

Impala Platinum

Materials

Company Update Report

Hold

Analyst recommendation

Counter	Share price	Intrinsic value	Difference
IMP	R104	R85	-18%

As at 24 May 2024

Executive summary

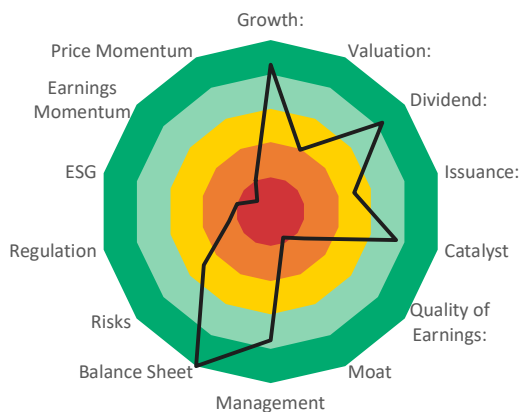
In this report, we discuss several events that have occurred since our last report released in March. Over this period, Implats is up roughly by 40% outperforming peers.

1. Implats released a quarterly operational update for the period ending 31 March 2024 showing a 13% increase in group production to 827koz.
2. Implats entered Section 189 consultations at SA operations.
3. Implats concludes agreements for broad-based black economic empowerment (BBBEE) transaction at Impala Rustenburg and Impala Bafokeng.
4. Two large investment managers have increased their beneficial interest in Implats.
5. Platinum has increased by 14%, Palladium is 2% lower and Rhodium is 3% higher, however, all metals remain lower than the same time last year.

At this stage there is no justification for making changes to our intrinsic value or hold recommendation despite Implats trading above our intrinsic value. We expect the volatility in the sector to continue and maintain our hold recommendation while we undergo further research into the PGM market.

Implats thesis: The completed acquisition of RBPlats by Implats has increased the life of mine (Impala Rustenburg), will decrease unit costs and result in operational synergies. Implats has high margins, a relatively strong balance sheet and has historically generated strong cash flows. In terms of relative valuation, it is an attractive PGM producer.

Qualitative summary



- Potential to grow off low base
- Highest group exposure to PGMs
- Dividend yield higher than peers
- Strong balance sheet, net cash positive
- High unit cost operation
- Concerns around escalating unit costs and margin pressure, particularly in their Canadian operation
- Any further loss of life may result in operational delays brought on by regulatory/social interventions

Source: FactSet



3Q24 operational update

Group 6E production increased 13% to 827koz, driven by the inclusion of Impala Bafokeng and higher milled volumes at Implats. Production from managed operations increased by 17% but decreased by 2% on a like for like basis. Production from JV's (Mimosa and Two Rivers) increased by 7%. Grades were relatively stable at the managed operations and decreased slightly at the JV operations.

Refined 6E production increased by 8% to 717koz ounces and 6E sales volumes increased by 10% to 824koz, which included some destocking of refined inventory to offset scheduled furnace maintenance which was completed as planned.

Implats had 410koz of excess inventory at the end of the period.

Production losses due to load curtailment were negligible for the quarter.

Implats remains on track to meet guidance for FY24.

Section 189 consultations

On 26 April 2024, Implats announced that it had initiated a Section 189 consultation process at the South African operations. The proposed restructuring could impact 3 900 positions, leading to a 9% reduction in labour across Impala Rustenburg, Impala Bafokeng and Marula as well as at the corporate office.

Broad-Based Black Economic Empowerment Transaction

On 20 May 2024, Implats reported that it had concluded an agreement to implement B-BBEE transaction (c. R9 billion) that will result in a 13% ownership at both Impala Platinum Ltd (Impala) and Impala Bafokeng Resources Proprietary Ltd (IBR). Equity ownership at Impala and IBR will be through the following three components, which will be facilitated through loans (interest free) provided by Impala and IBR with dividend flow used to service capital repayments:

1. An employee share ownership trust ("ESOT") (4%)
2. A community share ownership trust ("CSOT") (4%)
3. A strategic empowerment consortium ("Bokamoso RF") (5%)

