

Anglo American Platinum Ltd (AMSJ.J)

Mr. Cutifani's Appointment: Impact on AMS Review

- **Limited or no impact:** Sir John Parker's comments that AMS's review will be released in the next few weeks to us suggest that Mr Cutifani's appointment as CEO of AGL (effective 3 April) will have limited or no impact on the review itself.
- **What the review will likely be:** We believe the most likely outcome from the review will be a closure of c.250k oz (Pt) from Rustenburg (Khuseleka and Khomanani), 35k oz from Union North, and a cut to overhead costs. These steps may not be enough to fundamentally alter the case for AMS, in our view. This is because: 1) the extent of these cuts are too small to have a significant (and lasting) impact on the platinum price (refer "[Back In Balance, But Hold Your Horses](#)"), 2) the size of the cuts is not big enough to move AMS materially down the cost curve (we believe c.600koz of cuts are necessary), and 3) mothballing high cost shafts may only be an interim measure which may reversed when PGM prices eventually rise.
- **What we believe the review should be:** In our view, the only way to fundamentally change the story for AMS is to find (or create) a willing buyer for the whole of Rustenburg, while maintaining the off take. For example, the time may be opportune for AMS and AGL to assist the Government with the formation of a state owned mining enterprise, selling Rustenburg to the state. Even though this would not take ounces out of the market, it could 1) monetise these assets and provide AMS with much needed cash, 2) result in AMS moving 20-30% higher on our margin curve (Figure 1, page 3) and become the industries lowest cost producer, and 3) remain a 2.5moz producer by securing the off take for Rustenburg, thereby maintaining economies of scale at its smelters while locking in a fixed through-the-cycle margin on the industry's highest cost mines (i.e. Rustenburg).
- **Maintain Sell, TP R420:** The exact outcome of AMS' review is still unknown and will be communicated in due course. For now, we doubt whether the review will be significant enough make us fundamentally bullish on the stock, as discussed above. Maintain Sell, TP R 420.

Company Update

Sell	3
Price (08 Jan 13)	R465.00
Target price	R420.00
Expected share price return	-9.7%
Expected dividend yield	0.4%
Expected total return	-9.3%
Market Cap	R125,402M
	US\$14,616M

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



Anglo American Platinum Ltd (ZAR)

Year to 31 Dec	2010A	2011A	2012E	2013E	2014E
Sales (RM)	46,124.0	51,117.0	42,205.0	50,109.0	56,188.8
Net Income (RM)	4,930.0	3,566.0	1,060.6	2,748.5	4,455.4
Diluted EPS (¢)	1,935	1,363	406	1,053	1,706
Diluted EPS (Old) (¢)	1,935	1,363	406	1,053	1,706
PE (x)	24.0	34.1	114.5	44.2	27.3
EV/EBITDA (x)	11.9	9.9	22.5	14.4	11.0
DPS (¢)	665	699	0	351	683
Net Div Yield (%)	1.4	1.5	0.0	0.8	1.5

