GOLD MINERS QUICK TAKE – ANGLOGOLD ASHANTI – NYSE: AU

Summary

- **Very volatile gold stock – relatively higher production costs (AISC $1150) and very risky jurisdictions (Colombia, Tanzania etc.)**
- **10 years of production ahead, but possible expansions, depends on the price of gold of course and on what they find through exploration.**
- **FCF is $1 billion on $9 billion market cap – not bad, but only 20% paid out as dividend**

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Anglogold investor presentation Feb 2021

Anglogold stock price overview

AngloGold Ashanti Limited

21,98 USD

+0,37 (1,71%)

Closed: 8 Mar, 19:43 GMT-5 · Disclaimer

After hours 21,98 0,00 (0,00%)

NYSE: AU

+ Follow

1 day | 5 days | 1 month | 6 months | ytd | 1 year | 5 years | max

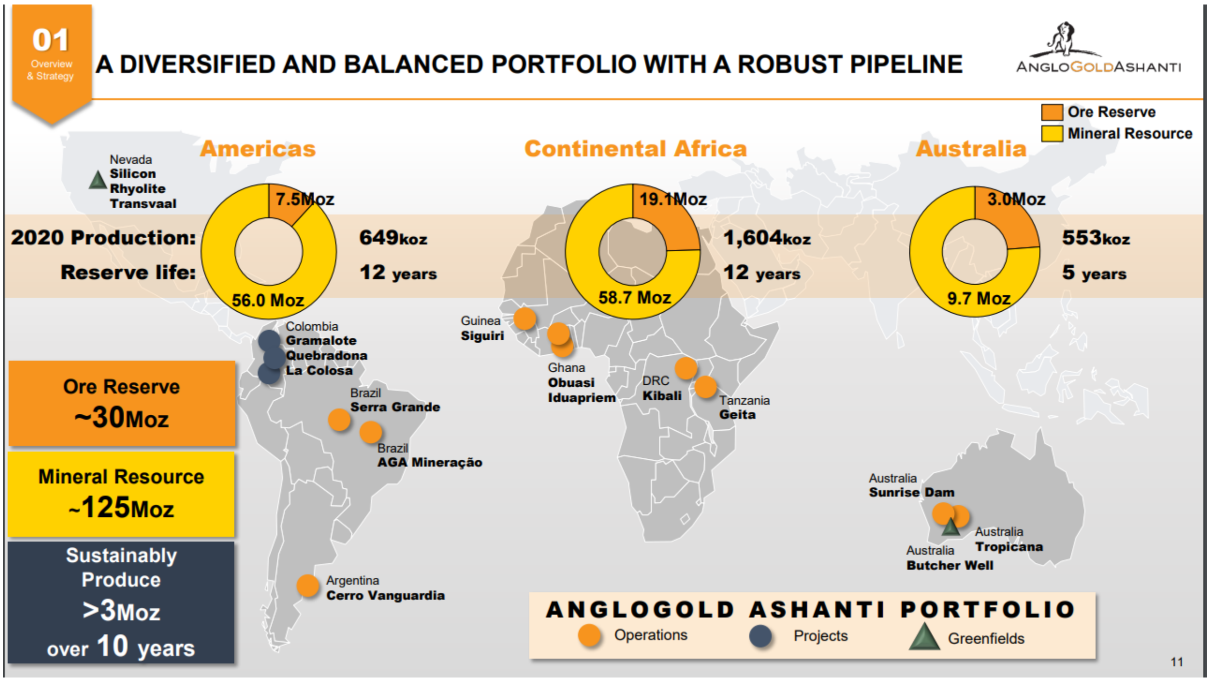
Open	21,68	Mkt cap	8,78B	Prev close	21,61
High	22,19	P/E ratio	9,75	52-wk high	38,50
Low	21,50	Div yield	2,61%	52-wk low	12,66

