

Why Invest in Platinum Stocks?

What the Future
Could Hold for
Lonmin, the AMCU
and South African
Platinum Production

A collection of articles from Platinum Investing News
looking at the future for platinum stocks

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Robert Friedland and the Case for Platinum Stocks

Few make a stronger case for platinum than legendary mining entrepreneur Robert Friedland. And certainly given his history in the industry, it's worth taking note of his views.

Of course, he has good reason to be bullish on platinum-group metals (PGMs) — Friedland currently serves as executive chairman and director of Ivanhoe Mines (TSX:[IVN](#)), which, among other things, is developing the massive [Platreef project](#) in South Africa. What's more, platinum prices have been under pressure this year, and the recent Volkswagen (ETR:[VOW3](#)) emissions scandal [hasn't helped matters](#).



However, most of Friedland's positivity on platinum relates to how it will fare in the long term. Here's a quick overview of some of the thoughts Friedland has shared on platinum, and why he's bullish on the white metal.

Urbanization and air pollution

"[T]he most important fundamental economic and social transformation" currently taking place "is the process of urbanization, which is changing how most of us live," Friedland said at the 2014 [Sprott Vancouver Natural Resource Symposium](#). He's subsequently repeated that point, noting that as more and more people migrate to cities, air pollution will increase substantially.

In a presentation at the 2015 Prospectors and Developers Association of Canada (PDAC) conference, he called this coming rise in pollution the "[airpocalypse](#)," and argued that the phenomenon has already begun, with air pollution [hitting life-threatening levels in Paris](#) in March 2014.

That's important for platinum. As Friedland has explained, "PGMs are absolutely critical to having cleaner air" due to their role in catalytic converters for vehicles and in other emissions-reducing applications.

Catalytic converters

Platinum and its sister metal [palladium](#) are widely used in catalytic converters that reduce harmful emissions from automobiles. Platinum is used in converters for diesel engines, while palladium is used for engines that run on gasoline.

It's been noted that palladium is increasingly being substituted for platinum in catalytic converters for diesel vehicles. Furthermore, as mentioned above, diesel car sales have been on a downward trend, and recent revelations that Volkswagen has been cheating on its emissions tests have pushed interest in diesel vehicles even lower.

Still, it's worth noting that China is imposing standards to remove sulfur from diesel and gasoline. As Friedland has noted, there's too much sulfur in diesel and gasoline within China, meaning that platinum catalytic converters are often quickly destroyed; however, removing that excess sulfur could allow the "90 million cars clogging the roads in China" to be retrofitted with catalytic converters.

Hydrogen fuel cells

Beyond catalytic converters, Friedland sees another source of platinum demand from the automotive sector: vehicles that run on hydrogen fuel cells. While electric vehicles running on [lithium](#)-ion batteries have stolen the spotlight in recent years, and while there's a bit of a [misplaced stigma around exploding vehicles](#) when it comes to hydrogen fuel cells, Friedland still believes that fuel cell [technology](#) is the way of the future.

That's good news for platinum as the metal is used as a catalyst in hydrogen fuel cells as well. As Friedland noted at PDAC, fuel cells require eight to 12 times as much platinum as is needed in catalytic converters. What's more, he's also pointed out that fuel cell technology is becoming more and more important in Japan, where fuel cells are [being built for home use](#).

Certainly, Robert Friedland makes a strong case for platinum and PGMs. The sector is down now, but those who believe in a long-term bullish case for the metal may want to start doing research into platinum stocks in order to get positioned for the future. Of course, investors would also be wise to keep an eye on developments in the market for diesel vehicles, and on the advancement of fuel cell cars in China and elsewhere.

Updated Platinum Price Forecast for 2015

At the start of 2015, analysts were calling for a [rosier future](#) for the platinum price forecast.

Sergey Raevskiy of SP Angel — among many others — saw the platinum price averaging US\$1,500 per ounce for 2015 on the back of stronger demand and tighter emissions restrictions in Europe. Together, those factors were expected to increase demand for platinum used in catalytic converters.



However, that hasn't happened. Platinum has remained [cheaper than gold](#) since mid-January, and is down 18 percent since the start of 2015. There's not much hope for the metal to make a meaningful rebound before the end of the year.

