

North American Palladium Inc. (TSX:PDL) Positive Drilling Ahead of Q1/19 Results

Exploration Update

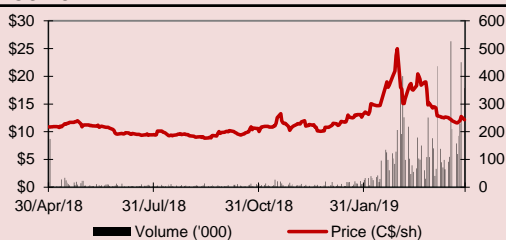
(Currency is C\$ unless noted otherwise)

Closing Price (C\$/sh)		\$12.17
52 Week Low / High (C\$/sh)	\$8.62 /	\$26.30
Fair Value Estimate (C\$/sh)		\$23.50

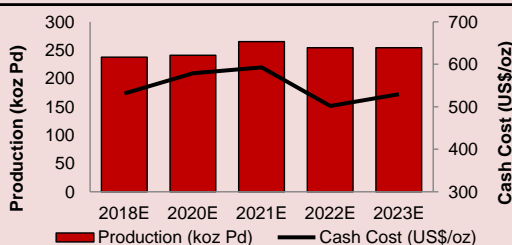
CAPITALIZATION	Basic	Diluted
Shares Outstanding (M)	58.1	59.6
Market Capitalization (\$M)		\$707.6
Enterprise Value (\$M)		\$744.4
Cash (\$M)		\$12.3
Debt (\$M)		\$49.1

FYE: DEC 31	2018A	2019E	2020E
Pd Produced (000's oz)	237	225	241
Cash Costs (US\$/oz)	\$531	\$579	\$593
CAPEX (\$M)	-\$52	-\$84	-\$84
Gross Revenue (\$M)	\$397	\$434	\$464
EBITDA (\$M)	\$147	\$206	\$224
CFPS	\$2.63	\$3.54	\$3.58
EPS	\$2.05	\$2.59	\$2.39
FCFPS (CFO+CFI)	\$0.97	\$2.09	\$2.13
FCF Yield	8.0%	17.2%	17.5%
Dividend Yield	-	1.0%	1.0%

STOCK CHART



PRODUCTION FORECAST



VALUATION			(C\$/sh)
2019 EV/EBITDA	\$ 206	6.0x	\$ 21.10
1yr FWD NTM EV/EBITDA	\$ 224	6.0x	\$ 23.67
2020 EV/EBITDA	\$ 224	6.0x	\$ 22.96
2021 EV/EBITDA	\$ 277	6.0x	\$ 28.44
2022 EV/EBITDA	\$ 257	6.0x	\$ 27.01

MAJOR SHAREHOLDERS

Brookfield Asset Manag. (91.95%), Dolefin SA (0.14%), BBVA Asset Management, (0.09%), Highstreet Asset Manageme. (0.06%), 1832 Asset Management L.P. (0.02%), Marquest Asset Management (0.04%)

DISCLOSURE CODE: 1, 2, 3, 4

(Please refer to the disclosures listed on the back page)

Source: RCKS estimates, Company Information, Capital IQ

Company Description

North American Palladium Ltd. produces precious metals in Canada. It explores for palladium, platinum, gold, nickel, copper, and other metals. It primarily holds interest in the Lac des Iles mine that is located to the northwest of Thunder Bay, Ontario. The company was founded in 1968 and is headquartered in Toronto, Canada.

Impact: Mildly Positive

North American Palladium released good drill results from Sunday Lake as part of the company's regional exploration program. We continue to highlight that the imminent release of Q1/19 operating results should be an important catalyst for the company. **We believe the company is undervalued relative to peers and with continued operating execution, along with a strong palladium market it should re-rate.**

Highlights:

- **Increased confidence with second drill program at Sunday Lake.** These are the final holes from the 7,300m program at Sunday Lake which expanded the mineralization to the west. The results returned a weighted average grade of 3.53 g/t 3E (Pt, Pd, Au) over an average length of 51.1m and centrally located holes continue to hit higher-grades. Work to date suggests the deposit consists of a large (1.5 km x 0.9 km) near-continuous blanket of mineralization comprising three or more anomalous structures (Figure 1 & 2).
- **No value Sunday Lake in our estimates, at this time.** Our current NAVPS estimate (C\$22.11/sh) has no value for this regional target; however, continued success would change our view. Sunday Lake likely represents a longer-term resource growth opportunity and is ~60km from the Lac des Iles mill. Should a resource develop, it would be mined after the other, closer to the mill targets. The company can earn a 51% interest with a C\$610,000 payment by June 20 and has the potential to earn 75% interest with an additional C\$3M in exploration expenditures and C\$2.75M in payments.
- **Strong Q1 could push the dividend higher.** We are expected a strong Q1 and based on our estimates (Figure 3, we believe the company is likely in a position to further increase its dividend as outlined in our [March 31st note](#). The company is reporting after the close on Thursday, with a [call](#) on Friday morning (8AM EST).

Valuation:

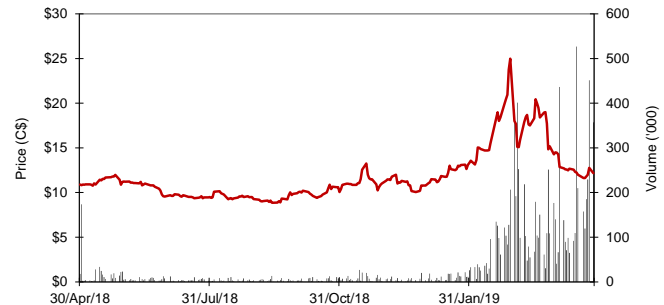
Strong Q1 results should drive the share price higher, as the overhang created by the secondary offering lifts. We are maintaining our fair value of C\$23.50 is based on 6.0x our one-year forward, NTM EBITDA estimate of C\$224M (unchanged – using US\$1,300/oz Pd). We believe recent share price weakness relates to the recent secondary offering at C\$13/sh, followed by a subsequent clean-up trade by the underwriters at C\$12.25/sh and that a strong Q1, should refocus the market on the company's ability to generate substantial FCF and drive the share price higher. **Upcoming catalysts include:** 1) Q1 operating and financial results (Q1 2019) and 2) Exploration updates (ongoing).

FINANCIAL AND OPERATING SUMMARY: NORTH AMERICAN PALLADIUM LTD.

FINANCIAL DATA

Ticker	TSX:PDL
Current Price (C\$/sh)	C\$12.17
52 Week Low / High (C\$/sh)	\$8.62 / \$26.30
Fair Value Estimate (C\$/sh)	\$23.50
Shares Outstanding (M)	58.1
Market Capitalization (C\$M)	\$707.6
Cash & Cash Equivalents (C\$M)	\$12.3
Total Debt (C\$M)	\$49.1
Enterprise Value (C\$M)	\$744.4

STOCK CHART



FINANCIAL DATA

Capital Structure		Shares Millions
Shares Outstanding		58.1
Options		1.5
Warrants		0.0
Fully Diluted Shares		59.6

Ownership (January 2019)		Shares O/S (M)	% O/S
Brookfield Asset Management Inc.		47.7	82.0%
Dolefin SA		0.1	0.1%
BBVA Asset Management, S.A., S.G.I.I.C.		0.0	0.1%
Highstreet Asset Management Inc.		0.0	0.1%
1832 Asset Management L.P.		0.0	0.0%