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

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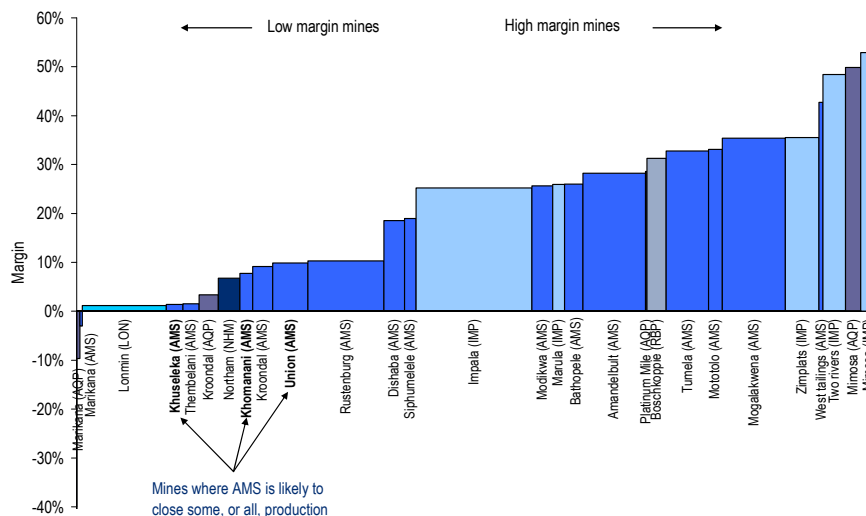
AMSJ.J: Fiscal year end 31-Dec						Price: R465.00; TP: R420.00; Market Cap: R125,402m; Recomm: Sell					
Profit & Loss (Rm)	2010	2011	2012E	2013E	2014E	Valuation ratios	2010	2011	2012E	2013E	2014E
Sales revenue	46,124	51,117	42,205	50,109	56,189	PE (x)	24.0	34.1	nm	44.2	27.3
Cost of sales	-37,991	-42,562	-39,391	-45,538	-49,017	PB (x)	2.2	2.1	2.2	2.1	2.0
Gross profit	8,133	8,555	2,814	4,571	7,172	EV/EBITDA (x)	11.9	9.9	22.5	14.4	11.0
Gross Margin (%)	17.6	16.7	6.7	9.1	12.8	FCF yield (%)	2.0	4.2	-0.2	-0.7	2.3
EBITDA (Adj)	11,194	12,492	5,521	8,751	11,449	Dividend yield (%)	1.4	1.5	0.0	0.8	1.5
EBITDA Margin (Adj) (%)	24.3	24.4	13.1	17.5	20.4	Payout ratio (%)	34	51	0	33	40
Depreciation	-4,321	-4,527	-4,622	-4,686	-4,834	ROE (%)	23.2	6.5	-0.2	4.8	7.4
Amortisation	0	0	0	0	0	Cashflow (Rm)					
EBIT (Adj)	6,873	7,965	899	4,066	6,615	EBITDA	11,194	12,492	5,521	8,751	11,449
EBIT Margin (Adj) (%)	14.9	15.6	2.1	8.1	11.8	Working capital	-582	527	851	-2,921	-1,182
Net interest	-70	0	-138	-100	-100	Other	-282	-707	760	-1,298	-2,127
Associates	-426	-479	-481	0	0	Operating cashflow					
Non-op/Except	6,035	-825	-210	-67	-195	Capex	-7,960	-7,228	-7,331	-5,347	-5,347
Pre-tax profit	12,412	6,661	70	3,899	6,320	Net acq/disposals	743	140	270	370	370
Tax	-2,197	-2,974	-170	-1,131	-1,833	Other	176	-1,069	-426	0	0
Extraord./Min.Int./Pref.div.	-157	-96	-16	-19	-32	Investing cashflow					
Reported net profit	10,058	3,591	-116	2,748	4,455	Dividends paid	0	-3,116	-767	-916	-1,782
Net Margin (%)	21.8	7.0	-0.3	5.5	7.9	Financing cashflow					
Core NPAT	4,930	3,566	1,061	2,748	4,455	Net change in cash	-899	-238	3,536	-1,360	1,381
Per share data						FCF ex acquisitions & explorn					
Reported EPS (¢)	3,947	1,373	-45	1,053	1,706		3,113	5,224	71	-444	3,163
Core EPS (¢)	1,935	1,363	406	1,053	1,706						
DPS (¢)	665	699	0	351	683						
CFPS (¢)	4,054	4,706	2,732	1,736	3,118						
FCFPS (¢)	930	1,943	-76	-312	1,070						
BVPS (¢)	21,412	21,666	21,571	22,422	23,599						
Wtd avg ord shares (m)	255	262	261	261	261						
Wtd avg diluted shares (m)	255	262	261	261	261						
Growth rates											
Sales revenue (%)	25.7	10.8	-17.4	18.7	12.1						
EBIT (Adj) (%)	646.3	15.9	-88.7	352.3	62.7						
Core NPAT (%)	594.4	-27.7	-70.3	159.1	62.1						
Core EPS (%)	548.6	-29.6	-70.2	159.1	62.1						
Balance Sheet (Rm)											
Cash & cash equiv.	2,534	2,296	5,832	4,471	5,852						
Accounts receivables	2,988	3,066	4,559	5,069	5,619						
Inventory	12,558	12,525	11,397	14,701	16,295						
Net fixed & other tangibles	57,500	61,439	62,883	63,544	64,057						
Goodwill & intangibles	0	0	0	0	0						
Financial & other assets	8,221	8,276	8,068	8,068	8,068						
Total assets	83,801	87,602	92,739	95,853	99,890						
Accounts payable	6,190	6,762	7,978	8,871	9,833						
Short-term debt	22	5,019	2,602	2,602	2,602						
Long-term debt	6,622	939	8,267	8,267	8,267						
Provisions & other liab	15,949	17,817	17,198	17,198	17,198						
Total liabilities	28,783	30,537	36,045	36,938	37,900						
Shareholders' equity	54,558	56,684	56,321	58,543	61,618						
Minority interests	460	381	372	372	372						
Total equity	55,018	57,065	56,693	58,915	61,990						
Net debt	4,110	3,662	5,037	6,398	5,017						
Net debt to equity (%)	7.5	6.4	8.9	10.9	8.1						