Anglogold stock price historical chart

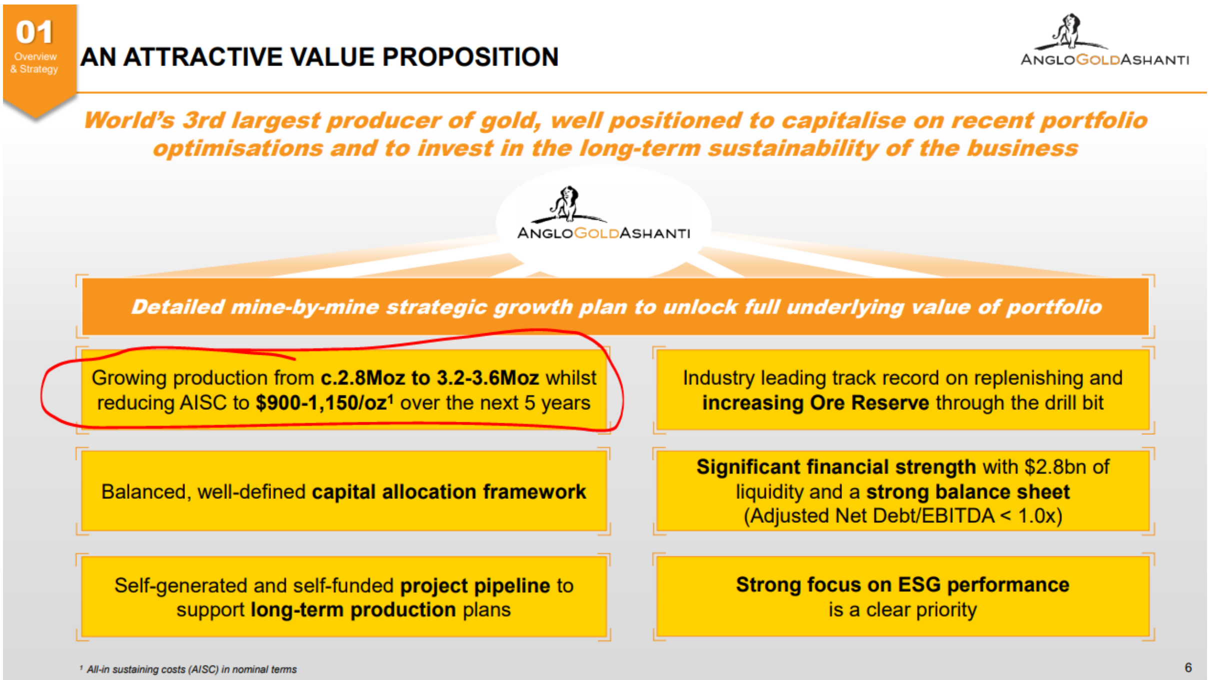
The stock chart shows extreme volatility over time and little returns to shareholders. Higher production costs, negative news in risky jurisdictions, lower life of mine, makes this all very risky and uncertain, and therefore you have volatility. If you like volatility, AU stock might be the gold stock for you.

Anglogold business overview

The business is operating in risky mining jurisdictions, but it is also diversified.

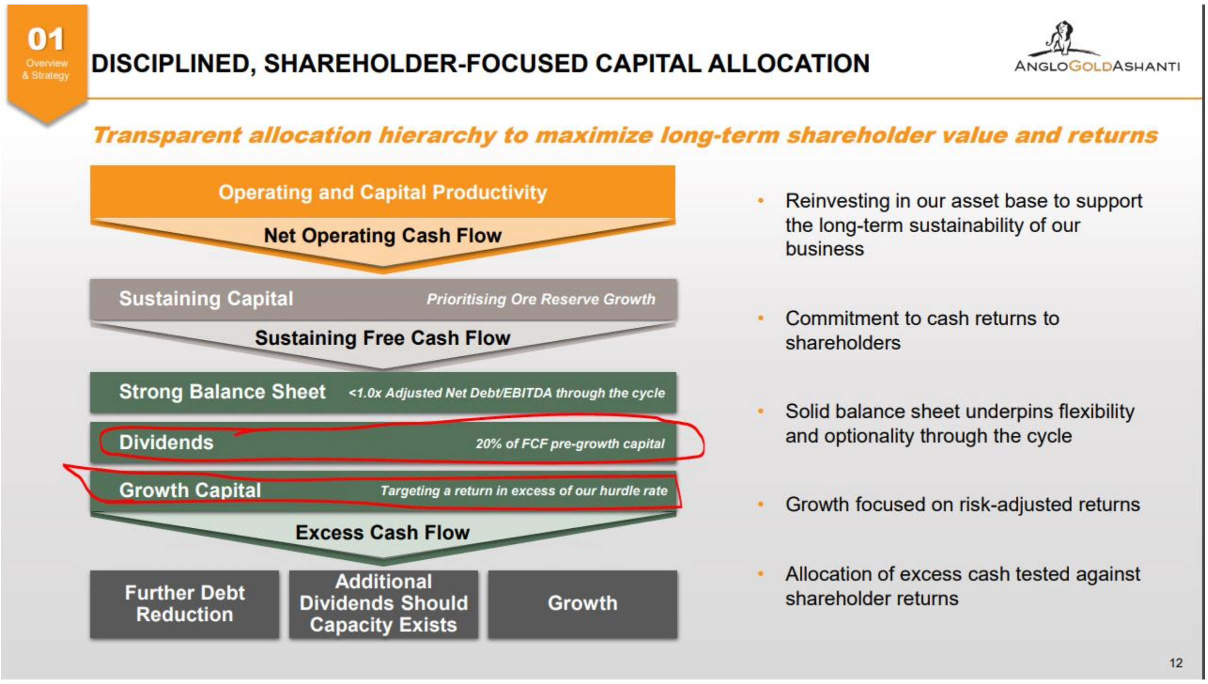


However, apart from the risky jurisdictions, with gold at $1,200 Anglogold doesn’t make much money.

