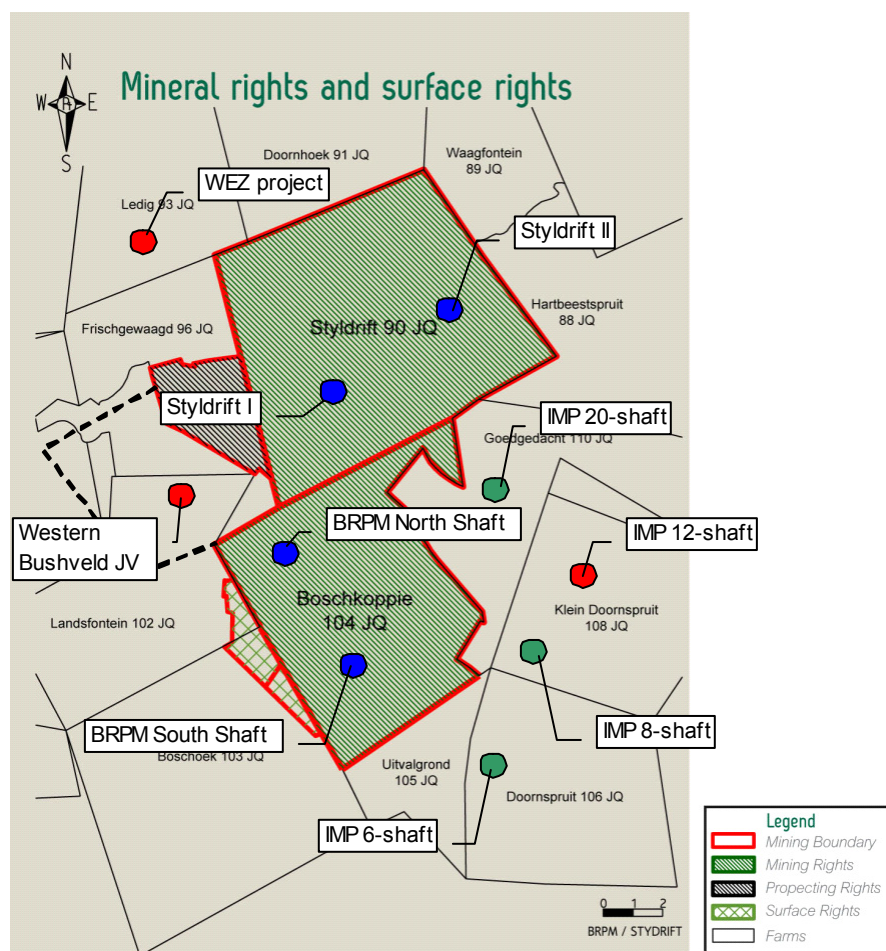
RBP requires M&A to achieve more upside from here, in our view

Given its full valuation, we believe RBP needs corporate action to achieve more upside from here. This could include: 1) additional royalty agreements; 2) a three-party JV; or 3) a buy-out. We believe the third option is the only one that can 'more than justify' the current premium to NPV. (We note that neither RBP, AMS nor IMP have commented on any deal since IMP's failed attempt last year.)

Additional royalty agreements

In addition to its existing royalty agreements, we believe similar agreements could be achieved in the future with IMP's 12-shaft, and longer term, the WEZ project in the north, and the WBJV (see Figure 32). Even so, we do not believe that the effect from these will be large enough to justify the current premium to NPV.

Figure 32. RBP mining rights and surrounding shafts



Source: Company reports and CIRA

M&A would need a very careful approach, given that AMS hold the 'legal key'

A three-party JV

There may be potential for a three-party JV between RBP, AMS and IMP. Let alone the fact that this will entail AMS and IMP sharing the same asset (which we view as unlikely, given its historical relationship), such an agreement would not unlock the full potential for RBP shareholders, in our view, and would be more beneficial to IMP than anyone else.

A complete takeover

Probably the only option that would justify further upside for RBP from current levels would be a complete takeover of the BRPM complex, most likely by IMP given its previous attempt.

Previous takeover attempt failed

AMS holds the 'legal' key

As mentioned earlier, AMS holds legal rights that could block any hostile approach from being successful, as it did in 2010 when IMP approached RBP.

Hostility not an option: three-party negotiation & agreement required

As a result, any potential for future M&A would likely depend on friendly three-way negotiations and agreement between AMS, RBP and a potential suitor. Thus, should IMP consider to re-approach RBP, it would probably have to change its approach from hostility to co-operative in order to be successful.

AMS would only sell if conditions are met

A three-party agreement is therefore the first condition we view as critical for any future M&A potential. We also believe that AMS would only consider selling its stake in RBP if the following conditions were met:

- **It maintains its BEE credits:** AMS is currently 26% BEE compliant. The notion of 'once empowered, always empowered' is still a grey zone in the South African Empowerment act. As a result, AMS would probably seek assurance that it would not lose its BEE credentials if it sold its stake in RBP.
- **Price is right:** The price should be sufficiently high to justify selling out of probably its lowest-cost growth opportunity. This is especially the case if IMP were the suitor since AMS would allow its largest competitor to gain relative market share and improve its relative cost curve position.

There Are Better Stories Out There

On a relative basis, we prefer NHM (Buy) over RBP. It has a similar story, but: 1) with a more appealing valuation; 2) without a JV partner that can block corporate activity; and 3) without dilution risk.

We prefer NHM (Buy) over RBP (Hold)

NHM has a similar story to RBP, but at a more attractive valuation

Even though we like the RBP story, we view the stock as fully priced. NHM (Buy rated) has a similar story to RBP. It has an existing cash-generative asset, attractive low-cost medium-term growth potential and could be a potential M&A target. What distinguishes NHM from RBP, in our view, is the fact that its valuation looks more appealing and it does not have the same level of dilution risk.

