

■ OPINION

BOTTOM LINE

SHANE WATKINS: How Implats and Northam can play their hands

Two suitors have been battling it out in full view of happy RBPlat shareholders in a fascinating year

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Picture: REUTERS/MICHAEL DALDER

It has turned out to be a great year to be invested in the platinum group metals (PGM) sector.

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mostly higher. PGMs have a variety of industrial uses, but the main one is in the production of cars, in which the metal is used in the exhaust system to reduce harmful emissions.

The best-performing PGM share in the year to date is Royal Bafokeng Platinum (RBPlat). The share price is up almost 140% for the year. This incredible performance has predominantly been driven by a bidding war, with Implats Platinum (Implats) on one side and Northam Platinum on the other.

Events kicked off with what appeared to be a friendly approach by Implats, which entered negotiations to acquire a big RBPlat stake held by Royal Bafokeng Holdings. It seems that Implats lowballed Royal Bafokeng Holdings, which consequently decided to sell its stake at a premium to Northam.

The sale surprised analysts as it is readily apparent that Implats needs the RBPlat assets to extend the life of its mining operations. Additionally, Implats will be able to extract synergies because the mining operations of Implats and RBPlat are adjacent. Given the desirability of the assets in question, Implats and its advisers appear to have misjudged the situation at the outset.

Notwithstanding that there are no apparent mining synergies between Northam's operations and those of RBPlat, the former made an attractive offer to Royal Bafokeng Holdings. With the benefit of hindsight, shareholders in RBPlat owe a debt of gratitude to Royal Bafokeng Holdings for holding out for a higher price, because the sale of its shares to Northam put RBPlat firmly in play.

Having lost out on the shares in RBPlat owned by Royal Bafokeng Holdings, Implats subsequently sharpened its pencil and came back with a revised offer for the remaining RBPlat shares. At time of writing Northam owns 34.95%, Implats 32.26% and minorities about 33%. So, what are the permutations from here?

It seems likely that both Northam and Implats would probably prefer to own 100% of RBPlat (or at least control), but 100% is now unachievable given the two companies each own a blocking stake (more than 25%).

RBPlat (which it has already done) or Northam bids for the entire RBPlat (which it will need to do in the event its shareholding goes above 35%). Under SA regulations, any possible mandatory offer to minorities would need to match the best price paid to security holders of the same class in the preceding six months. For Northam this would mean paying R180.50 or in the case of Implats R150, should either party be forced to make a mandatory offer.

Northam cannot by itself extract any obvious mining synergies given that its mining operations are not adjacent to RBPlat. If both companies were to bid the same price, Northam's return on investment would be lower. Northam has paid a higher price than Implats, so if Northam came back with a higher bid, then Implats could theoretically sell out its entire holding of RBPlat to Northam and generate a respectable capital profit. A similar sale by Northam to Implats would crystallise a capital loss, so this outcome seems remote.

The logical commercial outcome would probably be for Implats to acquire the remaining minorities and take its shareholding in RBPlat to over 60%, and then to enter a joint venture with Northam. However, Northam has also demonstrated a strong desire to be in control of any joint venture entity. The risk is that the party that eventually gains control overpays. And that risk is probably higher for Northam.

Despite these two suitors battling it out in full view of happy RBPlat shareholders, the PGM sector should see an improvement in 2022. PGM prices were negatively affected by the decline in demand from the automotive industry this year (despite the higher loadings required in catalytic converters of these crucial metals). These lower metal prices are partially offset by a rand that has weakened by about 7% in 2021.

Fortunately, as the semiconductor shortage around the world starts to abate in 2022, automotive production should recover and in turn support PGM prices. But it will be surprising if 2022 turns out to be as exciting for PGM investors as we have seen this year.

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