



February 14, 2024

THE LONG PULL: Sibanye-Stillwater (SBSW) & A Hidden Uranium Asset

Platinum and Palladium (also called PGMs) are two of the most-hated assets in markets today. The metals are down 35% and 75% from their 2021 highs. Palladium is trading lower than Platinum for the first time in six years. And large producers like Sibanye-Stillwater (SBSW) are down 80%+.

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TradingView

There are legitimate reasons to be bearish about PGMs, for instance:

- Fears of a global recession
- Transition to EVs, which require fewer PGMs
- Higher interest rates (increase cost of carrying PGM inventory)
- Crumbling European industrial output
- Stagnant jewelry (read: retail) demand growth

Yet with the commodity down 40-75% and the major producers down 80%+, the market *already knows* the bear cases and has priced them in.

You can see this one-sided positioning in last week's CoT data. Large Specs/HFs increased their already massive short position while producers increased their long position.

Disaggregated Commitments of Traders-All Futures Combined Positions as of February 6, 2024

Reportable Positions												
Producer/Merchant		Swap Dealers			Managed Money			Other Reportables				
Long	Short	Long	Short	Spreading	Long	Short	Spreading	Long	Short	Spreading		
PALLADIUM - NEW YORK MERCANTILE EXCHANGE (CONTRACTS OF 100 TROY OUNCES)												
CFTC Code #075651											Open Interest is	24,581
Positions												
4,082	655	8,473	1,021	586	3,738	14,343	2,651	1,295	1,692	1,805		
Changes from: January 30, 2024												
28	16	403	-162	136	29	234	53	77	174	302		
Percent of Open Interest Represented by Each Category of Trader												
16.6	2.7	34.5	4.2	2.4	15.2	58.3	10.8	5.3	6.9	7.3		
Number of Traders in Each Category												
10	6	21	5	6	31	48	20	24	15	9	Total Traders: 162	

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We love situations where the market is tipping its hand and saying, “*we think this theme is going to zero. Your move.*”

I believe the market is wrong on PGMs and SBSW for many reasons:

- EV adoption is slowing as reduced subsidies make BEVs more expensive than ICE vehicles.
- Hybrid vehicles require even more PGMs and are becoming increasingly popular.
- PGMs are already in a 5% supply deficit.
- The world's largest PGM producers are cutting production guidance for 2024.
- China holds nearly 100% of above-ground inventory
- Many PGM mines are operating below breakeven
- Above-ground stocks are at four-year lows
- Tighter vehicle emissions standards increase demand for PGMs

Meanwhile, PGMs trade like they're obsolete, and SBSW trades like it's going bankrupt. If PGMs aren't obsolete – for the reasons we mentioned above – then prices will eventually rise to balance the market.

This should allow SBSW to generate *normalized* profits, pay out 35% of profits as dividends, and trade at a *normalized* market price.

But that's not what attracts us to SBSW.

What attracts us is their hidden uranium asset, which if monetized, would be **worth more than its entire market cap and enterprise value.**

This piece aims to challenge the macro PGM and SBSW narratives with facts and fundamental/sentiment analysis.

Let's get after it.

The Macro Pt. 1: EV Adoption Slowdown

Here's a basic description of PGMs and their role in ICE cars ... ICE cars use catalytic converters to destroy harmful byproducts from burning gasoline. You need metals like palladium and platinum to build catalytic converters.

I've [written before](#) about the changing ICE-to-EV narrative and how countries like the UK are pushing back the date to ban ICE vehicles. Since then, it's only gotten worse for EVs.

Let's start with Volkswagen. Last week, [Volkswagen announced](#) that it stopped EV production at its Germany facility. It then said in the same press release that it was adding weekend shifts to accommodate the increased demand for its ICE vehicles.

Combustion engines top, electric cars flop?

VW is cutting back on electric car production - there are special shifts for combustion engines

Is it a last gasp from the combustion engine or a clear market signal from consumers? While production of electric vehicles is being reduced in VW's German factories, the company is running special shifts in Bratislava in order to be able to meet the high demand for the new combustion engine models.