To find out more about the situation, the Investing News Network spoke with William Tankard, director of [precious metals](#) and mining at Thomson Reuters (TSX:[TRI](#),NYSE:TRI). He shared some of his latest thoughts on what's been driving the platinum market and what to expect for the remainder of 2015.

So far in 2015

"We certainly did not foresee the severity of the fall," Tankard said. "Earlier in the year, we were calling for platinum to trade down to \$1,000, and it broke through that level. So obviously that has overshot the projections that our analysts put forward back in May."

What's behind the dive? Tankard said investor sentiment has played a not-insignificant role, but noted that plenty of factors have led to market uncertainty this year.

Specifically, he pointed to the "increasing rhetoric around the specter of the Federal Reserve beginning to look at tightening rates," in addition to "ongoing sluggish growth in Europe and increasing uncertainty in China [tied to] the market crash in recent months and worries around how that is likely to trickle through to the country's broader economy."

Beyond that, a broader sell off in the commodities space has put pressure on the platinum price as well.

Tankard noted that China is an especially important market for platinum. Platinum jewelry in particular, he explained, is "very much dependent on Chinese consumers' discretionary

spending on luxury goods trickling through to them buying, or continuing to buy, meaningful quantities of platinum jewelry.”

Production cost curve

“In terms of producers' costs and marginality right now, you have a quite bizarre situation with prices where they are,” Tankard said. Looking at the cost curve, he noted that at \$950, three-quarters of the platinum-producing industry is failing to cover its costs and sustaining capital.

“That’s not talking about project capex expansions, that is simply asking the question, 'are they just focusing on their mid- to medium-term production plans that would lead to the ongoing health of an operation?’” he clarified. “And right now, three-quarters are underwater.”

Of course, investors and market watchers might be hesitant about how sustainable such a situation might be, and for his part, Tankard doesn’t see South African producers materially reducing their costs without taking production out of the market.

“So then one has to ask, is it going to be the price that responds first, or is it going to be production that falls, and then begins to stimulate the price? I worry that it is probably going to be the latter,” he said. “We do need to see capacity taken offline.”

Certainly, that’s already started to happen, with Glencore (LSE:[GLEN](#)) finally [closing its Eland platinum mine](#) in South Africa.

What’s next for the platinum price forecast?

According to Tankard, Thomson Reuters doesn’t see things looking up for the platinum price in 2015.

“We are relatively pessimistic that the industry in South Africa will act quickly. And that very much speaks to us maintaining quite grounded forecasts for 2015 and 2016,” he said. “We see an average in Q4 of \$950, which points to an annual average this year of \$1,065.”

For 2016, the firm sees the platinum price averaging slightly lower, around \$1,050. “So at the moment we’re pretty grounded on our price expectations. We think on the balance of probability it does favor upside here. But we don’t really see any dramatic rallies coming through just yet.”

What could trigger an upside move? Tankard stated that while Glencore certainly isn’t the only company to have announced reductions in platinum production — Lonmin (LSE:[LMI](#)) has been talking about it too — more production needs to be scaled back to improve the price and investor sentiment.

“We have already seen a few announcements around that, but I think that there will have to be more to come if prices don’t improve in relatively short order,” he explained.

Furthermore, he’s optimistic about initiatives by some producers that believe they can run operations more efficiently. Sibanye Gold (NYSE:[SBGL](#)) in particular has been making big plays in the platinum space with its purchase of Anglo American Platinum’s (JSE:[AMS](#)) Rustenburg operations and its acquisition of Aquarius Platinum (ASX:[AQP](#)).

“I think if you do see more mines being taken out of production or downscaled, then that would also serve to introduce more investor confidence and investor enthusiasm towards the metals at a time when they’ve very much taken a beating from investors over recent months,” he concluded.

Why Did the Volkswagen Scandal Hurt Platinum Prices?

Unless you've been living under a rock, you'll have heard about Volkswagen (ETR:[VOW3](#)) cheating on its emissions tests in the US.

The German automaker fitted its diesel cars with "defeat devices" that detected when they were being tested. The cars would put out lower emissions in order to pass tests, but when operating normally, the vehicles would pollute more than regulations allow.

According to the [BBC](#), the US Environmental Protection Agency (EPA) found 482,000 vehicles in violation of its rules, but Volkswagen has since admitted to using defeat devices on approximately 11 million vehicles worldwide.