Figure 33. Weighing up the NHM and RBP investment cases

	Northam		Royal Bafokeng Platinum	
Quality of existing assets	Medium		High	✓
5-year production growth	52%	✓	20%	
7-year production growth	52%		120%	✓
Cost of growth*	R460/t	✓	R560/t	
Additional value enhancing JV's or royalty agreements	Unlikely		Likely	✓
Take-out potential	Yes	✓	Yes, but with potential legal block	
Funding dilution risk	Low	✓	Medium/High	
Premium/(discount) to NPV	-20%	✓	20%	

Source: Citi Investment Research and Analysis
*2010 real

We describe each of the qualities mentioned in Figure 33 in more detail below:

- **Quality of existing assets:** NHM's Zondereinde mine produces approximately 300,000-320,000 ounces (3PGE+Au) under normal conditions at unit cash costs of R6,700/ounce. It high-grade reserves (5.5 g/t, 5PGE+Au) make up for the fact that it is the deepest and arguably the most technically challenging SA platinum mine. As with Boschkopie, Zondereinde has historically been highly cash generative. Even so, we view Zondereinde as a lower quality mine than Boschkopie.
- **Five-year production growth:** On a five-year basis, NHM offers superior growth compared to RBP. Its Booysendal project should be at steady-state production of 167,000 ounces within the next five years, which implies 52% growth. On the other hand, RBP's Styldrift will only be in ramp-up phase five years from now and offers approximately 20% growth.

- **Seven-year production growth:** On a seven-year basis, RBP offers significantly better growth compared to NHM. This is as Styldrift will likely have reached steady-state production, resulting in approximately 120% growth for RBP, compared to 52% for NHM.
- **Cost of growth:** Based on 2010 real numbers, NHM's growth should be lower cost at R460/t, compared to RBP's R560/t.
- **Additional value-enhancing JVs or royalty agreements:** With the recent sale of the Booysendal South mineral rights to Aquarius Platinum (AQP), NHM has limited additional value-enhancing opportunities. As mentioned before in this report, RBP holds several such opportunities.
- **Take-out potential:** Given their low-cost growth outlooks (something that is in high demand within the SA platinum sector), we view both NHM and RBP as potential take-out targets. However, any near-term take-out of RBP would be difficult given AMS's legal rights, as discussed earlier. On the other hand, the recent unbundling of Mvela Resources (previously the majority shareholder of NHM) may make any M&A easier were there renewed interest in NHM (IMP bid for NHM in October 2008).
- **Funding dilution risk:** As opposed to the likely equity raising or rights issue that we expect RBP will have to undertake to fund its growth ambitions, we believe NHM has sufficient cash reserves to fund its growth from its balance sheet.
- **Premium/(discount) to NPV:** From a valuation perspective, NHM looks undervalued and RPB fairly to overvalued.

Valuation and Risks

We initiate coverage on RBP with a Hold/Medium Risk (2M) recommendation and R70 TP. Our TP is based on a 1.2x P/DCF exit multiple, which we view as applicable given RBP's favourable strategic position within the SA platinum sector.

Initiate coverage with Hold rating and R70 TP

Upside reflected

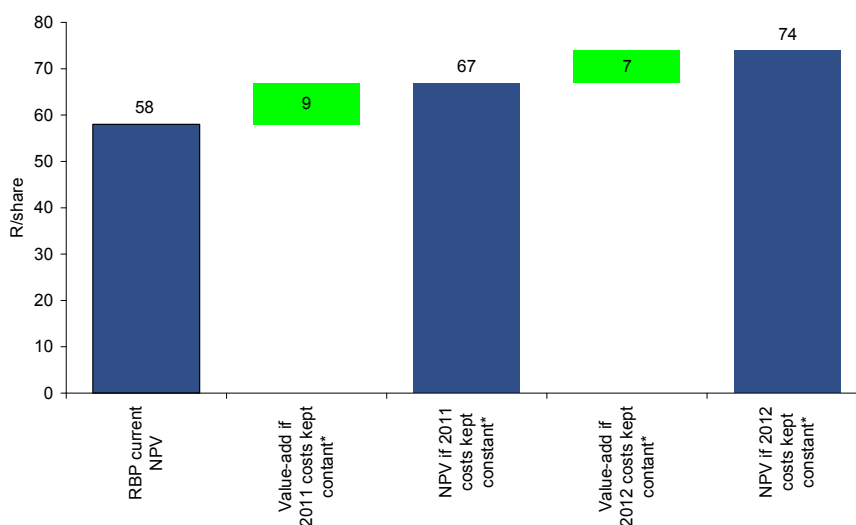
We initiate coverage on RBP with a Hold/Medium Risk (2M) recommendation and R70 TP. Even though we like its story, we believe the upside is well reflected in its current market valuation. Any further upside is dependent on M&A, in our view.

Excluding the potential for M&A, RBP would have to keep costs flat in real terms over the next two years in order for us to become more bullish on the stock from a valuation point of view (the company is currently guiding a 5-6% p.a. increase in unit costs).

Good story, but priced in – Hold

Bar M&A, RBP needs to keep real costs constant in 2011 and 2012 in order for us to become more bullish...

Figure 34. Potential value-add by keeping unit costs constant in real terms (R/share)



Source: Citi Investment Research and Analysis

...or bring forward Styl drift II

Our valuation may also be positively influenced if RBP can bring forward Styl drift II, which is currently still in conceptual phase and not included in our DCF.

We derive our R70 TP using a sum-of-the-parts DCF valuation

We value RBP on a sum-of-the-parts DCF basis. We apply a R-nominal WACC of 11.9% (ERP 5.0%, RFR 8.5%, beta 1.0) to discount the future cash flows from its individual assets over their operational lives. In deriving our R70 TP, we apply a 1.2x P/DCF exit multiple to our valuation of RBP. This represents a 20% premium to our 1.0x benchmark multiple for the SA platinum sector, which is mainly to account for RBP's superior strategic position within the SA platinum space. We believe that this position provides RBP with significant future value-enhancing optionality, something that is not accounted for in our DCF of its current operations. Our valuation is net of cash, investments, and corporate and exploration costs.