VW is currently facing a curious imbalance. While the production line for the old Passat and the purely electric ID.7 is stopped in Emden, things are humming elsewhere. The new edition of the Passat, but also the Tiguan and the Golf, all models based on the MQB, give the Wolfsburg-based car company full order books.

VW is planning additional shifts for combustion engine production

The demand for VWs with combustion engines appears to be so great that special shifts on weekends are now being introduced at the main plant. The factory belts for the Golf and Golf Variant models as well as the Tiguan and Touran belts are affected. There should be additional shifts until at least mid-March. Production of the new Passat is also ramping up at the Bratislava plant. The situation is different with the production of the electric model VW ID.3 in Wolfsburg and the ID.7 in Emden: despite the mobility transition, there is a lack of demand here. The bottom line is that the classic VW combustion engine models continue to outperform the electric ID line in terms of popularity.

The original for this article "VW cuts back on electric car production - there are special shifts for combustion engines" comes from [Bit Projects](#).

More ICE vehicles means more PGMs for more catalytic converters.

Then there's Ford (F), which [last week said it would slow](#) EV production to match slowing demand. Oh, and that they won't release new EVs until their units are profitable.

From the Reuter's article (emphasis added):

"Ford is slowing investment in new EV capacity to match slower demand following a seismic change in EV pricing over the past year, Ford executives told analysts.

*The next generation of Ford EVs will be launched "**only when they can be profitable**," Marin Gjaja, head of the Model E EV business, told analysts Tuesday.*

Ford's electric vehicle operations will continue to be a cash drain this year.

***Model E lost an average of more than \$47,000 per vehicle in the fourth quarter**, Ford reported. The company projected a wider pretax loss of between \$5 billion and \$5.5 billion this year."*

This makes good business sense. But how long until EVs are profitable? Think about it. The last ten years were arguably the best time to build and sell EVs at a profit. You had:

- Low inflation
- Fewer labor issues
- Low commodity input prices
- Globalization where everyone played nice with each other
- Loads of government subsidies

Cost cutting still isn't enough to spur demand, according to an excerpt from [Business Insider Germany](#) (emphasis added):

*[President of the Baden-Württemberg Motor Vehicle Industry Association Michael] Ziegler describes the electric car market as a "cauldron". It is currently being re-sorted - **because the order situation has been getting worse for years. "Demand is currently barely existent."***

***"It's going to zero."** The industry can't actually afford the price war, says Constantin M. Gall, mobility expert at EY. After the environmental bonus was abolished, the industry would be faced with a "heap of shambles."*

Now, its the automakers, not the government, subsidizing these vehicles. That's why you're seeing such a tone change.

When it's your own money that you're losing, shut down those EV facilities and bring back the hybrids! [That's what GM is doing anyway.](#)

GM 'all-in on EVs' goes back to plug-in hybrids amid setback with its electric car plans



Fred Lambert | Jan 30 2024 - 2:07 pm PT | [183 Comments](#)

Let me be clear. I have no idea what the future of auto will look like over the next decade with any specificity. I know there will be ICE cars, BEVs, hybrids, and [hydrogen FCEVs](#).

I don't know the percentage breakdown of each vehicle type, either. The good news is that we don't need that level of detail to understand how PGMs will play a more substantial role in our future than previously thought.

It's a simple thesis: **More ICE/hybrid/hydrogen FCEV vehicles and [tighter fuel emissions standards](#) mean more demand for PGMs.**

Finally, ask yourself this question.

If the future is EVs and PGMs are no longer as widely needed, ***why has China been stockpiling 12Moz of platinum as of 2022?*** China is one of the world's largest auto exporters and [recently overtook TSLA](#) as the largest EV automaker. They're buying platinum hand over fist.

Things that make you go hmm ...

This brings us to the global PGM supply/demand outlook.

The Macro Pt. 2: A Global Supply Tightening

Anglo American (AAL) CEO Duncan Wanbland says the current platinum/palladium price environment is the worst he's seen in 35 years.

Prices are so low that nearly every PGM mine is losing money. Check out recent AAL, SBSW, and Impala Platinum (IMPJ) headlines.