That hasn't been good news for the platinum price, which saw major declines after the news surfaced in late September. Indeed, [according to Reuters](#), the platinum price has been hit so hard that some believe the metal's value could fall below that of its sister metal, [palladium](#).

Why? Because platinum is used in autocatalysts for diesel engines, and following the Volkswagen scandal, analysts are calling for interest to wane in diesel vehicles.

"This is really going to leave a bad taste in consumers' mouth about diesel automobiles," Michael Sheehan, senior portfolio manager Orion Commodities Management, told Reuters. "If Volkswagen were doing the same thing in Europe and if there is more to come, it would be really bearish for the platinum market. At some point platinum and palladium prices will go to parity ... my guess would be between \$700 and \$850."

Similarly, Georgette Boele, a precious metals strategist at ABN Amro, told [The Wall Street Journal](#) that the metal's price could hit \$850 per ounce in the wake of the scandal. "If consumers lose confidence in diesel cars, this will have a substantial impact on future platinum demand," she explained.

Meanwhile, the palladium price has benefited from the situation. That's because palladium is used in autocatalysts for gasoline engines, which could grab a bigger market share in the wake of the scandal.

As the BBC notes, diesel car sales were already slowing before the revelation of Volkswagen's practices, and diesel cars only make up about 1 percent of all new car sales in the US.

However, the news is expected to have more of an effect in Europe, where diesel vehicles are more popular.

That said, not all analysts had the same reaction to the emissions scandal. When the news first came out, Carsten Menke of Julius Baer stated that the platinum sell off was overdone. The Wall Street Journal quoted the analyst as stating in a note, "[o]ur longer-term view remains bullish, not least due to persistent supply constraints. South African mine supply has likely peaked as low prices are putting increasing pressure on the producers."

A widespread problem

Still, the scandal goes beyond Volkswagen. Diesel vehicles made by Mercedes-Benz, Honda (NYSE:[HMC](#)), Mazda (TSE:[7261](#)) and Mitsubishi (TSE:[8058](#)) also put out more dangerous emissions on the road than in lab tests.

The Guardian reported that while vehicles from the automakers hold up well in EU lab-based regulatory emissions tests, pollution from the vehicles goes well over regulatory limits in more realistic on-road tests. Honda, for example, emitted six times the regulatory limit of NOx pollution. A more detailed breakdown of emissions for each company can be found in [The Guardian's article](#).

Mercedes-Benz, Honda, Mazda and Mitsubishi are not the only companies that have joined the Volkswagen scandal either — The Guardian also [reported](#) that vehicles from no less than six other manufacturers pollute more under realistic driving conditions.

Autocatalysts account for roughly 40 percent of global platinum demand.

A Brief History of Platinum and the AMCU

South Africa produces roughly 70 percent of the world's platinum supply, so it's an important region for [precious metals](#) investors to watch.

In addition to keeping an eye on major producers such as Anglo American Platinum (JSE:[AMS](#)), Impala Platinum (JSE:[IMP](#)), Lonmin (LSE:[LMI](#)) and now Sibanye Gold (NYSE:[SBGL](#)), it's important keep an eye out for news from the Association of Mineworkers and Construction Union, or the AMCU.



While the National Union of Mineworkers (NUM) is still strong in South Africa, the AMCU has become the major trade union at many platinum mines in South Africa. For example, it's been noted that the AMCU represents up to 70 percent of lower-level workers at Lonmin, while the NUM is only responsible for about 20 percent. The union also represents workers at mines focused on other commodities, such as [gold](#) and [coal](#).

Here's a very brief overview of the AMCU and what investors need to know about the union.

Where the AMCU began

As per a detailed history of the union from [South African History Online](#), the AMCU was formed in 1998 following a strike at Douglas Colliery, owned by BHP Billiton (NYSE:[BHP](#), ASX:BHP, LSE:BLT). The union was a break-off faction from the NUM, and was officially registered as a union in 2001. The union insists that it remains apolitical.

Joseph Mathunjwa, who led the strike at BHP and was subsequently ousted from NUM, was asked to form a union and is still currently head of the AMCU. Notably, he convinced management at BHP to implement a bonus system for underground workers and admonished management at the mine to take responsibility when a worker died.

