

Sibanye Stillwater

Materials

Company Update Report


Hold

Analyst recommendation

Counter	Share price	Intrinsic value	Difference
SSW	R22.80	R24.50	7.5% upside

As at 13 May 2024

Executive summary

On 10 May 2024, Sibanye released an operating update for the quarter ending 31 March 2024. Key takeaways from the report were as follows:

- PGM production was higher at US underground (+22%), SA (+2.5%) and slightly lower at US recycling (-1%).
- Gold production was 18% lower at 164.5koz.
- Nickel production increased by 42% and Zinc metal production increased from 1ktZn to 16ktZn although both remain fairly small contributors to group EBITDA.
- 2E (\$971/oz), 3E (\$1289/oz) and 4E (\$1273/oz) PGM basket prices decreased by -32%, -56% and -38%, respectively.
- The average gold price was 11% higher at \$2069/oz
- Average exchange rate was R18.86/\$ (Mar 2023: R17.76/\$)
- Adjusted EBITDA was 75% lower at \$113m.
- The outlook for PGM's remains asymmetrically positive and Sibanye is positioned to benefit from the recovery of PGM prices as it reaps the benefits of the restructuring at the US and SA operations.
- **Of increasing concern is Sibanye's balance sheet and the group is engaging with lenders to increase debt covenants. For the time being, Sibanye has sufficient liquidity to meet debt obligations, however, a prolonged depressed commodity environment does increase liquidity risk.**
- **We estimate that the PGM basket price needs to decline roughly 30% from current levels to cause Sibanye's coverage ratio to fall below the minimum as defined by the debt covenants.**
- Sibanye maintained operating guidance for 2024.
- We have updated our forecasts and valuation to FY25. Intrinsic value is trimmed slightly to R24.50 and we maintain a hold recommendation.

Analyst thesis

We like Sibanye for its increasingly diverse portfolio of PGMs, gold and green energy metals. Sibanye has a proven track record of pivoting from gold into PGM's and we think this bodes well for the group as it diversifies further into battery metals. Sibanye has a strong balance sheet and earns over a quarter of EBITDA from operations in the US.



Operational update

SA PGM

- On an annual comparison for SA PGM's are complicated by the acquisition of the remaining 50% share of the Kroondal PSA and the impact of operational restructuring
- 4E PGM production (excluding PoC) increased by 3% to 389koz
 - Rustenberg production decreased by 7% to 137koz
 - Marikana production was flat at 174koz
 - Kroondal production increased by 48% to 61koz (due to consolidation of 100% of the operation. Comparable production declined by 26% due to the closure of the Simunye and Klipfontein shafts)
- AISC were 16% higher at \$1 230/oz primarily due to once of costs relating to legacy leave liabilities at Marikana and restructuring related costs.
- By product credits increased by 30% y/y, offsetting cost increases somewhat

US PGM – underground

- Production of 122.5koz was 22% higher due to the lower base in 1Q23 as a result of the shaft incident at Stillwater West.
- Cost reduction measured implemented in 2023 are coming to fruition with EBITDA increasing by 129% to \$32m despite the 2E basket price down 32%.
- Operating costs per tonne decreased by 6%
- All in sustaining costs were 28% lower at \$1335/oz primarily due to reducing high-cost contractor labour and deferral of non-essential capex.

US PGM – recycling

- The recycling operations processed, on average, 10.7 tonnes of spent auto catalyst material per day and 77.8koz of 3E PGMs were fed into the recycling process.
- The global auto catalyst recycling market remains under pressure, however, “recent indicators suggest the auto catalyst recycling market may have bottomed in 1Q24”.

Gold

- Gold, production of 165koz was 18% lower due to the closure of Kloof 4 and a slower than planned production build-up after the seismic activity closure at Driefontein 4 shaft.
 - Driefontein production decreased 18% to 50koz due to the delayed commencement of production due to elevated temperatures and seismic activity.
 - Kloof production decreased by 42% to 31koz due to the closure of Kloof 4 shaft
 - Beatrix production was 6% lower at 29koz
 - DRD gold production was 8% lower at 39koz due to lower yields
- AISC for gold were \$2 200 and 20% higher due to 24% less gold sold, inflationary costs and costs incurred at Kloof 4 relating to the closure.

Battery metals

- At the Sandouville nickel refinery, nickel equivalent production increased by 42% to 2.3ktNi, with nickel metal production increasing by 64% to 1.9ktNi. Nickel equivalent sustaining costs declined by 40% primarily due to lower costs of purchasing stock.
- The Century zinc operation produced 16kt of payable zinc metal.



Balance sheet

- As of December 2023, Sibanye had net debt of R11.9 billion, made up of R37.4billion in borrowings and R25.5 billion in cash and cash equivalents. Net debt to adjusted EBITDA of 0.58x.
- Commentary from the operational update indicated that management is focusing on the balance sheet with a view to increase liquidity through a non-debt instruments (prepayments and streaming agreements) and attempting to raise lending covenants, temporarily.
- As at 31 December 2023, leverage ratio was at 0.58x; interest cover ratio at 17x (in compliance with both debt covenant ratios)
- The most immediate debt maturity is the R5.5 billion RCF maturing in November 2024 for which the group has sufficient liquidity to cover.
- Depressed commodity prices will make debt obligations increasing difficult to meet.

