

**ZIMBABWE PLATINUM MINES**

**MATERIALS**  
**Analyst: Ian Preston**  
 Date: 24 September 2002  
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Full Year NPAT of US\$1.2m

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

Stock Code: ZIM (131¢)

Valuation: 185¢

**KEY POINTS:**

- The company has reported a full year NPAT of US\$1.2m (JBWere US\$0.8m) after beginning production this calendar year. The difference to our number is a lower depreciation charge. This is a very good result considering the high level of political/country risk during the period of construction and ramp up of the mine.
- Impala's recently purchased AurionGold's 21% stake in Ziimplats given them a 51% relevant interest. Uncertainty still remains around the provisions of a MoU between Impala and Ziimplats that requires Impala to make a stand-by offer to minority shareholders on the same terms as the AurionGold deal (\$1.90/share). Impala have stated the provisions do not apply in these circumstances. Ziimplats is currently having the enforceability of the MoU legally assessed.
- We are forecasting significant earnings increase next financial year with a full year's contribution from the Ngezi mine. Currently the spot platinum price is US\$569/oz, which is well above our average price forecast for the 2003FY of US\$479/oz. If the price remains at these levels there is upside to our forecast earnings.
- The country/political risks remain, however, to date the company has experienced no disruptions to operations as a result of these factors and continues to receive the support of the government.
- We have made no changes to our earnings estimates, our valuation has increased to \$1.85 as a result of rolling the model over. We retain our SPECULATIVE BUY recommendation.

**INVESTMENT ARITHMETIC**

<b>Latest Price:</b>	131¢	<b>12 month Price Range:</b>		60¢	-190¢
<b>Issued Capital:</b>	90.4 m ord.	<b>Turnover:</b>	\$1.163m./month		
<b>Market Cap:</b>	\$118 m	<b>ASX Code:</b>	ZIM		
<b>Key Shareholder:</b>	Impala/ABSA 51%	<b>Valuation:</b>	\$1.85		
<b>Year End June</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<b>Hist.</b>	<b>Hist.</b>	<b>Est.</b>	<b>Est.</b>	<b>Est.</b>
Net Profit Reported US\$		-1.3	1.2	14.6	14.7
<b>Net Profit (\$m)</b>	<b>-1.5</b>	<b>-2.4</b>	<b>2.3</b>	<b>25.9</b>	<b>24.7</b>
EPS (diluted) (¢)	-1.6	-2.6	2.5	28.6	27.3
EPS Growth (%)	0.0	0.0	100.0	1039.1	-4.6
<b>PER</b>	<b>-81.1</b>	<b>-49.6</b>	<b>52.1</b>	<b>4.6</b>	<b>4.8</b>
DPS (¢)	0.0	0.0	0.0	0.0	0.0
<b>Yield (%)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Franking (%)	0	0	0	0	0
CFPS (¢)	-1.6	-2.7	4.7	35.1	32.6
<b>P:CF</b>	<b>0.0</b>	<b>0.0</b>	<b>28.1</b>	<b>3.7</b>	<b>4.0</b>
<b>Major Assumptions:</b>					
A\$/US\$		0.54	0.52	0.57	0.60
Platinum (US\$/oz)		557	479	479	450
Platinum (000ozs)		0	21	91	91
Paladium (000ozs)		0	19	75	75
Rhodium (000ozs)		0	3	8	8
	<b>1 month</b>		<b>3 months</b>		<b>12 month</b>
<b>Relative Price Perform vs. S&amp;P ASX 300:</b>	<b>3.2%</b>		<b>-3.5%</b>		<b>70.7%</b>

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**OUTLOOK**

The company has reported a maiden operating profit of US\$1.2m (JBWere US\$0.8m) having begun production in the March 2002 quarter. By 30 June 2002 the ramp up period was almost complete. We anticipate a full contribution from Ngezi for 2003.