Anglo American considers deeper cost cuts in face of worst downturn in years

By Felix Njini and Veronica Brown

February 5, 2024 1:50 PM EST · Updated 8 days ago



Impala Platinum starts voluntary job cuts at South African mines

By Felix Njini

November 7, 2023 4:09 AM EST · Updated 3 months ago

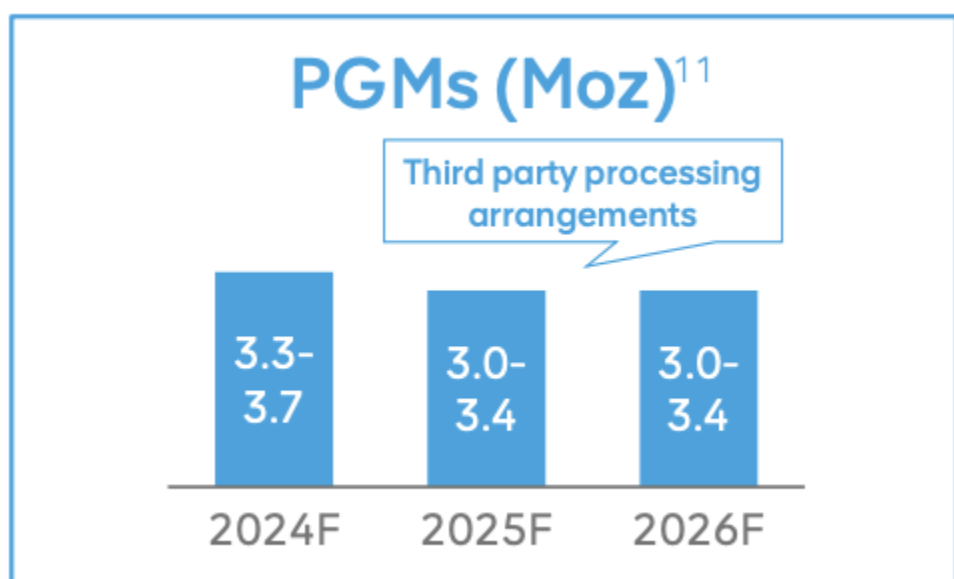


Sibanye-Stillwater cuts about 300 US platinum jobs to lower costs

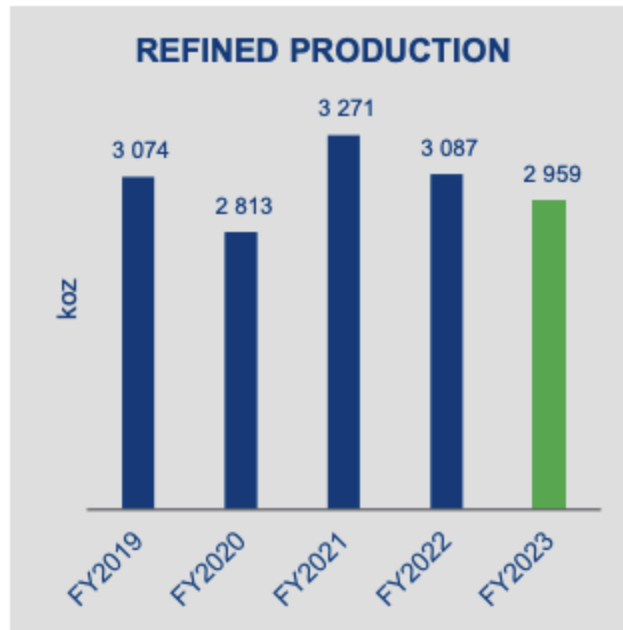
[Cecilia Jamasmie](#) | November 29, 2023 | 6:22 am [News Africa](#) [Gold](#) [Palladium](#) [Platinum](#)

Job cuts eventually lead to production cuts.

AAL sees [production declining](#) from 3.3-3.7Moz in 2024 to 3.0-3.4Moz by 2026.