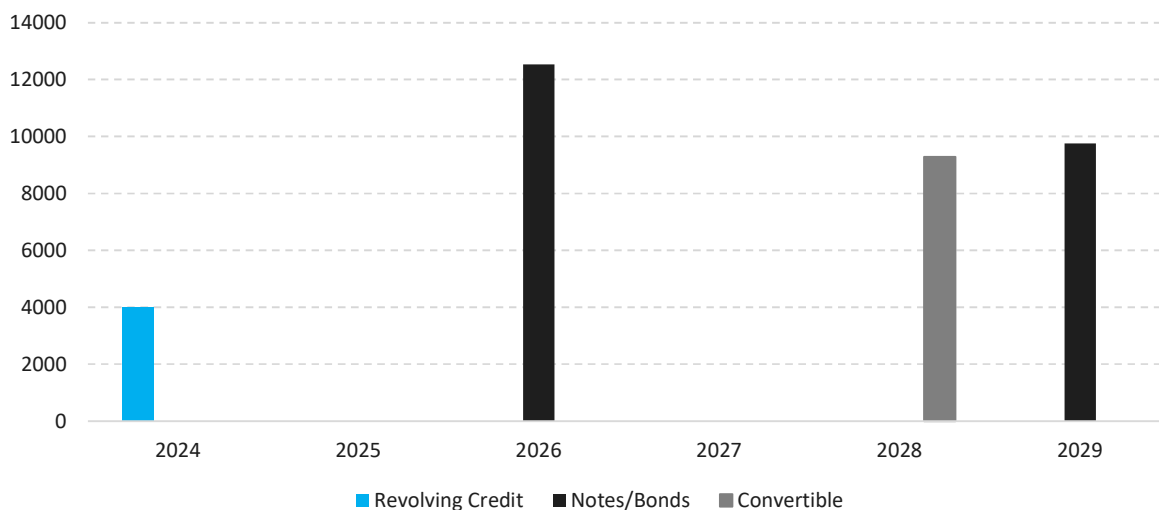
Table 1: Borrowings and debt covenants

Borrowings	ZAR million	Maturity	Coupon	Debt covenants
USD 1bn RCF	0 (undrawn)	2027	LIBOR +1.6%-2%*	Maximum leverage ratio permitted: 2.5:1 (net debt / adj. EBITDA)
R5.5 bn RCF	4 000	2024 (Nov)	JIBAR +2.4%-2.6%*	
2026 and 2029 Notes	22284	2026,2029	4%-4.5% (fixed)	
USD convertible bond	7538	2028	4.25% (fixed)	Minimum interest coverage ratio required 4.0: 1 (adj. EBITDA / net finance charges)
Burnstone bebt	2991	No fixed term	LIBOR	
Other	47	-	-	
Total	36618			
Current portion*	11672			
Non-current portion	24946			

*Dependant on leverage ratio

* The \$500m convertible bonds due 2028 are convertible into ordinary new shares. Until conversion approval is obtained, holders will receive on conversion, an amount equal to the value of the underlying ordinary shares and therefore the convertible bond is classified as payable within 12 months.

Graph 1: Long term debt by maturity

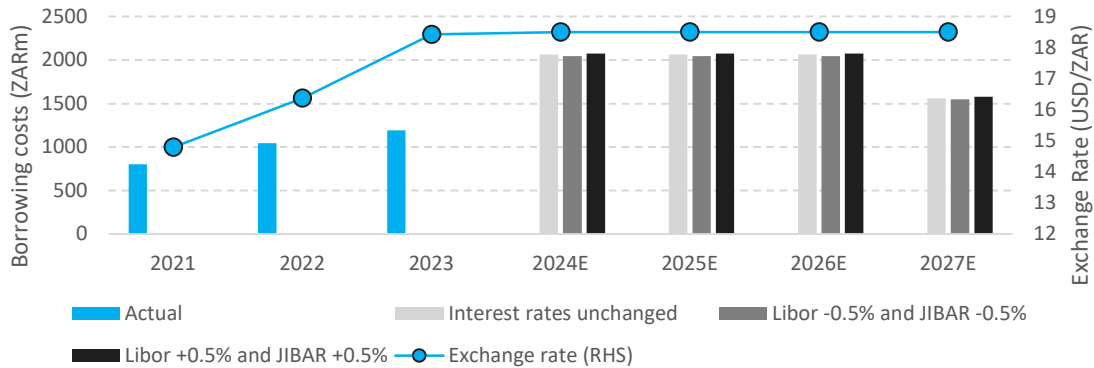


Source: FactSet, Sibanye AFS



The following chart displays our estimated borrowing costs for the Sibanye under differing LIBOR and JIBAR assumptions and the assumption that exchange rates stay relatively constant. Of Sibanye's borrowing costs, approximately 65% are fixed and 80% denominated in USD. The large increase in borrowing costs from 2023 to 2024 is primarily due to the addition of the newly issued \$500m convertible bond and partially due to higher interest rates and a weaker ZAR.

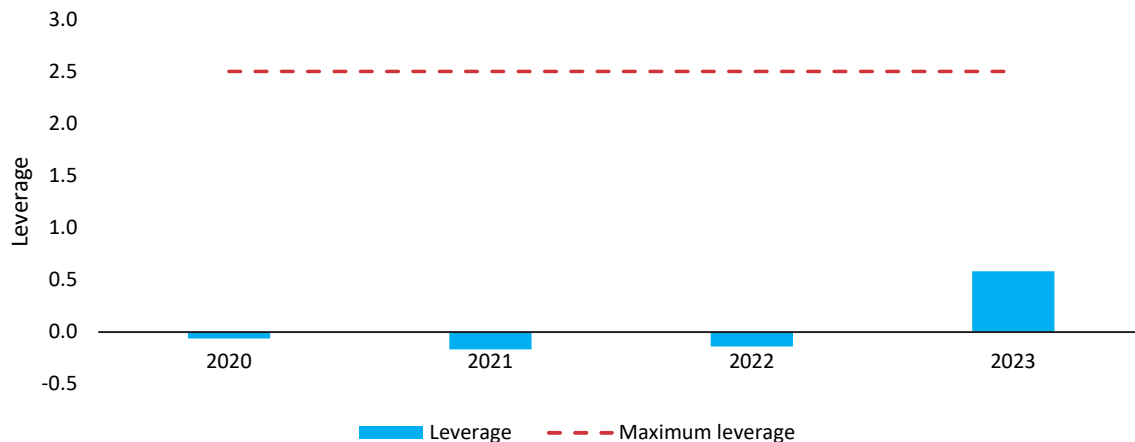
Graph 2: Estimated borrowing costs



Source: FactSet, PSG Wealth

Sibanye is well within its leverage covenant which stipulates that net debt to adjusted ebitda must not exceed 2.5 times. Sibanye has sufficient cash on its balance and has a net debt to adjusted EBITDA of 0.58x.

