FitchRatings

RATING ACTION COMMENTARY

Fitch Revises AngloGold Ashanti's Outlook to Negative; Affirms at 'BBB-'

Thu 15 Dec, 2022 - 1:08 PM ET

Fitch Ratings - London - 15 Dec 2022: Fitch Ratings has revised the Outlook on AngloGold Ashanti Limited's (AGA) Long-Term Issuer Default Rating (IDR) to Negative from Stable and affirmed its IDR at 'BBB-'. Fitch has also affirmed AngloGold Ashanti Holdings Plc's senior unsecured notes, which are guaranteed by AGA, at 'BBB-'.

The revision of the Outlook reflects weaker cost performance over the last two years, which has moved AGA's ranking on the global cost curve for all-in sustaining costs (AISC) to the fourth quartile. Management is pursuing an extensive cost and productivity improvement programme that targets closing the gap in competitiveness and profitability compared with major peers. Fitch will monitor the progress of this efficiency programme. Sustained operations in the fourth quartile would likely lead to a downgrade.

The affirmation reflects the company's market position as a top five global gold miner, its diversified asset base albeit with material exposure to countries with weaker operating environments and a reserve life of 11 years. We anticipate EBITDA gross leverage to rise to 1.9x by 2025 but remain below our negative leverage sensitivity

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Increased Costs Reflect Weak Operations: We expect AGA's AISC to remain elevated in 2023, further affected by inflationary pressure on energy, labour, consumables, and logistics costs. The company currently falls firmly in the fourth quartile of the global gold cost curve but has introduced a full asset potential programme to address high costs across the portfolio. The programme will aim to systematically work through each individual asset in the portfolio to pinpoint productivity improvements and introduce cost synergies.

The initial stage in 2023 will focus on improvements in Sunrise Dam, Siguiri, and Cuiaba. AGA has indicated it expects cost inflation of 7% in 2023 compared with 13% in 2022, and expects to achieve at least USD100/oz in cost improvements by 2025, which we include in our forecast.

Financial Profile Deteriorating: Ongoing cost challenges are leading to negative free cash flow and a drop in EBITDA to below 25% from 2023. We expect EBITDA gross leverage to increase from 0.9x in 2022 to 1.9x in 2025, which is below our negative sensitivity of 2.5x. Pressure on leverage metrics and cashflow may constrain future growth capex. While AGA has the financial flexibility to temporarily take less profitable assets offline, cut dividends, reduce capex, and sell assets, these options are temporary and may prove insufficient in the face of declining gold prices. The continued inability to improve the cost position on a sustained basis may support a downgrade.

Capex To Remain Elevated: We expect AGA to maintain elevated capital expenditure levels averaging USD950 million in 2023-2025. Since 2021, AGA has increased its sustaining capex commitments following years of reduced spend, which contributed to some operational challenges at mine sites. Sustaining capex will be used for an ongoing tailings storage facilities programme in Brazil due to be finalised in 2023, as well as optimisation of existing mines. Growth capex will focus on the ramp up of Obuasi and development of North American projects towards the end of the forecast period.

Large Diversified Goldminer: AGA is a top five global gold producer (2.5 million ounces (moz) in 2021, including Kibali JV), slightly below Polyus Gold (2.7 moz), but markedly smaller than world leaders Newmont Corporation and Barrick Gold Corporation, which produced 6.0 moz and 4.4 moz of gold, respectively, last year. We expect AGA to maintain production at between 2.4-2.6 moz (on a consolidated basis) in 2023-2025, focusing on operational efficiencies at its existing mines and continued ramp-up of Obuasi in Ghana

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risk Australia. However, the challenging country mix is offset by the production diversification across 10 operations. Moreover, in 2022 AGA completed the acquisition of two gold projects in the US which supports the company's diversification strategy into lower risk jurisdictions.

