South Africa-Based Gold Miner AngloGold Ashanti's Proposed Senior Unsecured Notes Rated 'BB+'

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PRIMARY CREDIT ANALYST

Omega M Collocott
Johannesburg
+ 27 11 214 4854
omega.collocott
@spglobal.com

SECONDARY CONTACT

Rishav Singh
Johannesburg
(27) 11-214-4856
rishav.singh
@spglobal.com

ADDITIONAL CONTACT

Industrial Ratings Europe
Corporate_Admin_London
@spglobal.com

JOHANNESBURG (S&P Global Ratings) Oct. 18, 2021--S&P Global Ratings today assigned its 'BB+' issue rating to the proposed $750 million senior unsecured notes, with an expected maturity of seven years, to be issued by AngloGold Ashanti Holdings PLC, a wholly-owned subsidiary of South Africa-based gold mining company AngloGold Ashanti Ltd. (BB+/Positive/--). The notes rank pari passu with all the company's other unsecured, unsubordinated debt, and carry an equivalent guarantee from AngloGold Ashanti Ltd. The recovery rating on the notes is '3', indicating our expectation of meaningful recovery (50%-70%; rounded estimate: 65%) in the event of a default. Our ratings and outlook on AngloGold Ashanti Ltd. and its debt are unchanged.

Our rating on the proposed notes is subject to our review of the notes' final terms and conditions. The company intends to use the net proceeds, together with cash on hand, to redeem its $750 million, 5.125% notes due in 2022 and settle related fees. The transaction does not change our view of the company's credit quality as it is largely credit neutral, representing a refinancing of existing debt.

Subsequent to our most recent rating action in November 2020, where we revised our outlook on AngloGold to positive from stable (see "Positive Rating Actions Taken On Three South Africa-Based Miners Based On Accelerated Deleveraging," published Nov. 2, 2020 on RatingsDirect), there are several pertinent updates, notably:

- The temporary cessation of mining activities at the Ghana-based Obuasi mine in May 2021 following a fatality linked to a sill pillar failure;
- AngloGold's announcement in September 2021 that it intends to acquire the remaining 80.5% of North America-based Corvus Gold Inc. for about $370 million, subject to acceptance of the offer and regulatory approvals; and
- Persistent high gold prices, resulting in the company achieving a realized gold price of $1,801 per ounce during first-half 2021.

In our view, the halt to operations at the low-cost Obuasi mine has hit 2021 production volumes and per-ounce cost metrics to some extent. However, this has been partly offset by sustained high gold prices, which are above our previous expectations, combined with continued vigilant cost and working capital management across the company's operations. Gold production from Obuasi is expected to resume in January 2022.

We expect strong cash flows and S&P Global Ratings-adjusted debt to EBITDA at 1.0x-1.5x in 2021-2022. Post 2022, AngloGold will need to balance its cash flow generation and cost optimization against possible higher capital expenditure (capex) for growth projects, to maintain more favorable credit metrics as gold prices normalize. In turn, this depends on the success of growth projects at the Obuasi, Geita, and Tropicana mines in supporting stable production and offering future cost benefits. Over this period, we assume the company's earnings and cash flow will remain well above historical levels, and that net debt will plateau. We also expect continued growth capex, including potential development of the Quebradona and Gramalote resources, and higher cash dividends. Deleveraging is mostly reliant on higher estimated cash flow levels, which are cyclical.

Our positive outlook reflects that we could upgrade AngloGold if its cash-generating capacity and credit measures strengthen in line with our expectations. We expect strong free operating cash flow (FOCF), led by robust gold margins and largely stable production, will facilitate materially lower adjusted debt over the next few years. This, combined with deleveraging in recent years, reduced cash costs following the sale of South African assets, and advancement of the Obuasi mine redevelopment (notwithstanding its current production pause), should positively affect weighted-average credit metrics over an extended period. The expected increase in cash and corresponding financial flexibility should support conservative leverage through future periods of gold price weakness.

The strong price environment has pushed realized gold prices substantially above all-in sustaining costs (AISC) for AngloGold and most other producers, but we continue to assess operations through the cycle. The risk remains that gold prices will not continue their expected trajectory, and that AngloGold will undertake significant capex to bolster proven reserves. However, we believe there is a chance AngloGold could sustainably improve its credit metrics to a level commensurate with a higher rating. The company's track record of delivering on-target exploration and development activities and exercising prudent risk management, such that it can retain a stronger financial risk profile, support our view.

Even once gold prices return to long-term average levels, we expect AngloGold's financial risk profile will remain stronger than before, boosted by use of higher FOCF to reduce debt levels through the next few years.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011