EDISON

Sylvania Platinum

Interim report

Some weakness but cash-flow rich

Metals & mining

Sylvania's H122 results showed that despite lower production and higher costs, the company remains highly cash generative, and we expect end-December 2021 net cash of US$110m to surpass US$200m by end FY24. H122 production issues should be mostly resolved by the end of Q322. ZAR unit costs rose in H122 due to western Sylvania Dump Operations (SDO) experiencing water shortages and temporary tailings dam instability at the Lesedi SDO. These issues are being addressed and could further improve the US$ cost outlook, which is already benefiting from a weaker rand. We have cut our FY22 EPS forecast by 10% on lower H122 revenues, offset by lower US$ costs, but our longer-term forecasts remain unchanged. A windfall dividend of 2.25p was declared on 21 February.

Year end	Revenue (US$m)	PBT* (US$m)	EPS* (c)	DPS** (p)	P/E (X)	Yield (%)
06/20	115	65	14.6	1.60	8.7	1.6
06/21	206	143	36.7	7.75	3.5	6.4
06/22e	167	98	24.5	6.55	5.2	4.4
06/23e	176	105	26.9	4.90	4.8	5.0

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **Includes declared windfall dividend of 3.75p for FY20 paid in April 21 and a windfall 2.25p for FY21 paid in April 22.

ZAR cost pressures will only abate towards end-FY22

Sylvania's group cash cost per 4E oz increased despite good cost control in Q222, although H122 costs were higher. This was mainly due to the Lesedi SDO producing 2,800oz of platinum group metals (PGMs) less than planned, lower feed grade of Mooinooi run-of-mine (ROM) material from the host mine and water shortages in the western SDO affecting production. We expect these problems to continue until late Q322 and ease in Q422 but, with management expecting improved production in H222, we have reduced our estimated ZAR unit costs, relative to the H1 average, by 5% for Q3 and 10% for Q4. We expect ZAR unit costs to normalise in FY23 at c 10% above the average FY21 levels, which are slightly below our previous US$ forecasts. Management recently trimmed its FY22 PGM production guidance to a range of 66,000–68,000oz, from 70,000oz in September.

Medium- and long-term outlook remains intact

Despite a weak PGM basket during H122, H222 started well, especially for rhodium prices, and our PGM outlook remains unchanged. We have cut our FY22 EPS by 10% to 24.5c on lower H122 revenue, but our PGM prices and EPS forecasts remain largely unchanged for FY23. We are monitoring increased upside potential from Sylvania's iridium and ruthenium by-products based on their recent strong price performance.

Valuation: 163p/share plus 12p from exploration

Our valuation for Sylvania is unchanged at 163p/share for the producing SDO. Our outlook remains unchanged, but offers potential upside from cost efficiencies (over and above the improvements expected in H222 and FY23) and the increasing importance of by-products. We continue to value exploration assets at 12p/share.

25 February 2022

Price	**97p**
Market cap	**£257m**
	£/US$1.36
Net cash (US$m) at 31 December 2021	110.1
Shares in issue	272.5m
Free float	97.7%
Code	SLP
Primary exchange	AIM
Secondary exchange	NA

Share price performance

%	1m	3m	12m
Abs	4.7	12.6	(12.7)
Rel (local)	6.9	16.4	(17.5)
52-week high/low		143p	84p

Business description

Sylvania Platinum focuses on the re-treatment and recovery of platinum group metals including platinum, palladium and rhodium, mainly from tailings dumps and other surface sources, but also lesser amounts of run-of-mine underground ore from Samancor chrome mines in South Africa.

