



Is it Time to Invest in North American Palladium Ltd. (TSX:PDL)?

Description

The only pure play publicly listed palladium miner **North American Palladium Ltd.** (TSX:PDL) has enjoyed a solid start to 2018. The miner's stock has soared by 30% since the start of the year and there are signs that it will benefit from a [strong year](#).

Now what?

The company mines palladium from the Lac des Iles mine, located northwest of Thunder Bay, Ontario, which has been assessed to have palladium reserves of 2.8 million ounces. North American Palladium has worked hard to turn itself around, returning to profitability in the second quarter of 2017. This was its first profitable quarter since financially restructuring in August 2015.

For the first quarter 2018, North American Palladium reported production of 57,053 ounces, which was an impressive 42% year-over-year increase. Notably, the miner's costs are falling, to see it report all-in sustaining costs (AISCs) of US\$709 per ounce produced, which was 7% lower than a year earlier, and cash costs of US\$567 per ounce sold, or 10% lower year over year.

As a result of those strong operational results, North American Palladium reported a 95% increase in revenue and experienced solid bottom-line growth. First quarter EBITDA was \$21.1 million, or almost triple that of a year earlier. Net income came to \$5.6 million compared to a \$3.8 million loss for the same period in 2017.

That significant improvement in North American Palladium's financial results can be primarily attributed to lower costs per ounce produced and higher realized sales prices for palladium. For the quarter, the miner received an average price of US\$1,001 per ounce of palladium sold compared to US\$812 a year earlier.

The outlook for palladium remains positive. While it is recognised as a precious metal, palladium is an integral component in the fabrication of catalytic converters, which means consumption is highly dependent on the demand for automobiles. Analysts expect prices to remain firm throughout 2018 because of constrained supplies and growing demand from the auto sector.

In January 2018, for the first time since 2001, palladium broke through the US\$1,000 an ounce mark. While it has retreated since then, it is still trading at over US\$955 per ounce at the time of writing, which makes it more expensive than its sister metal, platinum.

While the outlook for gold and precious metals is constrained because of a firmer U.S. dollar and stronger economic growth, demand from auto manufacturers will continue to buoy palladium. According to analysts, U.S. auto sales are steadily rising and that, along with many manufacturers seeking to substitute palladium for platinum in gasoline engines, will drive greater consumption of the metal.

North American Palladium after its 2015 restructuring has established a solid balance sheet. It finished the first quarter 2018 with \$21 million in cash and \$103 million of debt, which is a very manageable 1.2 times 2017 EBITDA.

The outlook for the miner appears bright. Management are focused on unlocking additional value through a combination of boosting exploration activity and initiating a strategic review.

Further, North American Palladium expects 2018 production to be 230,000 to 240,000 ounces, representing a 14% increase over 2017. Along with firmer palladium prices, this will bolster earnings and give its market value a boost.

So what?

North American Palladium has not been the most attractive investment for some time but its robust recent results and the optimistic outlook for palladium all point to its [stock appreciating further](#).

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