



## 3 Reasons Why Stillwater Mining Still Has Room to Rally

### Description

**Stillwater Mining** (TSX: SWC.U)(NYSE: SWC) has had a good run this year. The stock is up from \$12.76 on Jan. 2 to \$16.85 on May 27. The last time the stock traded at this level was back in 2011.

Stillwater Mining is the fifth biggest palladium producer in the world, and the seventh biggest producer of platinum. It is the largest producer of platinum group metals outside of South Africa and Russia.

The stock's recent run-up may lead some investors to snub the shares due to some metrics suggesting the stock is overbought, but many fundamental factors indicate that the company still has room to run. Here are four reasons I expect to see the stock move higher.

#### 1. Strong outlook for the palladium and platinum sectors

The outlook for the platinum and palladium sectors in 2014 and beyond is robust, with demand for the metals expected to expand thanks in part to an improving global economy, particularly the auto industry. Auto catalysts account for nearly 40% of platinum demand and around 67% of palladium demand. These demands are being supported by stronger than expected recoveries in the U.S. and Chinese auto sales in recent years, a trend that is expected to continue this year as well.

According to **Thomson Reuters'** GFMS, for the third straight year, more platinum will be used than is produced. In its most recent supply forecast report, Johnson Matthey projected a 1.2 million ounce supply deficit for platinum and a 1.6 million ounce supply deficit for palladium.

While demand is expected to grow, the supply situation is shaky. Labour disputes in South Africa since January have taken a great deal of platinum and palladium supply out of the market. In addition, tensions in Russia threaten the supply chain. South Africa and Russia together account for the majority of global platinum and palladium production.

#### 2. Stillwater Mining is the only mine producer of platinum group metals in the U.S.

The geopolitical instability in top platinum producers South Africa and Russia strengthen the need for platinum mines elsewhere in the world. Unfortunately, these situations show no signs of resolving

soon, and if an investor wants to benefit from the climb in platinum and palladium prices, they should put their cash in a producer than will not be impacted by these supply chain disruptions. Unfortunately, there are very few options. Stillwater Mining and **North American Palladium** (TSX: PDL)(NYSE: PAL) are the primary players, and Stillwater Mining is in a much better financial position than North American Palladium.

### **3. The company is in a great financial position, and wants to return cash to shareholders**

Stillwater Mining is in a good financial position relative its peers. In 2013, its revenue grew 29.9% year-over-year, mine production increased, and the company had cash and liquid investments of \$496 million at year end. Moreover, in the earnings call the company's CEO said that his goal is "to be able to return cash to shareholders in some form or another in not-too-distant future."

North American Palladium, by contrast, is struggling financially, losing money on every ounce of platinum it mines.

While Stillwater Mining is in a strong financial position, the company is not taking this lightly, and continues to make decisions based on minimizing costs and maximizing profits. The company is currently moving to cut production costs, which included offering buyouts to some employees at its Montana mine. Fewer employees took the buyout option than the company wanted, which pushed the stock down over 3% at the end of May. This is likely just a temporary dip, and could even have opened up a buying opportunity.

In sum, the platinum and palladium sector is robust and the best access to a platinum and palladium stocks right now for investors is Stillwater Mining, a fact that will continue to attract those interested in benefiting from the resurgence of platinum and palladium prices and in turn, boost Stillwater's stock value.

## **CATEGORY**

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