As mentioned in the quarterly report there were some questions as to how the depreciation expense was calculated. At that time we reduced our earnings for FY2002 to take in to account the higher reported depreciation charge. AT the time we highlighted the company was still in discussions with its auditors to determine the final calculation method. The accounts have since been audited and as a result the depreciation charge is around our initial estimate. We did not alter future years at the quarterly because of the uncertainty of the higher charge and therefore we have not needed to alter them today.

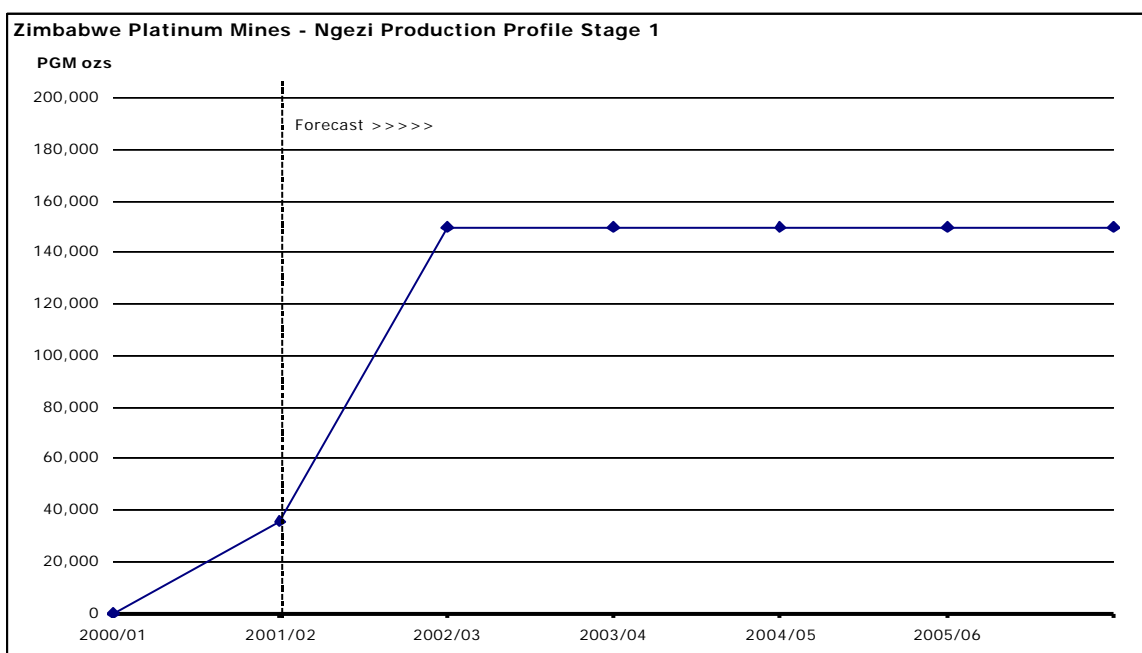
**No Earnings Changes**

We have made no changes to our earnings forecast today. The 2003 financial year will be the first year of full production from Ngezi and we anticipate a significant increase in earnings. Given the June 2002 quarter was the first full quarter of production we expect to make a few slight alterations to costs/grade etc over the next couple of quarterly reports as the mine settles into steady state operations.

The increasing production is the earnings driver into 2003, we had forecast that Ngezi would reach full throughput rates by the end of September. This rate was achieved at the end of the June quarter. The chart below shows our production ramp-up, which drives the earnings increase.

Our forecast for the platinum price for FY2003 is US\$479 against the current price of US\$569/oz and an average price to date this financial year of US\$545/oz. We do not expect the platinum price to remain at these levels, however, highlight that there is upside risk to our forecasts if it holds above US\$480/oz.

The next news will be the September quarterly report when we will get an update on how production and costs are tracking. Our valuation has increased to \$1.85 (\$1.75) as a result of rolling the model forward.