Next events

TBC	TBC

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Edison profile page

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H122 results and forecasts

H122 results were reduced by a number of factors – lower production at the SDO, lower treatment volumes at Lesedi leading to 11% lower PGM production and increased ZAR cash costs. Management recently trimmed its FY22 production guidance to a 66,000–68,000oz range (previously 70,000oz). Consequently, we have revised our FY22 estimates downwards. The main reasons behind these factors are the lower ROM material and lower current arisings PGM feed grade from the western SDO during Q2, as well as the temporary suspension of operations at Lesedi due to water shortages and the temporary tailings dam deposition strategy. We think the water shortages will continue into Q322, but with expected new pipelines Q422 should see production from Lesedi improve. It may take most of H2 for the lower grades being delivered by the host mines' ROM material to be resolved. We have therefore adjusted our PGM production down from 70,000oz to 68,000oz in line with company guidance. We have marginally reduced our estimated basket prices by 2.7% from our previous FY22 outlook to reflect the fact that actual H122 prices were soft at US$2,966/oz. Consequently, we have reduced our revenue forecasts by 5.5% (see Exhibit 1).

Exhibit 1: H1 results (to 30 December 2021) and forecast changes

US$m	H121a	FY21a	H122a	Change on H121 %	H222e	FY22e previous	FY22e updated	% change	FY23e	FY24e
Revenue	85.2	206.1	69.1	(18.9)	98.1	176.9	167.2	(5.5)	176.1	174.0
Cost of sales	27.3	54.8	29.2	6.9	30.2	61.2	59.4	(3.0)	61.6	63.3
Costs (ZAR)	442.9	840.2	438.9	(0.9)	481.3	905.4	915.5	1.1	982.6	1010.3
Gross Profit	57.9	143.1	36.8	(36.4)	63.7	108.0	100.5	(6.9)	105.8	102.0
Profit before tax	57.4	143.2	34.9	(39.2)	62.9	106.3	97.8	(8.0)	104.9	101.5
EBITDA	58.0	144.9	36.2	(37.7)	64.0	109.6	101.1	(7.8)	108.0	105.0
Net Profit	40.5	99.8	24.4	(39.9)	43.9	75.0	66.8	(10.9)	73.3	70.2
Basic EPS US cents	14.9	36.7	8.9	(40.1)	16.1	27.5	24.5	(1.1)	26.9	25.7
Dividend (p)	-	4.0	-	-	4.3	4.0	4.3	6.7	4.9	6.3
Windfall dividend		3.75**			-	2.25**		-	-	-
Production (4Eoz)	36,3345	70,043	32,376	(91.1)	35,712	70,027	68,088	(2.8)	69,290	69,975
Cash cost ZAR/4E PGM oz	9,996	1,1189	12,256	22.6	12,043	11,806	12,423	5.2	13,057	13,150
Basket price (US$/oz)	3,184	3,690	2,966	(6.8)	3,168	3,115	3,031	(2.7)	3,054	2,965
Cash balance	67.1	106.1	110.1	64.0	24.0	150.6	134.1	(10.9)	171.3	203.8

Source: Edison Investment Research. Note: *Paid in April 21 for FY20. **To be paid in April 2022 for FY21.

The fall in production meant that ZAR unit cash costs increases sharply in H122, by 23% relative to H121 and by 14% relative to FY21. We anticipate that production will go back to normal levels by Q422, but have increased our ZAR unit cash costs by 5.2% in our updated FY22 forecast. In US$ terms, they drop by 3.0% due to a weaker ZAR/US$ exchange rate.

As a consequence, we see pressure on gross profit, EBITDA and net profit leading to an 11% reduction in our forecast FY22 EPS to 24.5c/share. Sylvania continues to be strongly cash generative, leading to our end-FY22 net cash forecast of US$134m and our increased FY22 dividend forecast of 4.3p/share. Management announced a windfall dividend of 2.25p on 21 February 2022 for FY21, payable on 8 April 2022.