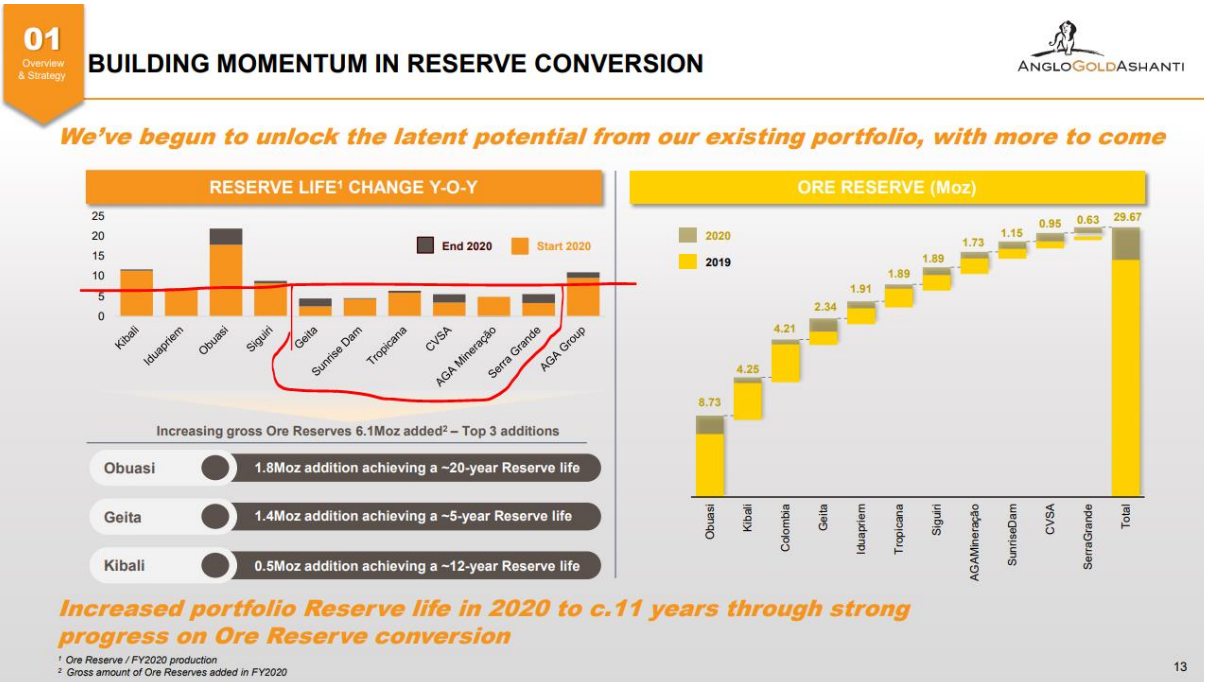


They have 11 years of production ahead and constantly work on keeping that in that range.

Their policy is to pay-out 20% of FCF and focus on growth with the rest. They have a target rate of return but that return depends 100% on the price of gold which is something you can't predict.