Figure 35. RBP sum-of-the-parts DCF valuation

NAV calculation	DCF (Rm)	Premium/(discount) to DCF	Equity value (Rm)	% of total
BRPM	4,644	20%	5,573	50%
Styldrift	3,587	20%	4,304	39%
IMP Royalty agreement	1,021	20%	1,225	11%
Operational value	9,251	20%	11,101	100%
Net (debt)/cash	491	0%	491	
Investments	251	0%	251	
Overhead costs	-382	0%	-382	
Financial obligations	360		360	
NAV	9,611		11,461	
Equity value (Rm)	11,461			
Number of shares in issue (m)	165			
DCF (R/share)	58			
Target price (R/share)	70			

Source: Citi Investment Research and Analysis

Risks

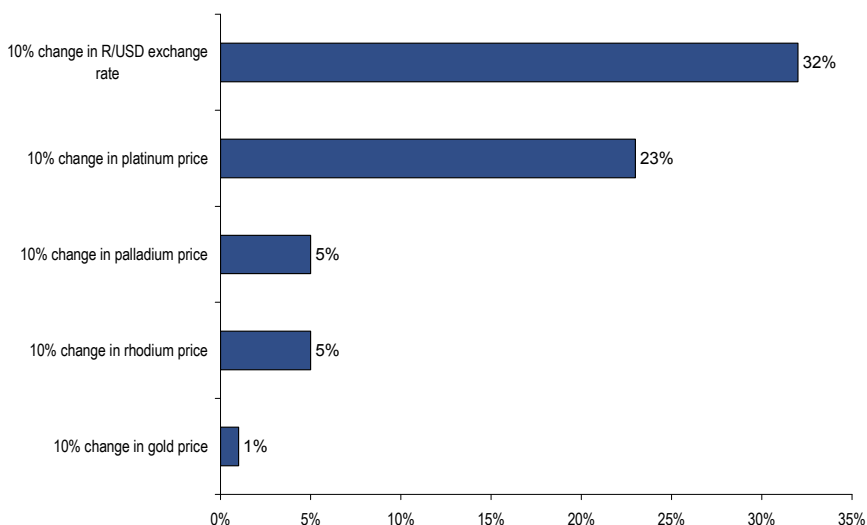
We rate RBP Medium Risk to reflect the volatile nature of PGM prices offset by the generally stable regulatory environment in which the company operates. Our valuation of RBP is exposed to macroeconomic developments affecting PGM prices and exchange rates, operational risks that might affect volumes and input costs, and political and regulatory risks that might affect costs and the company's reputation. As a mid-tier platinum mining company with attractive low-cost growth potential, our valuation of RBP is also exposed to corporate activity risk.

- **Macroeconomic risks:** Our valuation of RBP is highly dependent on input assumptions of the 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. Conversely, 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 RBP's individual mines on management guidance and by applying our discretion to management's guidance and targets. The main operational downside risks to our view are: 1) a significant delay in the ramp-up of Styldrift; 2) significant escalation in capex requirements for Styldrift; and 3) unforeseen operational disappointments at its Boschkoppie mine.
- **Political and regulatory risks:** RBP's operations and future projects are based in SA. The company is consequently exposed to government and regulatory-related risks in this country. Specific risks include higher-than-expected royalties, production delays from government intervention and labour unrest.
- **Corporate activity risk:** Given that RBP is strategically well positioned to partake in the future consolidation of the SA platinum industry, the main upside risk to our view is a potential buy-out of its existing assets and/or projects.
- **Dilution risk:** We forecast a R4-5bn funding gap for RBP over the next five years. We believe that part of this gap would likely be funded through equity and therefore caution dilution risk.

Sensitivity analysis

Our valuation of RBP is most sensitive to changes in the R/USD exchange rate. A 10% change in this exchange rate influences our valuation by 32%, a 10% change in the platinum price by 23%, a 10% change in the palladium price by 5%, and a 10% change in the rhodium price by 5%.

Figure 36. RBP valuation sensitivity to PGM prices and USD/ZAR



Source: Citi Investment Research and Analysis

Input price assumptions

Figure 37. CIRA input price assumptions

December year end	FY08	FY09	FY10	FY11e	FY12e	FY13e	FY14e	LT real	LT Nominal
US\$/oz									
Platinum price	1,577	1,173	1,610	1,827	1,900	1,775	1,632	1,500	1722
Palladium price	353	246	525	802	635	850	700	550	517
Rhodium price	6,599	1,444	2,678	2,480	3,000	3,000	3,500	3,000	3444
Gold price	873	960	1,226	1,443	1,325	1,225	1,125	950	1091
3PGE+Au basket price	1,540	907	1,348	1,554	1,580	1,567	1,468	1,304	1496
ZAR/USD exchange rate	8.26	8.37	7.33	6.91	7.41	8.40	8.98	10.00	10.00
R/oz									
Platinum price	13,031	9,812	11,808	12,625	14,079	14,910	14,655	15,000	17,220
Palladium price	2,918	2,054	3,851	5,538	4,705	7,140	6,286	5,500	5,170
Rhodium price	54,537	12,077	19,633	17,137	22,230	25,200	31,430	30,000	34,440
Gold price	7,212	8,028	8,993	9,969	9,818	10,290	10,103	9,500	10,907
3PGE+Au basket price	12,728	7,589	9,884	10,735	11,710	13,161	13,182	13,035	14,621

Source: Bloomberg, Citi Investment Research and Analysis

Figure 38. CIRA global mining valuations comp sheet (calendarised)