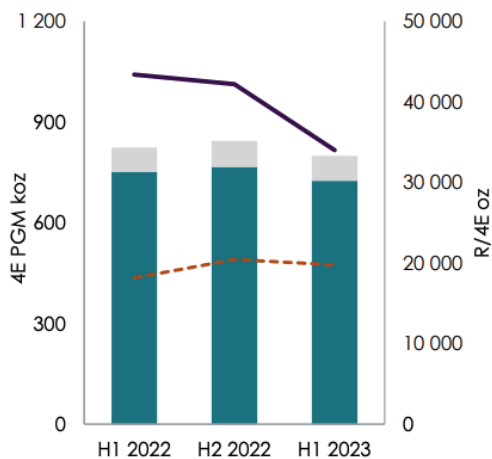


IMPJ [produced less platinum](#) in 2023 than in 2019. And it's failed to sustain >3Moz in annual production over the past five years.

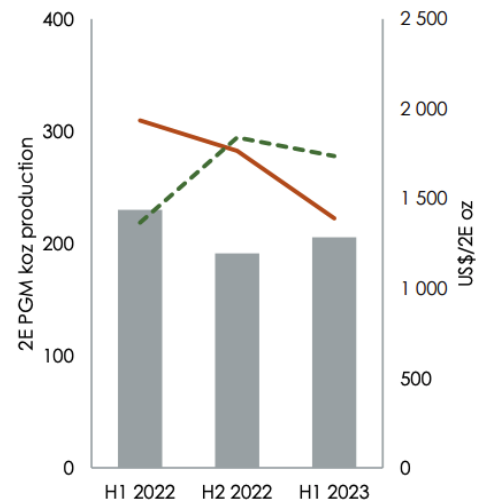


Even SBSW, with its cost-advantaged South African mines, can't increase production.