Australian Country Ceiling Applies: The Country Ceiling of 'AAA' results from our assumption that operations in Australia are sufficient to cover hard-currency gross interest expenses over the forecast horizon in accordance with our Corporates Exceeding the Country Ceiling Rating Criteria.

DERIVATION SUMMARY

AGA's rating is constrained by its weak cost position relative to other investment-grade peers rated by Fitch, such as Kinross Gold Corporation (BBB/Stable) and Yamana Gold Inc. (BBB-/Stable). AGA had 2021 gold production of 2.5 million ounces, above that of Kinross Gold (2021 production of 2.1 moz), Endeavour Mining plc (BB/Stable) (2021 production of 1.5 moz) and more than twice that of Yamana Gold. AGA's mine life above 10 years is higher than Yamana (seven years) and similar to Kinross' and Endeavour's.

AGA's attributable AISC were in the fourth quartile of the global gold cost curve in 2021, above that of Kinross (third quartile), while Endeavour and Yamana's cost positions remain the most competitive (second quartile). The respective cost positions drive EBITDA margins for Endeavor of 49%, Yamana 49%, and Kinross 38%, all of which are higher than AGA's EBITDA margins of 32%. AGA's EBITDA gross leverage rising to 1.9x by 2025 is materially higher than Endeavour's (0.7x), and is similar to that of Kinross (1.8x) and Yamana (1.6x).

Compared with its peers, AGA has the best overall geographic diversification with presence in 10 countries. However, this is offset by its exposure to high risk jurisdictions in Africa and South America. Yamana and Kinross have presence in fewer countries but have more exposure to low-risk jurisdictions such as Canada and the US. While Endeavor is well diversified in different countries, it operates solely in Africa and the weak operating environment in west Africa constrains the rating.

KEY ASSUMPTIONS

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EBITDA margins averaging 22.5% in 2023-2025

Annual average dividends of USD127 million from Kibali in 2023-2025

Capex of USD950 million on average in 2023-2025

Common dividends of USD225 million in 2023 with none thereafter

USD146 million of restricted cash from AGA's Argentinian operations

RATING SENSITIVITIES

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

The Outlook is Negative, meaning positive rating action is unlikely at least in the short term. However, execution success of the full asset potential programme leading toward sustained and significant cost position improvements would lead to a revision of the Outlook to Stable.

- Improvement in cost position to third quartile on the global gold cost curve would be positive for the rating.

- Increasing weight of production toward lower risk jurisdictions

- EBITDA gross leverage sustainably below 1.5x and FFO gross leverage sustainably below 1.7x

- EBITDA net leverage sustainably below 1.0x and FFO net leverage sustainably below 1.2x

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

- Continued operational weaknesses across operations and AISC remaining in the fourth quartile leading to ongoing negative free cash flow

- EBITDA gross leverage above 2.5x and FFO gross leverage above 2.7x on a sustained basis

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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 end 9M22 AGA had a cash position of USD1.2 billion and a mostly undrawn USD1.4 billion revolving credit facility, maturing in June 2027. During 2021, the group refinanced notes at lower interest rates. As of 9M22, AGA's financial structure mostly consisted of a USD750 million 2028 bond, a USD700 million 2030 bond, and a USD300 million 2040 bond.

DRC Cash Lock-Up Alleviated: In the nine months to September 2022, AGA repatriated USD620 million of cash from its Kibali JV in the DRC, which includes an ongoing annual dividend as well as a significant balloon payment for previously locked-up cash.

ISSUER PROFILE

AGA is a top five global gold producer, with 2.5 moz gold production in 2021 (including Kibali JV).

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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a

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RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
AngloGold Ashanti Holdings Plc				
senior unsecured	LT	BBB-	Affirmed	BBB-
AngloGold Ashanti Limited	LT IDR	BBB- Rating Outlook Negative	Affirmed	BBB- Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 09 Apr 2021) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 28 Oct 2022) (including rating assumption sensitivity)

Corporates Exceeding the Country Ceiling Criteria (pub. 08 Dec 2022) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

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