	Rating & risk	Price (US\$)	Historic P/E		Forward P/E		EV/ EBITDA			FCF yield		Div Yld	
			2009	2010	2011E	2012E	2010	2011E	2012E	2010	2011E	2010	2011E
Platinum													
Aquarius Platinum	2H	5.4	260	31	19.2	13.8	12.4	9.5	7.6	3%	7%	1%	2%
Lonmin	2M	24.2	-95	30	16.2	10.1	10.8	6.6	4.3	6%	5%	1%	2%
Anglo American Platinum	3M	93.9	214	33	21.0	13.9	15.7	10.2	7.5	1%	2%	1%	2%
Impala Platinum	1M	26.9	20	19	14.3	11.5	9.7	7.5	6.2	2%	3%	2%	3%
Northam Platinum	1M	6.3	25	29	25.4	13.1	18.9	15.9	8.2	0%	-4%	1%	1%
Royal Bafokeng	2M	9.9	-6	35	22.2	17.1	15.0	10.5	9.0	1%	-4%	0%	0%
Gold													
AngloGold Ashanti	2M	42.8	-303	-9	16.9	15.8	13.4	7.4	6.9	-11%	6%	0%	1%
Gold fields	3M	14.6	30	19	12.5	14.9	6.3	5.0	5.9	5%	7%	2%	3%
Harmony Gold Mng	3M	12.8	60	74	32.6	30.4	17.4	11.3	8.9	-3%	1%	0%	0%
Barrick Gold	1M	43.4	24	13	9.8	10.1	8.2	6.2	6.1	2%	5%	1%	1%
Newmont Mining	2M	51.9	20	13	10.8	13.0	5.9	5.2	5.8	8%	9%	1%	1%
Newcrest Mining	2M	39.5	25	24	25.6	20.8	16.5	13.2	10.5	1%	1%	1%	1%
Randgold Resources	1M	77.8	91	51	23.0	16.3	33.2	12.8	8.7	-4%	1%	0%	1%
Fresnillo	2M	22.6	45	30	15.7	18.4	16.4	9.2	10.4	2%	1%	2%	2%
Diversified miners													
BHP Billiton	1M	37.3	18	12	8.7	8.5	7.2	5.6	5.1	6%	9%	2%	3%
Rio Tinto	1M	67.3	19	9	6.9	7.3	5.0	3.2	3.0	9%	11%	2%	2%
Anglo American	1M	47.5	23	12	8.8	7.1	6.6	4.8	3.9	9%	8%	1%	2%
Xstrata	1M	21.9	21	13	8.4	7.6	7.3	5.1	4.5	4%	6%	1%	2%
Kumba Iron Ore	3M	68.5	21	10	8.3	8.1	8.0	6.1	5.8	7%	9%	7%	10%
Exxaro	2M	23.7	23	11	7.7	7.1	14.5	9.8	8.4	6%	1%	3%	5%
African Rainbow	1M	28.2	20	15	9.6	7.5	6.4	4.5	3.5	1%	5%	2%	4%
Copper													
Freeport McMoran	2H	48.3	16	10	8.2	9.2	5.3	3.9	3.9	11%	13%	1%	3%
Southern Copper Corp	2H	31.7	29	17	9.6	9.8	9.4	5.7	5.6	5%	7%	5%	6%
Antofagasta	2H	19.9	29	20	9.4	8.5	7.1	4.0	3.6	4%	14%	6%	6%
Kazakhmys	1M	20.2	18	7	5.8	5.8	6.2	5.2	5.7	4%	1%	1%	5%
KGHM	3H	68.0	15	8	5.7	7.0	5.0	3.3	3.5	11%	13%	2%	5%
Jiangxi Copper	1M	3.3	29	13	10.3	10.0	10.5	7.2	6.4	-7%	7%	1%	2%
FST Quantum Minerals	1M	122.0	16	11	13.5	9.6	8.4	5.1	3.7	4%	3%	0%	1%
Grupo Mexico	2H	3.2	28	15	8.4	8.4	7.0	4.2	4.0	11%	11%	3%	6%
Ferrous													
Siderurgica Naci	1H	12.4	11	12	8.1	9.4	5.7	5.0	4.8	-4%	2%	3%	3%
ENRC	1H	12.7	16	8	6.6	6.6	5.1	3.8	3.8	2%	2%	2%	3%
Fortescue Metals	1H	6.7	45	15	9.0	7.7	9.4	5.5	4.8	4%	1%	0%	1%
Cliffs Natural	1H	83.5	78	12	5.6	6.2	7.7	3.9	4.2	9%	11%	1%	1%
Coal													
Macarthur	3M	11.8	18	19	14.7	13.3	11.1	8.0	6.5	5%	6%	3%	4%
Whitehaven Coal	1M	5.8	36	37	18.1	12.0	18.8	10.0	6.8	-8%	1%	2%	3%
Bumi Resources	2H	0.4	39	26	11.4	10.6	8.2	4.3	3.2	4%	27%	1%	2%
Adaro Energy	1M	0.3	21	34	12.9	9.7	10.3	6.3	5.8	-5%	6%	2%	1%
China Coal	2M	1.3	16	15	14.3	11.8	8.2	7.5	6.7	-12%	-7%	2%	2%
China Shenhua	1L	4.7	19	16	14.4	12.5	9.1	8.0	6.8	5%	5%	2%	2%
Arch Coal Inc	2H	25.2	67	26	9.7	7.5	10.6	6.8	5.6	9%	7%	2%	2%
Peabody Energy	1H	53.2	28	17	11.3	9.6	9.4	6.5	5.4	3%	5%	1%	1%
Nickel & Zinc													
Sterlite Industries	1M	3.7	15	12	8.0	6.9	5.1	3.7	3.2	-1%	-3%	1%	1%
Norilsk	1H	250.2	18	9	6.7	6.4	6.1	4.2	3.7	11%	11%	3%	4%
Hindustan Zinc	2L	3.0	15	12	10.1	9.1	7.2	5.1	4.0	5%	7%	0%	1%
Average			27	19	13	11	10	7	6	3%	5%	2%	3%

Source: Citi Investment Research and Analysis

Prices as at close of 13 June 2011

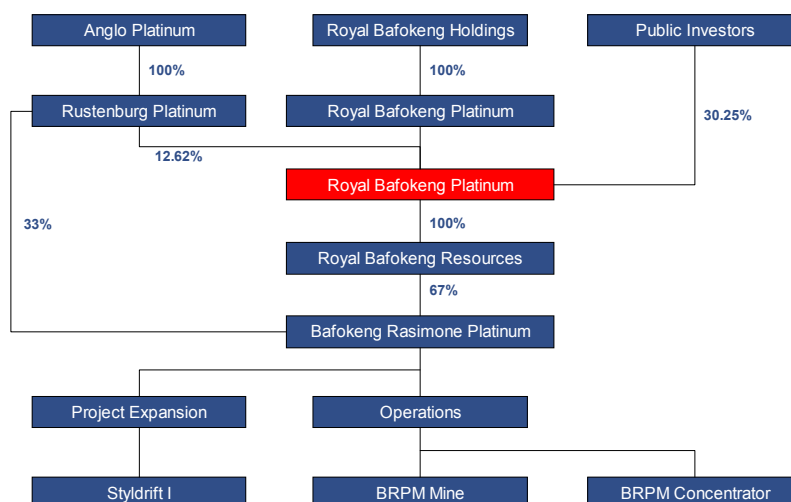
Company Overview

Company Overview

Organisational structure

RBP is a mid-tier PGM producer. It is listed on the main board of the Johannesburg Stock Exchange (JSE). RBP is 57% owned by Royal Bafokeng Platinum Holdings, 13% by Anglo Platinum and has 30% free float. It owns 67% of the Bafokeng Rasimone Platinum Mine (BRPM) joint venture.

