

## Focus Stock Report

May 4, 2011

### Stillwater Mining (SWC)

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Stillwater Mining is engaged in the mining, processing, smelting, and refining of platinum group metals (PGM) and is the only PBM producer of any significance outside of Russia and South Africa. The Company operates two mines (Stillwater Mine and East Boulder Mine) along the J-M Reef in Montana. It also operates smelting and refining operations in the state. In addition to processing mine concentrates, the Company also recycles spent material from catalytic converters. In November, 2010, Stillwater completed the acquisition of Marathon PGM whose primary asset is a PGM and copper development project in Northwestern Ontario. As of December 2011, Stillwater reported total proven and probable reserves of PGMs of 19.871 million ounces.

Platinum group metals are rare precious metals that are used in diverse applications for auto catalysts, fuel cells, hydrogen purification, electronics, jewelry, dentistry, medicine, water treatment, coinage and other uses. The largest user of PGMs is the auto industry in catalytic converters that reduce the harmful effects of automobile emissions. Jewelry is the second largest use after the auto industry.

#### Key elements supporting our investment thesis include:

**Tight Physical Market:** Concentrated and constrained, palladium has one of the best supply/demand outlooks among the broader metals group. Demand growth is being driven by growing global auto production and tighter emission standards. Credit Suisse forecast North American auto production to increase from an estimated 12.9 million units in 2011 to 15.6 million units in 2014. Global auto production is forecast to increase from 75.1 million units to 91.1 million units over the same period. Investment demand including that from exchange traded funds will remain an incremental source of demand for both metals. Credit Suisse believes markets for both platinum and palladium will be in deficit over the next three years. Russian exports have fallen dramatically over the past year, which could increase the size of actual deficits. Credit Suisse forecast the deficit in platinum to grow to 198,000 ounces or 2.2% of total supply in 2012. The shortfall in palladium is greater, forecast to be 12.8% of total supply in 2013. Accordingly, prices of PGM metals should remain firm over the next several years.

**High Realized Prices:** The prices of platinum and palladium have recovered sharply from their 2008 lows driven by an ongoing recovery in automotive demand in Western economies, coupled with strong growth in auto production in China and other emerging markets.

Stillwater Mining Co.  
(SWC-NYSE)

Rating: Outperform

Risk: High

#### Summary Data (US\$)

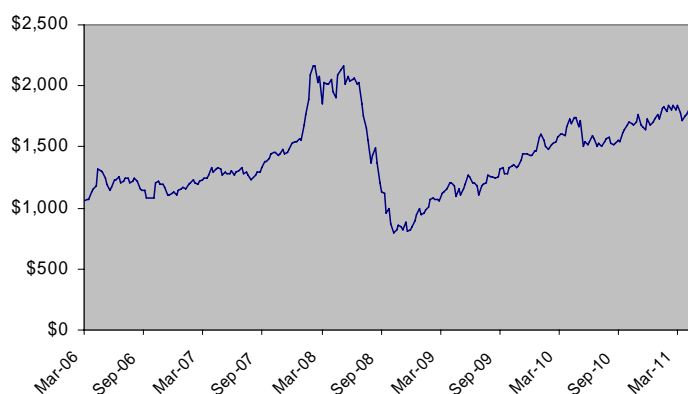
<b>Price (April 27/2011)</b>	\$21.72	<b>Fiscal Year-End:</b>	December
<b>12-Month Target:</b>	\$28.00	<b>Dividend:</b>	\$0.00
<b>Total Return:</b>	29%	<b>Yield:</b>	0.0%
<b>52-Week High:</b>	\$25.90	<b>52-Week Low:</b>	\$10.52
<b>2011 ROE</b>	9.8%	<b>Market Value (\$mil)</b>	\$2,234

#### Earnings Per Share (US\$)

Annual	2010A	2011E	2012E	2013E
<b>EPS:</b>	\$0.49	\$1.56	\$2.37	\$3.06
<b>P/E Multiple:</b>	43.6x	13.9x	9.2x	7.1x

Source: Bloomberg; Credit Suisse

Platinum Spot Pricing US\$ per ounce



Source: Bloomberg

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Platinum was recently quoted at U\$1822 per ounce, a significant rebound from the low of U\$763 per ounce in 2008. Prices may continue to rise as growing industrial demand bumps up against a supply constrained market. Credit Suisse forecast platinum prices to average U\$1,800, U\$1,950, and U\$2,200 per ounce, respectively in 2011, 2012, and 2013. Similarly, they forecast the price of palladium to average U\$830, U\$1,000, and U\$1,200 per ounce over the same period.

**Production Growth:** Another catalyst for the stock is forecast production growth, an aspect of the Stillwater story that is underappreciated by the street. The acquisition of Marathon PGM Exploration has the potential to increase Stillwater's annual PGM output by nearly 40% by 2015. The deposit also contains meaningful copper volumes. Credit Suisse estimates the Marathon project has the potential to add U\$200-U\$250 million in EBITDA annually by 2015. Last November, Stillwater also announced two major development projects on the JM Reef adjacent to its existing mines.

