

Sylvania (SLP LN)

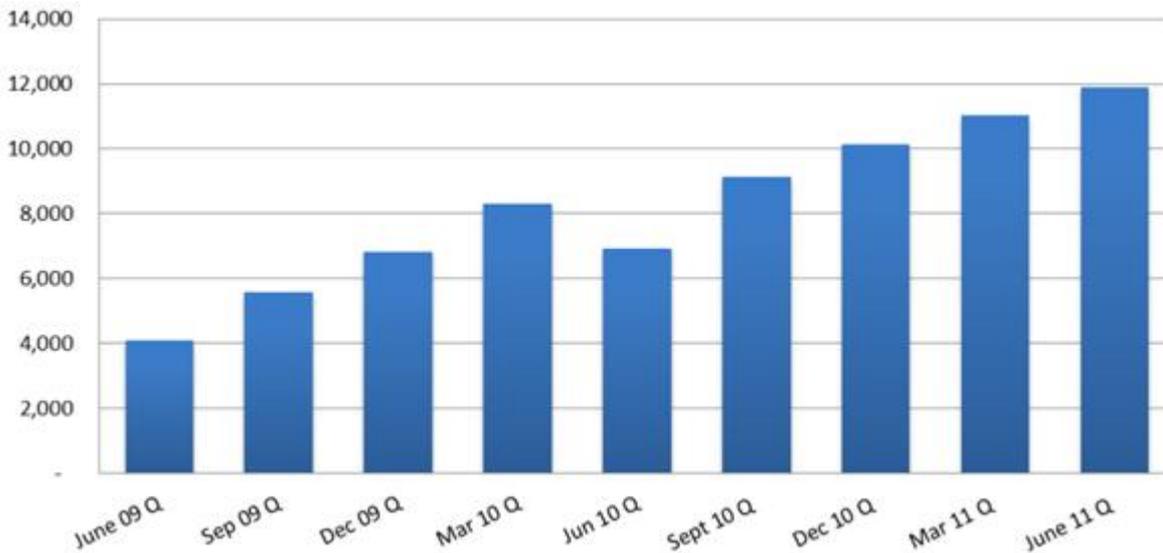
Price: 33p Target Price (Unch): 80p Recommendation: BUY Market Cap: £98m

June Quarter Update: Production Keeps Growing

Sylvania's group production grew by 7% during the June Q.

The Rand cash cost rose by 8%, mainly due to a decline in the head grade of processed tonnage of 10%.

Figure 1: Continued Production Growth at Sylvania's Current Operations (ounces produced – 4E PGM basis)



Comment

Sylvania continues to grow its production base (see Figure 1). Yet, looking at Sylvania's share price decline over the last few months, the market apparently continues to ignore the fact that its current operations are producing positive cash flow (see Figure 2). This is a feature that sets it apart from all of its peers with the exception of Eastplats (see Figure 3). The positive cash generated by these operations will help to fund the next phase of its organic growth (taking the company from a 45koz pa run rate to 60kozpa, within one calendar year). This organic growth project involves various capacity expansions at its existing processing plants (with more of a focus on processing ROM, rather than oxidised material). Both this project and the JV with Aquarius at Everest North (potentially another attributable 20Koz pa) represent tangible production growth opportunity for what is the lowest cost platinum producer in the Bushveld. Again, none of this growth is priced into the company's current market value. The Northern Limb assets' potential also represents 'blue sky potential'.

Figure 2: Cash Flow Positive Nature of Sylvania's Current Operations

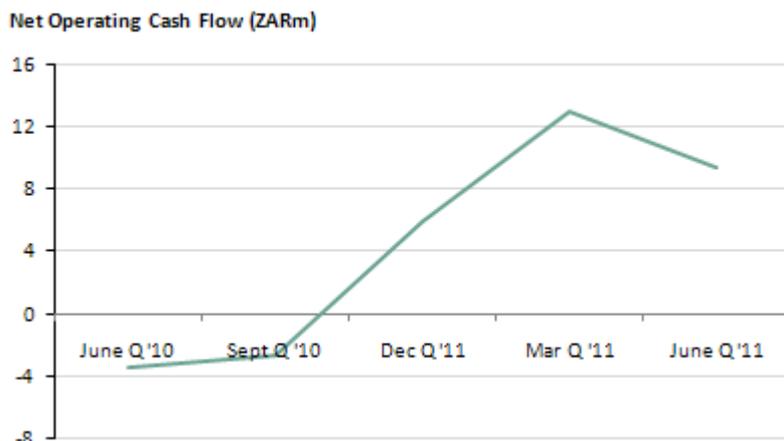


Figure 3: Cash-generative Nature of Peer Group

	Net cash generated/(utilised) by operating activities over last two quarters (US\$m)	Net cash generated/(utilised) by operating activities during CY2010 (US\$m)
East Plats	37.9	32.0
Sylvania	2.7	(0.0)
Annoraq Resources	(11.4)	(14.8)
Platinum Australia	(13.8)	(13.3)
Platmin	(38.2)	(107.5)
Wesizwe	Not in production	
Nkwe Platinum	Not in production	

Source: Company announcements (as at March 2011)

Recommendation

We maintain our **BUY** recommendation and **target price of 80p**.

Sylvania is cheap on the basis of its existing production profile at its producing operations. It is the cheapest platinum producer in the Bushveld and has recently announced plans to double its production profile in the near term based on organic growth (optimising its chrome treatment operations) and an open-pit mining JV with Aquarius Platinum at Everest North. These development projects should see the company re-rate over time and we retain the view that its Northern Limb assets have the potential to surprise seriously to the upside.

Ambrian's Sum-of-the-Parts Valuation

FAIR VALUE CALCULATION	NPV US\$m	NPV x multiple	NAV/sh GBX/sh
Millsell	33	1.0	7
Steelpoort	21	1.0	4
Lannex	73	1.0	15
Mooihoop	126	1.0	25
Doornbosch	44	1.0	9
Tweefontein	15	0.8	2
CTRP	10	1.0	2
<i>Sum of Current Operations</i>	322		64
Head Office	(11)	1.0	(2)
Everest North	10	1.0	2
Volspruit Project	55	1.0	11
Current cash	22	1.0	4
Total	714		80
Current Share Price (p)			35
Share Price Discount to our NAV			55%

Source: Ambrian estimates

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