

ZIMBABWE PLATINUM MINES

MATERIALS
Analyst: Ian Preston
 Date: 30 January 2003
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December Quarter Production Report

RECOMMENDATION: **S/Term:** **OUTPERFORM** **L/Term:** **BUY**

Stock Code: ZIM (180¢)

Valuation: 245¢

KEY POINTS:

Production lower than forecast due to downtime at SAG mill

Huge potential for expansion with 34m/oz reserve

Upgrade valuation to \$2.45 (\$2.00)

For risk tolerant investors our recommendation is BUY

- Production for the quarter was below our forecasts at 41,290/ozs PGM/Au (JBW 48,500/ozs PGM). The below target production was due to the SAG mill liner, which was recently replaced, not performing to expectations and resulting in substantial downtime during the quarter.
- We have reduced our forecasts for the Rhodium price due to deterioration in that market. This was the major driver for our earnings downgrades in 2003, 2004 and 2005.
- Zimplats today announced a 31m ounce ore reserve upgrade taking total reserves to 34m/ozs. This was a 10-fold increase on the previous reserves base. We have added US\$1.50 per reserve ounce into our valuation to take account of the huge potential for expansion. We believe this is very conservative and will be looking to model the expansion in more depth when the details become available. Our valuation has increased to \$2.45 (\$2.00).
- With Ngezi having been successfully constructed and brought on line under budget and without incident, Zimplats can now look to the expansion opportunities available to add significant value to the company. We maintain our short term **OUTPERFORM** and long term **BUY** recommendation.

INVESTMENT ARITHMETIC

Latest Price:	180¢	12 month Price Range:		90¢	-205¢
Issued Capital:	90.4 m ord.	Turnover:	\$1.163m./month		
Market Cap:	\$163 m	ASX Code:	ZIM		
Key Shareholder:	Impala 36%	Valuation:	\$2.45		
Year End June	2001	2002	2003	2004	2005
	Hist.	Hist.	Est.	Est.	Hist.
Net Profit (\$m)	-1.7	2.1	21.2	26.0	23.6
EPS (diluted) (¢)	-1.8	2.3	23.4	28.8	26.1
EPS Growth (%)	0.0	100.0	925.3	23.0	-9.2
PER	-98.6	78.9	7.7	6.3	6.9
DPS (¢)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0	0	0	0	0
CFPS (¢)	-1.8	4.4	32.1	34.1	30.1
P:CF	0.0	40.5	5.6	5.3	6.0
Major Assumptions:					
A\$/US\$	0.54	0.52	0.57	0.57	0.59
Platinum (US\$/oz)	557	481	576	555	488
Paladium (US\$/oz)	792	364	281	265	298
Rhodium (US\$/oz)	1500	1500	698	775	875
Platinum (000ozs)	19	21	85	91	91
Paladium (000ozs)	16	19	73	75	75
Rhodium (000ozs)	2	3	8	8	8
Relative Price Perform vs. S&P 300:	1 month	3 months	12 months		
	17.1%	13.8%	91.8%		

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PRODUCTION AND REVENUE

- PGM/Au production of 41,290/ozs (JBW 48,500/ozs). A lower than expected result due to the SAG mill liner, which was recently replaced, not performing to expectations and resulting in substantial downtime during the quarter. New liners will be installed in the March quarter.
- Revenue from Makwiro totalled US\$17.3m (JBW US\$20.1m) and operating cash flow of US\$8.2m (JBW US\$9.4m).
- Cash costs per PGE/Au ounce were US\$250 (JBW US\$250). Despite the lower production levels the mine continues to generate excellent operating cash flow.
- The realised platinum price for the quarter was US\$598. The current spot price of Platinum is US\$667.

MARKET OUTLOOK

The platinum market continues to be very strong with spot price continuing to increase, driven by strong jewellery and automotive industry demand. Palladium and Rhodium prices are not as strong (due to reversion to the Platinum rich autocatalyst), however, the increasing price differential between Platinum and Palladium, may see some increase in demand for Palladium.