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

AMS Review

SA platinum sector: FCF margins by mine

Figure 1. SA platinum sector FCF margin chart (2H12 at spot prices*)

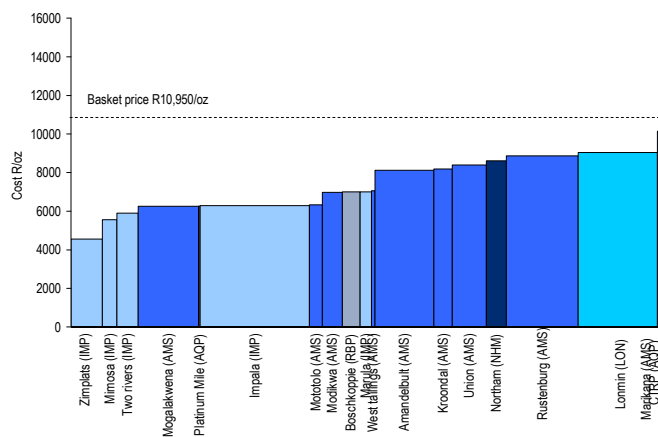


Source: Citi Research, Company reports, I-Net

*Pt: \$1580/oz, Pd: \$675/oz, Rh: \$1080/oz, Au: \$1660/oz, R8.50/\$

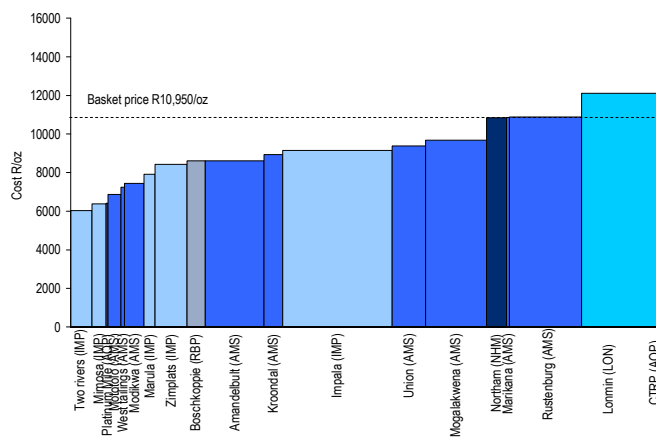
SA platinum sector: Cash costs and “All-in” costs by mining complex

Figure 2. SA platinum sector cash cost curve (R/oz, 5PGE+Au)



Source: Citi Research, Company reports

Figure 3. SA platinum sector “all-in” cost curve (R/oz, 5PGE+Au)



Source: Citi Research, Company reports

Valuation and Risks

Maintain Sell, TP R420

The exact outcome of AMS' review is still unknown and may be the main upside risk to our bearish view. For now, we doubt whether the review will be significant enough make us fundamentally bullish on the stock, as discussed above. Maintain Sell, TP R 420.

Figure 4. Sum-of-the parts DCF

NAV calculation	DCF (Rm)	Exit multiple (x)	Market value (Rm)	% of total
Rustenburg	-6,610	1.10	-7,271	-7
Amandelbult	14,150	1.10	15,565	14
Union	13,660	1.10	15,026	14
Mogalakwena	44,573	1.10	49,031	45
Lebowa	3,064	1.10	3,370	3
Twickenham	4,630	1.10	5,093	5
Unki	4,639	1.10	5,102	5
West Tailings	1,507	1.10	1,657	2
Kroondal	2,894	1.10	3,183	3
Modikwa	10,084	1.10	11,092	10
Marikana	251	1.10	277	0
Mototolo	5,942	1.10	6,536	6
Operational value	98,784	1.10	108,662	100
Net (debt)/cash	-3,662	1.0	-3,662	
Investments	3,301	1.0	3,301	
Overhead costs	-3,326	1.0	-3,326	
Financial obligations	-3,687		-3,687	
NAV	95,096		104,975	
Equity value (Rm)	104,975			
Market cap (Rm)	156,660			
Number of shares in issue (m)	261			
CIRA target price (ZAR/share)	420			

Source: Citi Research

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 by applying 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 will be able to expand production above the current 2.5m ounce (Pt) level.