However, it wasn't until 2008 that the AMCU started recruiting workers from platinum mines in the Rustenburg area. Since then, the union has continued to make a dent in NUM ranks, attracting workers who are not satisfied with that union.

The 2014 platinum strike

As part of its mandate to protect workers, neither the AMCU nor NUM are strangers to organizing strikes in order to fight for better rights for their members. Most recently, 30,000 NUM workers [went on strike](#) at coal mines in South Africa, while AMCU workers are set to vote to go on strike at gold mines owned by Harmony Gold Mining (NYSE:[HMY](#)), AngloGold Ashanti (NYSE:[AU](#)) and Sibanye Gold. According to [Reuters](#), the strike will likely be deemed a wildcat at operations owned by the first two companies.

However, the AMCU-led strike at platinum-group metals mines in South Africa in 2014 illustrates just how damaging mineworker strikes can be. The strike lasted five months before [officially coming to an end](#) in June. The AMCU had [originally](#) demanded wages be raised by roughly 150 percent, but it ended up accepting a more modest rate increase.

When all was said and done, Amplats, Implats and Lonmin [lost over \\$2 billion in revenue](#) due to the strike, while workers lost almost \$1 billion in unpaid wages. The companies were still ramping up production and recovering from the strike well into 2015.

Colen Garrow, an economist at Lefika Securities, recently [told](#) IOL beta that such strikes damaged the broader South African economy and hurt investor sentiment.

The AMCU and platinum prices

Certainly, halting platinum production in the world's largest platinum-producing country for five months put a damper on supply. However, the platinum price didn't react as strongly as expected to the supply crunch. Spot platinum rose roughly 7.36 percent between the start of 2014 and June 23, when the strike ended, but has fallen 32 percent, or \$470, since then.

Still, for mining investors, it's worth keeping an eye on what the AMCU is up to, as the union does have the potential to make major changes in the industry.

Opportunity in Platinum Stocks Outside of South Africa?

With South Africa producing over 70 percent of the world's platinum, it's no surprise that major producers Anglo American Platinum (JSE:[AMS](#)), Impala Platinum (JSE:[IMP](#)) and Lonmin (LSE:[LMI](#)) make the most headlines when it comes to platinum stocks.



However, given that a five-month strike put a big dent in output (and revenues) for those companies in 2014, some investors are no doubt looking at platinum projects in other regions of the world.

Certainly, the platinum price hasn't performed well over the past year, and the recent Volkswagen (ETR:[VOW3](#)) [scandal](#) hasn't helped matters (although the platinum price has bounced back slightly).

However, some investors and market watchers, including legendary mining entrepreneur [Robert Friedland](#), are calling for a positive future for the platinum price in the long term. Investors who agree with that thesis may want to start doing their due diligence on platinum stocks now.

Here's a look at platinum stocks outside of South Africa, as well as platinum stocks in the country that are smaller than the major producers mentioned above.

Platinum stocks outside of South Africa

Stillwater Mining (NYSE:[SWC](#))

Stillwater Mining is the only US producer of platinum-group metals (PGMs), as well as the largest primary producer of the metals outside of South Africa and Russia. Its operations include the Stillwater and East Boulder mines in Montana, as well as a smelter, refinery and laboratory in the state. Stillwater also has a PGMs recycling operation where it recovers platinum and [palladium](#) from spent autocatalysts from vehicles.

Stillwater has seen some losses this year — its share price is down 37.72 percent year-to-date. It has also [struggled to come to a labor agreement](#) with union employees at its facilities. In August, the company reported that it would [reduce its workforce by 119 employees](#), citing a

deteriorating PGMs market. It has also modified its mine plan to focus on the most profitable areas within the Stillwater mine.

Wallbridge Mining (TSX:[WM](#))

Wallbridge Mining is currently producing [copper](#) and PGMs at its Broken Hammer mine in Sudbury, Ontario, along with [gold](#) and [silver](#). For the [first half of 2015](#), Broken Hammer produced 87,000 tonnes of ore containing 1.8 million pounds of contained copper, 4,400 ounces of palladium, 5,000 ounces of platinum, 1,400 ounces of gold and 8,900 ounces of silver. The mine was closed from March 28 to June 1 due to municipal road load restrictions, and that impacted cash flow for the quarter.

