Equities Research | Company Update | 30 November 2012

No recommendation
Price 8p
Mining
United Kingdom

AIM	703
Reuters/Bloomberg	JLP
No. of shares in issue (m)	313.2
Market Cap (£m)	25.1
Website	www.jubileeplatinum.com

Jubilee Platinum+*

First 'own' concentrates in H2 FY2013

Jubilee Platinum released good news on November 21st, 2012, announcing that the processing of tailings and current arisings from the Dilokong Chrome Mine (DCM) should commence "shortly". Jubilee has effectively been granted exclusive access to the full capacity of Platinum Australia's nearby Smokey Hills concentrator for eight months. Meanwhile, a tailings treatment agreement formalising Jubilee's right to purchase platinum group elements (PGEs) in DCM's tailings and current arisings from Corridor Mining Resources (CMR) has been executed. These deals underline the importance of cash generation as a key differentiator separating Jubilee from its explorer-developer peers, in our opinion. We reiterate our belief that there is a strong case for a much higher valuation than currently attributed by the market.

Platinum Australia (PLA) demise is Jubilee opportunity: Jubilee's exclusivity period for full capacity access to the Smokey Hill concentrator (which the parties may jointly agree to extend) starts 30 days from November 8th, 2012. A toll processing agreement is being formalised. The concentrator access means Jubilee will be able to bring production of own PGE concentrates forward by 18 months for a minimal capital outlay. Jubilee intends to process up to 50ktpm of material, producing 1.7koz PGEs-in-concentrate/month at steady state.

CMR agreement - PGEs in exchange for concentrate royalties: Jubilee will pay CMR a percentage of concentrate sales revenues and an initial upfront fee of ZAR10m (c£0.714m). The upfront fee is off-settable from future revenue payments, and Jubilee can choose to pay said fee in cash or shares. There are also provisions relating to the construction and operation of a concentrator at DCM, should this be required.

Jubilee keeps all smelting profits: We expect the PGE concentrate to be "toll-smelted" at Jubilee's Middelburg facility, leveraging the company's exclusive ConRoast process and allowing it to keep all of the smelting profits. We note that Jubilee is the only junior PGM company able to smelt its own concentrate.

More to come: Interestingly, though not unexpectedly, Jubilee expects to "follow up other pending and new acquisitions in the new year for concentrate production".

Valuation anomaly: We have amended our Jubilee model for the above news; in addition, we have now incorporated the previously announced electricity sales and pushed out Tjate and the Sylvania joint venture by one year (Figures 1-3). Our present sum-of-the-parts NPV of 79p/share fully diluted remains significantly higher than the current share price. In our notes dated April 2nd and September 28th, 2012, we showed that peer average EV/oz values suggest at least c200% upside and that Jubilee has been one of the better performers in the PGM space. We reiterate our belief that the case for a much higher market valuation is strong.

Shore Capital Stockbrokers Limited acts as joint broker to Jubilee Platinum.

Disclosures of potential conflicts of interest as required by regulatory bodies are shown on page 5

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Model revised

We have revised our Jubilee model to reflect the tailings retreatment developments and electricity sales, amongst other things

We have revised our Jubilee Platinum model as follows:

- We are modelling the DCM retreatment operations as commencing in Q3 FY2013. We assume that Jubilee will be able to process 50ktpm of dump material for approximately a year, and then current arisings at 15ktpm for a further 5 years.
- Our Braemore Platinum Smelters model has been amended to take into account the terms of the DCM retreatment operations.
- Electricity sales have been incorporate into our JSR model.
- The timelines in our Tjate and Volspruit models have been pushed out by one year; Leinster and Kambalda remain unchanged for the time being.
- We have updated our commodity price and exchange rate assumptions.

Fig 1: Updated commodity price and exchange rate assumptions*

MODEL ASSUMPTIONS		FY2011A	FY2012A	FY2013F	FY2014F
Platinum	US$/oz	1,708	1,604	1,625	1,688
Palladium	US$/oz	682	673	688	950
Rhodium	US$/oz	2,292	1,567	1,242	1,800
Copper	US$/t	8,663	8,171	8,681	10,472
ZAR/USD	ZAR/US$	7.00	7.79	8.43	7.69
AUD/USD	A$/US$	1.01	0.97	0.98	1.00

*Fiscal 30th June.

Source: Bloomberg, Shore Capital estimates

Share price is much lower than DCF sum-of-the-parts

Our sum-of-the-parts DCF valuation for Jubilee is 79p/share; this valuation is most sensitive to metal prices and operating costs

Our revised sum-of-the-parts DCF valuation for Jubilee Platinum is 79p/share (previously 80p/share). This valuation is most sensitive to metal prices and operating costs – a 10% increase in the dollar 5E+Au basket increases our valuation by 20.2%, whereas a 10% rise in operating costs decreases it by 27.2%. The rand exchange rate has a non-linear effect – depreciation boosts value less than appreciation reduces it.

