

IMPALA PLATINUM VS ANGLO AMERICAN PLATINUM

Which miner makes a better investment?



EXECUTIVE SUMMARY

This report presents a comparative analysis of Impala Platinum (IMP) and Anglo American Platinum (AMS), two major players in the South African platinum group metals (PGMs) mining industry. Both companies are in the exploration, mining, processing, and marketing of PGMs. They primarily deal with platinum, palladium, and rhodium. While they operate within the same sector and geographic region, their recent performance and strategic focus reveal distinct differences. This analysis aims to give investors an understanding of the key distinctions between IMP and AMS, enabling them to assess their relative strengths and weaknesses to align their investment decisions with their desired goals and risk tolerance.

COMPANY OVERVIEWS

- **Impala Platinum (IMP):** A leading producer of PGMs with operations primarily concentrated in South Africa. IMP focuses on optimising its existing operations, enhancing operational efficiency, and maximising returns from its core assets.
- **Anglo American Platinum (AMS):** A globally diversified mining company with PGM operations in South Africa. AMS emphasises a broader strategic approach, including investing in new projects, expanding its resource base, and pursuing growth opportunities in other regions.

FINANCIAL PERFORMANCE

A comparative overview of key financial metrics for IMP and AMS highlights their distinct performance trends:

FINANCIAL METRIC	IMP	AMS
Operating Margin	5.97%	14.72%
Dividend Yield	0%	2.21%
Price/Book ratio	1.07	1.72
Free Cash Flow	-R5.78B	-R3.12B
Revenue Growth	-18.95%	-24.08%

Operating Margin: AMS outperformed IMP in operational efficiency, maintaining a 14.72% operating margin compared to IMP's 5.97%, indicating better management of operational costs and expenses.

Dividend Yield: AMS offers a more attractive dividend yield of 2.21%, while IMP does not declare any dividends, reflecting AMS's commitment to returning value to shareholders.

Price/Book Ratio: AMS's P/B ratio of 1.72 suggests it is valued at a premium relative to its book value, compared to IMP's P/B ratio of 1.07, implying its assets have a lower market valuation.

Free Cash Flow: Both companies reported negative free cash flow, with AMS at -R3.12B, a better position than IMP's negative cash flow of -R5.78B, reflecting higher cash strain at IMP.

Revenue Growth: Both companies saw revenue declines, with AMS's revenue falling 24.08%, worse than IMP's 18.95% decline, due to weaker commodity prices and market conditions.



STOCK PRICE RETURNS (YTD)

The line chart above shows the stock price returns of IMP (yellow line), AMS (blue line), and the JSE Top 40 index (red line) year-to-date. The chart visually represents that IMP has outperformed both AMS and the JSE Top 40 index over this period, while AMS has underperformed the benchmark.

WHY AMS UNDERPERFORMED IN 2024

- **Falling PGM Prices:** As stated in the June 2024 results, the realised PGM basket price fell by 24%, with significant declines in palladium (34%) and rhodium (49%). This directly impacted AMS's revenue and profitability even though refined PGM production increased. This highlights the volatility of commodity-based businesses like AMS, where profitability is heavily tied to fluctuating metal prices.
- **Lower Production:** While refined PGM production was up 5%, the company reported a 7% decline in tonnes milled. This suggests potential challenges in mining and processing ore.

POTENTIAL FOR AMS TO RECOVER

Despite the recent underperformance, AMS has the potential to recover in the future due to several factors:

- **Operational Improvements:** The company increased concentrators throughout the Unki and Mototolo mines and took corrective actions to address stability challenges at Mogalakwena. Additionally, AMS restructured its organisation to enhance cost efficiency, improve cash flows, and focus on producing higher-grade concentrate to reduce operating costs.
- **Long-Term PGM Demand:** The long-term demand outlook for PGMs remains strong, driven by their use in automotive catalytic converters, jewellery, and industrial applications.
- **Growth Initiatives:** AMS's investments in new projects and expansion initiatives are expected to contribute to future production growth and profitability. The disposal of its 50% interest in Kroondal optimised costs and improved the company's efficiency.
- **Diversification:** AMS's diversified portfolio of mining assets and geographic presence can provide resilience against commodity price fluctuations and geographical risks.

KEY DIFFERENCES AND INVESTMENT CONSIDERATIONS

1. Strategic Focus:

- **IMP:** Focuses on optimising existing operations, enhancing efficiency, and maximising returns from its core PGM assets in South Africa. This approach prioritises profitability and cash flow generation.

- **AMS:** Focuses on pursuing a broader strategy which includes investing in new projects, expanding its resource base, and pursuing growth opportunities in other regions of the world. This approach prioritises long-term growth and diversification.

2. Growth Prospects:

- **IMP:** Growth prospects are primarily linked to optimising its existing operations and benefiting from higher PGM prices.
- **AMS:** Has greater growth potential due to its investments in new projects and expansion initiatives, which are expected to contribute to future production growth.

3. Risk Profile:

- **IMP:** Carries a lower risk profile due to its focus on existing operations and its strong track record of profitability.
- **AMS:** Has a higher risk profile due to its exposure to operational challenges, commodity price fluctuations, and geopolitical risks associated with its global operations.

WHICH IS RIGHT FOR YOU?

- **IMP:** May be more suitable for investors seeking long-term growth potential and exposure to the South African PGM market, with a lower risk profile.
- **AMS:** Could be a better fit for investors seeking a stable dividend income stream and diversification, who are willing to tolerate higher risk and volatility.

CONCLUSION

Both IMP and AMS offer exposure to the local PGM mining industry but cater to different investor profiles. By understanding their key differences, financial performance, future prospects, and associated risks, investors can make informed decisions about which company better suits their investment strategy.

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