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Once and future precious

Platinum supply undershot platinum demand last year and so it will continue to do for the rest of the decade, we made bold to predict four months ago. Certain miners seem not to read *Grant's*. The third quarter delivered a surplus of 260,000 ounces, and the price of that once and future precious metal registered a small decline—down 0.6% since we said our piece on Aug. 2.

We write to update and reiterate: On platinum and on the world's largest miner of the metal, Anglo American Platinum Corp. Ltd. (AMS on the Johannesburg exchange; ANGPY is the American depository receipt), *Grant's* remains bullish.

Every trainee knows why the half-dozen elements that make up the platinum metals group (PGM) have supposedly become obsolete. The very autocatalytic properties that made them indispensable (i.e., in transforming unburnt hydrocarbons, carbon monoxide and nitrogen oxides into water, carbon dioxide and nitrogen) will become unnecessary when the internal combustion engine finally gives way to electric vehicles. Tesla, Inc. has buried the PGMs.

There may be a kernel of truth in that contention for metals like palladium, which derive more than 80% of their sales from the auto industry, but not for platinum, which draws just 40% of its current demand from autocatalytic converters. Besides, the much ballyhooed transition to EVs has slowed while the less remarked demand for hybrid electric vehicles has accelerated. Hybrids use about the same amount of PGM loadings as gasoline-powered vehicles do. Add that to such new and growing use cases as the one for hydrogen fuel, and demand will likely hold steady or grow slightly through at least 2028. Mr. Market, like the aforementioned miners, evidently sees things differently: The price of platinum continues to zombie-tromp along the $1,000-per-ounce road it's traveled for the past decade.

As to the mined supply of platinum, it rose by 7% year over year, to 1.48 million ounces, in the three months ended September. "That's on increased supply from South Africa," Edward Sterck, director of research at the World Platinum Investment Council, tells *Grant's*. South Africa is where 70% of the world's platinum comes from, and "improved electricity availability resulted in producers processing more of the concentrate inventory than they had at the mine level through their smelters and releasing that material to the market," he adds.

Speculators amplified the effect of that bump in supply by offloading their positions: Exchange-traded funds sold 300,000 ounces of the metal in the third quarter while stocks held on financial exchanges as collateral for futures contracts fell by 25,000 ounces. ETFs can, indeed, continue to sell (they still sit on 3.2 million ounces), but exchange inventories stand at their lowest levels since August 2011. "There's a limit to how low those exchange stocks can go while you've still got an efficiently functioning futures market," Sterck observes.

That one-time pickup in concentrate processing notwithstanding, overall mine supply continues to fall, to an estimated 5.68 million ounces in 2024 from 6.08 million ounces in 2019. Supply will continue to shrink as South African miners plan for an 8% year-over-year decline in capital spending this year and an additional 13% reduction next year. This will, so miners tell investors, lower production by 5% between 2025 and 2028.

The World Platinum Investment Council estimates that the platinum deficit for full-year 2024 will sum to 682,000 ounces and the deficit for next year will reach 539,000 ounces, which would leave the global stocks-to-use ratio at around four months at year-end 2025. (Most commodity prices tend to perk up when that ratio falls below half a year.) Extrapolating further, the WPIC predicts that deficits will persist and excess stocks of platinum will disappear entirely by 2028.

Which brings us back to the investment case. "Most people tend to invest in commodities at the wrong time in our opinion," Alissa Corcoran, deputy chief investment officer and director of research at Kopernik Global Investors, LLC, which holds positions in miners including Anglo American Platinum, reminds us. "They tend to look at commodities when the prices are high and when the price-to-earnings ratios of mining companies are low—that is, when everything looks really rosy. But that's the worst time to invest in commodities. The best time is when the demand picture looks highly uncertain and mining companies are losing money, there's no M&A and the sell-side analysts are all negative on the stocks."

In this case, "most people" includes

Anglo American plc, parent of Anglo American Platinum (Amplats to its friends). As part of a corporate refocus, Anglo American is divesting its operations outside of copper, iron ore and crop nutrients. In preparation for a demerger next year, Anglo has been dumping shares in Amplats, reducing its stake in the platinum miner to 66.7% from 78.6% between September and November. Not coincidentally, the Amplats share price has slumped by 6.6% versus a 13.2% rise in the S&P 500 since our Aug. 2 analysis (both figures in U.S. dollars).

While peers like Sibanye Stillwater Ltd. are, in fact, losing money, Amplats's low-cost and long-lived reserves have kept our click-to-pick in the green. Amplats is priced at 11.6 times estimated 2024 earnings and to a 3.1% dividend yield. And with a net cash position of $791 million as of June 30, it has the financial stamina to wait out the bears. (The corporate balance sheet remains in a net cash position even after adjusting for $693 million in customer prepayments.)

"We just had a conference where we talked a lot about platinum and palladium," Corcoran comments. "People were excited about the story. Then we asked, 'How many of you actually own it?' No one raised their hand. I think we're in the early innings here."

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