Zimplats achieved an average platinum price for the quarter of US\$598/oz. Our forecast for the March quarter is US\$590 (US\$575 CY2003) against a current spot price of US\$667/oz. If the strong spot platinum price continues to persist, there is upside to our earnings forecasts.

We have reduced our estimate for the Rhodium price due to deterioration in the market. Rhodium's primary use is in the "3-way" autocatalyst, and there is a reversion away from this back to the platinum rich autocatalyst. We have reduced our LT Term estimate to US\$1000/oz (US\$1500/oz).

JBWere: Rhodium Price Estimate				
	Jun-03	Jun-04	Jun-05	Long Term
Previous	1,500	1,500	1,500	1,500
Revised	775	875	1,000	1,000
<i>Difference</i>	-48%	-42%	-33%	-33%

ORE RESERVE UPGRADE

Zimplats today announced a 31m ounce ore reserve upgrade taking total reserves to 34m/ozs. This was a ten-fold increase on the previous reserves base. Expansion opportunities are being considered, however, specific details are limited at this stage and will be addressed in more detail in a bankable feasibility study due for completion in December 2003. This increase in reserves only incorporates the ore in the Ngezi area (ie, only the Southern quarter of Zimplats total tenements).

The orebody comprising of the reserve upgrade lies at a depth of between 50 and 600 metres, with an average depth of 250m. It is geo-technically sound and shallow dipping. The ore reserve was defined within limits that are easily accessible and economic for mechanised room and pillar mining and follows the trial underground mining, which is still ongoing.

EXPANSION POTENTIAL

A Phase 1 expansion for Ngezi is being actively considered. Preliminary studies indicate a potential expansion of 200,000/ozs taking total PGE/Au production to 400,000/ozs by the end of 2005. Additionally this expansion could be constructed with the ability to provide facilities for repeat modular expansion growth up to a potential 1m/ozs PGE/Au per annum within a 10 year time frame. Initial studies have also highlighted that there is significant potential for operating cost reductions.

A bankable feasibility study on the Phase 1 expansion is in progress and is expected to be completed by the end of CY2003.

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EXPLORATION

Zimplats continues to drill out the northern tenements. Initial thoughts are that this could represent a mirror image of the Ngezi area, having the potential for significantly more reserves. We anticipate more information when assay results are reported next quarter.

EARNINGS CHANGES

We have made the following adjustments to our earnings forecasts:

2003: Impacted by lower production that forecasted this quarter due to downtime of the SAG mill. The lower production comprises ~14% of the downgrade with the remainder caused by the revision to the rhodium forecasts.

2004 & 2005: No production impact – Downgrade attributable to the revised Rhodium forecasts.

Valuation: Our valuation was impacted by the lowering of the long term rhodium price from \$1500 to \$1000. However, offsetting this we have included a value of US\$1.50/ per reserve ounce to reflect the increase in booked reserves. We will be doing further detailed analysis when more details, including capital costs, and ramp up profiles on the Phase 1 bankable feasibility study become available. We believe that our valuation is very conservative at this stage.

	NPAT (\$m)			EPS (¢)			DPS (¢)		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
F.'01E	-1.7	-1.7	0.0%	-1.8	-1.8	0.0%	0.0	0.0	0.0%
F.'02E	2.1	2.1	0.0%	2.3	2.3	0.0%	0.0	0.0	0.0%
F.'03E	30.5	20.8	-31.8%	33.8	23.0	-32.0%	0.0	0.0	0.0%
F.'04A	29.7	26.0	-12.5%	33.0	28.8	-12.7%	0.0	0.0	0.0%
F.'05A	27.5	23.6	-14.2%	30.5	26.1	-14.4%			
CAGR ('02-'04)	90.2%	83.1%		90.8%	83.5%		n.a.	n.a.	
DCF Valuation (\$/share):				Old	New	% Chg.			
Risked Upside				2.00	2.45	22.5%			

RISKS

Zimplats continues to offer good value for risk tolerant investors. The key risk remains the economic and political situation of Zimbabwe, which has deteriorated considerably over the last 12 months. Given this, however, the Ngezi/Seleous complex project was closed off 10% under budget and despite significant civil unrest in Zimbabwe during the construction phase, the mine was brought on line unaffected.

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