

Impala Platinum Holdings Ltd

A more flexible future with Zimplats

Neutral
46,800c

Year End - Jun	2002	2003E	2004E	2005E
Adj EPS (c)	6,829.02	4,510.31	4,716.99	6,645.31
P/E	6.9	10.4	9.9	7.0

Resources - South Africa

Steve Shepherd

(27-11) 507-0386

steve.a.shepherd@jpmorgan.com

- Implats has offered Zimplats minorities A\$4.08/share in order to increase its control over the Hartley Orebody in Zimbabwe. This follows its recent acquisition of ABSA's 14.8% stake which increased Implats' effective holding in Zimplats to 50.8%.
- If successful, the acquisition will give Implats control over a resource containing 165moz of Pt and 140moz of Pd, which is amenable to inexpensive open cut and trackless bord and pillar mining methods, and strategically give the group greater flexibility
- Assuming an improving political environment in Zimbabwe, this note explores the possibility of Implats unlocking value from its Lonmin investment as well as realising BEE targets, while giving it greater leverage in negotiations with the Royal Bafokeng.
- Moreover, greater operational flexibility could allow the simplification of its complex corporate structure while still positioning the company to deliver long-term volume growth and lower earnings volatility.
- By our calculations, Impala offers value, with a base-case DCF valuation of R530/share and more attractive comparative valuation metrics than AngloPlat. The potential for growth in Zimplats and greater corporate flexibility add to its appeal.

Company Data

52-Wk Hi/Lo	65,001-34,600c
Mkt.Cap (\$bn)	4.2
Mkt.Cap (R bn)	31.5
Total No. of Shares (mm)	67.2
RIC	IMPJ.J
BB	IMPAY

Introduction

Implats proposes to offer Zimplats minorities A\$4.08 per share in order to increase its level of control over the Hartley orebody in Zimbabwe, which contains some 165mozs of platinum and 140mozs of palladium, as well as smaller quantities of rhodium and substantial quantities of nickel and copper. Having agreed with Absa to acquire its 14.8% stake for A\$2.20 per share, Implats effectively now controls Zimplats, with some 50.8% of the shares in this ASX-listed stock.

The offer to minorities implies a cost of R10 per platinum resource ounce. This compares favourably to acquisition costs of R80 and R120 per platinum resource ounce, which it has paid in the past couple of years for Winaarshoek (Marula) and Two Rivers, respectively. In our view the capital cost of developing the potential of Zimplats over the next twenty to thirty years should be significantly lower than exploiting the balance of the resources at Impala's existing Rustenburg mine (at its current production rate).

At the end of June 2002, Impala reported platinum resources of 35mozs to a depth of 1,700m (or 1/5th those of Hartley). We estimate the average depth of the Zimplats resource to be well over 1,000m. Hartley measures some 100km from north to south - 10km from east to west. The reef, known as the Main Sulphide Zone (MSZ), is 2.5m thick and outcrops over a front of 200km. It is shaped like the hull of a canoe. Some 80% of the orebody being shallower than 400m, the whole less than 700m. It lends itself perfectly to inexpensive open cut outcrop and trackless bord and pillar underground mining. Capex and mining economics are potentially more attractive than those inherent in extracting the balance of the Implats resource, in our opinion.

<http://mm.jpmorgan.com>

See last two pages for analyst certification and important disclosures, including investment banking relationships. JPMorgan does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Some interesting new options open up before Implats

What all this means to us is that with Zimplats, Implats would have some interesting options that previously did not exist as to how it could structure its future growth profile. Greater operational flexibility could allow the simplification of its complex corporate structure and assist it in attaining BEE targets, while still positioning the company to deliver long-term volume growth and lower earnings volatility. And we believe this could be good news indeed for shareholders. Clearly though inherent in Zimbabwe is a level of political risk that is not thus far apparent in South Africa – but for the purpose of this work we assume the risk will diminish with the eventual demise of the current ruling regime. We outline what we consider to be a value enhancing future for Implats below:

- First, we believe the group could release the value trapped in what we view as a passive investment in **LonPlats**. Numerous attempts at a merger have failed over the past eight years. And Lonmin is seeking an empowerment opportunity that will entrench its future and allow it to retain control. It currently owns 73%, Implats the rest. We believe that Lonmin could be motivated to pay a healthy premium to eliminate Implats from the equation. Despite only holding 27%, Implats has 50% voting rights and has pre-emptive rights in the event of a change of control, over Lonmin's 73%. And we believe this limits Lonmin's options. If Implats were to sell its holding, say 15/27 to a BEE investor and 12/27 to Lonmin, both Lonmin and Implats shareholders could benefit. Implats would derive empowerment credits and possibly a premium to our R5.4m valuation for its stake – which could be passed back to Implats shareholders in the form of a special dividend. And Lonmin would be free at last to manage its assets as it sees fit.
- Then with this done, Implats could justifiably claim that it would, in the South African context, be well on its way to being Mining Charter compliant – even without the **Royal Bafokeng** as an empowerment partner. And with Lonplats heading quickly to being a one million platinum ounce producer (the same as Implats is now), by passing 15% of its 27% holding to an empowerment producer, theoretically it could possibly apply for a new-style mining licence for the Impala lease. This is simplistic, but we assess that this scenario would give Implats more leverage with the Royal Bafokeng Nation.
- We wonder if Implats may not be able to maintain the current royalty, rather than convert it into equity. This would be more tax efficient because the existing royalty is not taxed. Moreover, both the Bafokeng and Implats have confirmed that the royalty payment is not contingent on ownership of mineral rights – merely a part of a commercial agreement entered into in the mid-1990s, when the old royalty agreement was renegotiated. And if this royalty were maintained, we believe that in terms of the emerging Money Bill, Implats could earn some exemption from the proposed state royalty.

After this, we see that control of Zimplats may allow Implats to divest some of its subsidiaries and associates – which we view as low quality. Our model shows that **Barplats'** (83% holding) operations are NOT viable under current economic circumstances. Ideally Implats could maintain life of asset metal off-take agreements – meaning that through IRS, the group could maintain a no-risk exposure to the assets, while extracting value through either a sale or distribution of Barplats' shares. Another asset we see as marginal right now is **Two Rivers**. Again perhaps exposure might be better through a perpetual, and no-risk, off-take agreement with IRS. Perhaps more empowerment kudos could be another bonus in this case.

- Other holdings of the group include its holdings in unlisted **Aquarius** South Africa limited (25%) and London-listed Aquarius Platinum plc (9%).

•

We can envisage an Implats left with **three major nodes of mining production**:

- The existing **Impala lease**, which might be scaled down to minimise capex as depth increases (and reduce exposure to royalty payments)
- The developing **Marula** mine, which we reckon is ultimately good for up to 350koz pa of platinum production by 2012/15. And...

European Equity Research

July 10, 2003

Impala Platinum Holdings Ltd

- **Zimplats**, which we believe could ultimately (by about 2020/25) be good for production of between 2 & 3moz pa of platinum production.

Hence Implats would be positioned to deliver volume growth from higher quality, long-life mining assets, while possibly returning cash to shareholders through disposals in the short/medium-term. Moreover, the IRS business could continue to contribute low-risk, margin business that would continue to reduce earnings volatility.

Conclusion

If Implats succeeds in closing the Zimplats deal, we believe it will be strategically placed to create significantly more value for its shareholders than otherwise would be the case.

Management's vision and mettle will be tested over the next year or two, in our view. Will it be up to reshaping the group in order to create the considerable potential value that we can see?

In the scenario we envisage, the group would reduce both its operating costs and considerably reduce shareholder exposure to capacity creation. Modelling such a future is difficult. But our Zimplats model indicates that capacity creation in Zimbabwe will yield returns in excess of those generated at Implats in Rustenburg – and heavy investment there will be needed just to stand still. There is little or no volume growth available from that lease area. And IRS's capacity can be efficiently grown, in our view, to accommodate most if not all of the growth we envisage

- Implats is our preferred major platinum sector exposure. It has significantly more attractive prospective P/E and dividend yield metrics than AngloPlat – and our base-case (conservative) DCF valuation of around R530 per share indicates the shares are still in value territory.

Analyst Certification

The research analyst who is primarily responsible for this research and whose name is listed first on the front cover certifies (or in a case where multiple analysts are primarily responsible for this research, the analyst named first in each group on the front cover or named within the document individually certifies, with respect to each security or issuer that the analyst covered in this research) that: (1) all of the views expressed in this research accurately reflect his or her personal views about any and all of the subject securities or issuers; and (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research.

ANGLO PLATINUM/ 22900c/Neutral IMPALA PLATINUM/ 46800c/Neutral LONMIN SA/ 9450c/Underweight LONMIN/ 791p/Underweight

Copyright 2003 J.P. Morgan Chase & Co.-All rights reserved. Additional information available upon request.

