FitchRatings

10 Jul 2020 | Affirmation

Fitch Affirms AngloGold Ashanti at 'BBB-'; Outlook Stable

Fitch Ratings-London-10 July 2020:

Fitch Ratings has affirmed AngloGold Ashanti Limited's (AGA) Long-Term Issuer Default Rating (IDR) at 'BBB-' with a Stable Outlook.

The affirmation and the Stable Outlook reflect the group's position as the third-largest global goldminer, its diversified asset base and low leverage. We expect funds from operations (FFO) gross leverage to average 1.8x and net leverage at 1.2x over 2020-2023. The rating factors in the group's presence in geographies with higher operating environment and country risk, such as Tanzania, South Africa (disposal in 2020), Guinea, Ghana, Brazil, Democratic Republic of the Congo (through a JV) and Argentina, its lack of commodity diversification, relatively high cost of mining operations and the relatively short operating mine life of 12 years, although this is usual for gold miners (eight years post South Africa and Mali asset disposals).

We do not see the operating environment as a constraint for the current rating, despite the weak economic environment in most of the countries where AGA's mines are located, as AGA is a global commodity player selling gold in world markets, with strong access to international financial markets.

Key Rating Drivers

Australian Country Ceiling: The Country Ceiling (CC) applicable to the group is 'AAA' resulting from our assumption that operations in Australia are sufficient to cover hard currency gross interest expense over the rating horizon in accordance with Fitch's Non-Financial Corporates Exceeding the Country Ceiling Rating Criteria.

Large Diversified Goldminer: AGA is the world's third-largest gold producer, but smaller than world leaders Newmont Goldcorp (6.3 million ounces (moz), 6.9 moz including gold equivalent ounces (GEO)) and Barrick Gold (5.5 moz). It compares well with peers Kinross Gold Corporation (BBB-/Positive) and PJSC Polyus (BB/Stable) at 2.5 moz and 2.8 moz in 2019, respectively. Smaller peers Nord Gold SE (BB/Stable), Yamana Gold Inc. (BBB-/Stable) and Compania de Minas Buenaventura S.A.A (BBB-/Stable) produce around 1 moz GEO annually.

We expect AGA to maintain consolidated production between 2.5 moz and 3.0 moz annually, with asset sales in South Africa offset by increased production from other mines, as well as potential future projects. Despite being a single-commodity producer, the company's scale and diversification are further strengthened by production being diversified across 14 operations (10 from 2021 onwards) with no mine accounting for more than 16% of total production in our forecast.

Asset Disposals Aid Deleveraging: We expect AGA to use proceeds of asset disposals in 2020 towards deleveraging. In February 2020, AGA announced the sale of its South African assets and related liabilities to Harmony Gold Mining Company Limited for a total consideration of USD300 million, with a total cash upfront consideration of USD200 million and around USD100 million in deferred payments expected. There is the potential for additional consideration related to the West Wits mineral rights.

The proceeds for the sale of the Sadiola Mine in Mali, which we expect to materialise in 2H20, are USD52.5 million in total with an upfront cash consideration of USD25 million.

Exposure to Challenging Operating Environments: AGA's main operations are located in countries with higher country risk e.g. Tanzania, South Africa, Guinea, Ghana, Brazil and Argentina, with 22% of total consolidated production coming from low-risk Australia. However, AGA has considerably de-risked its country exposure with the sale of the Sadiola asset in Mali in 2020. We do not expect the sale of its South African assets to Harmony to have a meaningful impact on the company's overall operating environment. Future projects in Colombia could help further diversify its country risks.

Extended Lock-up of Cash Proceeds May Increase Leverage: The group is experiencing slower cash repatriation from its Kibali Joint-Venture in the Democratic Republic of Congo. At end-March 2020 AGA had received USD25 million cash dividends, but the attributable cash balance increased to USD252 million (2018: USD53 million). The joint venture partner, Barrick, which operates Kibali, remains confident that the cash lockup will be resolved shortly. Our base case includes USD225 million dividends to be received in 2020, and USD200 million per year in 2021 and 2022. Should the receipt be delayed AGA is expected to have sufficient liquidity and leverage headroom within our rating case.

AGA's significant working capital outflows (average of USD200 million in 2019-2020) are largely explained by delays in receiving VAT refunds locked up in Tanzania, export duties in Argentina and inventory build-up on ramping up projects. We expect the company to be able to offset higher percentage of the income tax payment against further VAT lockups from 2021 onward, leading to a smaller working capital outflow in the Fitch forecast. Without the positive impact on cash flow generation of these events, we would expect the company to deleverage less but still be well within the sensitivities throughout the forecast horizon.

Limited COVID-19 Impact: At the end of March, AGA decided to withdraw its guidance due to uncertainty of the impact on its operations of the COVID-19 pandemic. We do not expect a material impact on AGA's production and performance in 2020, but consider some future but manageable production disruption impact in our base case. The impact has been concentrated, with South African mines operating at limited capacity for some time. Serra Grande in Brazil and Cerro Vanguardia in Argentina were briefly suspended. This is in stark contrast to certain gold miners in Latin America that are facing double digit declines in gold production in 2020.

Stable Cost Position: The majority of AGA's assets sit at the lower end of the third quartile of the global gold cost curve which is reflected in the rating. The all-in sustaining cost from consolidated production increased to USD998/oz in 2019 from USD976/oz in 2018 but down from USD1,054/oz in 2017 and in line with other gold miners. For 2020-2021 we expect somewhat higher costs due to the impact of COVID-19 disruption and higher costs at its Australian operations but still within the guidance withdrawn in March. We expect the disposal of the higher-cost South African operating assets and Obuasi ramp-up to contribute to stability in AGA's cost position.