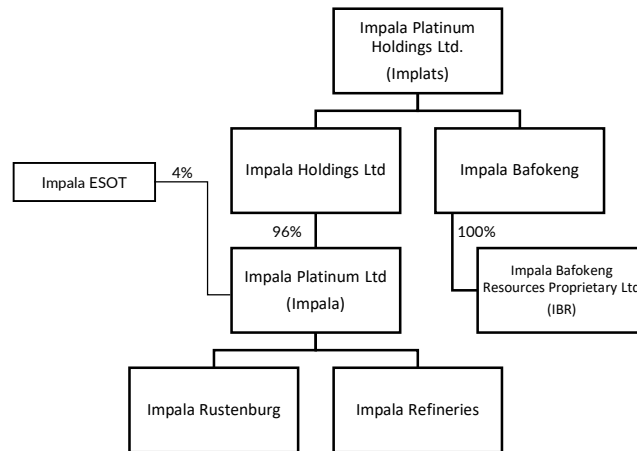
Following the implementation of the transaction (expected 30 June 2024), the shareholding in Impala and IBR will be held as follows (and is simplified in Figures 1A and 1B):

1. Impala Holdings Limited will hold 87% of Impala, together with the CSOT (4%), the pre-existing Impala ESOT (4%) and Bakamoso RF (5%).
2. Impala Bafokeng will hold 87% of IBR, together with the CSOT (4%), the ESOT (4%) and Bakamoso RF (5%).

The transaction will increase the non-controlling interest and essentially decrease the profit and dividends that flows to shareholders of Implats. We estimate the impact on earnings to be less than 5%.

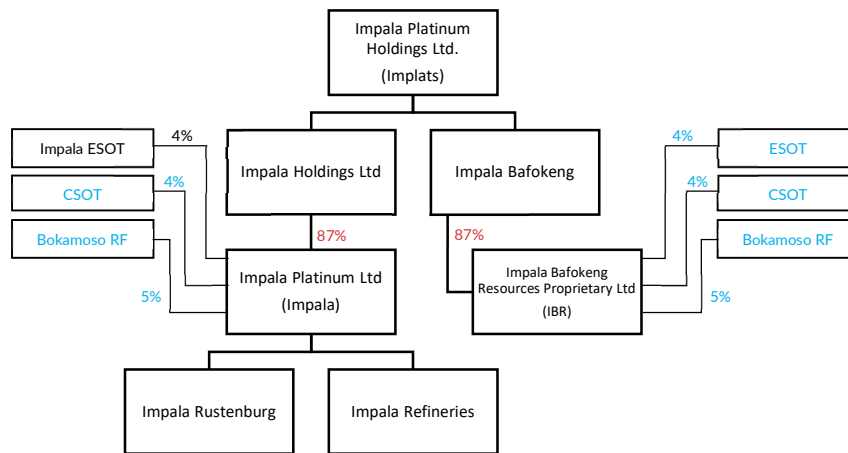


Figure 1A: Simplified entity structure before transaction



Source: PSG Wealth

Figure 2A: Simplified entity structure after transaction



Source: PSG Wealth

Beneficial interest in Implats Securities

On 23 May 2024 there were two separate SENS announcements revealing that FMR LLC (Fidelity) and Ninety One, on behalf of their clients had acquired ordinary shares of Implats such that their total interest in Implats amounted to 10% and 5.1%, respectively. Details of the top investment management shareholdings as at the end of the FY23 are shown in the table below.

Table 1: Top shareholders

INVESTMENT MANAGEMENT SHAREHOLDINGS

The following investment managers held, directly or indirectly, more than 3% of the issued share capital at 30 June 2023:

Investment manager	Total shareholding	%
PIC	137 410 395	16.03
Fidelity Management & Research Company	49 423 549	5.77
Ninety One SA (Pty) Ltd	44 234 064	5.16
M&G Investment Managers (Pty) Ltd	37 429 559	4.37
BlackRock Advisors LLC	35 692 348	4.16
The Vanguard Group Inc.	33 003 794	3.85
GIC Asset Management Pte Ltd	27 508 766	3.21
Total	364 702 475	42.55

Source: Implats annual financial statements



Analyst thesis

Of the leading PGM producers, Implats has the highest group exposure to PGM's, positioning the group well to benefit from the growing global demand for platinum group metals. The RBPlats acquisition has improved the asset base and should result in an extended life of mine and lower unit costs. Implats still has a solid balance sheet with net cash in excess of R5 billion which should see the group through a low commodity price environment.