Graph 3: Leverage ratio and leverage covenant

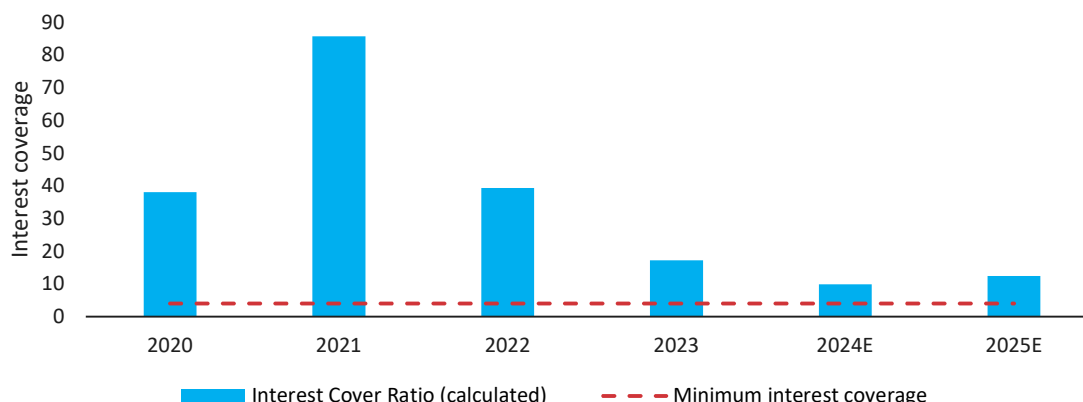


Source: Sibanye AFS, PSG Wealth



The covenant relating to coverage stipulated that adjusted EBITDA to net finance charges must be greater than four times. For FY23, this ratio was at 17.2x. Our current estimates indicate that this ratio will reach 9.9 times in 2024 and therefore increase to 12.4 times in 2025. However, this is largely dependant on a recovery in PGM prices and a prolonged depressed commodity environment increases the risk of this covenant being breached. Further, we estimate that if the PGM basket price needs to fall 30% before the interest coverage covenant is breached.

Graph 4: Interest cover ratio



Source: FactSet, PSG Wealth

2024 guidance

Operating guidance for 2024 remains unchanged and is shown in the figure below:

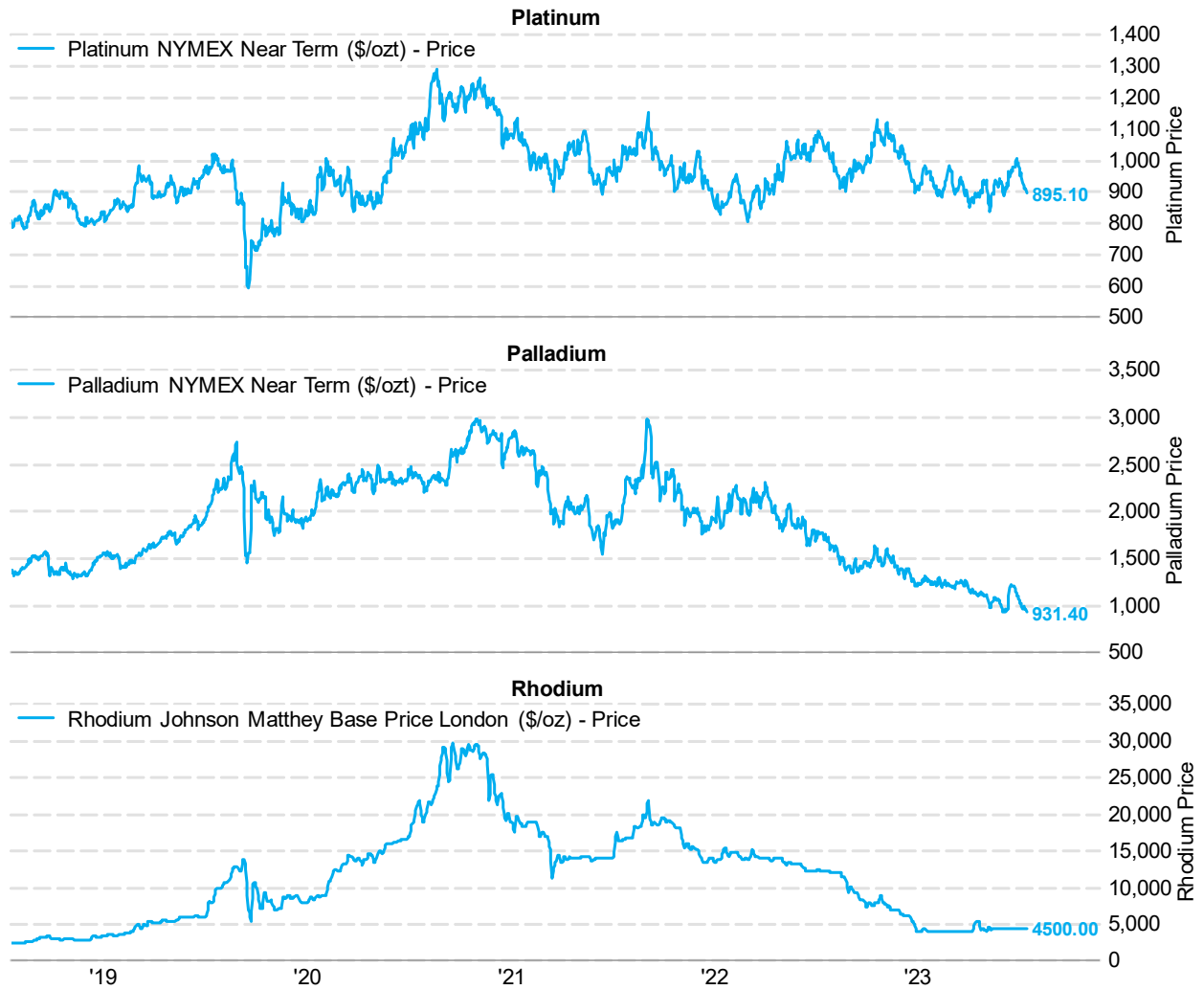
Figure 1: Sibanye operating guidance for 2024