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### Impala Transaction

The recent transaction whereby AurionGold sold its remaining 21.05% interest to Impala at 190¢/share has been confirmed. Impala now have a relevant interest in Zimplats of 51%.

Zimplats has highlighted that there is a Memorandum of Understanding, which requires Impala to make a stand-by offer to minorities on the same terms as the AurionGold transaction. The memorandum was put in place to protect minority shareholders, as Zimplats being incorporated in Guernsey, is not covered by the jurisdiction of the Australian Corporations Law.

Impala have stated that they do not believe the contents of MoU are applicable in these circumstances and continue to discuss the issue with the Zimplats board. Zimplats is establishing the legal enforceability of the MoU.

In our view, if legal opinion indicates the MoU is enforceable, the ZIM board should enforce the provisions of the MoU and have the stand-by offer placed before shareholders and at the same time commission an independent experts report that can adequately address the value argument. Only then can a clear recommendation to shareholders to be made on the adequacy of a A\$1.90/share offer.

### RISKS

#### Operational

- The key operational risk remains the grade of ore delivered to the mill. The current quarter showed that this is an area where the company has not yet achieved the design parameters. Further detail will be received on this at the September quarterly.
- The road link and road trains are now fully operational. However, given that all ore is road transported from the mine to the metallurgical plant, this remains an area of risk. We would expect that the company will build a reasonable stockpile of ore at the plant during the course of the new financial year. The stockpile will act as a buffer should any problems occur with the road trains or the road itself.

#### Country

- The political situation in Zimbabwe has not improved. We stress that the company has not been affected and continues to receive the support of the Government.
- Zimplats have taken steps to mitigate the level of financial/country risk.
- All major bank accounts are held offshore in US\$.
- All major transactions are entered into in US\$.
- Local banking is confined to the minimum to cover labour and daily operating costs.
- All production is sold to a South African company (Impala) for refining and sale into the market. The concentrate could not be turned to revenue without this agreement. (*Platinum refining is a very specialised area*) This relationship could be jeopardised if the Ngezi mine was nationalised.

#### Black Enterprise Empowerment

- The National Trust has not yet been able to source funding for the 15% of the issued equity to be placed in terms of an empowerment placement.
- The company has allowed for a 15% placement to be made once funding for this is secured by the National Trust (on behalf of indigenous Zimbabweans). Given the issues relating to empowerment that have arisen in South Africa, it is our view that shareholders interests would be best served by Zimplats providing the necessary guarantees for this funding, with repayment of the loans from future dividend flows.

