

Impala Platinum (IMPJ.J)

Analyst Round Table Feedback

- IMP today (28 May) hosted an analyst round table discussion. Most of the discussion was focused on the ongoing strike in SA. Some clarity on indigenisation and beneficiation in Zimbabwe was also provided.
- **Ongoing strike** – The strike is now in its 18th week and IMP has lost 277,000 ounces thus far. It remains committed to finding a resolution with AMCU, but highlights that there are five options it can explore from here (details pages 3-4). We explore the options further in this note. IMP is currently burning R400m per month at the Lease.
- **Life after strike** – IMP mentioned that it will take four weeks to produce the first ounces from the Lease after the strike is eventually resolved, and three months to get to 90-100% levels. We estimate that this would entail an initial “investment” of R2-3bn in working capital (to pay employees and other normal production costs) until revenue starts filtering in.
- **Restructuring** – IMP mentioned that the strikes will most likely be followed by industry-wide restructuring. It stated that it would focus on restarting its best (most profitable) areas with its best people post strikes. This raises a possibility, in our view, that the Lease may become a smaller, more profitable area for IMP post strikes.
- **Zimbabwe** – It is interesting that investors do not want to put a value on Zimplats given political issues in Zimbabwe. Yet, the mine is mechanised and operated by a skilled labour force and in an environment where unions are fairly weak (unlike South African mines). IMP confirmed that the focus of the Zimbabwean government is now less on indigenisation and more on beneficiation. This is a positive development, in our view (more detail on page 5).
- **Maintain buy, TP R160** – We maintain our view that IMP is best positioned for long-term value accretion within the SA platinum sector (refer: [Four Reasons to Buy](#)). Near-term challenges affecting IMP introduce an attractive buying opportunity, in our view.

Impala Platinum (ZAR)

Year to 30 Jun	2012A	2013A	2014E	2015E	2016E
Sales (RM)	27,593.0	30,032.0	32,651.8	39,740.5	44,246.1
Net Income (RM)	4,151.1	2,001.2	2,921.5	4,902.3	5,554.5
Diluted EPS (R)	6.85	3.30	4.81	8.07	9.15
Diluted EPS (Old) (R)	6.85	3.30	4.81	8.07	9.15
PE (x)	16.7	34.7	23.8	14.2	12.5
EV/EBITDA (x)	7.8	8.3	8.1	5.9	5.5
DPS (R)	1.95	0.95	0.00	4.04	4.57
Net Div Yield (%)	1.7	0.8	0.0	3.5	4.0

Buy	1
Price (28 May 14)	R114.50
Target price	R160.00
Expected share price return	39.7%
Expected dividend yield	1.8%
Expected total return	41.5%
Market Cap	R72,389M
	US\$6,925M

Price Performance

(RIC: IMPJ.J, BB: IMP SJ)