Valuation

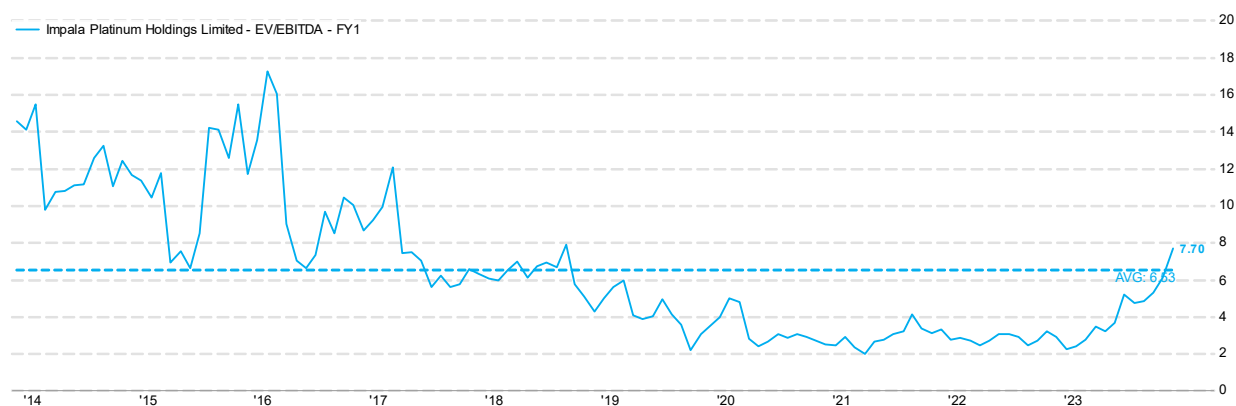
We value Implats using a discounted cash flow analysis. The valuation is sensitive to some key drivers which are stress tested in the next section. Our main assumptions use a 14% WACC, USD/ZAR exchange rate of R19, a modestly increasing platinum and palladium price from current levels and a flat rhodium price of \$4500.

Table 2: Implats valuation

EBITDA FY5	17 213
Exit multiple	5.0x
Discount factor	0.58
Terminal value	48968
Sum DFCFF	25726
Enterprise value	74 693
Plus: Cash and cash equivalents	9 188
Less: Debt	3 070
Less: NCI	5 187
Equity value	75 624
NOSH (millions)	896
Intrinsic value per share	85
Current price per share	104
Upside / (downside) to intrinsic value	-18%

Sources: PSG Wealth, FactSet

Graph 1: EV/EBITDA history



Source: FactSet



Table 6: Company data

52-week high	R190.68
52-week low	R56.86
Market value (bn)	R94.9
Price momentum	Positive
3m earnings revision	55%
Fiscal year end	2024/06/30
Beta (3Y, daily)	1.71

Source: FactSet

Graph 6: Price to earnings (NTM)

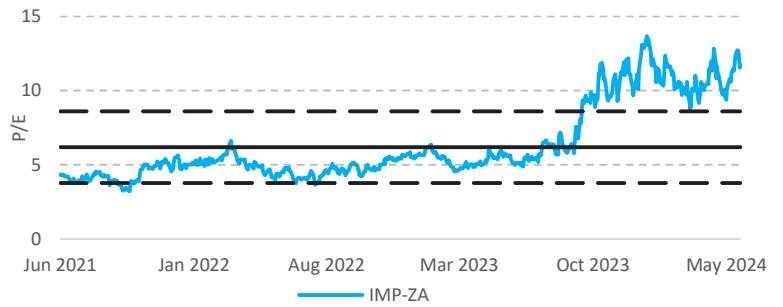
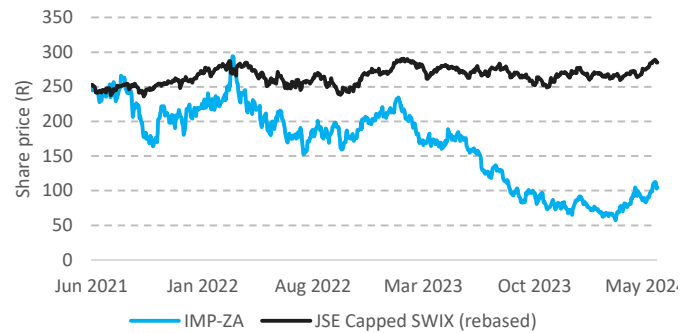