Jubilee's current c8p/share is significantly below our sum-of-the-parts valuation

Jubilee Platinum's shares are currently trading at c8p/share, just 10.1% of our sum-of-the-parts valuation. Even stripping out the Australian assets – which we regard as non-core – yields a significantly higher value: 64p/share.

This share price is just 0.26x of Tjate's NPV, versus a typical range of 0.5-0.8x at other companies…

In our experience, junior Platinum Group Metal (PGM) companies tend to trade on multiples in the region of 0.5-0.8x their flagship project's NPV. Yet, even on this basis, Jubilee Platinum is trading at just 0.17x of South African flagship project Tjate's NPV.

…despite Tjate comparing well with other projects

This is despite Tjate comparing very well with other projects in its key aspects (as discussed in our Initiation of Coverage note of October 21st, 2011) – before we even consider that Tjate's economics should be significantly enhanced by Jubilee Platinum's proprietary ConRoast smelting technology (which obviates the need to give up significant value to toll smelters) and CVMR® refining (which will significantly improve nickel payability).

Tjate's quality received a significant indirect endorsement when a PGM major offered to purchase the undrilled Quartzhill farm

It should be remembered that in October 2011, the high quality of Tjate's ground received a resounding, indirect endorsement when an unnamed PGM major offered to purchase Tjate's Quartzhill farm for ZAR75m (c£6m). If this sounds a small sum, it should be borne in mind that that sum is being offered for an undrilled property. Furthermore, the PGM resources at the Quartzhill farm (which is immediately down-dip of Anglo American Platinum's Twickenham mine) occur at significantly greater depths than at Tjate's 'first mine' area. We caution, therefore, that extrapolating a value for Tjate's 'first mine' from the Quartzhill sales price would significantly undervalue Tjate.

We estimate that the toll businesses are worth 19p/share

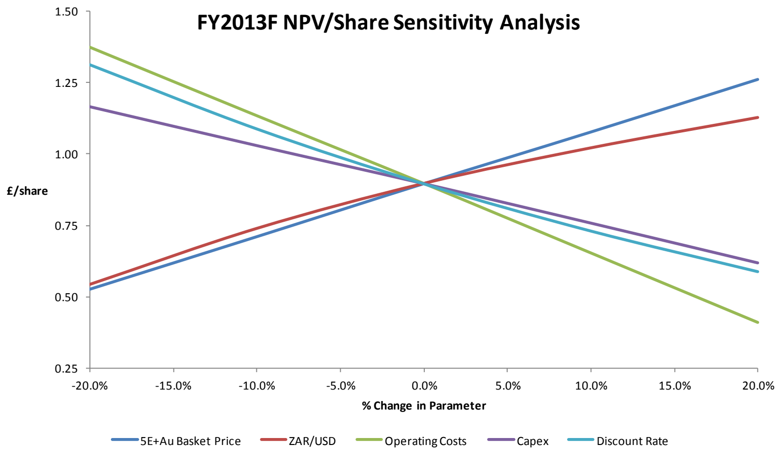
Meanwhile, the already cash-generative ferroalloys business and the PGM toll-processing business are in themselves worth 19p/share.

Jubilee Platinum is undervalued on any bases

In short, purely in terms of NPV, it is hard to avoid the conclusion that Jubilee Platinum is significantly undervalued. In our notes dated April 2nd and September 28th, 2012, we showed that peer average EV/oz values suggest at least c200% upside and that Jubilee has been one of the better performers in the PGM space. We reiterate our belief that the case for a much higher market valuation is strong.

Fig 2: Sum-of-the-parts FY2013F DCF valuation

Asset	Interest	Disc. Rate	£m	£/share	%NPV
Jubilee Smelting & Refining (Ferroalloys)	100%	10%	25.4	0.07	8.2%
Braemore Platinum Smelters	100%	10%	36.9	0.11	11.9%
Dilokong Tailings Retreatment	67.5%	10%	5.2	0.015	1.7%
Tjate (with ConRoast & CVMR)	63%	10%	160.1	0.46	51.5%
Sylvania JV (Volspruit)	50%	10%	32.0	0.09	10.3%
Kambalda	100%*	10%	39.5	0.11	12.7%
Leinster	100%*	10%	11.7	0.03	3.8%
Net Operating Assets			**310.7**	**0.90**	
Cash			1.1	0.00	
Debt			(2.2)	(0.01)	
Corporate G&A		10%	(39.1)	(0.11)	
Options			4.2	0.01	
Net Asset Value			**274.7**	**0.79**	



* We assume BHP exercises its 50% buy-in rights.