Figure 39. RBP's organisational chart

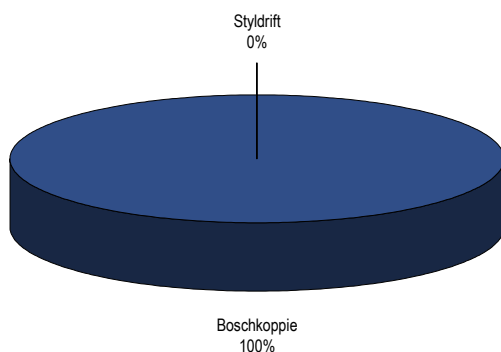


Source: Company Reports

Asset overview

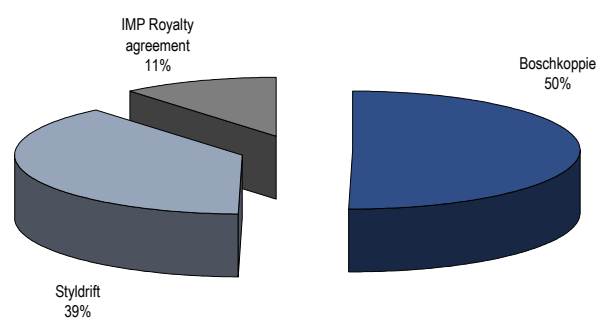
RBP holds one operating asset (Boschkoppie) which is located on the Western Limb of the Bushveld Complex in SA. RBP is in the process of developing its Styl drift project which we expect to come into production by FY15. Styl drift constitutes 39% of our NAV. Royalty take-off agreements with IMP make up 11% of our NAV.

Figure 40. RBP per mine production (FY10)



Source: Company reports

Figure 41. RBP NAV split per Mine



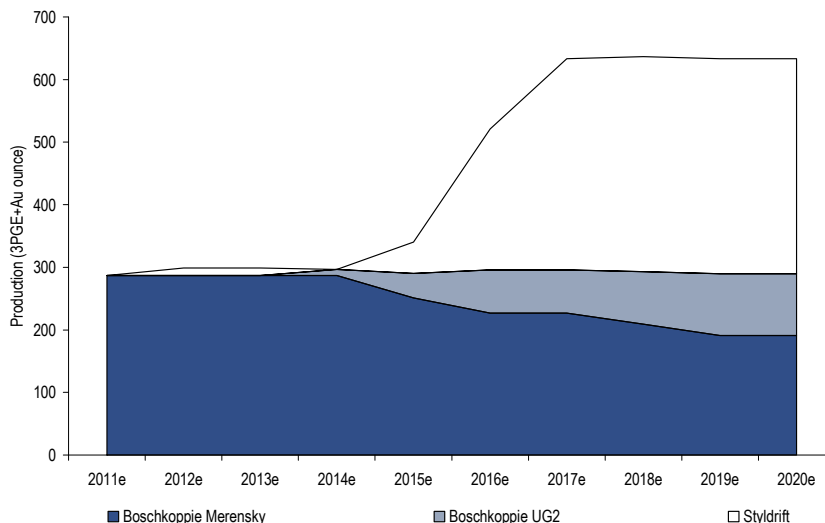
Source: Citi Investment Research and Analysis

Operational overview

Attributable 630,000 ounces (3PGE+Au) LOM production

We expect RBP to produce 287,000 ounces in FY11. We forecast production to increase to a peak level of 630,000 ounces by FY17 and settle at this level, as Styldrift reaches steady state. We forecast LOM production of 630,000 ounces pa.

Figure 42. RBP 3PGE+Au production profile (000 ounces, FY10a-FY30e)

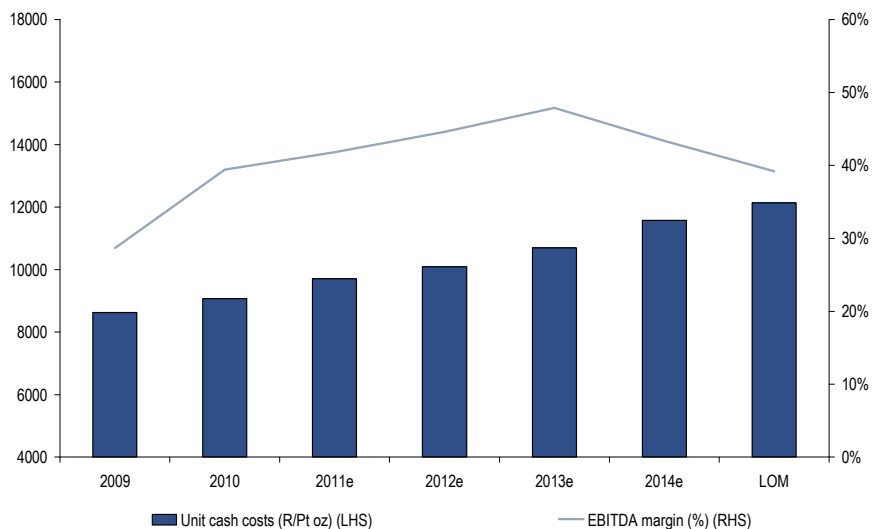


Source: Company Reports and CIRA Estimates

We estimate LOM cash costs of R12,133/ounce (Pt)

We estimate FY11 unit cash costs of R9,710/ Pt ounce. Over the life of RBP assets, we estimate unit cash costs to average R12,133/ounce. We expect the EBITDA margins to rise to 39% in the long term on the back of rising metal price and production assumptions.