SA PGM – Underground¹ and surface production and AISC²



US PGM – Mined production and AISC¹

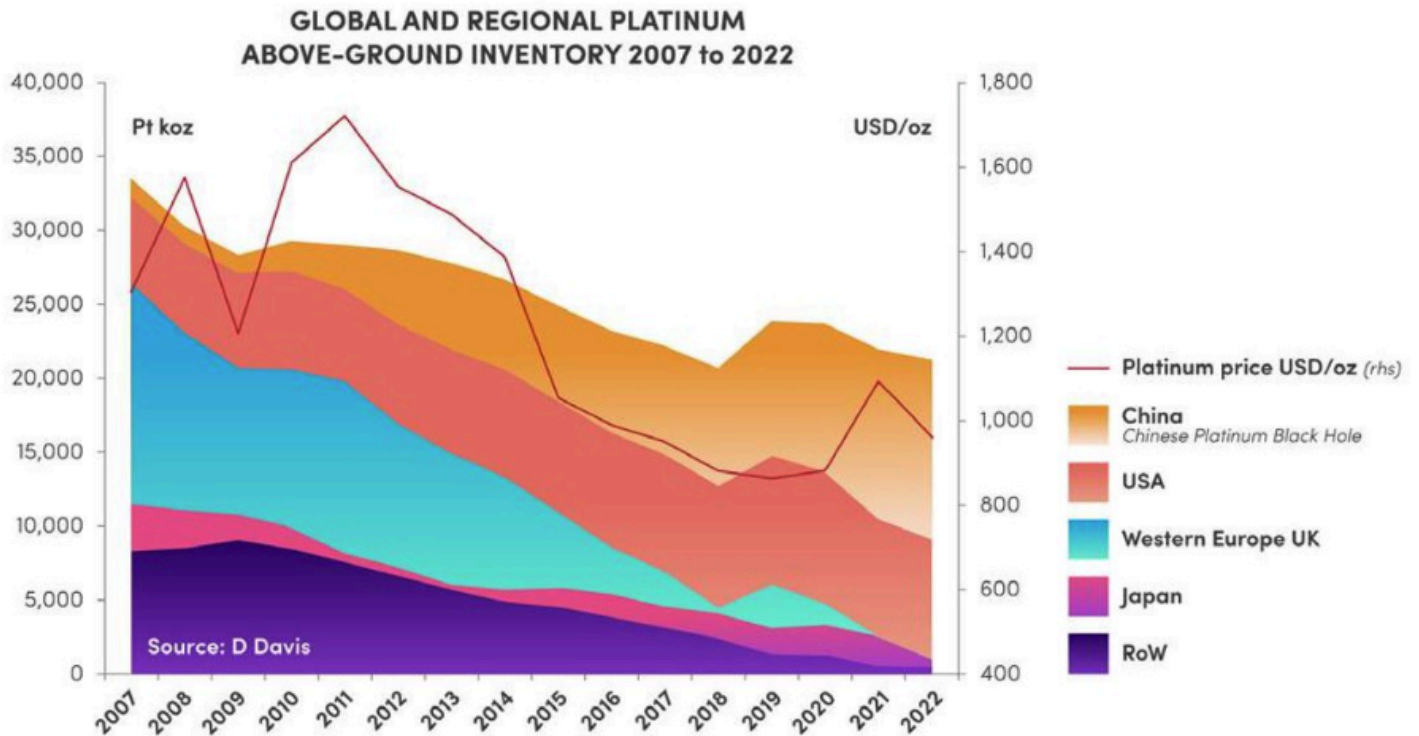


There's zero incentive to expand production at the current PGM prices. Said differently, I don't see a significant supply response coming in the next few years.

If you can't get supply from primary production, the next best option is above-ground inventory (or AGI). The problem is that the world is rapidly depleting its PGM AGI.

Depleting PGM Above Ground Inventory (AGI)

Dr. David Davis is an independent metals analyst with 45+ years of experience studying the South African PGM market. In December, he released a [supply-demand equation report](#) that said, “we are running out of PGM AGI.”

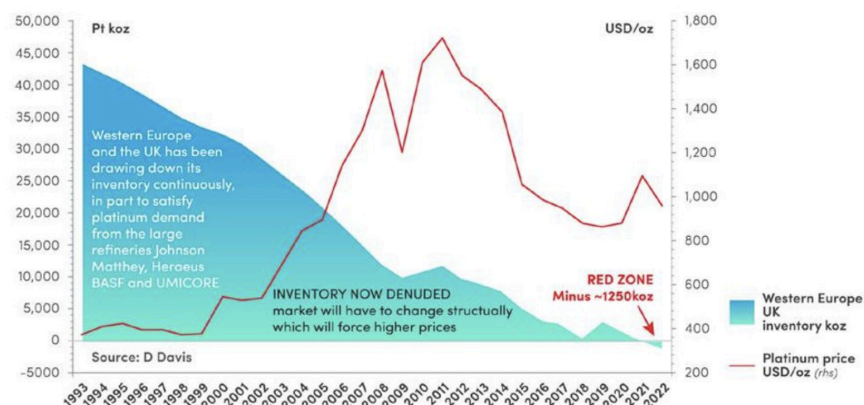


We can bifurcate global AGI into two buckets: **the US/China** and **Everyone Else**.

As of 2022, The US has ~8Moz in AGI versus China’s 12Moz. Japan has ~1Moz in AGI, down from 6Moz in 1993, which isn’t great but is still positive. It’s the “Everyone Else” that’s screwed.

Western Europe/UK has run out of platinum AGI.

Western Europe / UK platinum AGI between 1993 and 2022:

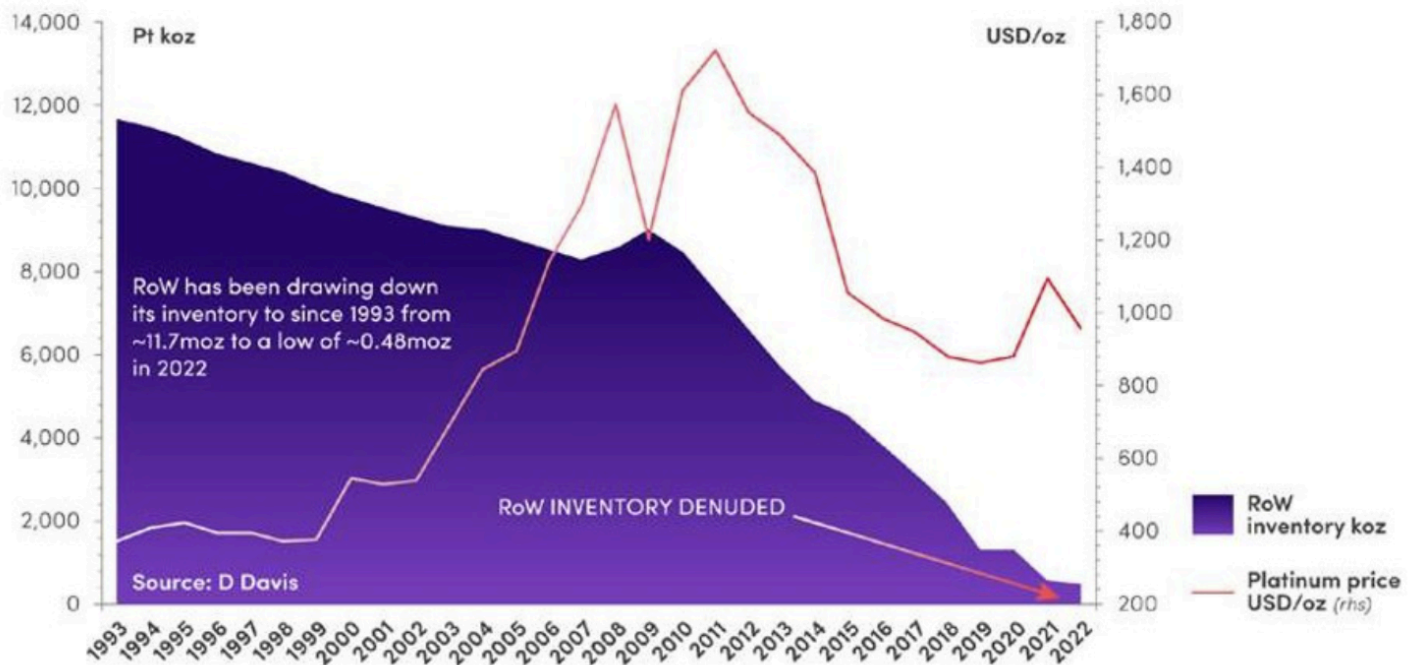


Dr. Davis explains the situation in Western Europe (emphasis added):

“It has become obvious that the trends described above cannot go on indefinitely as the AGI will continue to diminish without a top-up by way of additional platinum imports and/or additional secondary refining and/or OEM’s holdings.”

The Rest of the World (RoW) is also structurally short platinum.

Rest of the World platinum AGI between 1993 and 2022:



Again, Western Europe/UK and RoW cannot replenish their platinum AGI stores from primary mine production. Prices are too low and most mines are uneconomical.

We’re now in what Dr. Davis calls “a critical red zone” (emphasis mine):

*“My calculations imply that the platinum quantum of the AGI in Western Europe, UK, and RoW, have entered a critical red zone. **Support can only come from the USA AGI, at a price; from an increase in primary mine supply, which is in decline; and from a significant increase in recycling, which is unlikely, ceteris paribus. These trends are set to ignite the platinum price within the next few months.**”*

The best commodity ideas are ones you can explain on the back of a napkin. PGMs pass that test.

- **Demand** will increase/remain robust as major auto OEMs produce more ICE/hybrid vehicles (requiring more catalytic converters).
- **Supply** will disappoint as current prices disincentivize new production, forcing countries to drain AGI to meet demand.
- **Prices** will eventually rise to force new primary production as AGIs reach critical depletion levels.

What's the best way to express this trade? SBSW.

Sibanye-Stillwater (SBSW): The Best Way To Express The Trade

SBSW is everything you don't want in a stock. The chart is a complete falling knife, it has most of its mining operations in South Africa, the commodities it produces are down 45-70%, and it recently cut its dividend.

The stock trades like the company will go bankrupt because nobody will ever need PGMs.

But that's why the opportunity exists.

Let's start with the balance sheet.

SBSW has ~\$3B in current assets (\$1.2B in cash, \$467M in receivables, and \$1.4B in inventory) against ~\$1.34B in long-term debt.