Table 7: Valuation multiples

Multiple	Latest:	Last note:
	May 2024	Mar 2024
P/E	11.7x	10.2x
P/S	0.9x	0.7x
P/B	0.8x	0.6x
P/CF	4.7x	5.2x
EV/EBITDA	4.7x	3.8x
EV/EBIT	9.5x	7.6x
EV/SALES	0.9x	0.7x
Dividend yield	2.5%	2.8%
FCF yield	0.1%	-1.2%

Graph 7: Share price history versus benchmark



Source: FactSet

Table 8: Performance versus benchmark

Period	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
Impala Platinum Holdings Limited	14.9%	23.8%	59.4%	29.4%	-36.3%	-48.4%	-55.1%	96.0%	-9.1%
JSE Capped SWIX	2.6%	3.7%	6.4%	5.2%	7.0%	11.2%	16.8%	30.7%	32.6%

Source: FactSet

Table 9: 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)
IMP-ZA	104.9	95	106.6	20	5	9.5x	11.7x	59.4%	-36.3%
AMS-ZA	730.6	194	124.6	18	13	7.5x	11.5x	-1.1%	-33.2%
SSW-ZA	23.8	67	113.7	9	-37	6.5x	10.7x	18.5%	-32.9%

Source: FactSet



Table 10: Key financials and ratios

Income statement (Rbn)	2018	2019	2020	2021	2022	2023	5Yr CAGR	2024E	2025E
Sales	35.9	48.6	69.9	129.6	118.3	106.6	24.35%	86.7	106.9
Y/Y growth (%)	-	35.6	43.6	85.5	-8.7	-9.9		-18.7	23.3
EBITDA	5.3	10.0	28.2	60.8	51.7	33.2	44.55%	12.2	20.7
Y/Y growth (%)	-	89.7	182.0	116.0	-15.0	-35.7		-63.4	69.6
EBIT	-12.7	4.1	23.6	53.5	41.3	19.6	-209.02%	3.7	10.6
Y/Y growth (%)	-	-132.0	481.4	126.1	-22.8	-52.5		-81.1	186.3
Net income	-10.7	1.5	16.1	47.0	32.0	4.9	-185.59%	2.7	8.8
Y/Y growth (%)	-	-113.8	991.4	192.9	-31.9	-84.7		-45.1	226.3
EPS	-14.9	2.0	19.1	49.8	38.5	5.8	-182.70%	2.3	9.7
Y/Y growth (%)	-	-113.8	833.5	160.6	-22.6	-85.1		-60.1	321.3

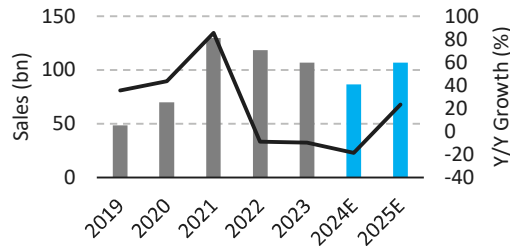
Balance sheet and cash flow (Rbn)	2018	2019	2020	2021	2022	2023	5Yr CAGR	2024E	2025E
Capex	4.667	3.877	4.279	6.265	9.024383	11.51	19.79%	11.8	10.4
Cash from operations	0.0	10.7	17.7	49.4	35.3	25.3	-859.45%	10.2	18.9
Free cash flow	-4.5	7.1	12.9	37.3	26.7	13.9	-225.40%	-3.1	11.7
Y/Y growth (%)	-	-259.1	80.3	189.4	-28.3	-48.0		-122.0	-483.0
Cash and ST investments	3.7	8.2	13.3	23.5	26.5	26.8	48.57%	16.3	24.3
Total assets	66.2	67.0	95.9	126.5	156.1	169.4	20.68%	165.7	177.7
ST debt	2.4	1.9	2.8	0.2	0.3	0.3	-32.70%	0.3	0.3
LT debt	7.9	6.7	6.2	1.1	1.0	2.3	-22.23%	2.6	2.4