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Zimbabwe Platinum Mines LTD. - Summary (A\$)							Recommendation (LT):		SPECULATIVE BUY						
Current Price A\$:		\$1.31	Mkt Cap. (A\$m):		118		Analyst:		Ian Preston						
JBWere DCF:		\$1.86	ASX Code:		ZIM		Data as at:		24-Sep-02						
Industry: Mining Explorer															
Investments Statistics							Profit & Loss (A\$m)								
	Year end	June	2000a	2001a	2002e	2003e	2004e	Year end	June	2000a	2001a	2002e	2003e	2004e	
Net Profit (reported)	(A\$m)		-1.5	-2.4	2.3	25.9	24.7	Sales Revenue (excl JV & Assoc.)		0.3	0.5	31.8	126.9	113.3	
- EPS (Reported) 1	(¢)		-1.6	-2.7	2.5	28.7	27.4	Operating costs		1.7	2.9	27.6	95.3	84.0	
- PER (Reported) 1	(X)		-81.0	-49.4	51.9	4.6	4.8	Operating EBITDA		-1.5	-2.4	4.2	31.6	29.4	
NET PROFIT (Adj.) 2	(X)		-1.5	-2.4	2.3	25.9	24.7	D&A		0.0	0.0	0.4	1.6	1.6	
- EPS (Adj.) 2	(¢)		-1.6	-2.7	2.5	28.7	27.4	Operating EBIT		-1.5	-2.4	3.8	30.0	27.8	
- EPS Growth	(%)		64%	195%	1039%	-5%		JV & Assoc.		0.0	0.0	0.0	0.0	0.0	
- PER (Adj.) 2	(X)		-81.0	-49.4	51.9	4.6	4.8	EBIT		-1.5	-2.4	3.8	30.0	27.8	
Dividend	(¢)		0.0	0.0	0.0	0.0	0.0	Net Interest Exp./(Rev)		0.0	0.0	1.5	4.1	3.1	
- Yield	(%)		0.0%	0.0%	0.0%	0.0%	0.0%	Non recurring Items Pre Tax		0.0	0.0	0.0	0.0	0.0	
- Franking	(%)		0	0	0	0	0	PreTax Profit (pre ab's)		-1.5	-2.4	2.3	25.9	24.7	
Free Cash Flow	(A\$m)		0	-2	6	36	31	Tax Expense (pre abs)		0.0	0.0	0.0	0.0	0.0	
- P/FCF 4	(X)		-49.4	20.6	3.3	3.7		Minorities (after Tax)		0.0	0.0	0.0	0.0	0.0	
EV(Adj.) / EBITDA 3	(X)		-83.4	-52.3	38.7	4.7	4.2	Prof. Dividends		0.0	0.0	0.0	0.0	0.0	
Avg. Shares (diluted)	(mill)		90	90	90	90	90	Reported NPAT (pre abnormals)		-1.5	-2.4	2.3	25.9	24.7	
EV Analysis / DCF Valuation							NET PROFIT (Pre NRI's) 1								
A\$ DCF Valuation:							Abnormal Items (after Tax)								
Price / DCF:		1.86	(Excludes Franking Credits)				Reported NPAT (post ab's)								
Ke:		0.71					-1.5								
Kd:		13.8%	WACC: 12.0%				0.0								
BETA:		5.6%	RF: 6.0%				0.0								
		1.20	MRP: 6.5%				0.0								
	Year end	June	2000a	2001a	2002e	2003e	2004e		Year end	June	2000a	2001a	2002e	2003e	2004e
EV (Adj.) 3	(A\$m)		121	125	163	147	124	Sales Growth	(%)		74%	6261%	299%	-11%	
EV (Adj.) / EBITDA	(X)		-83.4	-52.3	38.7	4.7	4.2	Op. EBITDA Growth	(%)		n.a.	n.a.	651%	-7%	
EV (Adj.) / Sales	(X)		423.1	249.8	5.1	1.2	1.1	NPAT (Adj.) Growth	(%)		n.a.	-195%	1039%	-5%	
EV (Adj.) / Gross CF	(X)		-83.4	-52.3	38.7	4.7	4.2	EPS (Adj.) Growth	(%)		64%	195%	1039%	-5%	
								Op. EBITDA Margin	(%)		13.2%	24.9%	25.9%		
								Interest Cover - EBITDA	(X)		2.8	7.8	9.5		
								Return on Equity 5	(%)		-1.2%	-2.5%	0.9%	9.7%	8.4%
Balance Sheet (A\$m)							Cash Flow Analysis (A\$m)								
	Year end	June	2000a	2001a	2002e	2003e	2004e	Year end	June	2000a	2001a	2002e	2003e	2004e	
Cash			0	2	11	11	11	Operating EBITDA		-1	-2	4	32	29	