The company trades at a ~\$2.5B EV if we include receivables (discounted at 75%) and inventory (discounted at 25%) in our calculation.

Here's [what you get](#) for \$2.5B:

- 57.7Moz of PGM reserves
- 10Moz of gold reserves
- [67Mlbs of uranium](#) in above-ground tailings
- \$9.7B in cumulative 5YR Operating Profits
- \$4.5B in cumulative 5YR FCF
- \$2.2B in cumulative 5YR dividends

The company is trading at its cheapest levels over the past decade and its one of the cheapest stocks globally (via Koyfin).

Price / Earnings - P/E (LTM)	4.0x	6	9	9
Price / Sales - P/S (NTM)	0.5x	9	21	18
Price / Sales - P/S (LTM)	0.4x	6	22	16
Price / Book - P/B (LTM)	0.6x	0	15	15
Price / Tangible Book Value - P/TBV (LTM)	0.6x	0	51	45
Price / Free Cash Flow (LTM)	17.6x	66	62	61
Price / Gross Profit (LTM)	1.9x	1	15	20
EV / Sales (NTM)	0.5x	1	15	15
EV / Sales (LTM)	0.5x	0	15	14
EV / EBITDA (NTM)	2.7x	25	5	5
EV / EBITDA (LTM)	1.9x	6	4	3
EV / EBIT (NTM)	4.5x	23	7	7
EV / EBIT (LTM)	2.7x	9	4	4
EV / Gross Profit (LTM)	2.1x	0	12	10

SBSW has generated an operating loss once in the past ten years (2018). It has a Net Debt/EBITDA of 0.1x and an EBIT/Interest Expense ratio of 10x.

Let's discuss that 67Mlb yellow cake asset.

SBSW Has 67Mlbs of Uranium Waiting To Be Monetized

SBSW is listed as a uranium supply source in the 2023 Uranium Suppliers Annual Report.

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Uranium Suppliers Annual – Dec 2023

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The company has ~67Mlbs of uranium in tailings as of its 2022 reported reserves. You can think of tailings as the stuff that gets put to the side when you dig a giant hole in the ground. So it's already there. All you need to do is ship it to a processing facility.

SBSW partnered with DND Gold two months ago to monetize its uranium tailings. DND Gold can process up to 17.3Mt of uranium tailings from its Cooke Plant (see below).

TAILINGS DEPOSITION AND CAPACITY

Tailings from Cooke Plant are deposited into historic, unrehabilitated open pits connected to the old underground workings of the historic Randfontein Estates Gold Mine as part of the approved EMPR. The volumetric depositional capacity available in these pits, which assumes there is no further storage capacity in the connected underground workings, is used to constrain the current three year LoM. To date there is no indication that the tailings are beaching and the material is still filling the underground voids.

The Ezulwini North TSF is situated next to Ezulwini Plant and has an available capacity of 17.3Mt. The LoM depositional requirements for this TSF are 2.2Mt which leaves a surplus capacity of 15.1Mt.

The valuation gets wild. **SBSW's uranium asset is worth \$3.3B at \$50/lb, \$4.7B at \$70/lb, and \$5.4B at \$80/lb.**

There's a lot they could do with that asset, like a JV with Cameco (CCJ) or a large utility company. Or they sell the pounds to Sprott Uranium (U.UN) or Yellow Cake (YCA.LSE).

The uranium asset alone is worth more than the entire enterprise value of the company.

So you're effectively getting all of this for free:

- An operating business that's generated \$4.5B in cumulative FCF and paid \$2.2B in cumulative dividends
- \$52B in PGM reserves (assuming \$900/oz basket PGM price)
- \$19B in gold reserves (assuming a \$1,900/oz gold price)

The stock is approaching all-time lows in what is likely a cyclical bottom in its end markets. There's zero balance sheet risk, and [management has bought shares](#) over the past year.

I have no idea when the bear market in PGMs will end.

But I know that SBSW has a world-class management team that's delivered decades of consistent profitability and robust cash flow and sits on an asset base worth ~30x the current market price.

"I love stuff that's hated. And I can't think of anything more hated than platinum and palladium" - Rick Rule