Legal Entities: JPMorgan is the marketing name used on global equity research issued by J.P. Morgan Securities Inc. (JPMSI) and/or its affiliates worldwide. JPMSI is a member of NYSE, NASD and SIPC. The analysts who write global equity research are employees of JPMSI or its affiliated companies worldwide, including the following companies. J.P. Morgan Securities Ltd. (JPMSL), J.P. Morgan plc (JPM) and J.P. Morgan Europe Limited are authorised by the FSA. JPMSL is a member of the LSE. J.P. Morgan Equities Limited is a member of the Johannesburg Securities Exchange and is regulated by the FSB. J.P. Morgan Securities Asia Private Limited is regulated by the Monetary Authority of Singapore (MAS) and the Japan Financial Services Agency (FSA). J.P. Morgan Securities (Asia Pacific) Limited (CE number AAJ321) and J.P. Morgan Securities (Far East) Limited (CE number AAB026) are regulated by the HKMA and the SFC in Hong Kong respectively. J.P. Morgan Securities Singapore Private Limited is a member of Singapore Exchange Securities Trading Limited and is regulated by the MAS. J.P. Morgan Malaysia Sdn. Bhd. (18146-X) is licensed as an investment advisor by the Securities Commission in Malaysia. J.P. Morgan Australia Limited (ABN 52 002 888 011) and J.P. Morgan Securities Australia Limited (ABN 61 003 245 234, a Participating Organisation with the ASX) are licensed securities dealers. J.P. Morgan Securities New Zealand Limited is a member of the New Zealand Stock Exchange. J.P. Morgan Securities (Taiwan) Limited is a participant of the Taiwan Stock Exchange (company-type) and regulated by the Taiwan Securities and Futures Commission. J.P. Morgan India Private Limited is a member of the National Stock Exchange of the India Limited and The Stock Exchange, Mumbai and is regulated by the Securities and Exchange Board of India. J.P. Morgan Securities (Thailand) Limited is a member of the Stock Exchange of Thailand and is regulated by the Ministry of Finance and the Securities and Exchange Commission PT. J.P. Morgan Securities Indonesia is a member of the Jakarta Stock Exchange and Surabaya Stock Exchange and is regulated by the BAPEPAM. This report is distributed in the Philippines by J.P. Morgan Securities Philippines, Inc.

General: Information has been obtained from sources believed to be reliable but J.P. Morgan Chase & Co. or its affiliates and/or subsidiaries (collectively JPMorgan) do not warrant its completeness or accuracy except with respect to any disclosures relative to JPMSI and/or its affiliates and the analyst's involvement with the issuer. Opinions and estimates constitute our judgement as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. The opinions and recommendations herein do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients. The recipient of this report must make its own independent decisions regarding any securities or financial instruments mentioned herein. JPMSI distributes in the U.S. research published by non-U.S. affiliates and accepts responsibility for its contents. Clients should contact analysts and execute transactions through a JPMorgan subsidiary or affiliate in their home jurisdiction unless governing law permits otherwise.

European Equity Research

July 10, 2003

Impala Platinum Holdings Ltd

Compendium reports (U.S.): Price charts are available for all companies under coverage by JPMSI for at least one year through the search function on JPMorgan's website <http://mm.jpmorgan.com> and accessible to JPMorgan's clients via password, or by calling MorganMarkets toll free number (1-800-477-0406).

Analysts' Compensation: The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues. The firm's overall revenues include revenues from, among other business units, Institutional Equities and Investment Banking.

Explanation of Ratings: JPMorgan uses the following rating system: **Overweight** [Over the next six to twelve months, we expect this stock will outperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] **Neutral** [Over the next six to twelve months, we expect this stock will perform in line with the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] **Underweight** [Over the next six to twelve months, we expect this stock will under-perform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.]

Prior to September 25, 2002, our rating system was: Buy--we expect the stock to outperform the market by a minimum of 5% within an investment horizon of one year. Long-Term Buy--we believe the stock will outperform the market over the long run, but we lack the visibility of a catalyst for outperformance within a one- year investment horizon; Market Performer --the stock is expected to perform in line with the market; Market Underperformer--we expect the stock to underperform the market by a minimum of 5% within an investment horizon of one year

U.K. and European Economic Area: Issued and approved for distribution in the U.K. and the European Economic Area ("EEA") by JPMSL, JPM and JPMEL. All research issued to private clients in the U.K. is subject to the following: the investments and strategies discussed here may not be suitable for all investors; if you have any doubts you should consult your investment advisor. The investments discussed may fluctuate in price or value. Investors may get back less than they invested. Changes in rates of exchange may have an adverse effect on the value of investments.

Revised May 31, 2003.

This material is distributed in Japan by J.P. Morgan Securities Asia Pte Limited

This material is issued and distributed in Singapore by J.P. Morgan Securities Singapore Private Limited [MITA (P) No. 213/05/2003]

This material is issued and distributed in Malaysia by J.P. Morgan Malaysia Sdn. Bhd. (18146-X)