Valuation unchanged at 163p/share and 175p/share with exploration

The interim results have not affected our valuation as the problems in H122 are of a short-term nature and in the longer term our outlook remains intact. We believe that resolution of the current processing problems will bring ZAR unit costs back in line, production will increase as short-term problems are sorted out and the PGM basket will increase in line with our forecasts (with January and February 2022 already moving upward). New water pipelines and the return of Lesedi to normal production levels should be achieved by Q422. We also think that the lower grades being

experienced by the host mine at Mooinooi are temporary and likely to return to normal grades by Q422. These lower-grade patches in the Bushveld Complex are encountered sometimes, but the constant grades and geology of the Bushveld reefs ensure that grades will return to normal levels in due course.

Furthermore, construction of the second milling and flotation circuits (MF2) at two of its six plants (SDOs), namely Tweefontein and Lesedi, as fine-grinding in addition to a second pass of the concentrate through another set of flotation cells, will improve recoveries by c 8 to15% at these plants, which translates into a c 4 to 8% recovery improvement across the SDOs as a whole. Sylvania already has MF2 circuits at Millsell, Doornbosch and Mooinooi. The new MF2 circuits are scheduled to be in operation by late CY22, so will add to production by FY23 and result in full enhanced recoveries from FY24 onwards.

Strong cash generation supports healthy dividends

Sylvania pays a dividend for its financial year (ending 30 June) in the following December. It pays a windfall dividend for the same financial year, if declared, in April of the following year. Sylvania declared a 4p dividend for FY21, which it paid in December. It also declared a windfall dividend, again for FY21, of 2.25p, which it will pay on 8 April 2022.

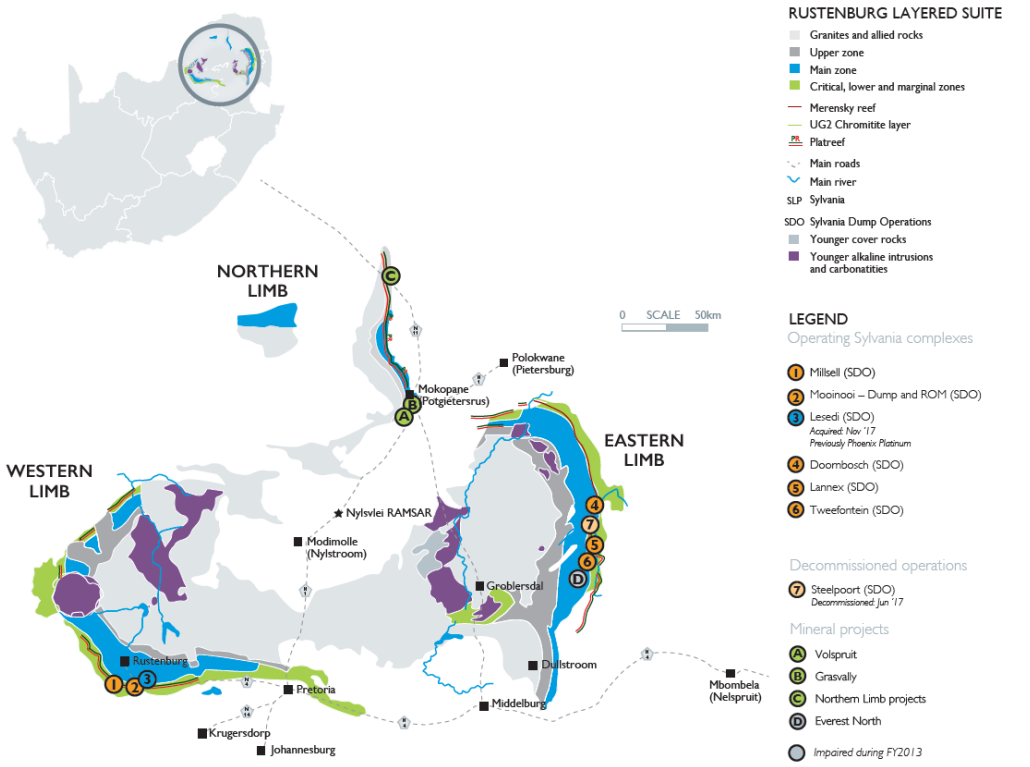
With the rise in unit costs in H122, and 15% lower net profits now forecast for FY22, we estimate that Sylvania can declare a basic 4.3p dividend for FY22, reflecting the high cash balance it will have at the end of FY22. Sylvania's strong cash generation and high cash balances lead us to forecast a further increase in the underlying dividend for FY23 to 4.9p. Further windfall dividends are also possible.