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IMPJ.J: Fiscal year end 30-Jun						Price: R114.50; TP: R160.00; Market Cap: R72,389m; Recomm: Buy					
Profit & Loss (Rm)	2012	2013	2014E	2015E	2016E	Valuation ratios	2012	2013	2014E	2015E	2016E
Sales revenue	27,593	30,032	32,652	39,740	44,246	PE (x)	16.7	34.7	23.8	14.2	12.5
Cost of sales	-20,641	-24,052	-26,326	-31,485	-36,206	PB (x)	1.4	1.4	1.3	1.2	1.1
Gross profit	6,952	5,980	6,326	8,256	8,041	EV/EBITDA (x)	7.8	8.3	8.1	5.9	5.5
Gross Margin (%)	25.2	19.9	19.4	20.8	18.2	FCF yield (%)	-3.2	-0.5	2.4	3.7	6.1
EBITDA (Adj)	7,964	7,992	8,088	10,435	10,354	Dividend yield (%)	1.7	0.8	0.0	3.5	4.0
EBITDA Margin (Adj) (%)	28.9	26.6	24.8	26.3	23.4	Payout ratio (%)	29	29	0	50	50
Depreciation	-1,708	-2,424	-2,744	-2,892	-3,062	ROE (%)	8.6	2.2	5.5	8.4	7.5
Amortisation	0	0	0	0	0	Cashflow (Rm)	2012	2013	2014E	2015E	2016E
EBIT (Adj)	6,256	5,568	5,343	7,543	7,292	EBITDA	7,964	7,992	8,088	10,435	10,354
EBIT Margin (Adj) (%)	22.7	18.5	16.4	19.0	16.5	Working capital	-1,133	-487	1,568	0	0
Net interest	9	-230	-126	213	413	Other	-1,853	-1,567	-2,809	-2,606	-3,083
Associates	117	163	130	0	0	Operating cashflow	4,978	5,938	6,847	7,830	7,271
Non-op/Except	-132	-2,950	-1,065	-802	-805	Capex	-7,232	-6,258	-5,159	-5,264	-3,062
Pre-tax profit	6,250	2,551	4,283	6,954	6,900	Net acq/disposals	17	70	35	35	35
Tax	-1,951	-1,382	-1,285	-2,017	-2,001	Other	457	190	1,003	1,206	1,150
Extraord./Min.Int./Pref.div.	-119	-53	-58	-35	-34	Investing cashflow	-6,758	-5,998	-4,120	-4,023	-1,877
Reported net profit	4,180	1,116	2,940	4,902	4,864	Dividends paid	-3,364	-580	-373	-2,451	-2,777
Net Margin (%)	15.1	3.7	9.0	12.3	11.0	Financing cashflow	-2,264	3,922	-401	-2,451	-2,087
Core NPAT	4,151	2,001	2,921	4,902	5,555	Net change in cash	-3,955	3,910	2,325	1,355	3,307
Per share data	2012	2013	2014E	2015E	2016E	FCF ex acquisns & explorn	-2,237	-250	1,723	2,601	4,244
Reported EPS (R)	6.90	1.84	4.84	8.07	8.01						
Core EPS (R)	6.85	3.30	4.81	8.07	9.15						
DPS (R)	1.95	0.95	0.00	4.04	4.57						
CFPS (R)	8.21	9.78	11.27	12.89	11.97						
FCFPS (R)	-3.72	-0.53	2.78	4.22	6.93						
BVPS (R)	79.42	82.37	86.74	98.99	105.32						
Wtd avg ord shares (m)	606	607	607	607	607						
Wtd avg diluted shares (m)	606	607	607	607	607						
Growth rates	2012	2013	2014E	2015E	2016E						
Sales revenue (%)	-15.8	8.8	8.7	21.7	11.3						
EBIT (Adj) (%)	-41.2	-11.0	-4.0	41.2	-3.3						
Core NPAT (%)	-37.5	-51.8	46.0	67.8	13.3						
Core EPS (%)	-38.0	-51.9	45.9	67.8	13.3						
Balance Sheet (Rm)	2012	2013	2014E	2015E	2016E						
Cash & cash equiv.	587	4,497	6,589	11,956	15,953						
Accounts receivables	5,414	3,459	4,845	4,845	4,845						
Inventory	7,081	8,684	6,460	6,460	6,460						
Net fixed & other tangibles	44,463	50,263	51,769	54,141	54,141						
Goodwill & intangibles	1,018	0	0	0	0						
Financial & other assets	13,458	13,005	13,909	13,909	13,909						
Total assets	72,021	79,908	83,573	91,311	95,308						
Accounts payable	4,858	4,544	5,275	5,275	5,275						
Short-term debt	121	252	555	555	555						
Long-term debt	2,882	7,259	7,145	7,145	7,145						
Provisions & other liab	11,685	13,237	13,107	13,107	13,107						
Total liabilities	19,546	25,292	26,082	26,082	26,082						
Shareholders' equity	50,168	52,037	54,795	62,533	66,530						
Minority interests	2,307	2,579	2,696	2,696	2,696						
Total equity	52,475	54,616	57,491	65,229	69,226						
Net debt	2,416	3,014	1,111	-4,256	-8,253						
Net debt to equity (%)	4.6	5.5	1.9	-6.5	-11.9						

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

Strikes

Current status

The strike is now in its 18th week and IMP has lost 277,000 ounces thus far. It remains committed to finding a resolution with AMCU, but highlights that there are four options it can explore from here onwards. These are:

■ Call back to work:

- Open the mine and call employees back to work
- However, this may result in more intimidation and violence
- SMS survey showed employees want to return to work
- But need to be absolutely sure that the majority of the workers will indeed attempt to return to work
- Critically, RDO and essential staff need to return.