Operating guidance for 2024 ⁴		Production	All-in sustaining costs	Total capital
US region	US PGM operations (2E mined)	440 - 460 koz	US\$1,365 - 1,425/oz ¹	US\$175m – US\$190m incl. US\$13m project capital)(R3.1 - 3.3bn incl R228m)
	US Recycling (3E)	300 - 350 koz	n/a	US\$700k (R12m) ²
SA region	SA PGM operations (4E PGMs)	1.80 - 1.90 moz ³	R21,800 - 22,500/4E oz (US\$1,245 - 1,285/4E oz) ²	R6.0bn (US\$348m) ²
	SA gold operations (excl. DRDGOLD)	19,500 - 20,500kg (627 - 659 koz)	R1,100k - 1,200k/kg (US\$1,955 - 2,133/oz) ²	R3.9bn (US\$223m) (incl. R390m (US\$22m) for Burnstone project capital) ²
EU region	Sandouville nickel refinery ⁵	7.5 - 8.5 kt	€21,000 - 23,000/t (R399 – R437k/t) ² - Nickel equivalent sustaining cost	€8.0m (R152m) ²
	Keliber lithium project	n/a	n/a	€361m (R6.86bn) ²
AUS region	Century zinc operations	87k – 100k tonnes (payable)	A\$3,032-3,434/t (R35,560-40,285/t/ US\$2,032 – 2,302/t)	A\$17m(US\$11m/R196m)
	Mt Lyell copper mine ⁴ (under feasibility study)	n/a	n/a	A\$6.6 (US\$4m/R77m)

Source: Sibanye investor presentation FY23



Graph 5: PGM prices



Source: FactSet

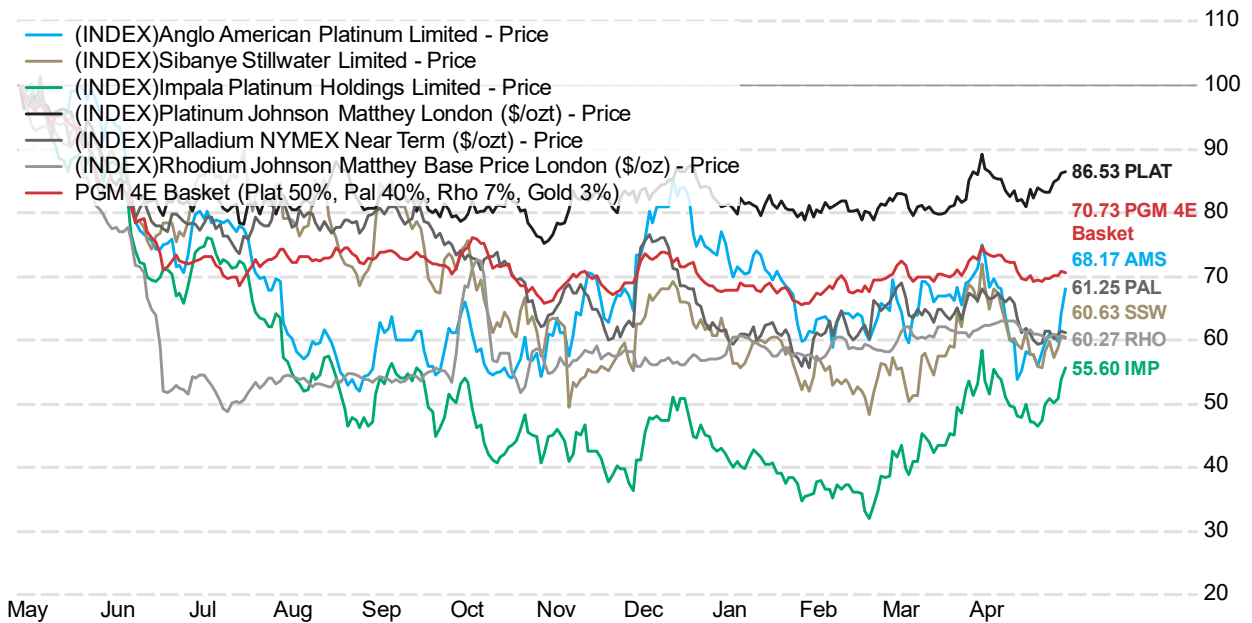
Graph 6: Gold price



Source: FactSet



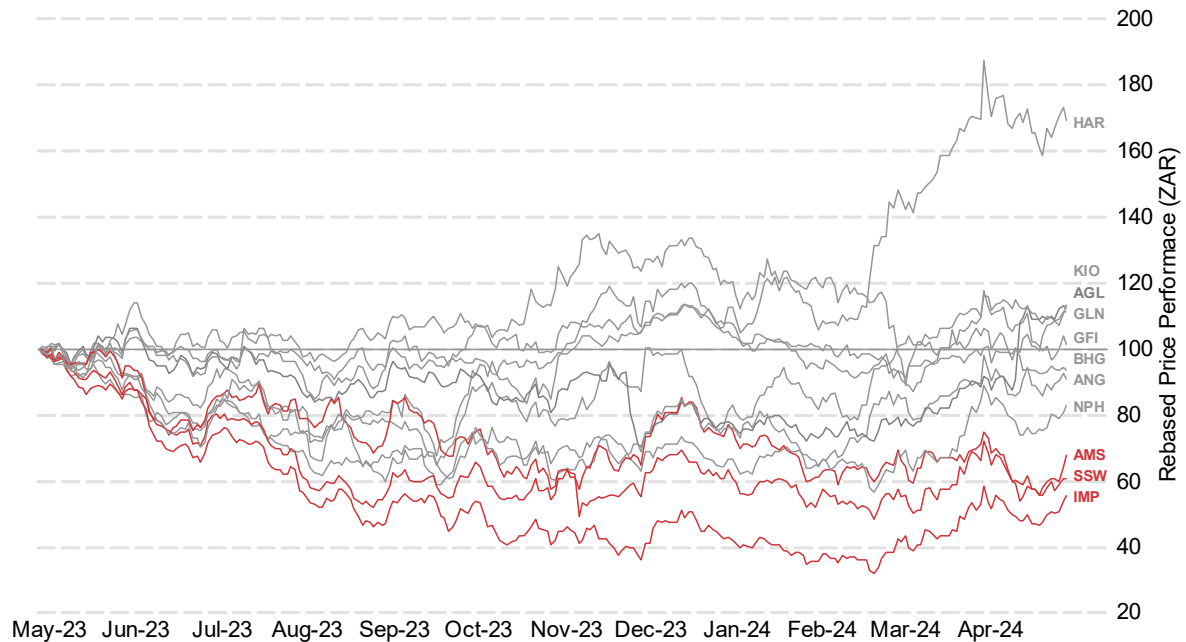
Graph 7: Relative performance in ZAR



Source: FactSet

Graph 8: Resources 1-year performance (PGM producers in red)