Operational issues

The main operational issues in H122 (to end December 2021) were experienced on the western Bushveld SDO (Exhibit 2).

Lesedi (SDO 3 in Exhibit 2), which was acquired from Pan African Resources in November 2017, ie the PGM Phoenix dump retreatment operation, had a tailings dam stability problem in 2021. After the Vale dam disaster in Brazil in 2019, all tailings dams worldwide came under scrutiny and Sylvania decided to stop deposition on the dump and establish a new one. In the meantime, a temporary dam is being used but, due to the nature of the emergency dam deposition facility and ongoing water shortages in the area, Lesedi produced c 2,800 PGM ounces less than anticipated for the period. The operation will remain under pressure until a new water pipeline and more boreholes have been installed in the latter part of Q322 when the new tailings dam is scheduled to be commissioned.

Exhibit 2: Location of Sylvania's plants and projects on the Bushveld Igneous Complex in South Africa, the source of some 90% of the world's resources of PGMs

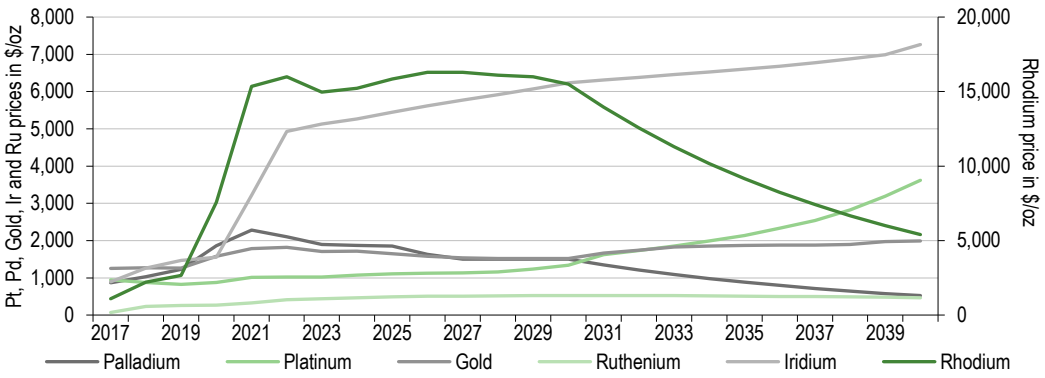


Source: Sylvania Platinum

PGM market status: Rhodium price may exceed our forecasts in the longer term

Our view on the PGM markets (see our thematic report on the outlook for the PGM markets, published on 13 December 2021) is largely unchanged. However, recent moves in the rhodium price mean that the year-to-date price of US$16,900/oz is now above our existing 2022 forecast of US$16,000/oz. Rhodium represented around 60% of Sylvania's revenue in FY21 and 40% in H122.

Exhibit 3: PGM price forecasts (average annual prices to 2039)



Source: Edison Investment Research

The biggest consumer of PGMs by far is the auto sector. Because of the global chip shortage, vehicle sales are likely to be lower again in the first six months of 2022. Compared to the 14% fall in vehicles sales in 2021 versus normal pre-pandemic levels (source: JD Power), we believe the first half of 2022 could again see reduced sales levels. Toyota recently announced that it is reducing its

global consolidated sales forecast by 3.5% from 8.55m vehicles to 8.25m for its current financial year ending 31 March 2022. In 2019, Toyota, which is the world's biggest car maker, produced and sold 10.7m vehicles. We expect other car makers to announce reductions in their sales because of the chip shortage. In the short term, therefore, we see no reason to change our forecasts as we have already anticipated the chip shortages, which are likely to continue in H1 CY22 (H222).

