



## Why Has This Precious Metals Miner Soared by 74% Since the Start of 2019?

### Description

Precious metals continue to garner considerable interest from investors. While gold has performed strongly in recent months, surging to US\$1,340 per ounce, it is palladium which has shot out the lights. The precious metal, which belongs to the platinum group metals and is valued for its catalytic properties, has gained a whopping 50% over the last year, recently soaring to a record high of US\$1,500.70 per ounce. This has been a powerful tailwind for **North American Palladium** (TSX:PDL), which has gained a stunning 74% since the start of 2019. There are signs of further upside ahead for the company, which is the world's only pure-play [palladium miner](#).

### Quality assets

North American Palladium's principal asset is the Lac des Iles mine in Ontario. It has been determined to hold reserves of just over three million ounces of palladium equivalent at an average of three grams of precious metal per tonne of ore (g/t). Those reserves were determined using an estimated average palladium price of US\$1,040 an ounce over Lac des Iles's operational life, which is significantly lower than the spot price of US\$1,500 per ounce. This means that if palladium remains firm, the amount of palladium that becomes economic to mine will increase, boosting North American Palladium's reserves.

The miner is conducting a range of exploration activities aimed at boosting the mine's reserves and thereby increasing its productive life. During the fourth quarter 2018, North American Palladium completed 7,731 metres of drilling for two underground and 18 surface holes. There is considerable potential for Lac des Iles to expand its reserves; it has measured and indicated resources of over five million palladium equivalent ounces.

A significant increase in production, which saw 2018 palladium output surge by 18% year over year to 237,461 ounces, and record prices saw North American Palladium report record annual financial results. EBITDA almost doubled compared to a year earlier to \$167.8 million, while net income more than tripled to \$119 million.

North American Palladium's low all-in sustaining costs (AISCs) of US\$690 per palladium ounce produced, which were US\$4 an ounce lower than 2017, contributed to those outstanding financial

results.

The miner finished 2018 in a healthy financial state. By the end of 2018, North American Palladium had \$12.3 million in cash, which was \$1.2 million greater than a year earlier and had reduced its total debt by 43% to \$49 million, which is a very manageable 0.3 times EBITDA.

## Positive outlook for palladium

While some analysts are claiming that palladium is in a bubble, there are factors that will act as tailwinds for the precious metal. Key among them is a growing supply deficit because of expanding demand for the metal from the automotive sector, where it is a crucial element used in the fabrication of [catalytic converters](#) for gasoline-powered vehicles. Its use by that sector accounts for over half of all palladium consumed, making it critical driver of demand and prices.

Stricter emission standards coupled with greater demand for automobiles will support higher demand for palladium. This is further underpinned by the growing likelihood of a trade deal between the U.S. and China emerging, which will avert a trade war and a global economic slowdown. Such a deal also bodes well for China's economic outlook; China is the world's largest manufacturer and consumer of automobiles.

Palladium, according to analysts, is also benefiting from the switch away from diesel-powered to gasoline-powered vehicles in the wake of Volkswagen's 2015 emission-rigging scandal. The growing uptake of hybrid electric vehicles, which are partly gasoline powered, is also helping to buoy demand for palladium.

## Why buy North American Palladium?

Palladium has been the best-performing major precious metal of the decade, gaining 640% since February 2009 compared to gold only returning 43%. There are signs that the white metal will move higher over the course of 2019 as the global economic outlook improves, causing demand to firm and supply to tighten further. This will give North American Palladium's earnings and the value of its palladium reserves a solid lift, which will further boost its market value.

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