Financial Summary (C\$)							
Year-end December 31st	2018A	2019E	2020E	2021E	2022E	2023E	
Shares Outstanding (M)	58.1	58.1	58.1	58.1	58.1	58.1	
EBITDA (C\$M)	\$147	\$206	\$224	\$277	\$257	\$255	
FCF (CFO+CFI) (C\$M)	\$56	\$122	\$124	\$156	\$146	\$165	
FCF Yield	8.0%	17.2%	17.5%	22.0%	20.6%	23.3%	
Dividend Yield	-	1.0%	1.0%	1.0%	1.0%	1.0%	
EPS	\$2.05	\$2.59	\$2.39	\$2.05	\$1.76	\$1.67	
CFPS	\$2.63	\$3.54	\$3.58	\$3.53	\$3.33	\$3.37	
EV/EBITDA	5.1x	3.6x	3.3x	2.7x	2.9x	2.9x	
Income Statement (C\$M)							
Revenue	396.8	434.5	464.1	511.9	490.7	493.9	
Operating Expenses	187.1	210.2	225.2	219.0	219.0	223.5	
Depreciation	52.8	55.0	69.3	85.9	91.1	99.1	
General & Admin	7.8	8.0	8.5	9.4	9.0	9.1	
General Exploration	11.2	10.0	6.0	6.0	6.0	6.0	
Net Income	119.2	150.6	138.8	119.1	102.3	96.9	
Balance Sheet (C\$M)							
Cash & Equivalents	12.3	84.2	194.8	343.3	482.1	640.1	
Debt	49.1	6.3	0.0	0.0	0.0	0.0	
Cash Flow (C\$M)							
Operating CF	108.3	205.6	208.1	205.1	193.4	195.9	
Financing CF	(55.2)	(49.8)	(13.3)	(7.0)	(7.0)	(7.0)	
Investing CF	(51.9)	(84.0)	(84.3)	(49.6)	(47.6)	(31.0)	
Change in Cash	1.2	71.9	110.6	148.5	138.8	158.0	

TECHNICAL ASSUMPTIONS

	2018A	2019E	2020E	2021E	2022E	2023E
Palladium price (US\$/oz)	\$ 1,006	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300
Platinum price (US\$/oz)	\$ 922	\$ 850	\$ 850	\$ 850	\$ 850	\$ 850
Gold Price (US\$/oz)	\$ 1,278	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300
Copper Price (US\$/lb)	\$ 2.99	\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00
Canadian : US\$ exchange rate	\$ 0.78	\$ 0.80	\$ 0.80	\$ 0.80	\$ 0.80	\$ 0.80

RESOURCE ESTIMATE		Mt	Pd (g/t)	Pt (g/t)	Au (g/t)	Cu (%)	PdEq (g/t)
Measured and Indicated		73.0	2.14	0.21	0.16	0.06	2.84
Inferred		8.2	2.22	0.22	0.15	0.06	2.91
Total Resource		81.2	2.15	0.21	0.16	0.06	2.84
Total Reserves		40.9	2.31	0.21	0.17	0.06	3.02
RCKS Mineable Reserves		40.9	2.31	0.21	0.17	0.06	3.02

VALUATION

Year	EBITDA (C\$M)	Multiple	Valuation (C\$/sh)
2019 EV/EBITDA	\$206	6.0x	\$21.10
1yr FWD NTM EV/EBITDA	\$224	6.0x	\$23.67
2020 EV/EBITDA	\$224	6.0x	\$22.96
2021 EV/EBITDA	\$277	6.0x	\$28.44
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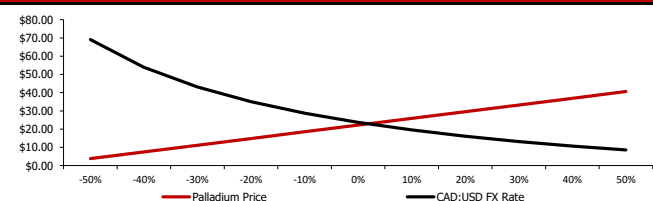
NET ASSET VALUE

	Discount Rate	(C\$M)	(C\$/Sh)
Lac de Iles Project (100%), Canada	8%	\$ 1,421	\$ 24.45
Taxes	8%	\$ (250)	\$ (4.30)
Other Assets	in-situ	\$ 131	\$ 2.26
Corporate Adjustments	8%	\$ (71)	\$ (1.22)
Dividend Adjustment	8%	\$ 53	\$ 0.92
Total NAV		\$ 1,285	\$ 22.11