However, demand for cars is very strong, with most companies' order books full and around three months' waiting time for a new car. Global new car prices rose 12% during 2021, second-hand car prices rose 42% and car rental prices rose 24% (source: The InEVitable – MotorTrend, presented by Volvo).

The rhodium price is above most forecasters' expectations and has recently traded at $18,000/oz, indicating good demand, combined with an expected deficit for a number of years in the future. Rhodium is the most important metal produced by Sylvania, currently contributing more than 40% to its revenue. Rhodium accounts for 12% of Sylvania's produced metals by mass, a higher percentage than the 6–8% by mass of other South African producers. High iridium and ruthenium prices boosted Sylvania's by-product revenue in H122 and, if maintained at the current levels of US$3,900/oz and US$525/oz respectively, could further enhance Sylvania's revenues in H222.

Valuation

Our approach to the valuation of Sylvania is unchanged since our initiation note published on 29 October 2021. Our methodology remains the constant currency dividend discount model (DDM) method for valuing all mining shares, at a 10% real discount rate. Sylvania's exploration assets are valued at its balance sheet value of 12p per share as at end June 2021. The Grasvally exploration asset was sold during Q222 for ZAR100m.

Absolute valuation

Sylvania is a tailings dump retreatment company that has planned steady production rates for the next 20 years. We use the following key drivers in our DDM valuation:

Exhibit 4: Key inputs to our DDM model

	FY21	FY22	FY23	FY24	FY25
PGM plant feed (tonnes)	1,272,974	1,252,196	1,268,330	1,271,727	1,268,227
PGM plant feed grade (g/t)	3.2	3.2	3.0	3.1	3.1
PGM cash cost ZAR/4E PGMoz	11,257	12,423	13,057	13,150	13,441
PGM cash cost US$/4E PGMoz	734	827	822	824	843

Source: Edison Investment Research

We have reduced our feed tonnes estimate in FY22 to account for the Lesedi problems, but forecast stable production from FY23 to FY29 and then a more conservative production/output as dump material is depleted and current arisings become the main feed source, which is in line with our previous view. We forecast muted US$ cash costs/oz after a normalisation in ZAR unit costs in H222 and FY23. Our SDO valuation remains unchanged at 163p/share.

Valuation of exploration assets

We have valued the exploration assets at the balance sheet value as of June 2021 to be conservative, which results in a 12p/share addition to our SDO valuation. We have also valued the assets using the resource base method (excluding the Grasvally, asset which has been sold) and, using this method, our value is UD$0.47 per share or 35p per share at the current exchange rate (see our initiation note for the detailed valuation). However, we have used a more conservative value for our total value of Sylvania, which in aggregate is 175p per share.

Relative valuation

Sylvania offers good value relative to its peers and trades at a discount at all levels. Our P/E ratios, based on our forecasts, are lower than consensus and significantly lower than the majors except for Jubilee, although this company is not a pure PGM producer. On a dividend yield basis, our valuation is a little higher than consensus. Compared to its peers, however, Sylvania's dividend yield is lower in most cases.

Exhibit 5: Sylvania valuation relative to consensus for its peers

		P/E (x)			Dividend yield (%)		
	Ticker	2022e	2023e	2024e	2022e	2023e	2024e
Sylvania (Edison)	SLP-GB	3.8	3.5	3.7	6.7	5.0*	6.5*
Sylvania (Consensus)	SLP-GB	4.5	4.3	4.4	4.9	4.4	9.8
Anglo Platinum	AMS-ZA	7.0	9.3	10.9	12.0	7.8	6.3
Implats	IMP-ZA	5.9	5.5	7.2	8.9	12.6	11.1
Sibanye	SSW-ZA	4.7	5.3	6.5	10.2	8.0	9.4
Northam	NPH-ZA	6.2	5.0	5.6	8.1	11.5	12.4
Royal Bafokeng Platinum	RBP-ZA	6.1	7.9	8.6	11.1	9.5	10.3
Jubilee	JLP-LON	11.0	6.0	4.7	0.0	0.0	0.0

Source: Edison for Sylvania research, Refinitiv consensus for all other counters. Note: *Does not include windfall dividend in 2023 or 2024.

