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Abdul Davids: Head of Research – Kagiso Asset Management

Platinum price/platinum stocks – (Platinum & precious metals sector)

Platinum price:

“The platinum price has rallied quite strongly over the last six months or so from recent lows of about 800 dollars less than a year ago. Currently, the platinum price is being driven by strong auto demand and there was also a new Exchange Traded Fund (ETF) that was launched recently in the US and that fuelled investment demand for platinum.”

“In the short-term, drivers like auto demand and investment demand will continue to drive the platinum price and, in the longer-term at Kagiso Asset Management, we’re looking for a platinum price of 1500 to 1600 dollars an ounce.”

Platinum stocks:

“One of the current factors that tends to get overlooked is the rand/dollar exchange rate and current share prices are factoring in very high platinum prices but also a much weaker rand/dollar and that’s an area that we might be concerned about in the short-term as we don’t see a significant weakening from current levels in the rand/dollar exchange rate. Looking at Amplats at current levels if you take the current basket price for platinum, palladium and rhodium as well as a weaker rand of about R8.50, you’re looking at about R20 to R25 of earnings. The multiple on that is significant, well over 30. So clearly share prices are factoring in very high platinum prices and also a much weaker rand/dollar exchange rate.”

“In Amplats in particular the free float is a factor with Anglo American owning such a big stake of the company. The share price has risen from about R350 recently to R750 and has been very volatile.

Currently we’re looking at about R550 to R600 of value at Amplats from current levels of R750 with some downside risk in the short-term.

“At this stage at Kagiso Asset Management we wouldn’t advocate an exposure to Amplats or to Anglo American for that matter. If you really want to get platinum exposure, there are other stocks such as Impala which is trading at a much lower multiple and actually has cash as opposed to debt as is the case with Amplats. There are also other much smaller stocks such as Northam, which is much more attractive compared to Amplats at this stage.

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