Ratios (\$bn)	2018	2019	2020	2021	2022	2023	5Yr CAGR	2024E	2025E
EBIT margin (%)	-35.5	8.4	33.9	41.3	34.9	18.4	27.3	4.3	9.9
Net income margin (%)	-29.8	3.0	23.0	36.3	27.1	4.6	18.8	3.1	8.2
Current ratio	1.8	2.4	3.1	3.2	3.6	3.8	3.2	-	-
Total debt to equity	27.8	21.9	14.5	1.5	1.1	2.3	8.2	-	-
Total debt to assets	15.6	12.8	9.4	1.1	0.8	1.5	5.1	-	-
ROA (%)	-15.3	2.2	19.7	42.3	22.7	3.0	18.0	-	-
ROE (%)	-25.4	3.9	31.8	62.8	31.6	4.3	26.9	-	-

Source: FactSet

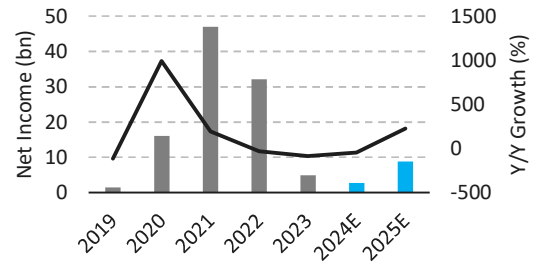


Graph 8: Annual sales



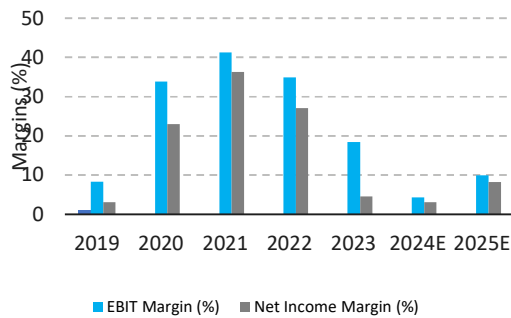
Source: FactSet

Graph 9: Annual net income



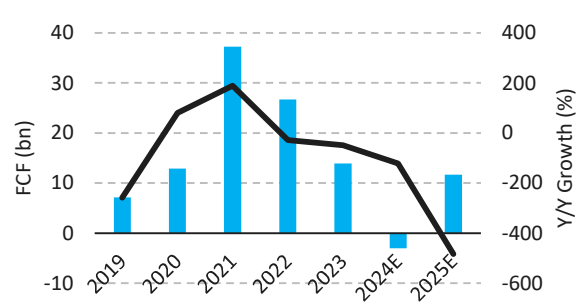
Source: FactSet

Graph 10: EBIT & net margins



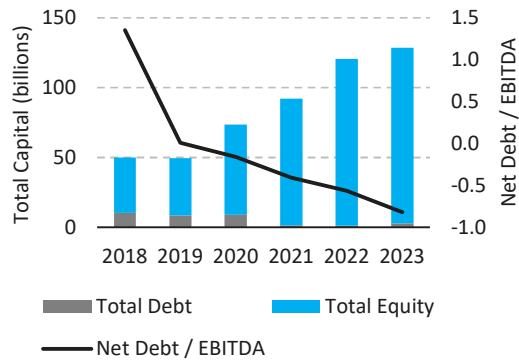