**Significant Earnings Growth:** A rebound in demand along with strong pricing and project development will support sizeable gains in earnings over the next few years. Credit Suisse forecasts 2011, 2012, and 2013 EPS of U\$1.56, U\$2.37, and U\$3.06, respectively.

**Valuation:** At their current quotation, Stillwater shares trade at 0.85 times Credit Suisse's estimated net asset value of U\$25.59 per share. Credit Suisse's U\$28 target price assumes the stock can trade at 1.1 times their net asset value estimate, consistent with industry peers.

### Risks

**Weaker Auto Demand:** Slowing demand for palladium from the auto sector has been a concern sighted by investors, especially as Japan is concerned. Japan is a net importer of PGMs accounting for roughly 25% of global demand. Credit Suisse believes that even if demand from the auto sector proves lower than forecast, as long as growth remains positive, the global palladium market will remain in deficit.

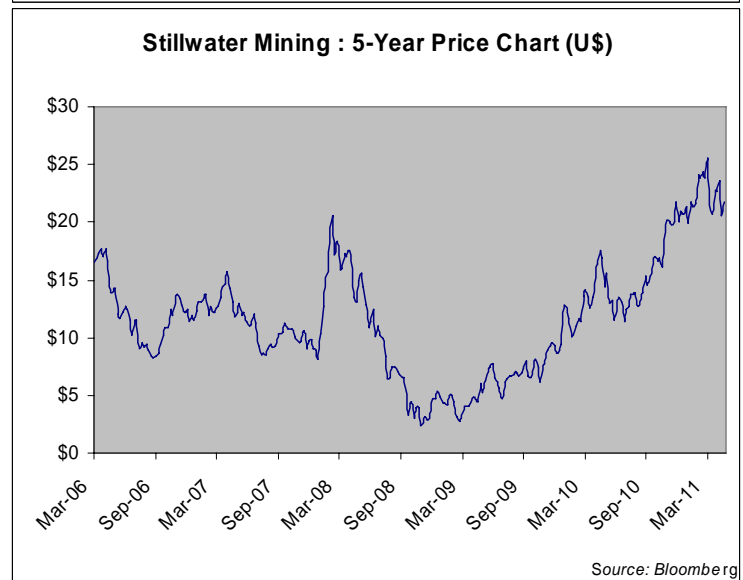
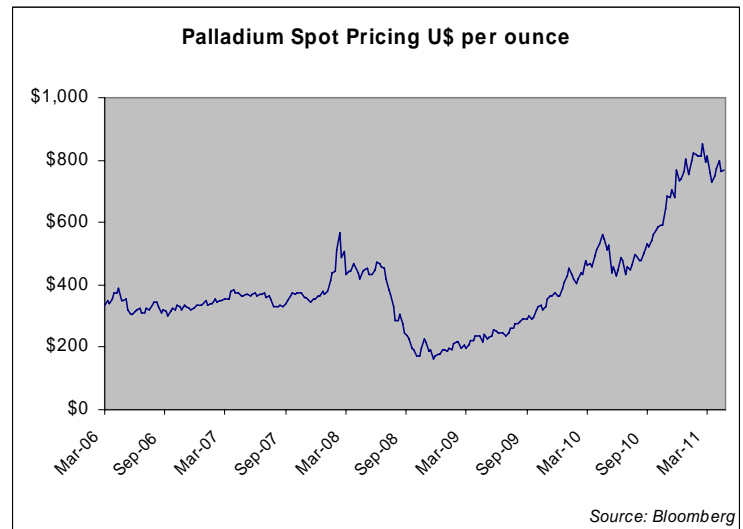
**Volatile Investment Demand:** Investment demand remains a key uncertainty. ETF demand for both platinum and palladium were hit sharply after the recent disasters in Japan, but are bouncing back.

**Rising Costs of Production:** Total consolidated cash cost per ounce of production rose to U\$397 in 2010 from U\$360 in 2009. The increase is attributable to lower realized ore grades and lower production. Credit Suisse feels concerns about rising costs and production volumes are well known and reflected in the current share price.

**Concentrated Asset Base:** The Company has a highly concentrated asset base deriving essentially all of its profitability from two mines; and mining is an inherently risky business.

**Project Development Risk:** Credit Suisse is forecasting significant volume and EBITDA growth from its Marathon project. However, this assumes the project comes in on time and budget.

**FCF to Fund Projects:** Stillwater has no net to debt on its balance and the company should be able to fund project development through cash from operations.



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*The author(s) of the report own(s) securities of the following companies.*  
None.

*The supervisors of the Portfolio Advisory Group own securities of the following companies.*  
None.

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