Source: Shore Capital estimates

Fig 3: Financial statements

Vital Statistics		FY2011A	FY2012A	FY2013F	FY2014F
EPS	p/share	(2.67)	(2.61)	(2.27)	(2.03)
P/E	x	n.m.	n.m.	n.m.	n.m.
CFPS	p/share	(2.70)	(1.75)	(1.21)	(0.75)
P/CFPS	x	n.m.	n.m.	n.m.	n.m.
Net Debt/(Cash)**	£m	(0.73)	1.10	15.97	124.78
Average Shares OS	m	255.84	279.15	303.48	318.83
Average Shares FD	m	265.61	288.92	333.74	346.62
INCOME STATEMENT		**FY2011A**	**FY2012A**	**FY2013F**	**FY2014F**
Net Revenue	**£m**	**5.50**	**3.73**	**8.25**	**14.52**
Operating Costs	£m	(9.51)	(10.19)	(11.98)	(16.40)
EBITDA	**£m**	**(4.01)**	**(6.46)**	**(3.73)**	**(1.88)**
Depreciation & Amortisation	£m	(2.50)	(1.84)	(2.56)	(2.77)
EBIT	**£m**	**(6.51)**	**(8.31)**	**(6.29)**	**(4.65)**
Finance Income	£m	(0.50)	(0.33)	(0.18)	(0.15)
Pre-Tax Profit	**£m**	**(7.01)**	**(8.64)**	**(6.46)**	**(4.80)**
Taxes	£m	(0.58)	0.26	(0.25)	(1.11)
Minorities	£m	0.77	1.09	(0.18)	(0.55)
Attributable Net Income	**£m**	**(6.82)**	**(7.29)**	**(6.90)**	**(6.46)**
EPS	**p/share**	**(2.67)**	**(2.61)**	**(2.27)**	**(2.03)**
BALANCE SHEET		**FY2011A**	**FY2012A**	**FY2013F**	**FY2014F**
Cash & Equivalents	£m	2.01	1.06	(13.80)	(122.61)
Other Current Assets	£m	3.95	1.67	2.40	3.46
Current Assets	**£m**	**5.96**	**2.73**	**(11.40)**	**(119.15)**
PP&E	£m	103.58	93.80	104.37	207.78
Other	£m	0.52	0.00	0.00	0.00
Total Assets	**£m**	**110.06**	**96.53**	**92.97**	**88.62**
Short-term Debt	£m	1.28	2.16	2.16	2.16
Other Current Liabilities	£m	4.18	3.08	3.51	4.51
Current Liabilities	**£m**	**5.46**	**5.25**	**5.67**	**6.68**
Long Term Debt	£m	0.00	0.00	0.00	0.00
Other Long Term Liabilities	£m	15.28	13.42	12.74	11.49
Total Liabilities	**£m**	**20.744**	**18.666**	**18.4156**	**18.1652**
Shareholder Equity	£m	60.16	64.42	66.63	66.63
Retained Income	£m	(21.06)	(28.35)	(35.25)	(41.70)
Other	£m	50.21	41.78	43.17	45.53
Total Liabilities & Equity	**£m**	**110.06**	**96.53**	**92.97**	**88.62**
CASHFLOW STATEMENT		**FY2011A**	**FY2012A**	**FY2013F**	**FY2014F**
Net Income	£m	(6.82)	(7.29)	(6.90)	(6.46)
DD&A	£m	2.50	1.32	2.56	2.77
Other	£m	(10.09)	(0.10)	0.96	1.36
Change in Working Capital	£m	7.51	1.18	(0.30)	(0.06)
Cash Flow from Operations	**£m**	**(6.91)**	**(4.89)**	**(3.68)**	**(2.39)**
Capital Expenditure	£m	(3.76)	(0.79)	(18.24)	(106.17)
Other	£m	1.07	0.00	5.58	0.00
Cash Flow from Investments	**£m**	**(2.68)**	**(0.79)**	**(12.66)**	**(106.17)**
Equity Issues (Net of Costs)		0.00	4.42	1.73	0.00
Net Borrowings	£m	0.00	0.00	0.00	0.00
Other	£m	(1.64)	(0.52)	(0.25)	(0.25)
Cash Flow from Financing	**£m**	**(1.64)**	**3.90**	**1.47**	**(0.25)**
Net Cashflow	**£m**	**(11.23)**	**(1.78)**	**(14.87)**	**(108.81)**
FX Adjustments	£m	0.16	0.24	0.83	0.00
Cash at End of Year	**£m**	**2.01**	**1.06**	**(13.80)**	**(122.61)**

* All GBP unless otherwise noted; fiscal year-end 30th June.
** FY2013 and FY2014 net debt reflects funding requirements, which could be met from equity and/or debt.

Source: Jubilee Platinum, Shore Capital estimates

CONFLICTS

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