



# Resources Stocks Down Under

📖 *You don't get rewarded for taking risk, you get rewarded for buying cheap assets.* 📖

- Jeremy Grantham (b. 1938), Chief Investment Strategist of GMO

## **SOUTHERN PALLADIUM**

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Stocks Down Under rating: ★★★★★

ASX: SPD  
Market cap: A\$103.21M

52-week range: A\$0.50 / A\$1.45  
Share price: A\$1.35

Since listing barely three months ago, Southern Palladium (ASX: SPD) has more than doubled from its IPO price of 50c a share. Not only is it one of the few IPOs to have gained rather than lost ground, but it is the 2nd best IPO for 2022, only trailing Belarox (ASX:BRX). Southern Palladium is also one of the few to be dual-listed, having joined the Johannesburg Stock Exchange at the same time as the ASX. Why has this company done well when so many other companies have not?

## Share price chart



Source: Tradingview

## Introducing Element No. 46, and some close friends

As its name implies, Southern Palladium is an explorer for palladium, along with other platinum group metals (PGMs). These metals are important in several applications including vehicle batteries, fertilizer and chemical manufacturing, electronic screens, jewelry and even cancer drugs such as cisplatin. There have been few plays in this space on the ASX, and one could argue investors paid little attention until Chalice's Julimar discovery – which comes with a lot of PGMs. Demand for PGMs is driven heavily by the automotive sector – 84% of palladium – and this is expected to rise as vehicles are required to comply with emission control legislation being introduced around the world.

Southern Palladium's Bengwenyama project is in South Africa, a jurisdiction that hasn't had the best reputation with investors but is a significant global producer – accounting for 40% of the world's 6.2Moz palladium production and 75% of the world's 5.4Moz platinum annually. The project lies in the Bushveld Complex in Limpopo Province of South Africa, about 250km east-northeast of Pretoria. The Bushveld contains roughly 72% of the world's PGM resources and Bengwenyama is one of the last undeveloped projects in this region. It is easily accessible by vehicles (something not true of all projects in the vicinity) and has all the mining infrastructure and skilled labour you'd look for in a well-established mining jurisdiction like South Africa. Southern Palladium was granted a prospecting right for Bengwenyama in 2015 and this is currently valid until February 2024.



## **Making its own name**

There has been a significant amount of historical drilling at Bengwenyama dating back to 1966, including a fairly recent stint by Nkwe Platinum in 2007 and 2008. Nkwe drilled 30 diamond drill mother holes with at least 69 deflections. Sadly, a lot of old data is incomplete but Southern Palladium took a leap of faith in this project and conducted exploration of its own. It now has an Inferred Mineral Resource of 143.9Mt at 4.07g/t for 18.8Moz palladium across the two reefs at the project - UG2 and Merensky.

With \$18.3m in cash, a lot of it from the IPO, Southern Palladium now intends to undertake a 25,000m diamond drilling program over two phases. Phase 1 will be done in 8-9 months and will be infill drilling of the shallowest portion of the deposit, aiming to upgrade the confidence of the existing Mineral Resource in the Area. Phase 2 meanwhile will be more widely spaced drilling to convert exploration targets into inferred resources and allow for more accurate longer-term life of mine planning. For both phases, drilling results will be released progressively over the next two years. Afterwards, the company intends to complete a Preliminary Feasibility Study and hopefully then submit its Mining Right. From there, it'll be 9-12 months before the right is granted, if authorities choose to give the green light.

With the share price more than doubling, you may think Southern Palladium must have palladium already. But you'd be wrong. In fact, there has been limited news flow out of the company, with the only major announcements being that Phase 1a drilling was underway at Bengwenyama and the intersection of the first UG2 reef. The latter announcement was good news because it confirms their geological models used for the JORC resource and planning of the drilling campaign were correct. But why has the share price grown so much without any palladium? Does the market think it's a fait accompli or just likes seeing fresh faces? Possibly. We do observe that management have recently visited Australia, presenting at conferences (such as Africa Down Under) and have inevitably met up with buy-side fund managers who didn't buy in at IPO. It is also not irrelevant to observe that resources companies generally have outperformed the broader market in 2022 given the rise in the majority of commodity prices. And resources companies in the battery metal space have also done well in 2022.

## **What should investors expect?**

Southern Palladium has yet to find out how big Bengwenyama can get. So, maybe it won't be the next Sandfire, Chalice and Sirius Resources. But we think it is certainly in the realm of possibility that there could be some positive drill results in the weeks ahead.

There are some risks with this company beyond the general risk of resources exploration stocks, that they may not be able to find results as spectacular as investors expect. We note four in particular. First, we observe that resources stocks with exposure to South Africa, whatever the commodity, have been associated with sovereign risk. Yes, there is some civil unrest at a national level, but unlike other countries in the region, it is a democracy and has been a very mining-friendly jurisdiction. And you don't have to worry about local unrest because the Bengwenyama community owns a 9% stake in the company. Second, Southern Palladium doesn't just have a project in South Africa but it is dual-listed there. Therefore, its shares could be affected by drops on the JSE even if the Australian and other global markets are holding up. Third, whatever it finds over the next two years will count for little if it does not get its planned Mining Right Application approved in 2024. And fourth, at that point it may need further capital injected, albeit unlikely that it will be needed before then.

But now we're starting to be nit-pick and look very far out over the horizon. In the short to medium term, we think the high likelihood of positive drilling results is enough to make Southern Palladium one four stars.

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