Figure 43. RBP unit cash cost and EBITDA profile (R/Pt oz, %, FY09a-LOM)

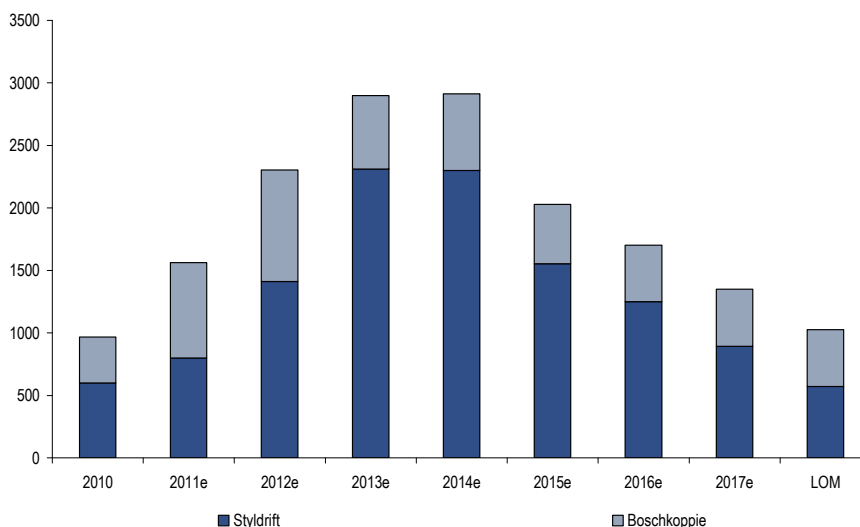


Source: Company reports, CIRA estimates

Capex profile

We expect FY11 capex to increase to R1.65bn from R967m in FY10, mainly due to the development of Styldrift and phase II Merensky at Boschkopie. We expect capex to peak in FY13/14 at R2.9bn pa, after which capex will begin to taper off to our long-term sustaining capex expectation of R1bn pa.

Figure 44. RBP capex profile (Rm, FY10a-LOM)

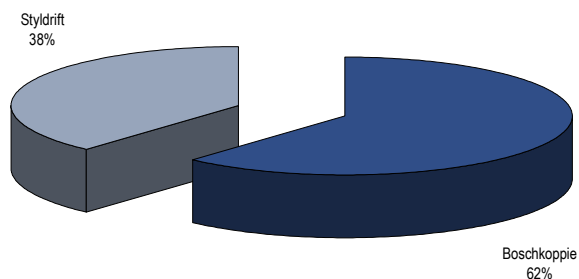


Source: Company Reports and CIRA Estimates

Reserves and resources

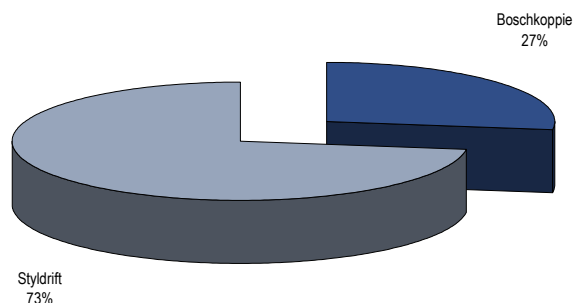
Boschkoppie and Styldrift make up 62% and 38% of RBP's total reserves respectively. On the resources front, Boschkopie and Styldrift constitute 27% and 73% respectively.

Figure 45. RBP Reserve split by mine (100% = 18.08m ounces)



Source: Company reports

Figure 46. RBP Resource split (100% = 75m ounces)



Source: Company reports

RBP holds 75m ounces (3PGE+Au) of measured, indicated and inferred resources. In addition, it has 18m ounces of proven and probable reserves. Of these reserve and resources, 67% are attributable to RBP.

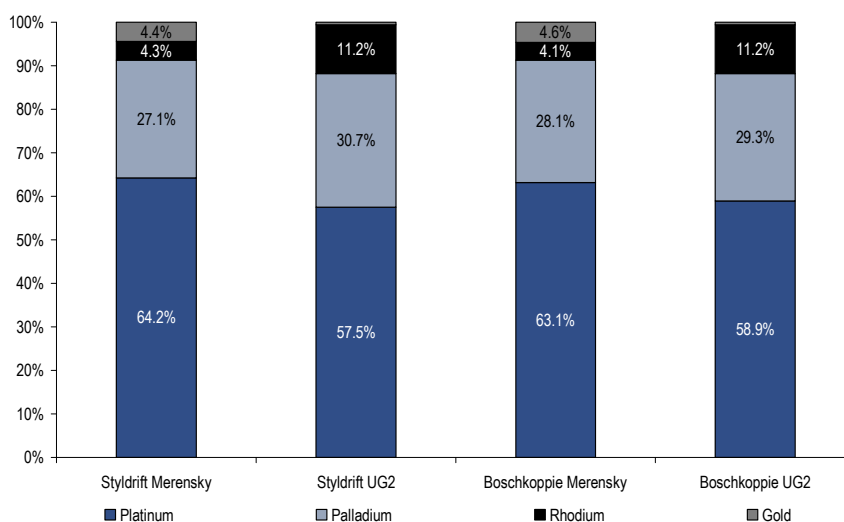
Figure 47. RBP reserves and resources

(3PGE+Au) moz	Resources			Reserves	
	Measured	Indicated	Inferred	Proven	Probable
Boschkoppie					
Merensky reef	3.62	2.55	1.98	2.58	1.22
UG2 reef	5.25	5.43	1.50	3.75	3.58
Combined reefs	8.87	7.99	3.48	6.33	4.80
Styldrift					
Merensky reef	8.55	11.52	11.57	4.42	2.53
UG2 reef	3.36	12.81	6.86	0.00	0.00
Combined reefs	11.91	24.33	18.43	4.42	2.53
RBP total	20.78	32.32	21.90	10.75	7.33

Source: Company Reports

The Merensky and UG2 reefs mined by RBP have attractive prill splits relative to most of its peers. RBP's prill splits are highlighted in Figure 48.