Exhibit 6: Financial summary

US$m	2018	2019	2020	2021	2022e	2023e	2024e
Year ending 30 June	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue	63	71	115	206	167	176	174
Cost of Sales	(45)	(45)	(47)	(55)	(59)	(62)	(63)
Royalties Tax	0	0	(1)	(8)	(7)	(9)	(9)
Gross Profit	18	26	67	143	101	106	102
EBITDA	16	30	69	145	100	108	105
Operating Profit (before amort. and except.)	16	24	64	142	97	103	99
Intangible Amortisation	0	0	0	0	0	0	0
Exceptionals	0	0	(10)	0	0	0	0
Other	(2)	(9)	(9)	(5)	(7)	(7)	(8)
Operating Profit	16	24	54	142	97	103	99
Net Interest	1	1	2	1	1	2	2
Profit Before Tax (norm)	16	24	65	143	98	105	102
Profit Before Tax (FRS 3)	16	24	56	143	98	105	102
Tax	(5)	(6)	(15)	(43)	(31)	(32)	(31)
Profit After Tax (norm)	11	18	51	100	67	73	70
Profit After Tax (FRS 3)	11	18	41	100	67	73	70
Average Number of Shares Outstanding (m)	286	286	280	272	273	273	273
EPS - normalised (c)	3.8	6.4	14.6	36.7	24.5	26.9	25.7
EPS - normalised fully diluted (c)	3.8	6.2	14.3	35.9	23.8	26.9	25.7
EPS - (IFRS) (c)	3.8	6.2	14.3	35.9	23.8	26.9	25.7
Dividend per share (p)	0.0	0.0	1.6	4.0	4.3	4.9	6.3
Gross Margin (%)	28%	36%	58%	69%	60%	60%	59%
EBITDA Margin (%)	25%	43%	60%	70%	60%	61%	60%
Operating Margin (before GW and except.) (%)	25%	34%	55%	69%	58%	59%	57%
BALANCE SHEET							
Fixed Assets	95	93	74	86	95	105	105
Intangible Assets	57	53	43	45	48	48	48
Tangible Assets	37	38	30	40	47	56	56
Investments	1	2	0	0	1	1	1
Current Assets	41	59	89	188	206	242	274
Stocks	1	2	2	4	4	3	3
Debtors	25	8	12	69	59	58	57
Cash	14	22	56	106	134	171	204
Other	0	28	19	9	10	10	10
Current Liabilities	6	7	9	14	11	12	12
Creditors	6	7	9	14	11	12	12
Short term borrowings	0	0	0	0	0	0	0
Long Term Liabilities	18	18	13	16	17	19	21
Long term borrowings	18	18	13	16	17	19	21
Other long-term liabilities	0	0	0	0	0	0	0
Net Assets	112	128	141	244	273	316	347
CASH FLOW							
Operating Cash Flow	18	25	71	114	105	110	106
Net Interest	1	1	2	2	1	2	2
Tax	(4)	(8)	(15)	(47)	(30)	(31)	(31)
Capex	(8)	(8)	(5)	(8)	(18)	(15)	(5)
Acquisitions/disposals	(6)	0	0	0	0	0	0
Financing	(3)	(1)	(18)	(4)	(5)	0	0
Dividends	0	(1)	(3)	(20)	(23)	(30)	(40)
Net Cash Flow	(0)	8	41	39	32	36	32
Opening net (debt)/cash	15	14	22	56	106	134	171
HP finance leases initiated	0	0	0	0	0	0	0
Other	(1)	(0)	(7)	12	(4)	1	0
Closing net (debt)/cash	14	22	56	106	134	171	204

Source: Company accounts, Edison Investment Research

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