Property, Plant, Equip			0	1	217	226	227	change in working cap.		0	0	0	0	0	
Other Assets			4	106	82	83	84	Gross Cashflow		-1	-2	4	32	29	
Debt			3	9	56	40	17	Net Interest Paid		0	0	2	4	3	
Shareholders Equity			126	95	242	268	292	Tax Paid (inc. abs)		0	0	0	0	0	
Net Debt / Equity	(%)		3%	7%	18%	11%	2%	Other		0	0	0	0	0	
Net Debt / (D+E)	(%)		3%	7%	16%	10%	2%	Operating Cash Flow		-1	-2	6	36	32	
								Maint. Capex		0	0	0	0	-1	
								FREE CASH FLOW		0	-2	6	36	31	
								Dividends Paid		0	0	0	0	0	
								Expan. Capex		0	-45	-34	-10	0	
								Acquisitions		0	0	0	0	0	
								Asset Sales		0	0	0	0	0	
								Dividends Received		0	0	0	0	0	
								Share Issues/Repurchases		0	0	0	0	0	
								Increase in Net Cash/(Debt)		0	-47	-29	26	31	
								Gross CF / Op. EBITDA	(X)		1.00	1.00	1.00	1.00	
								Maint. Capex / Sales	(%)		0.0%	0.0%	0.0%	0.0%	
								Total Capex / Sales	(%)		0.0%	0.0%	108.1%	7.9%	
								Maint. Capex / D&A	(X)		0.00	0.00	0.00	0.64	
								Total Capex / D&A	(X)		81.26	6.10	0.64		
								Maint. Capex / GCF	(%)		0.0%	0.0%	0.0%	3.4%	
Annual Production							ROE Analysis								
	Year end	June	2000a	2001a	2002e	2003e	2004e	Year end	June	2000a	2001a	2002e	2003e	2004e	
Platinum	000 Oz		0	0	21	91	91	EBIT/Sales	(X)		-5.07	-4.78	0.12	0.24	
Palladium	000 Oz		0	0	19	75	75	Pretax Profit/EBIT	(X)		0.00	1.00	0.60	0.86	
Rhodium	000 Oz		0	0	3	8	8	NPAT / Pretax Profit	(X)		n.a.	1.00	0.60	0.86	
								Sales/Assets	(X)		0.07	0.00	0.10	0.40	
								Assets/Equity	(X)		0.03	1.14	1.28	1.20	
								Return on Equity (ROE)	(%)		-1.2%	-2.5%	0.9%	9.7%	
Commodity Prices							ROE WACC Analysis								
	Year Average to	June	2000a	2001a	2002e	2003e	2004e	Year end	June	2000a	2001a	2002e	2003e	2004e	
Currency	A\$/US\$		0.63	0.54	0.52	0.57	0.60	Adjusted NOPAT	(A\$m)		-1	-2	2	26	
Currency	Rand/A\$		4.0	4.1	5.3	5.9	6.2	Adj Cap employed	(A\$m)		115.6	115.6	194.2	291.6	
Platinum	US\$/Oz		487	557	465	479	450	ROCE	(%)		-1.3%	-2.1%	1.2%	8.9%	
Palladium	US\$/Oz		500	792	364	318	300	WACC	(%)		12.0%	12.0%	12.0%	12.0%	
Rhodium	US\$/Oz		1500	1500	1500	1099	1500	ROCE Spread	(abs)		-1.3%	-1.4%	-1.1%	-3.1%	
								Change in ROCE	(abs)		-0.8%	3.2%	7.7%	-0.6%	
Earnings Sensitivity (A\$m)															
	Year Average to	June	2000a	2001a	2002e	2003e	2004e								
Currency	US\$/A\$		0%	0%	2%	2%	2%								
Platinum	US\$/Oz		0%	0%	6%	7%	7%								
Palladium	US\$/Oz		0%	0%	5%	6%	6%								

(1) Net Profit (Reported) is before Non Recurring Items & after Pref. Dividends.  
(2) Net Profit (Adj.) is before goodwill amortisation, abnormals and after Pref. Divs.  
(3) EV Includes 100% of Mkt. Value of minorities and excludes Mkt. Value of Invest/Assoc.  
(4) Includes 100% of Mkt. Value of minorities and excludes Mkt. Value of Invest/Assoc.  
(5) ROE excludes Preference Capital.

Date: 24 September 2002

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