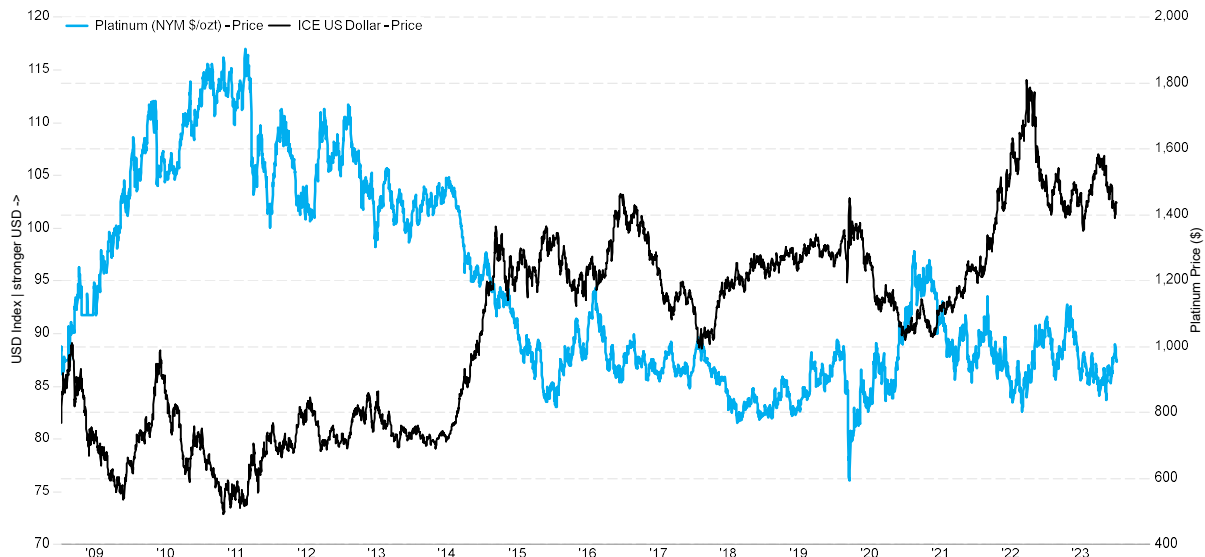
Grey = Top weighted resource benchmark stocks; RED = Major PGM producers



Source: FactSet



Graph 9: USD Index versus platinum price



Source: FactSet

Valuation

In our valuation, we forecast EBITDA based on production guidance and the assumption that ounces sold will be similar to ounces produced. Our base case, for which we assign the highest weight, assumes forward prices. In our bull (bear) case, we adjust the forward price higher (lower). Our intrinsic value for Sibanye is R24.50.

Table 2: SSW valuation

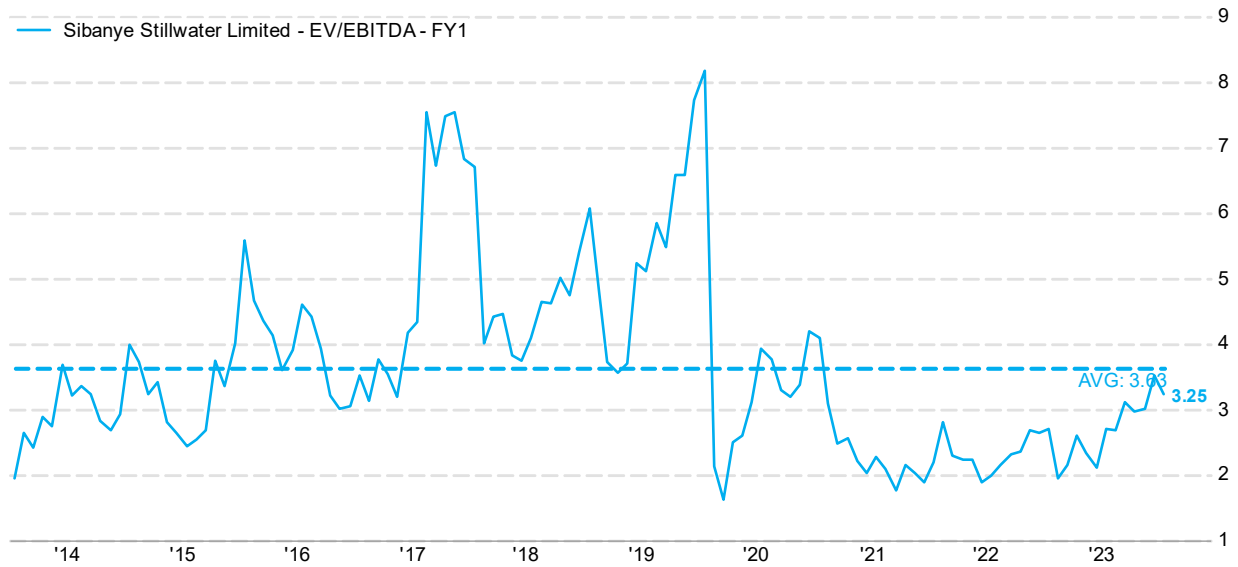
	Bear	Base	Bull
EBITDA	R22 757	R25 570	R29 917
EV/EBITDA multiple assumptions	4.0	4.0	4.0
Enterprise value	R91 028	R102 280	R119 668
WACC	12%	12%	12%
PV enterprise value	R75 626	R84 974	R99 421
Net debt/(cash)	R11 058	R11 058	R11 058
Equity value	R64 568	R73 916	R88 363
Shares in issue	3199	3199	3199
Intrinsic value per case	R20	R23	R28
Upside/(downside) per case	-12%	1%	21%
Case weight	10%	60%	30%
Intrinsic value		R24.50	
Current share price		R22.80	
Upside/(downside)		7.5%	