Consistent Exploration Pipeline: When excluding its South African assets, AGA's eight years of mine life is somewhat weaker than Kinross and on a par with Yamana. However, AGA has a strong track record of adding reserves with 53 moz added in the past 15 years. Its exploration efforts have been focused on growth options with moderate capex needs, shorter payback periods and high internal rates of return.

We expect AGA to fund its upcoming growth capex over the next four years from its internal cash flow generation. The major project pipeline includes the redeveloped mine Obuasi in Ghana and potentially two mines in Colombia, Quebradona and Gramalote. Obuasi which is in the process of ramping up will have a reserve life of more than 15 years when fully ramped up.

Derivation Summary

AGA's rating of 'BBB-' is well-positioned relative to other investment grade peers rated by Fitch, such as Kinross Gold Corporation (BBB-/Positive), Yamana Gold Inc. (BBB-/Stable) and Compania de Minas Buenaventura S.A.A. (BBB-/Stable). AGA is the third largest gold producer in the world with 2019 gold sales of 3.3 moz, compared to Kinross (2019 gold sales of 2.5 moz) and more than twice that of Yamana and Buenaventura. AGA's attributable all-in sustaining costs were USD998/oz for the group and USD978/oz for continuing operations in 2019. It is comparable to Yamana's all-in sustaining cost of USD978 per GEO or USD998/oz from continuing operations. Buenaventura's attributable all-in sustaining costs of USD1,140/oz was higher in comparison as a result of lower realized prices of other metals and is expected to be comparable to AGA once these prices recover.

AGA's operating mine life (post South Africa disposal) is weaker than Kinross (10 years) and Nord Gold (about 16 years) and on par with Yamana (eight years post Chapada sale). AGA's FFO gross leverage of 1.8x on average over 2020-2023 is lower than Kinross and Yamana but subject to receipt of Kibali dividends.

Kinross has a solid operational diversification in silver and operates mines across multiple regions in North America, South America, Russia and West Africa. Similarly AGA has its operations in several countries in Sub-Saharan Africa, Australia and Latin America.

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer
- Gold price of USD1,521/oz in 2020 (taking into account YTD performance), USD 1,300/oz in 2021 and USD1,200/oz thereafter
- Capex of USD938 million on average over 2020-2023
- Dividends of USD50 million in 2020, USD80 million in 2021 and USD48 million per year in 2022-2023
- USD200 million proceeds from South African asset sale and USD25 million for Sadiola sale

RATING SENSITIVITIES

We have revised our leverage guidelines based on our new approach to leases following IFRS 16 implementation.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Shift towards countries with stronger operating environment and country risk while maintaining FFO gross leverage below 1.7x (FFO net leverage below 1.2x) for a sustained period

- Improvement in the cost position of the company's major mines to the bottom half of the global gold cost curve

- Maintaining an average operating mine life greater than 10 years

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- FFO gross leverage remaining above 2.7x for a sustained period (2019: 2.0x)

- FFO net leverage remaining above 2.2x for a sustained period (2019: 1.6x)

- Sustained negative free cash flow (FCF) linked to debt-funded dividends or share buybacks

- EBITDA margin below 25% (2019: 34.4%)

Best/Worst Case Rating Scenario

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

Liquidity and Debt Structure

Strong Liquidity: At the end of March 2020, AGA had a cash position of USD1.9 billion after fully drawing its USD1.4 billion revolving credit facility (RCF) in March 2020, which is its main source of liquidity. USD700 million in cash has been used to redeem the notes due in April. The company has additionally secured a USD1.0 billion standby facility due in April 2021 with a six-month extension, which can be drawn if the USD1.4 billion RCF is fully drawn. AGA continues to maintain large headroom under its 3.5x net debt/adjusted EBITDA covenant.

In addition to the USD1.4 billion RCF maturing in 2023, AGA's financial structure consists mainly of a USD750 million 2022 bond, USD300 million 2040 bond. Other drawn financial debt consists of USD310 million RCF and other facilities of which USD137 million in ZAR was drawn for the South African operations. USD101 million of available facilities were undrawn at end of March 2020.

Summary of Financial Adjustments

Fitch adjusted the total amount of debt as of December 2019 by including the USD129 million obligation under the Franco Nevada streaming agreement.

Lease-related depreciation and interests are reclassified as operating costs in the income statement. Lease payments reclassified as cash outflow from operations in the cash-flow statement. Lease liabilities are excluded from financial debt on the balance sheet.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING
The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations
The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

AngloGold Ashanti Limited; Long Term Issuer Default Rating; Affirmed; BBB-; RO:Sta

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Additional information is available on www.fitchratings.com

Applicable Criteria

Corporate Rating Criteria (pub. 01 May 2020) (including rating assumption sensitivity)
Corporates Notching and Recovery Ratings Criteria (pub. 14 Oct 2019) (including rating assumption sensitivity)
Non-Financial Corporates Exceeding the Country Ceiling Rating Criteria (pub. 25 Feb 2020)
Parent and Subsidiary Rating Linkage (pub. 27 Sep 2019)
Sector Navigators - Addendum to the Corporate Rating Criteria (pub. 26 Jun 2020)

Applicable Model

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).
Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
Solicitation Status
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