South Africa’s Sibanye Gold to Buy Stillwater Mining for $2.2 Billion in Latest Platinum Push

Gold mining company expands further into platinum group, diversifying away from South Africa

A file photograph of a miner using Caterpillar heavy machinery to move blasted rock 3,250 feet below the surface of Stillwater Mining mine in Nye, Montana. South Africa’s Sibanye Gold agreed to buy the U.S. miner for $2.2 billion. ENLARGE

A file photograph of a miner using Caterpillar heavy machinery to move blasted rock 3,250 feet below the surface of Stillwater Mining mine in Nye, Montana. South Africa’s Sibanye Gold agreed to buy the U.S. miner for $2.2 billion. PHOTO: BLOOMBERG NEWS

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0 COMMENTS

JOHANNESBURG—Just over a year ago, South African miner Sibanye Gold Ltd. simply dug up its namesake yellow metal in its home market. Now the company is poised to become the world’s third-largest producer of palladium as well, with three sizable acquisitions over the last 15 months, crowned by Friday’s announcement that it plans to buy U.S. palladium and platinum miner Stillwater Mining Co. for $2.2 billion.

The moves illustrate the tectonic shifts recalibrating the global mining industry after the commodities bust. The Stillwater purchase is Sibanye’s first foray outside of Southern Africa and its latest bold move to diversify beyond gold mining.

The acquisition is also a vote of confidence in the platinum group of metals, which includes platinum and palladium, most commonly used in the auto industry to reduce engine emissions, in addition to a strategic diversification away from the often-difficult operating environment in South Africa.

Sibanye has a long and storied history in the mining industry. It was spun off in 2013 from three aging South African mines held by Gold Fields Ltd., a company founded by colonial pioneer Cecil John Rhodes.

In a press release Friday, Stillwater, of Littleton, Colo., which has two mines in Montana and Colorado, said its board approved the deal. The $18-a-share bid represents a 23% premium to Stillwater's closing price on Dec. 8. The two largest shareholders of Johannesburg's Sibanye have confirmed their support of the deal.

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In an interview Friday, Sibanye Chief Executive Neal Froneman said he has previous experience operating in the U.S. "It's a jurisdiction I quite like," he said. "With Mr. Trump becoming president, it didn't make us go fast or slower, but fortuitously, he's probably more friendly toward mining and sees the necessity of it."

Mr. Froneman also said he doesn't plan to come in and run the business with a whole new South African team.

"It's business as usual for us," said Mick McMullen, chief executive of Stillwater.

Stillwater is an attractive acquisition, Mr. Froneman said, because it generates cash, with processing facilities and the world's largest auto catalyst recycler, an operation that should give Sibanye strategic insight into the market.

That recycling business "gives us a very stable cash-flow base and a bigger voice in the marketplace," Mr. McMullen said. Stillwater's production of platinum group of metals from recycling currently outstrips output from the company's two mines.

Sibanye believes the transaction will improve per-share earnings, and Mr. Froneman said Friday that the company plans to raise new debt and equity through a rights issue sometime in the next year of at least $750 million.

Sibanye's pivot from gold to the white metal at a time when prices were low for both was prescient. Prices for platinum have risen around 6% this year to around $942 an ounce, while gold is up around 11% at $1,170 an ounce. And palladium, in which Stillwater is rich, has jumped 32% this year to $741.70 an ounce.

Mr. Froneman turned around the company's gold operations in South Africa by reducing inefficiencies, partly by cutting jobs and restructuring management in addition to changing the culture at the mines.

Still, Mr. Froneman said Sibanye remains committed to South Africa, despite difficulties, such as aging infrastructure, a weak currency and often disruptive labor unions, "This should not be seen as a first step in exiting South Africa," he said.

Neal Froneman, chief executive of Sibanye Gold, said the company remains committed to South Africa despite its plan to buy Stillwater Mining of the U.S. ENLARGE

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Still, the cash earned from new U.S. operations "allows us to do so much more in the rest of the world," Mr. Froneman said, adding that the company would continue to be on the lookout for attractive platinum or gold acquisitions.

Sibanye, which means "we are one" in Nelson Mandela's native Xhosa language, agreed in September 2015 to pay at least 4.5 billion South African rand ($288.5 million) for an old mine in the platinum town of Rustenburg.

The mine—which was owned by Anglo American Platinum Ltd., or Amplats, a majority-owned unit of globally-diversified miner Anglo American PLC—was one of Amplats's most labor-intensive assets.

Less than a month after announcing its Rustenburg purchase, Sibanye offered $294 million for nearby mines owned by Australia's Aquarius Platinum Ltd., which has operations in South Africa and Zimbabwe.

The two deals, plus the Stillwater purchase, are expected to turn South Africa's largest gold producer by output into the world's fourth-largest producer of the platinum group of metals, as well.

The latter deal gives Sibanye a foothold in Zimbabwe, home of the world's second-largest platinum reserves after South Africa.

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