Valuation Comps

Figure 5. Citi global mining comps sheet

	TP Curr.	RIC code	Rating	Current price	TP	CY12e DY (%)	ETR* (%)	Current P/DCF	P/E			EV/EBITDA			FCF yield (%)	
									2011	2012e	2013e	2011	2012e	2013e	2011	2012e
Barrick gold	USD	ABX.N	Buy	34.60	54.00	2.2	58.2	1.0	7.4	8.7	6.7	5.3	6.5	5.0	1.0	-7.9
Randgold	GBP	RRS.L	Neutral	58.99	80.00	1.0	36.7	1.1	23.3	19.1	13.8	14.4	11.5	8.2	1.3	-0.2
Kinross	USD	KGC.N	Buy	9.40	12.00	1.7	29.4	1.3	12.3	12.4	11.1	5.2	5.8	5.6	-2.2	-5.8
Goldcorp	USD	GG.N	Neutral	35.75	45.00	1.5	27.4	1.1	16.2	17.8	13.0	9.4	9.7	7.0	2.0	-1.6
Newmont	USD	NEM.N	Neutral	45.94	57.00	3.0	27.1	2.3	10.7	12.2	10.0	8.5	6.6	5.9	3.4	-3.8
Buenaventura	USD	BVN.N	Neutral	35.13	41.00	1.7	18.4	1.3	10.4	11.3	9.9	11.3	15.4	12.8	2.6	-1.1
Newcrest	AUD	NCM.AX	Neutral	22.56	25.60	1.8	15.2	1.0	15.4	15.5	11.9	8.8	8.4	6.6	-3.8	-3.2
Impala Platinum	ZAR	IMPJ.J	Buy	166.80	185.00	1.5	12.5	0.8	15.8	20.6	17.6	7.7	10.0	8.6	-0.2	0.7
AngloGold Ashanti	ZAR	ANGJ.J	Neutral	262.05	290.00	1.7	12.3	1.6	9.1	9.9	9.4	4.5	5.2	4.7	11.2	4.4
BHP Billiton	GBP	BLT.L	Buy	21.73	22.00	3.4	4.6	0.9	9.6	12.4	12.5	5.7	6.9	6.8	7.3	2.9
Anglo American	GBP	AAL.L	Neutral	19.84	20.00	2.6	3.4	0.5	6.6	15.9	12.4	3.9	6.4	5.0	8.5	0.5
Exxaro	ZAR	EXXJ.J	Neutral	177.68	175.00	4.4	2.9	0.9	7.4	10.4	10.7	10.7	12.1	16.0	11.6	-0.2
Freeport-McMoRan	USD	FCX.N	Neutral	35.49	35.00	3.3	2.0	0.9	7.3	11.6	8.4	3.8	5.5	4.0	12.1	1.3
Northam	ZAR	NHMJ.J	Buy	39.47	38.00	0.2	-3.5	1.0	39.1	35.3	20.2	22.1	18.0	10.8	-6.0	-10.5
African Rainbow	ZAR	ARIJ.J	Neutral	195.07	180.00	2.7	-5.0	0.9	10.3	14.1	16.3	4.6	5.9	6.3	1.5	1.1
Rio Tinto	GBP	RIO.L	Neutral	35.96	33.00	3.1	-5.1	0.7	6.9	11.7	9.4	3.4	5.5	4.3	8.2	-4.2
Lonmin	GBP	LMI.L	Neutral	2.91	2.64	0.2	-9.0	0.4	11.2	148.7	49.2	5.5	12.1	12.1	-15.0	-21.9
Anglo Platinum	ZAR	AMSJ.J	Sell	463.30	420.00	0.0	-9.3	1.2	28.6	109.1	44.0	8.3	21.4	14.3	4.2	-0.2
Gold fields	ZAR	GFIJ.J	Sell	104.39	90.00	2.8	-11.0	1.9	8.8	10.5	10.3	3.6	4.5	4.4	8.7	4.5
RBPlat	ZAR	RBPJ.J	Neutral	59.83	53.00	0.0	-11.4	1.4	30.2	53.0	31.5	10.5	16.0	12.1	-1.2	-3.3
Aquarius	GBP	AQP.L	Buy	0.70	0.59	0.0	-15.2	1.1	29.8	-22.2	22.3	5.5	17.3	7.6	-6.7	3.4
Harmony	ZAR	HARJ.J	Sell	71.52	57.00	1.0	-19.3	2.0	16.2	15.3	18.6	8.3	6.6	5.8	0.6	4.6
Kumba Iron Ore	ZAR	KIOJ.J	Sell	607.85	350.00	5.5	-36.9	1.4	9.7	15.6	13.3	5.1	8.0	7.2	11.3	7.6
Assore	ZAR	ASRJ.J	Sell	408.49	240.00	1.7	-39.6	1.6	11.2	13.8	17.5	7.9	10.2	12.8	4.4	5.4

Source: Citi Research, Priced as at 07/01/2013, DataCentral

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 only 13% of production, but 23% of our NAV estimate.