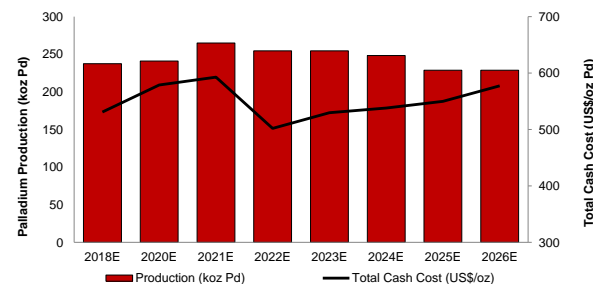
COMPARABLES

Company	Ticker	Price C\$	EV/EBITD FY2019	FCF Yield FY2019	P/CF FY2019	P/NAV
Pretium Resources Inc.	TSX:PVG	\$10.08	8.0x	8%	7.1x	0.60x
TMAC Resources Inc.	TSX:TMR	\$3.94	4.3x	-7%	3.6x	0.47x
Kirkland Lake Gold Ltd.	TSX:KL	\$42.51	7.6x	4%	9.7x	1.62x
Wesdome Gold Mines Ltd.	TSX:WDO	\$4.26	8.7x	-4%	11.1x	0.87x
Atlantic Gold Corporation	TSX:AGB	\$2.13	6.7x	12%	6.5x	0.80x
SSR Mining Inc.	TSX:SSRM	\$15.55	6.3x	3%	8.1x	0.97x
Detour Gold Corporation	TSX:DGC	\$12.06	6.3x	-9%	6.3x	0.63x
New Gold Inc.	TSX:NGD	\$1.14	4.7x	-72%	2.1x	1.01x
Average			6.6x	-8%	6.8x	0.87x
North American Palladium Ltd	TSX:PDL	\$12.17	3.6x	17%	3.4x	0.55x