However, Wallbridge is also advancing exploration properties in Ontario. After uncovering [nickel](#)-copper-PGMs mineralization at its Parkin properties in June, it [signed an agreement](#) for up to C\$11 million in funding from South African PGMs producer Lonmin.

Wellgreen Platinum (TSX:[WG](#))

Wellgreen is advancing its Wellgreen project in Canada's Yukon. The company announced the results of an updated preliminary economic assessment for the project in [February](#), outlining average annual production of 208,880 ounces of platinum, palladium and gold, as well as 73 million pounds of nickel and 55 million pounds of copper over the first 16 years of its 25-year mine life. The company has said that would make the mine one of the two largest platinum-producing mines outside of South Africa or Russia.

There has not been much further news from the company in 2015, although it did provide a [project update](#) at the end of May, stating that preparations are underway for a \$4.2-million Phase 1 drill program at Wellgreen.

Transition Metals (TSXV:[XTM](#))

Project generator Transition Metals holds interests in a number of different exploration projects in Canada, including its Itchen Lake gold property in Nunavut, Haultain gold property in Ontario, Janice Lake copper property in Saskatchewan and Sunday Lake platinum-palladium-copper-nickel project in Ontario. Transition announced this past August that it will [commence the next phase of drilling](#) at Sunday Lake property with its joint venture partner, Impala Platinum.

Sudbury Platinum

A subsidiary of Transition Metals, Sudbury Platinum is focused on advancing the Aer-Kidd property in Sudbury, Ontario. In May, Sudbury reported additional assay results from the property, including further intersections of copper-nickel-PGMs mineralization.

“We continue to be encouraged by the precious metal content of the mineralized zones. We have now defined mineralized trends based on geology, geophysics and mineralization that highlights the further potential at depth,” said Sudbury Platinum CEO Scott McLean. “Pursuit of similar trends at depth at Totten and Victoria adjacent to the Aer-Kidd Property has resulted in two of the most significant discoveries in the Sudbury camp in recent years. Our plan moving forward is to pursue these corridors at depth where we feel that there is excellent blue sky exploration potential.”

Rockland Minerals (OTCMKTS:[RKMNF](#))

Rockland is focused on its Blue Lake copper-nickel-PGMs project in Quebec’s Labrador Trough. The company [recently concluded](#) summer exploration work at Blue Lake in August, and five of seven holes drilled encountered heavily disseminated and massive concentrations of magmatic sulfides over significant lengths. Assay results for the holes are still pending.

Polymet Mining (TSX:[POM](#),NYSEMKT:PLM)

Polymet is developing the NorthMet copper-nickel-precious metals project in Northeastern Minnesota. The company is working towards completing an environmental review for the project, and recently [received](#) \$6 million in secured debenture funding from Glencore (LSE:[GLEN](#)). The payment is part of a \$30-million loan facility due on March 31, 2016.

Platinum stocks within South Africa

Ivanhoe Mines (TSX:[IVN](#))

Headed by mining financier Robert Friedland, Ivanhoe Mines has been getting attention for its [copper](#) projects in the Democratic Republic of the Congo lately. The government recently [dropped its previous objections](#) to a transaction between Ivanhoe and China’s Zijin Mining (HKEX:[2899](#)).

However, the company is also developing the massive Platreef project in South Africa, for which it [released a prefeasibility study](#) in January. According to Ivanhoe, the mine is slated to be the lowest-cost producer of PGMs in Africa. In [February](#), the company reported that box cutting was underway ahead of construction of shaft collar infrastructure for the mine.

Platinum Group Metals (TSX:[PGM](#))

Focused on its Waterberg joint venture project in the Bushveld Complex in South Africa, Platinum Group Metals is targeting platinum production in 2015. The company [reported](#) in July that construction at the mine was roughly 90 percent complete, and that mineral resources and reserves at the project had been updated in order to account for the planned increased use of mechanized mining methods.

Platinum Group Metals also announced an [increase to indicated and inferred resources at Waterberg](#) on July 22.

Eastern Platinum (TSX:[ELR](#))

Last November, Eastern Platinum [entered an agreement](#) to sell its South African assets to China's Hebei Zhongbo Platinum. The company agreed to [restructure](#) the deal back in June, and [received approval](#) for the deal from the South African competitive authorities in September.