Source: FactSet

Graph 11: Free cash flow



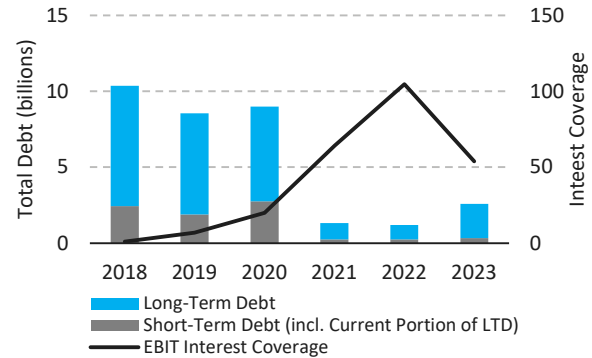
Source: FactSet

Graph 12: Capital structure & net debt / EBITDA



Source: FactSet

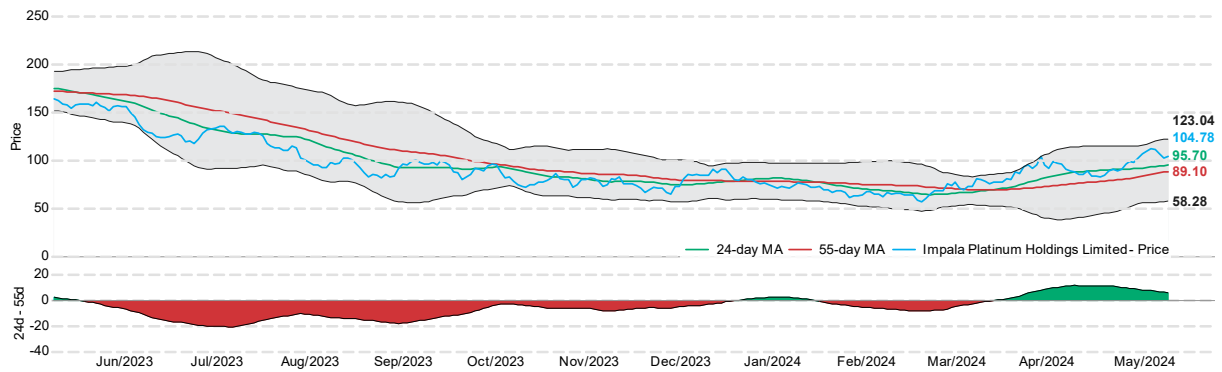
Graph 13: Total debt and interest coverage



Source: FactSet

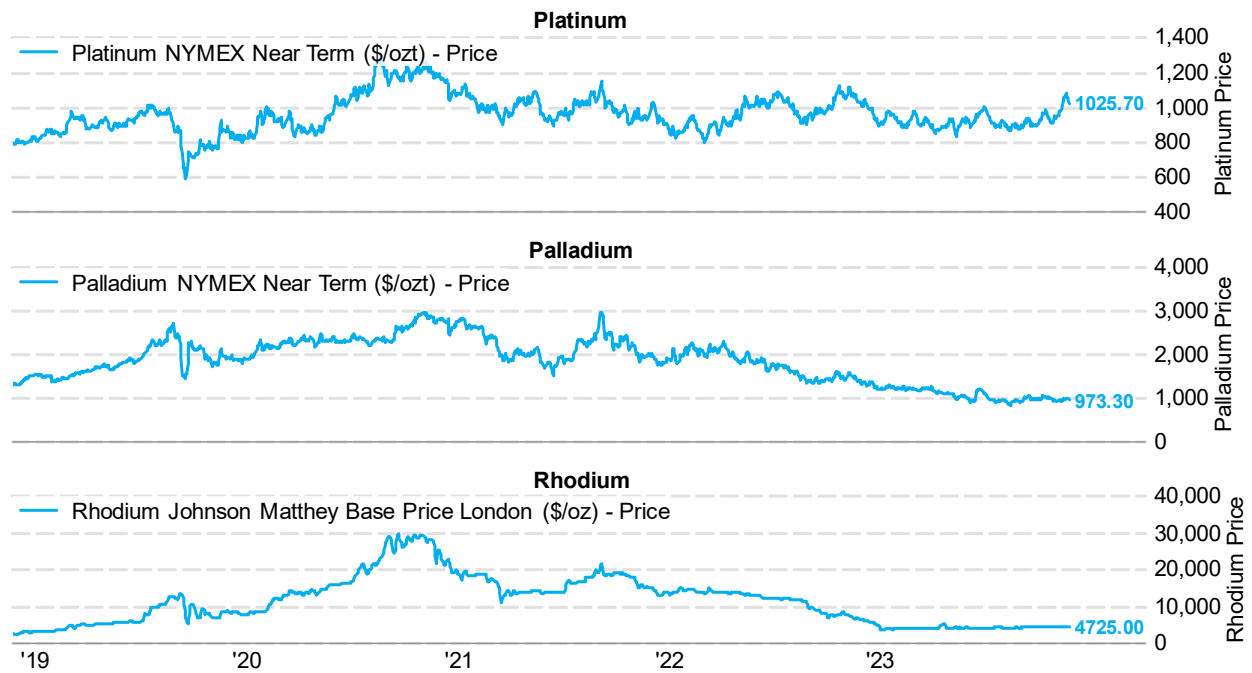


Graph 14: Price momentum



Source: FactSet

Graph X: PGM Prices



Source: FactSet

Graph 1: Platinum vs US Index



Source: FactSet



Contact details

Matt Swart

Equity Analyst
+27 (11) 996 5200
Matt.Swart@psg.co.za

Vaughan Henkel

Head of Equity Research
+27 (11) 996 5200
Vaughan.Henkel@psg.co.za

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*Share price as at closing.

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