



Now's the Time to Buy This Attractively Valued Precious Metals Miner

Description

After peaking at a record high of over US\$1,600 an ounce in late March, 2019 precious metal palladium has come off the boil, losing almost 18%. This has impacted palladium miners, with Canada's largest **North American Palladium** (TSX:PDL) losing 4.5% over the last year.

Improving outlook for palladium

The decline in the value of palladium has [gone against](#) many analysts' forecasts, where it was predicted that the white metal would hit [further record highs](#) over the remainder of 2019. A key reason for that precipitous drop was the re-emergence of the trade war between the U.S. and China, which will trigger softer car sales in China and globally.

Palladium is a key element used in the fabrication of [auto-catalysts](#) for gasoline powered vehicles. This is its single largest use, accounting for the consumption of over 83% of all palladium produced, highlighting the significant correlation between the value of the precious metal and demand for motor vehicles. China is not only the world's largest manufacturer, but is also the largest market for motor vehicles, underscoring why fears of a trade war has caused palladium to correct so sharply.

It has been estimated by some economists that a trade war could shave up to 1.1% off China's GDP growth and around 0.7% off the global economy. Such a sharp decline would significantly impact demand for motor vehicles — hence palladium.

Nonetheless, there are those analysts who believe that Trump's latest posturing on trade, including slapping 25% tariffs on US\$200 billion of goods from China, is nothing but a complicated warning. While he backed out of an earlier deal, there are signs that once he can secure terms that are favourable for the U.S. economy, that he will ease trade tensions. That would be a favourable development for palladium, triggering greater demand for the metal as vehicle sales firm.

Emerging supply constraints will also give palladium a boost. There are fears of production outages sparked by labour disputes in South Africa, the world's second largest supplier. Russia, the largest palladium producer globally, may also curtail supply in response to U.S. sanctions. If any of those

supply-side risks materialize, they will spark a palladium rally.

For those reasons, many analysts remain positive about the outlook for the precious metal during the second half 2019 and are anticipating a recovery.

That would be good news for Canada's largest palladium producer North American Palladium. Substantially higher palladium gave the miner's first quarter 2019 results a solid boost. Revenue surged by 48% year over year to \$128 million, while adjusted EBITDA more than doubled to \$62 million and saw the miner report net income of \$29.5 million, more than six times greater than a year earlier.

While both cash costs and all-in sustaining costs (AISCs) rose by 17% and 30%, respectively to US\$63 and \$919 per ounce produced, that was not the result of operational failures. Rather, those higher costs were the result of North American Palladium investing additional capital to expand its underground operations combined with higher royalty expense and lower by-product revenues.

The only concerning aspect was the impact of weaker ore grades on cash costs and AISCs. Those, along with mechanical outages, were responsible for the volume of palladium production for the first quarter falling by 8% compared to a year earlier.

The overall solid results, however, saw North American Palladium reiterate its 2019 annual guidance of 220,000 to 235,000 palladium ounces produced at AISCs of US\$785 to US\$815 per ounce sold. The upper end of that estimate represents a 1% decrease over the 237,461 ounces produced during 2018, while the lower end of the AISCs projection is 14% greater than the US\$690 per ounce reported last year. That decline can be attributed to North American Palladium investing additional capital to improve its operations.

What does it mean for investors?

North American Palladium shapes up as a top play on the expected improvement in palladium prices. That will be enhanced by the improvements the miner is making at its operations, which by 2020 should higher ore grades and production as well as lower AISCs, giving profitability and earnings a healthy lift.

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