■ Lock out AMCU:

- Allow NUM (and other union) members to return to work
- Prevent AMCU members from returning
- Similar to 1, intimidation is a key risk with this strategy
- Also, critical RDO's and essential staff return

■ Legal strategy:

- Approach courts to declare strike illegal
- However, this would be a drawn out process
- Also, needs stronger evidence of intimidation and violence
- It would also be an unprecedented move in South Africa
- Could actually only follow as a next step to a "call back" strategy.

■ Arbitration:

- Call for a binding arbitration
- This step would have to be accepted by all three parties, i.e. companies, government and AMCU
- Unlikely that AMCU will agree, in IMP's view
- Need to believe CCMA intervention etc. will never succeed

■ Long term shut down:

- Shut down the affected mines with a long-term focus
- This has apparently worked effectively before in countries like Canada and Australia (according to IMP)

- Keep the mine closed until people are willing to return to work
- This will only be considered as an absolute last resort

When resolution is found

IMP mentioned that it will take four weeks to produce the first ounces from the Lease after the strike is eventually resolved, two months to get to 60%, and three months to get to 90-100% levels.

IMP would have to pay operating costs for three months before making significant revenues from the Lease. We estimate that this would entail an initial “investment” of R2-3bn in working capital (to pay employees and other normal production costs) until revenue starts filtering in.

The start-up will be complicated and involve the following steps:

- Call people back to work
- Put people through medicals: Given that many are poorly nourished, many may fail this step and will have to be put on nourishment programmes
- Induct employees – safety etc.
- Take employees underground

As stated, it may therefore take four weeks post the strike has been settled to get employees back to work.

A big unknown for IMP is how badly its contractors have been affected during the strike, and how readily they will be able to return to work. Many contractors have suffered severely (economically) and may have gone bankrupt or laid off workers.

Longer term implications

IMP mentioned that if one considers the past few years’ strikes in the platinum sector as Chapter 1 in the industry’s transformation, then Chapter 2’s heading will be “Restructuring”. It believes this will be an industry-wide phenomenon. IMP stated that it would focus on re-starting its best (most profitable) areas with its best people post strikes. This raises a possibility, in our view, that the Lease may become a smaller, more profitable area for IMP post strikes.

The company was not willing to give any further detail

Zimplats

Investors feedback/market valuation suggests investors do not want to put a value on Zimplats given political issues in Zimbabwe. Yet, the mine is at least producing. IMP confirmed that the focus of the Zimbabwean government is now less on indigenisation and more on beneficiation. This is a positive development, in our view.

It mentioned that the 51% indigenisation requirements mentioned in 2013 may be relaxed.

Also, the additional 15% export levy communicated in January 2014 (refer ["Zimbabwe – New Year, New Rules?"](#)) does not apply to Zimplats.

The company is going ahead with the \$100m BMR smelter refurbishment to increase base metal refining from Zimbabwe. Any further capacity will require significantly more capex.

This supports our view (refer [Four Reasons to Buy](#), 28 February) that developments in Zimbabwe seem to be incrementally positive.

Maintain Buy TP R160

We maintain that IMP is best positioned for long-term value accretion within the SA platinum sector (refer: [Four Reasons to Buy](#)). Near term challenges affecting IMP introduce an attractive buying opportunity, in our view. We maintain our preference for IMP within the SA platinum sector. Buy, TP R160.

Company Narratives

Impala Platinum

Company description

Impala Platinum (IMP) is the world's second-largest platinum producer, with a 30% global market share. The company is based primarily in South Africa, from which it currently sources 89% of its production. The 11% balance is sourced from its operations in Zimbabwe. In the longer term, Zimbabwe offers strategic low-cost growth potential for IMP, but this is constrained at present by unstable political conditions.

Investment strategy

We rate IMP Buy. We consider IMP to have been the best-in-class SA platinum company over the past 10 years. Despite the near-term operational challenges facing the company, we believe little has changed. We think IMP's favourable position on the cost curve and longer-term low-cost growth optionality should continue to drive superior economic value creation.

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.

Appendix A-1

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IMPORTANT DISCLOSURES

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

* Indicates change

	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

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