Investment strategy

We rate AMS Sell. We see limited volume expansion opportunities for AMS and believe the risks to the achievement of its cost targets are skewed to the downside. This is as all the low-hanging fruit (labour reductions) has now been picked and significant on-the-ground operational improvements are required going forward. With limited catalysts from here, we view the stock as fully priced at current levels.

Valuation

Our target price for AMS is R420. 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.

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. Conversely, downside risks to our view include lower-than-expected PGM prices and a stronger-than-expected rand.

Operational risks: We base our production and cost outlook for AMS'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 would be required in order to sustain current production levels than that assumed in our valuation model. We also caution downside risk to our generally favorable cost assumptions, given the inflationary environment AMS operates in. 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 subsequently exposed to government and regulatory-related risks in those countries it operates in. Specific risks include higher-than-expected royalties, production delays from government intervention and labour unrest.

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

Appendix A-1

Analyst Certification

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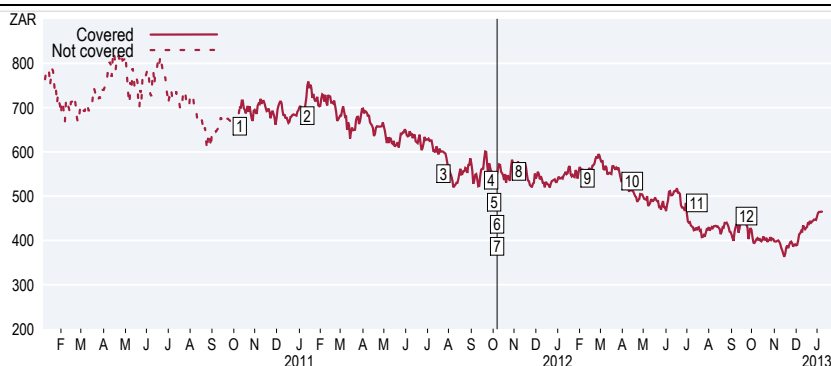
IMPORTANT DISCLOSURES

Anglo American Platinum Ltd (AMSJ.J)

Ratings and Target Price History Fundamental Research

Analyst: Johann Steyn

Covered since October 12 2010



	Date	Rating	Target Price	Closing Price
1	11-Oct-10	*2M	*730.00	701.00
2	13-Jan-11	*3M	*650.00	750.00
3	25-Jul-11	3M	*610.00	600.00
4	29-Sep-11	*2M	610.00	555.00

* Indicates change

	Date	Rating	Target Price	Closing Price
5	4-Oct-11	2M	*580.00	540.00
6	7-Oct-11	Stock rating system changed		
7	7-Oct-11	*2	580.00	550.50
8	8-Nov-11	*3	*550.00	572.79

	Date	Rating	Target Price	Closing Price
9	13-Feb-12	3	*510.00	548.00
10	15-Apr-12	3	*500.00	514.98
11	16-Jul-12	3	*400.00	423.10
12	24-Sep-12	3	*420.00	440.79

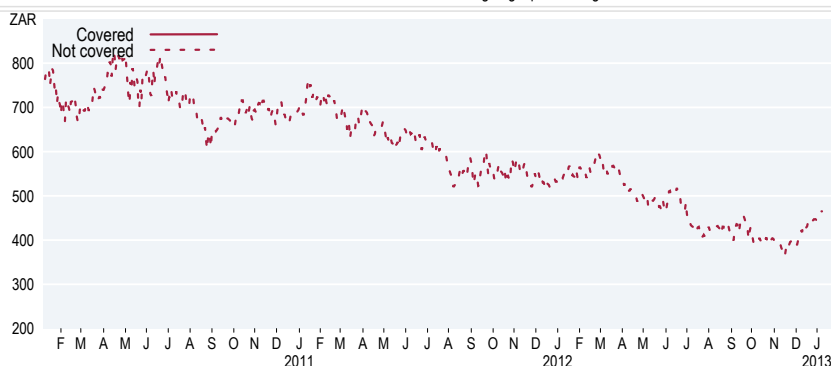
Rating/target price changes above reflect Eastern Standard Time

Anglo American Platinum Ltd (AMSJ.J)

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

Analyst: Johann Steyn

Covered since October 12 2010



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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