PGM price surge in 2014/15 to lift fringe stocks

David McKay | Fri, 13 Dec 2013 10:16

[miningmx.com] – WHILST there is a high degree of pessimism about the platinum market, it's interesting to note the upbeat tone of a recent report by CIBC Capital Markets. It believes the seeds of a revival in the platinum group metal (PGM) market have been sown, partly because economic conditions globally are improving.

For PGMs, economic growth is exceptionally good news since roughly half of total PGM demand is from the automotive market which uses the metals in catalytic converters. No cars can be made without having a converter fitted to its exhaust owing to the remarkable ability of PGMs to absorb noxious fumes and therefore remove them before we can breath them.

This means that demand is not affected by price of the metal. In fact, the key point to remember about PGMs is the importance placed on security of supply, says Leon Esterhiuizen, an analyst for CIBC Capital Markets in a recent report.

Some 4% to 5% in economic growth implies an automobile market of about 80 million vehicles. Given the average loading of PGMs per vehicle (catalytic converter) is 4 grammes per car, new demand for PGMs will total 1.3 million ounces over the next three years.

Interestingly, the market would appear to have taken this on board.

Over the next three years, production expansion – mostly from South Africa which controls 75% of platinum production – will be about 900,000 oz, with a further 200,000 oz from North America and elsewhere. The market is, therefore, roughly in balance although there is the chance of mine closures as they age, or turn unprofitable.

Investment demand for platinum is also adding pressure on supply. "So our current metal price forecast is for a significant escalation in the PGM basket price into 2014 and 2015," says Esterhuizen in his report.

Surprisingly, however, Esterhuizen's view on investment opportunities ignores the major South African equities such as Anglo American Platinum and Impala Platinum which he believes price in an improved PGM market.

Rather, says Esterhuizen, consider buying a North American producer, such as Stillwater Mining or the metal itself through an exchange traded product.

Aquarius Platinum is also a possibility, he says. It "… represents a junior operator in South Africa that could deliver a significant geared increase in the share price if the metal prices were to increase meaningfully," he says.

Alternatively, Ivanhoe Mines which is due to take a secondary listing on the JSE, is another option while Eastern Platinum (Eastplats), currently placed in mothballs, is "a very clean option". Eastplats has some C$100m in cash on its balance sheet and a share price trading at less the implied value of the cash, says Esterhuizen.