VALUATION SENSITIVITIES

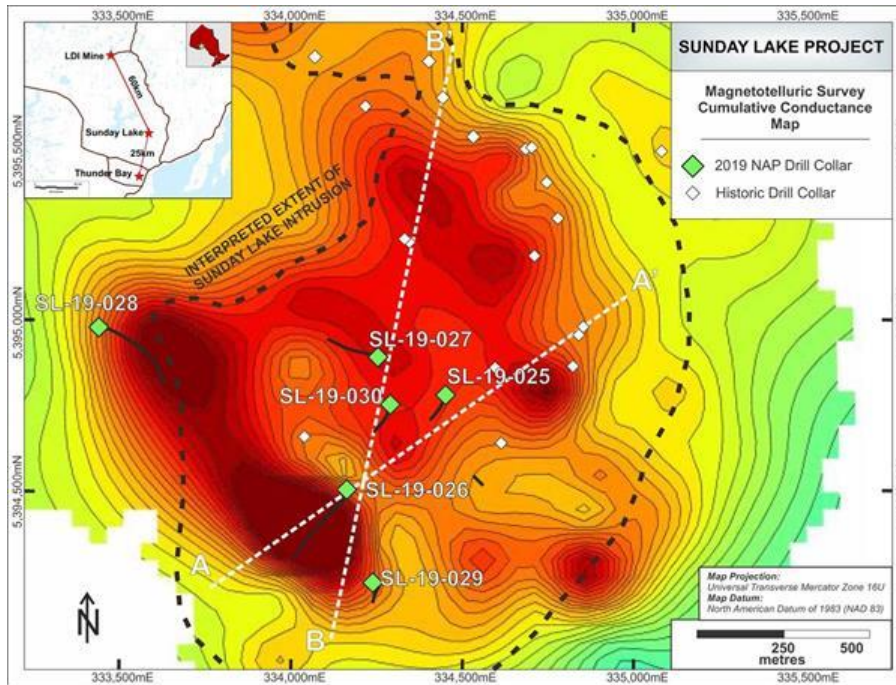


PRODUCTION PROFILE



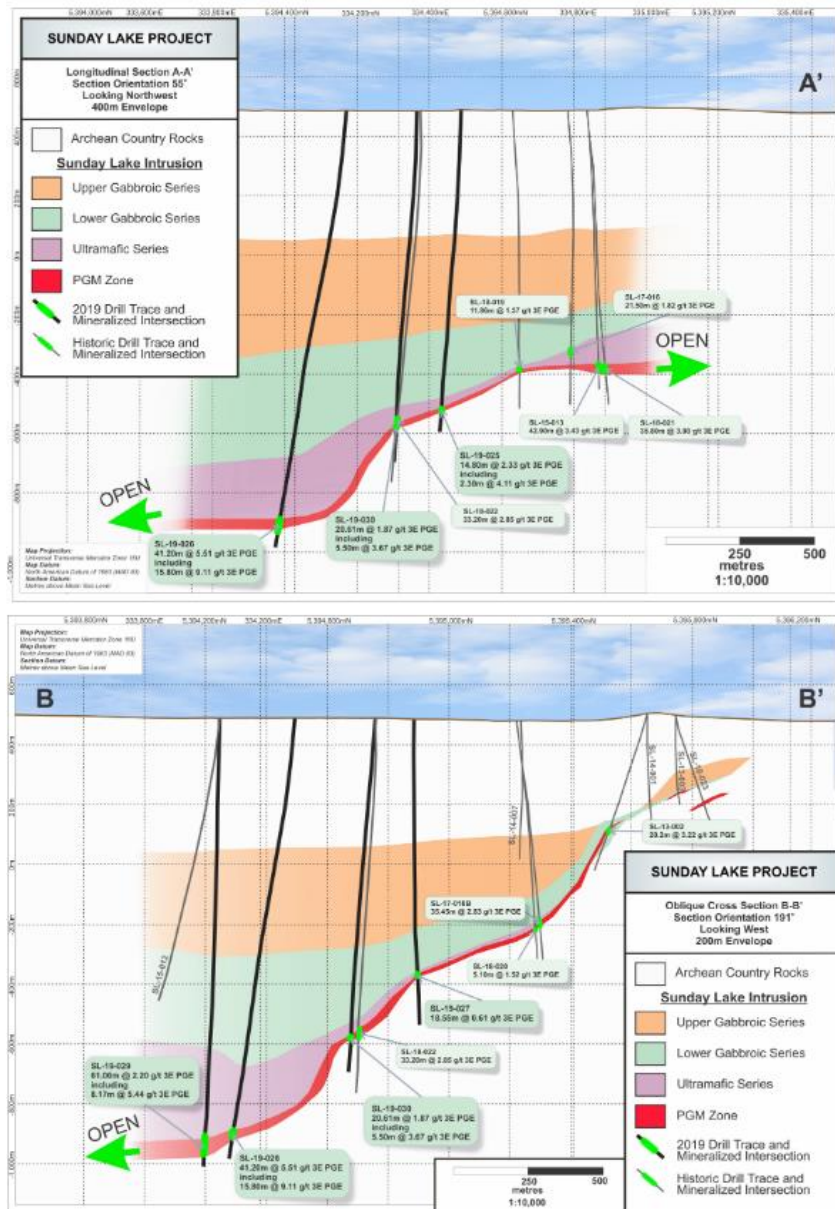
Priced as of market close on March 29, 2019.
Source: RCKS Estimates, Company Reports, Capital IQ, S&P Global Market Intelligence

Figure 1: Sunday Lake Project



Source: Company Reports

Figure 2: Sunday Lake cross Sections



Source: Company Reports

Figure 3: Quarterly Results Estimates

	Q1 2019E	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Payable Pd (koz)	56.3	65.9	56.9	57.7	57.1
Average tpd	12,000	12,000	11,266	11,808	11,191
Pd Grade (g/t)	2.15	2.40	2.30	2.00	2.25
Pd Recovery	80.2%	80.2%	79.5%	79.5%	79.9%
Cash Cost (US\$/oz)	\$584	\$513	\$537	\$537	\$537
Palladium Price (US\$/oz)	\$1,399	\$1,077	\$946	\$982	\$1,020
Gross Revenue (C\$M)	\$115.7	\$122.5	\$93.6	\$94.1	\$86.6
EPS (C\$/sh)	\$0.72	\$1.33	\$0.41	\$0.21	\$0.10
EBITDA (C\$M)	\$55.4	\$56.0	\$39.6	\$30.2	\$21.3
FCF (CFO+CFI) (C\$M)	\$33.9	\$21.0	\$21.0	\$13.4	\$1.0
CFPS (C\$/sh)	\$0.94	\$1.05	\$0.67	\$0.47	\$0.44
Cash (C\$M)	\$36.8	\$12.3	\$20.3	\$13.9	\$20.7

Source: RCKS Estimates, S&P Global Market Intelligence

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Company Name	Ticker Symbol	Disclosures
North American Palladium	TSX:PDL	1,2,3,4

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