



Boost Exposure to Palladium: The Top Precious Metal for 2020

Description

Palladium has made [solid gains](#) over the last year, gaining 49% to be trading at US\$1,739 per ounce, making it more valuable than gold. There are signs that, despite weaker gold, palladium will rally once again. This makes now the time for investors to bolster their exposure to the durable white metal by acquiring quality palladium miners. **North American Palladium** has been my top pick [since early 2017](#). It has agreed to be acquired by **Impala Platinum** in a \$1 billion deal, making it time to look elsewhere. One development-stage miner that provides levered exposure to the precious metal is **Ivanhoe Mines** ([TSX:IVN](#)).

Fundamentals remain strong

Gold's latest weakness has failed to dull palladium's shine. This is because, unlike the yellow metal, industrial demand for the durable white metal remains strong. Palladium is the core component used in the manufacture of auto catalysts for gasoline-powered vehicles. The latest news regarding the outlook for the global economy bodes well for greater demand for palladium.

Stronger growth coupled with firmer consumer and business sentiment will drive greater demand for motor vehicles, which, in turn, will drive greater consumption of palladium.

The introduction of stricter emission standards by many jurisdictions, notably China, and the diminished popularity of diesel-powered vehicles will also drive greater demand for the precious metal. Then there are supply constraints that are preventing global palladium production from meeting demand, creating a shortage, which is further propping up the metal's price.

Firmer palladium has been a boon for miners, including North American Palladium, which reported record third-quarter 2019 revenue of \$414 million, while adjusted EBITDA more than doubled compared to a year earlier to \$217 million and net income popped by 81% to \$41 million. Those strong results underscore why North American Palladium has become a takeover target.

Ivanhoe Mines, which has gained 55% since the start of 2019, provides the opportunity to gain exposure to the metal and the potential for outsized returns. Ivanhoe's flagship project is the Platreef

operation located in South Africa, in which it owns a 64% controlling interest. That asset is estimated to have probable reserves of 17.6 million ounces of platinum, palladium, rhodium, and gold.

On commencing commercial operations, it is anticipated that Platreef's initial average annual precious metals production will be approximately 219,000 palladium ounces, 214,000 ounces of platinum, and 30,000 gold ounces. The mine is forecast to have low average cash costs of US\$351 per ounce of precious metal mined, which are among the lowest in the industry.

Foolish takeaway

Fundamentals for palladium remain strong, despite weaker gold, which bodes well for Ivanhoe. The ongoing development of the Platreef mine coupled with Ivanhoe's moves to implement an early production plan to take advantage of record palladium prices will give its stock a healthy lift. For these reasons, regardless of Ivanhoe having gained 55% since the start of 2019, now is the time to buy.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. TSX:IVN (Ivanhoe Mines Ltd.)

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