

## Does Sibanye-Stillwater's purchase of Lonmin matter to the platinum market?

Sibanye-Stillwater announced its intention to purchase Lonmin plc in December 2017. The announcement also brought new information on Lonmin's long term mine plan, with its production to decline significantly. We believe this announcement will refocus attention on South Africa's medium-term platinum production and the risk of supply declines.

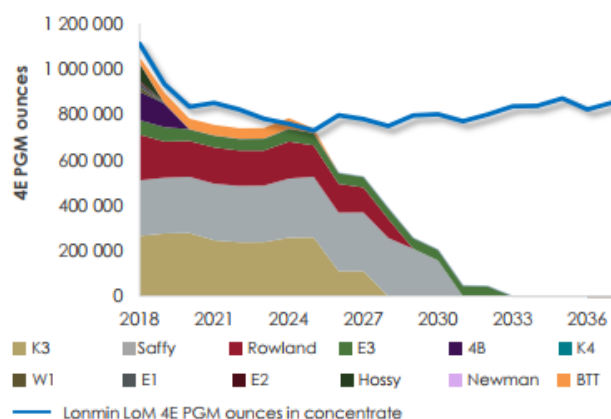
**Market assumption<sup>1</sup>: South African platinum supply is unlikely to fall; and if it does, probably not by enough.** Only a small amount of loss-making production will be cut; and growth from new mine projects in South Africa will at least partially offset supply declines at mature mines. The platinum market will remain broadly in balance in the medium term.

**Our view:** We have long highlighted the potential for South Africa's platinum production to fall, given a significant fall in capex spend. As a result, we see **potential for mine production to fall further; and rising market deficits in the medium term** in the current price environment. This is particularly meaningful post five years of deficits in platinum.

Lonmin's uncertainty has been heightened in past months (especially with the delay of its FY results in November 2017). This announcement brought explicit forecasts on Lonmin's long term mine plan. Now, as a result of placing older shafts on care and maintenance and rationalising capex; production is expected to decline by c30% in 2020 vs 2017; with 12,600 job retrenchments expected over three years. This is expected regardless of whether the proposed transaction is successful or not. If the transaction is not successful, management highlighted some ongoing uncertainty on Lonmin continuing as a going concern, potentially placing all 32,500 of Lonmin's employees at risk in the medium term (i.e. the transaction "saves" c20,000 jobs).

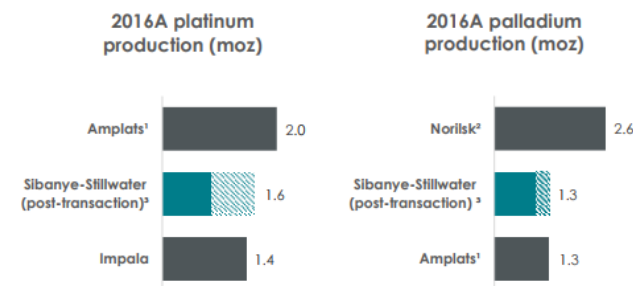
Clarity on Lonmin's mine plan is important; and demonstrates a departure from its previous plan. Consensus has long argued for consolidation in producers in the Western Limb of South Africa's Bushveld. Market participants will inevitably have a range of opinions; and there are, as always execution risks on the transaction. However, it will be **more difficult to maintain the assertion that the platinum market cannot repair itself** than it was before the announcement of the transaction.

Lonmin's mine plan (area) vs previous mine plan (blue line) – total of platinum, palladium, rhodium and gold production (4E oz) – platinum is usually c60% of total



Source: Lonmin, Sibanye-Stillwater

Sibanye-Stillwater's proforma platinum and palladium production (moz) – i.e. post completion of proposed Lonmin transaction



Source: Sibanye Stillwater

<sup>1</sup>Exclusive of Rustenburg Mine

<sup>2</sup>Includes PGM by-products only

<sup>3</sup>Rustenburg + Aquarius + Stillwater + Lonmin. Rustenburg, Kroondal, Platinum Mile and Mimosa as of FY16, per public disclosure. Figures include Blitz at full ramp-up

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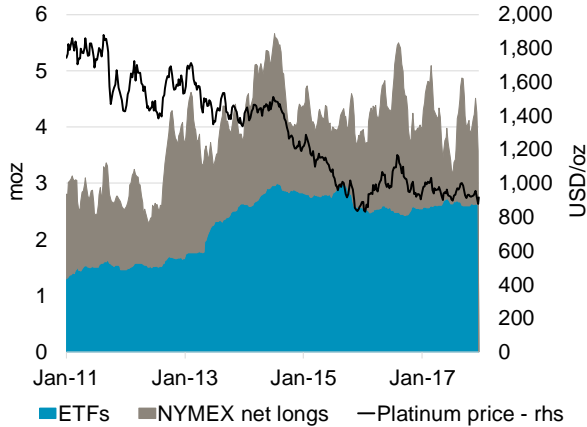
December 2017

# Platinum in six charts – December 2017

We believe there are many reasons supporting consideration of platinum as an investment asset:

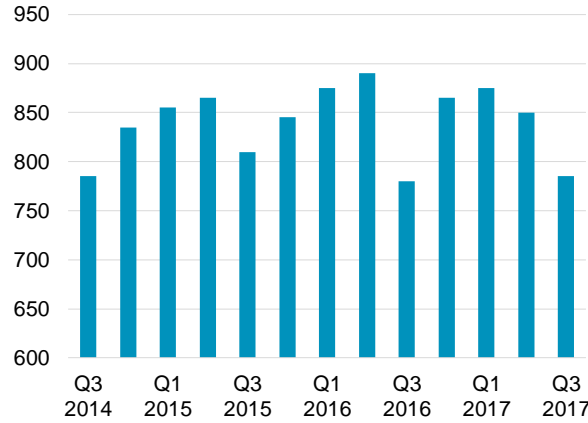
- Supply demand fundamentals are strong and ETF holdings are stable, despite price volatility
- Risks of supply declines are underestimated - cost pressure and falling mining investment continue
- Downside risks to platinum automotive demand are overestimated
- Futures positioning follows sentiment with high correlation to price
- Platinum is undervalued against its past, its production cost and against gold

Figure 1: ETF holdings stable despite price volatility; correlation between futures positioning and price



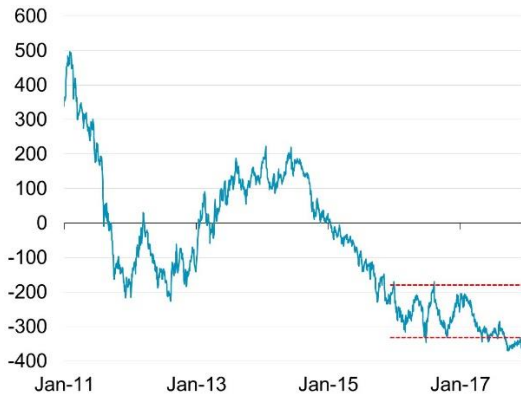
Source: Bloomberg, ETF providers, WPIC Research

Figure 4: Automotive demand starting to be impacted by European diesel share falls plus usual Q3 weakness (koz)



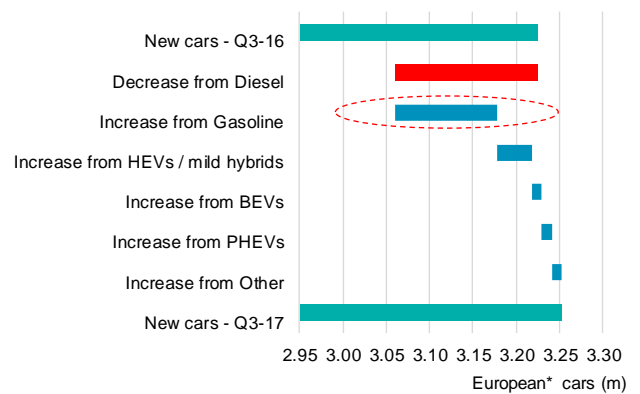
Source: WPIC Platinum Quarterly Q3 2017, SFA (Oxford)

Figure 2: Platinum discount to gold at an all-time high of c\$360/oz



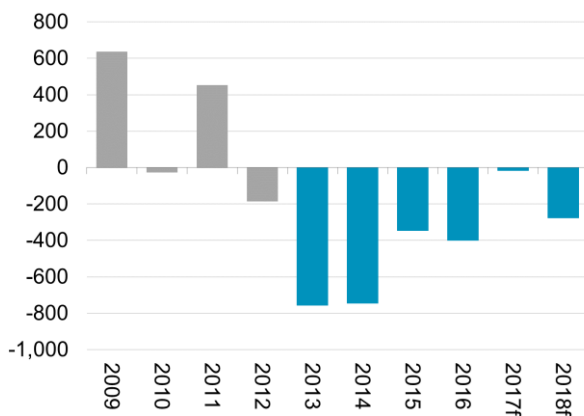
Source: Bloomberg, WPIC research

Figure 5: Diesel vehicles lost continue to be replaced by gasoline more than hybrid or battery vehicles



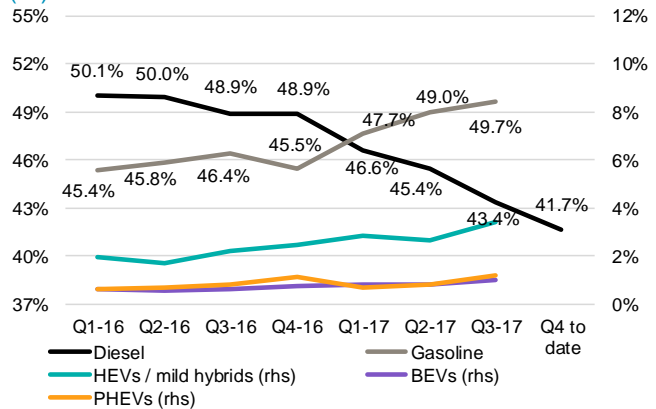
Source: LMC, ACEA, WPIC research

Figure 3: Platinum supply demand balance (koz)



Source: Johnson Matthey (2009-12), SFA (Oxford) (2013-18)

Figure 6: European\* passenger powertrain market share (%)



Source: LMC, ACEA, WPIC research

\* Europe includes passenger vehicles in Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, UK, Norway and Switzerland (based on the availability of both diesel market share data and Alternative Fuel Vehicle data). HEVs – Hybrid Electric Vehicles; BEVs – Battery Electric Vehicles; PHEVs – Plug-in Hybrid Electric Vehicles

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