Sources: PSG Wealth, FactSet

as at 13 May 2024

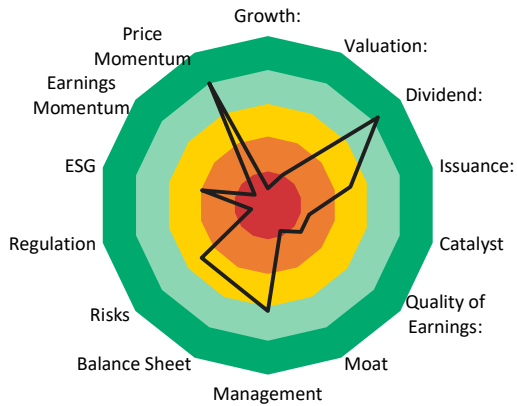


Graph 10: Sibanye EV/EBITDA history



Source: FactSet

Qualitative summary



Source: FactSet

- **Growth:** Expected 3-year sales CAGR of 2.4%. Expected 3-year earnings CAGR of -153%.
- **Valuation:** We value Sibanye using the EV/EBITDA method. Current EV/EBITDA is at a cyclical low and our upside to intrinsic value is ~7.5%.
- **Quality of earnings:** Sibanye has a low quality of earnings given the volatility of market prices that are outside of the company's control.
- **Dividend:** The forward dividend yield on Sibanye is 2.3%.
- **Balance sheet:** Sibanye's net debt has increased to R11 billion due to the issuance of the convertible bonds. The additional finance costs are manageable, however, Sibanye's ability to pay them becomes increasingly dependent on commodity prices.
- **Management:** Management has a proven track record of pivoting from gold to PGMs.
- **Risks:** Capital allocation, M&A execution, Eskom load curtailment, cable theft, and PGM price volatility remain key risks.
- **Price momentum:** Price momentum is positive.



Table 3: Company data

52-week high	R38.05
52-week low	R17.56
Market value (bn)	R64.3
Price momentum	Positive
3m earnings revision	-27.2%
Fiscal year-end	2024/12/31
Beta (3Y, daily)	1.63

Source: FactSet

Graph 11: Price-to-earnings (NTM)

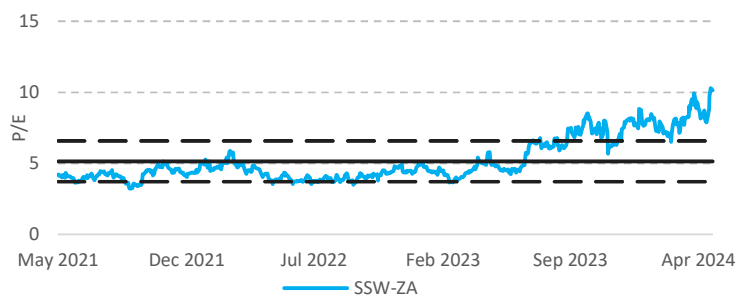
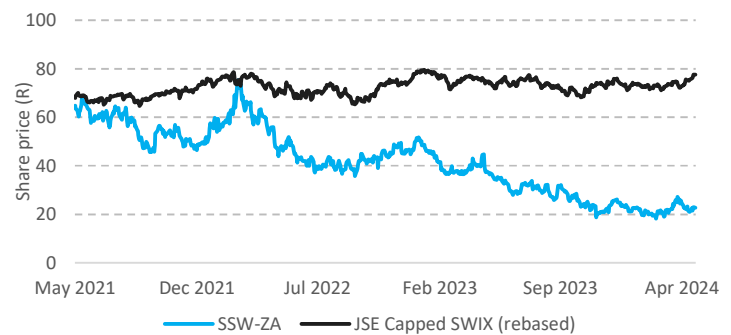


Table 4: Valuation multiples

Multiple	Latest:	Last note:
	May-24	Jan-24
P/E	10.1x	7.8x
P/S	0.6x	0.6x
P/B	1.2x	0.7x
P/CF	3.8x	5.2x
EV/EBITDA	3.7x	2.9x
EV/EBIT	6.2x	4.7x
EV/sALES	0.7x	0.6x
Dividend yield	2.3%	4.2%
FCF yield	-1.1%	3.1%

Graph 12: Share price history versus benchmark



Source: FactSet

Table 5: Performance versus benchmark

Period	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
Sibanye Stillwater	-8.8%	4.4%	15.7%	2.6%	-39.8%	-51.2%	-63.8%	89.6%	29.8%
JSE Capped SWIX	2.0%	3.1%	7.1%	10.1%	3.8%	9.4%	16.2%	23.8%	33.7%

Source: FactSet

Table 6: Key competitors

Code	Price (local)	Market Cap (\$bn)	Sales FY0 (\$bn)	EBIT FY0 (\$bn)	Net Income FY0 (\$bn)	EV/EBIT	P/E (NTM)	Price % (3mo)	Price % (1YR)
SSW-ZA	22.7	64	114	9	-37	6.2x	10.1x	15.7%	-39.8%
AMS-ZA	781.0	207	124583	18	13	8.1x	12.4x	10.9%	-31.9%
IMP-ZA	99.7	90	106594	20	5	9.2x	11.5x	55.5%	-44.4%

Source: FactSet



Table 7: Key financials and ratios

Income statement (Rbn)	2018	2019	2020	2021	2022	2023	5Yr CAGR	2024E	2025E
Sales	50.7	72.9	127.4	172.2	141.5	113.7	17.55%	110.5	121.6
Y/y growth (%)	10.3	44.0	74.7	35.2	-17.8	-17.8		-2.8	10.1
Gross income	9.1	15.1	45.6	68.6	49.9	20.5	17.56%	19.0	24.9
Y/y growth (%)	2.2	65.1	202.0	50.6	-27.2	-51.6		-7.5	31.0
EBITDA	3.1	8.3	40.0	60.2	41.0	9.5	24.98%	11.0	15.4
Y/y growth (%)	-16.5	165.3	384.8	50.4	-31.9	-73.1		16.3	39.4
EBIT	-2.6	0.1	29.3	33.4	18.4	-37.4	70.07%	4.6	7.6
Y/y growth (%)	1 074.3	-102.7	40 926.1	14.1	-45.0	- 303.2		-112.4	65.2
Net income	0.0	-0.4	10.6	12.6	8.0	0.6	-335.92%	1.6	3.4
Y/y growth (%)	-92.6	4 481.8	-2 794.8	18.4	-36.9	-90.3		151.8	113.1
EPS	50.7	72.9	127.4	172.2	141.5	113.7	17.55%	110.5	121.6
Y/y growth (%)	10.3	44.0	74.7	35.2	-17.8	-17.8		-2.8	10.1