Figure 48. RBP prill splits

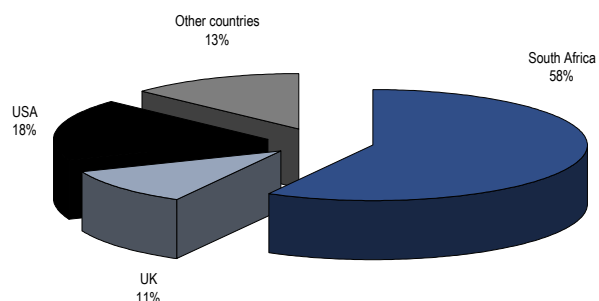


Source: Company Reports

Shareholder structure

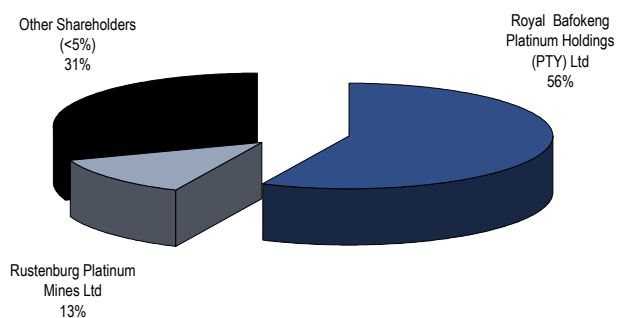
RBP is listed on the JSE. RBP's shareholder base consists of 42% international holding and 58% South African holding, with the US accounting for 18%.

Figure 49. RBP shareholder split by region (as of April 2011)



Source: Company Reports

Figure 50. RBP shareholder split (as of 27 May 2011)

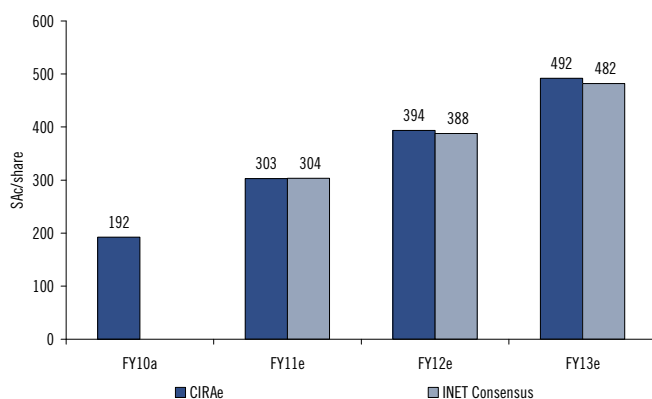


Source: INET

Financial statements and ratio analysis

We forecast FY11 HEPS of 303c (100% basis) compared to 192c (67% ownership) in FY10. On a comparative basis, the increase is mainly due to our rising PGM price assumptions. Our FY12 and FY13 HEPS estimates are marginally above INET consensus of 388c and 482c respectively. Based on our earnings expectations, we estimate FY11, FY12 and FY13 P/E ratios of 22.2x, 17.1x and 13.7x respectively for RBP.

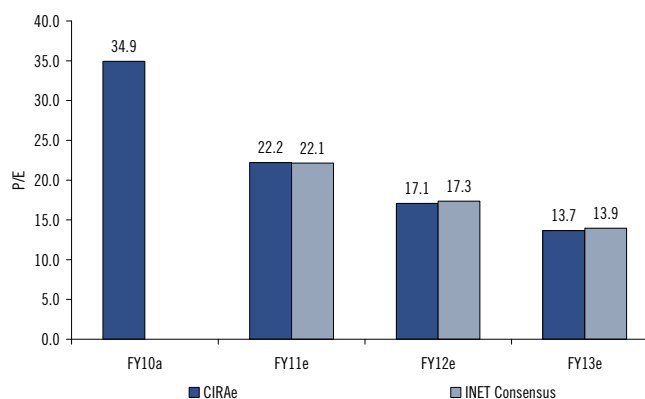
Figure 51. RBP HEPS forecast vs. consensus



Source: I-net, Citi Investment Research and Analysis

Prices as at close of 13 June 2011

Figure 52. RBP CIRA P/E vs. consensus



Source: I-net, Citi Investment Research and Analysis

Prices as at close of 13 June 2011

Figure 53. RBP income statement (Rm, FY10a-FY15e)

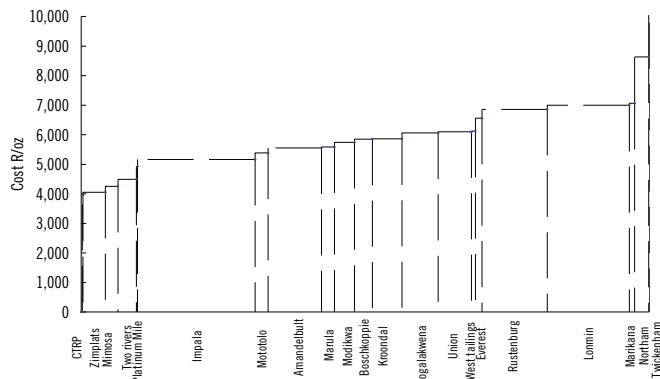
Income Statement	2010	2011e	2012e	2013e	2014e	2015e
Revenue	2,106	3,172	3,610	4,066	3,999	4,434
Mining income	1,730	3,159	3,560	3,929	3,825	4,230
Royalty income	55	13	51	137	174	204
Other	322	0	0	0	0	0
Cost of sales	-1,217	-1,782	-1,932	-2,048	-2,190	-2,615
Cash on-mine costs	-1,140	-1,782	-1,932	-2,048	-2,190	-2,615
Other operating costs	-77	0	0	0	0	0
Operating profit	889	1,390	1,678	2,017	1,810	1,819
Corporate costs	-61	-64	-67	-71	-75	-80
Exploration costs	0	0	0	0	0	0
Other	2	0	0	0	0	0
EBITDA	830	1,326	1,611	1,947	1,735	1,739
Depreciation and Amortisation	-373	-550	-550	-550	-550	-550
EBIT	457	776	1,061	1,397	1,185	1,189
Royalty expense	-8	-78	-103	-132	-115	-117
Net interest (paid)/received	3	0	-50	-130	-210	-244
Share based payments	-7	0	0	0	0	0
Foreign exchange gain (loss)	0	0	0	0	0	0
Other (expenses) / income	0	0	0	0	0	0
Operating special items	2,895	0	0	0	0	0
PBT	3,339	698	908	1,135	860	828
Tax	-172	-203	-263	-329	-249	-240
PAT	3,168	496	645	806	611	588
Headline earnings	273	496	645	806	611	588
BEPS	2,242	303	394	492	373	359
HEPS	192	303	394	492	373	359
DPS	0	0	0	0	0	0

Source: Company Reports and CIRA Estimates

Appendix I: Cost curves

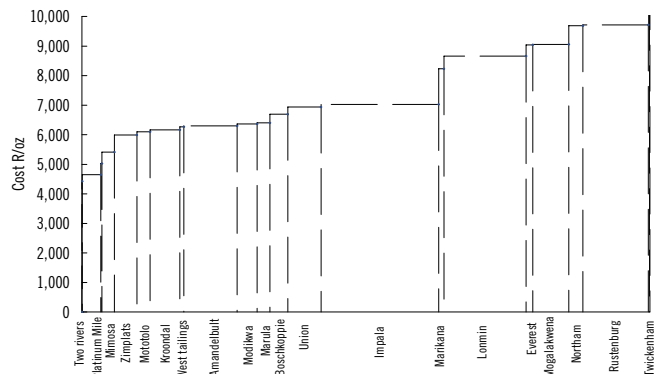
SA platinum sector cost curves (5PGE+Au)

Figure 54. 2H10 5PGE+Au cash cost curve (R/oz, 5PGE+Au)



Source: Company Reports

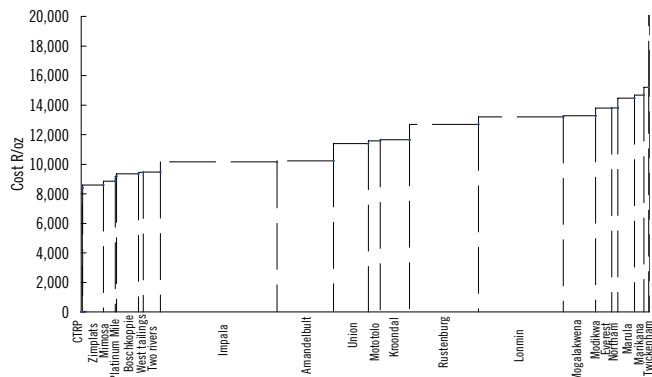
Figure 55. 2H10 5PGE+Au all-in cost curve (R/oz, 5PGE+Au)



Source: Company Reports

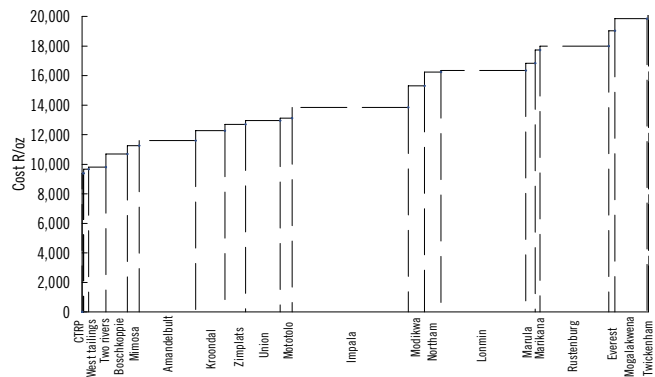
SA platinum sector cost curves (Pt)

Figure 56. 2H10 platinum cash cost curve (R/oz, Pt)



Source: Company Reports

Figure 57. 2H10 platinum all-in cost curve (R/oz, Pt)



Source: Company Reports

Royal Bafokeng Platinum

Company description

RBP is a mid-tier platinum company listed on the JSE. It currently has one operating mine called Boschkopie and is in the process of developing a greenfield project called Styldrift. RBP is 57% owned by Royal Bafokeng Platinum Holdings, 13% by Anglo Platinum and has 30% free float.

Investment strategy

We rate RBP Hold/Medium Risk (2M). Despite the fact that it has a highly cash-generative existing asset, an attractive low-cost growth project through Styldrift and is geographically well located to partake in industry consolidation, its valuation appears full at current levels.

Valuation

We value RBP on a sum-of-the parts DCF basis. We apply a R-nominal WACC of 11.9% (ERP 5%, RFR 8.5%, beta 1.0) to discount the future cash flows from its individual assets over their operational lives. In deriving our R70 TP, we apply a 1.2x P/DCF exit multiple to our valuation of RBP. This represents a 20% premium to our 1.0x benchmark multiple for the SA platinum sector, which is mainly to account for RBP's superior strategic position within the SA platinum space. We believe that this position provides RBP with significant future value-enhancing optionality, something that is not accounted for in our DCF of its current operations. Our valuation is net of cash, investments, and corporate and exploration costs.

Risks

We rate RBP Medium Risk. Upside risks to our view include a weaker-than-expected rand, higher-than-expected PGM prices, a better-than-expected operational performance at Boschkopie, and Styldrift coming online earlier and at lower-than-expected capital requirements. Conversely, downside risks include a stronger-than-expected rand, weaker-than-expected PGM prices, a worse-than-expected operational performance at Boschkopie, and delays and capex overruns at Styldrift. Other risks include corporate activity and dilution risk given the need to fund the projected funding gap over the next five years.

Notes

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

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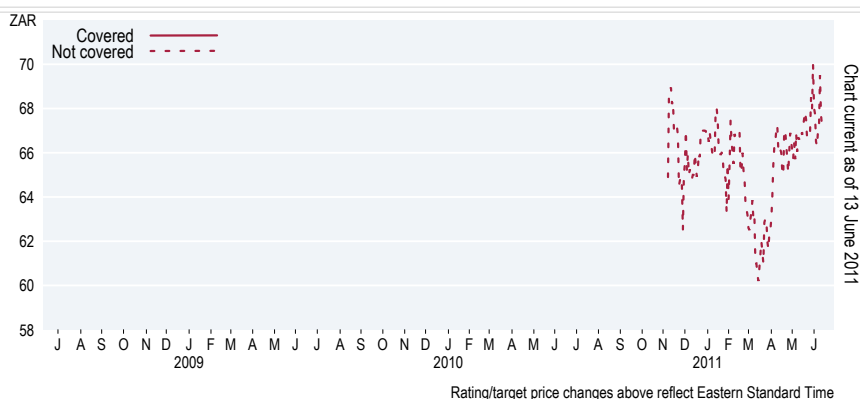
Royal Bafokeng Platinum (RBPJ.J)

Ratings and Target Price History
Fundamental Research



Royal Bafokeng Platinum (RBPJ.J)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)



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To satisfy regulatory requirements, we correspond Under Review to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.

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