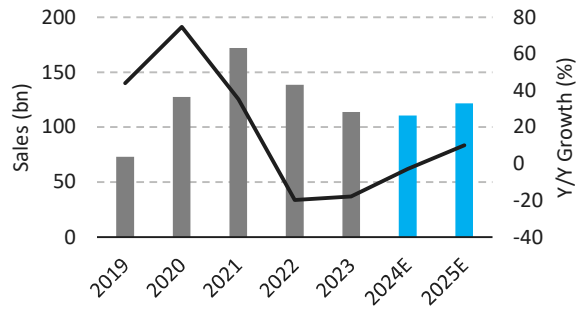
Balance sheet and cash flow (Rbn)	2018	2019	2020	2021	2022	2023	5Yr CAGR	2024E	2025E
Capex	7.081	7.706	9.465	12.74	14.41	22.38	25.88%	21.6	17.4
Cash from operations	12.2	9.5	28.0	48.0	25.9	8.0	-7.98%	16.4	21.7
Free cash flow	0.2	1.9	21.7	38.6	10.8	-10.6	- 322.02%	-6.4	2.6
Y/y growth (%)	-106.4	872.1	1032.3	77.9	-72.1	-208.5		-40.0	-141.3
Cash and ST investments	2.5	5.6	20.3	30.3	26.1	25.6	58.58%	16.8	20.9
Total assets	84.9	101.1	134.8	153.0	166.6	142.0	10.84%	142.6	152.3
ST debt	1.7	6.2	0.1	1.0	0.2	11.9	13.91%	1.7	11.1
LT debt	24.0	18.3	24.0	17.7	20.4	25.3	6.70%	35.2	27.8

Ratios (\$bn)	2018	2019	2020	2021	2022	2023	5Yr CAGR	2024E	2025E
Gross margin (%)	6.1	11.3	31.4	35.0	29.0	8.3	22.3	10.0	12.7
EBIT margin (%)	-5.2	0.1	23.0	19.4	13.0	-32.9	4.6	4.2	6.3
Net income margin (%)	1.4	1.0	1.8	3.0	3.2	1.7	2.5	-	-
Current ratio	107.0	103.0	81.3	27.3	25.7	76.3	47.4	-	-
Total debt to equity	33.7	28.9	23.9	14.0	13.5	26.0	18.2	-	-
Total debt to assets	-7.5	-3.1	0.1	24.9	23.0	-24.4	7.0	-	-
ROA (%)	-22.0	-10.5	0.2	59.7	44.5	-55.2	14.2	-	-
ROE (%)	6.1	11.3	31.4	35.0	29.0	8.3	22.3	10.0	12.7

Source: FactSet

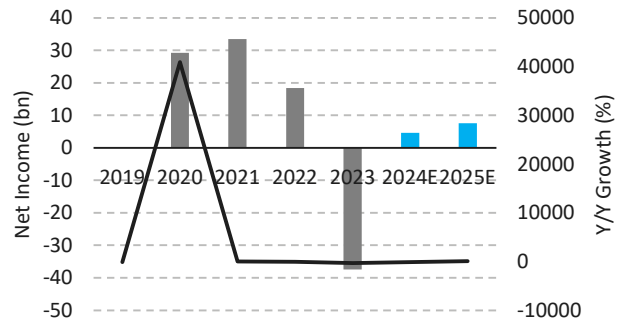


Graph 13: Annual sales



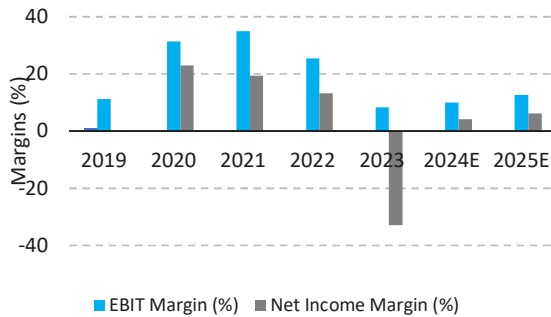
Source: FactSet

Graph 14: Annual net income



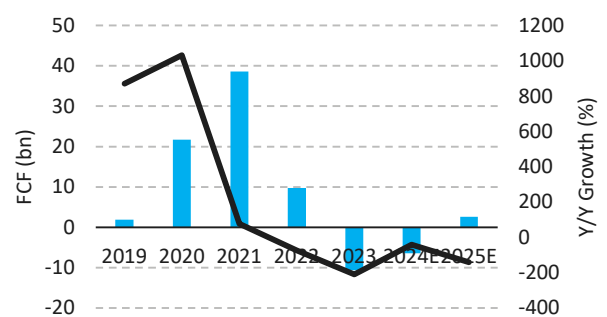
Source: FactSet

Graph 15: EBIT and net margins



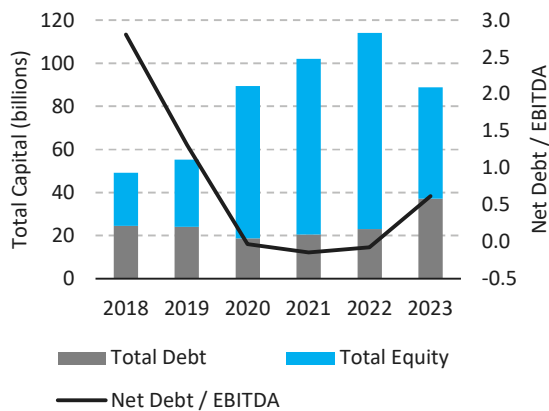
Source: FactSet

Graph 16: Free cash flow



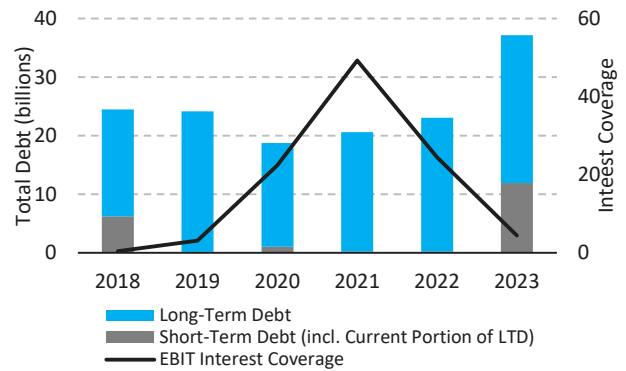
Source: FactSet

Graph 17: Capital structure and net debt / EBITDA



Source: FactSet

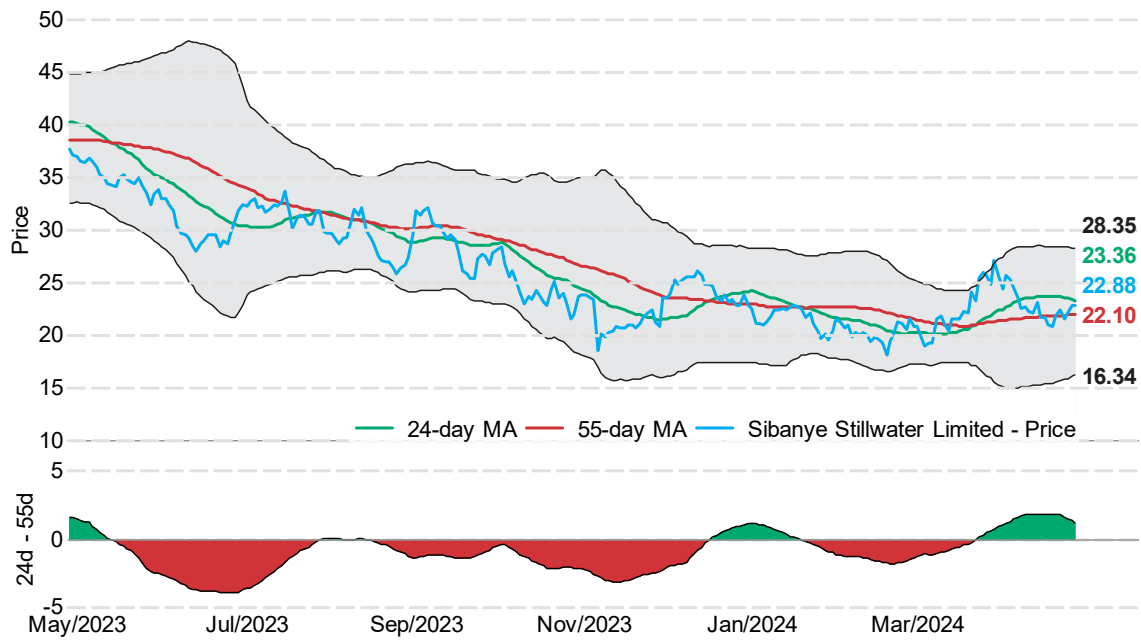
Graph 18: Total debt and interest coverage



Source: FactSet

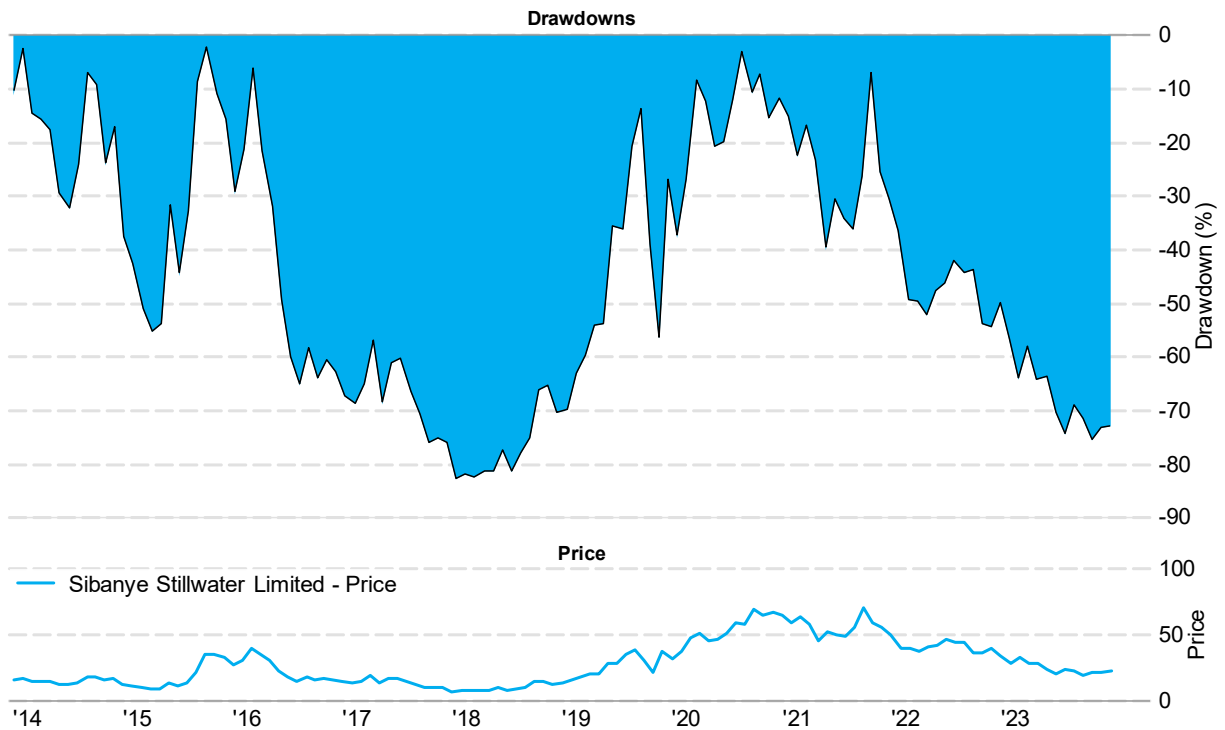


Graph 19: Price momentum



Source: FactSet

Graph 20: Drawdowns



Source: FactSet



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