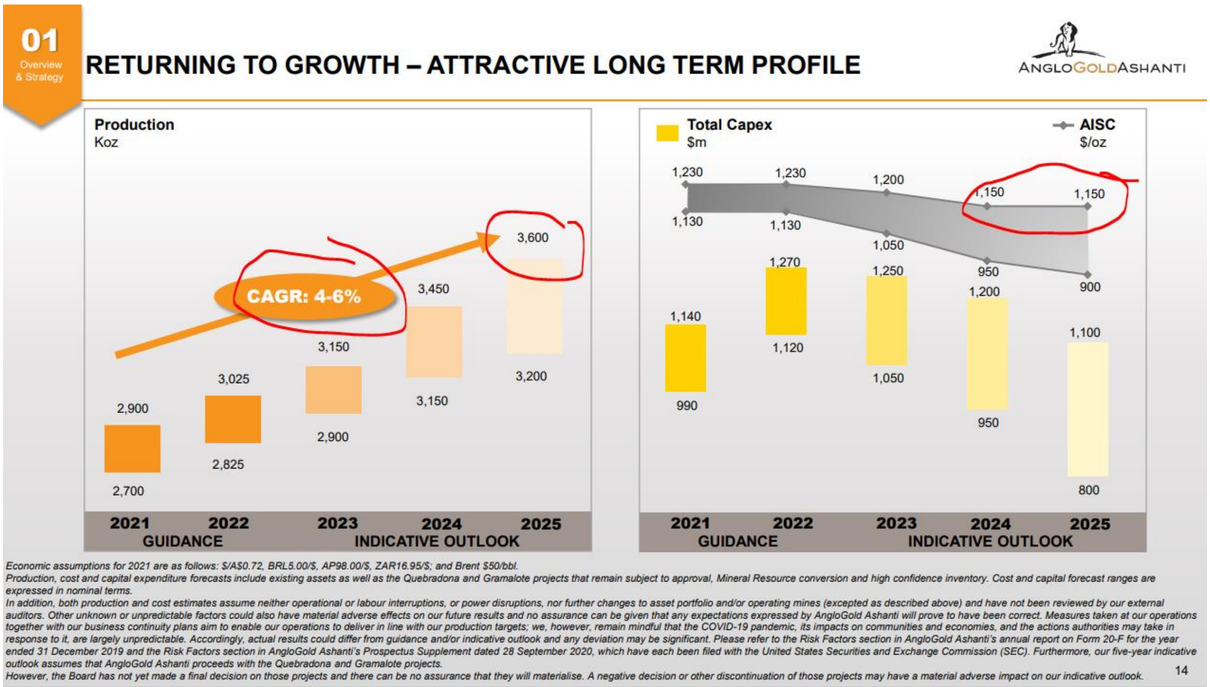


They have to invest because their mines are not long-life.



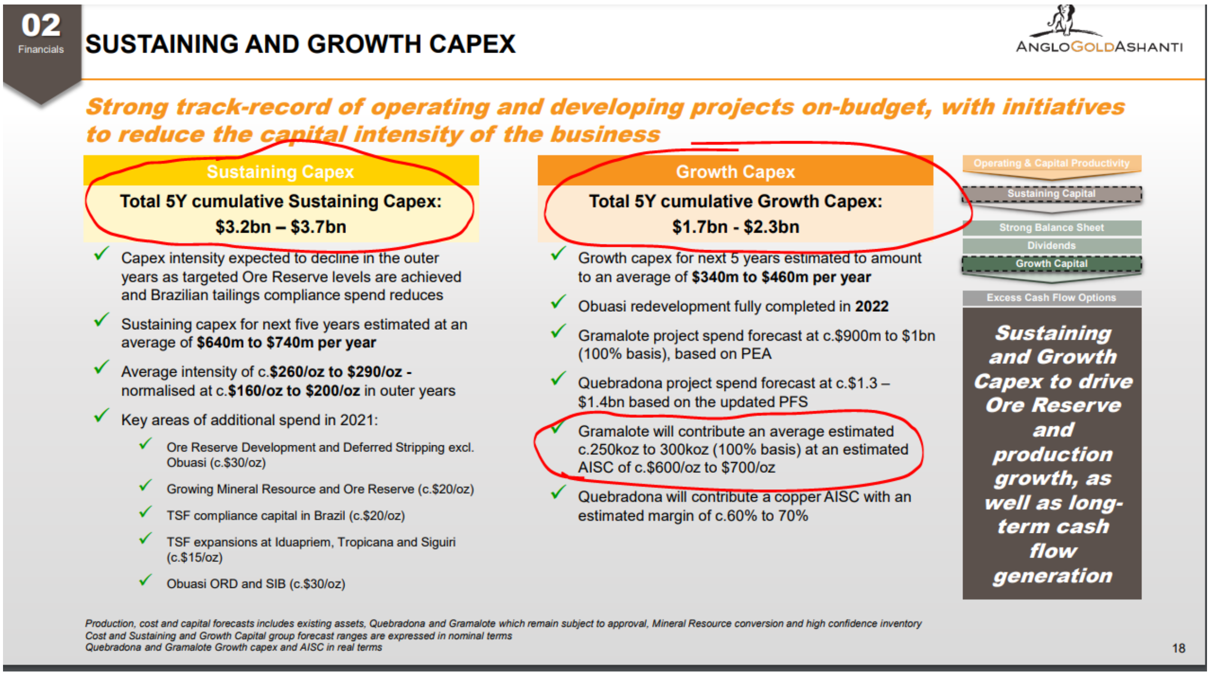
Only Obuasi has a longer relative mine life.

Despite the shorter mine of life, their target is to increase production over the coming 5 years. I will use their projections of 3.4 million ounces and costs of $1,150. I think the $900 lower range cost there is just to make you hope.

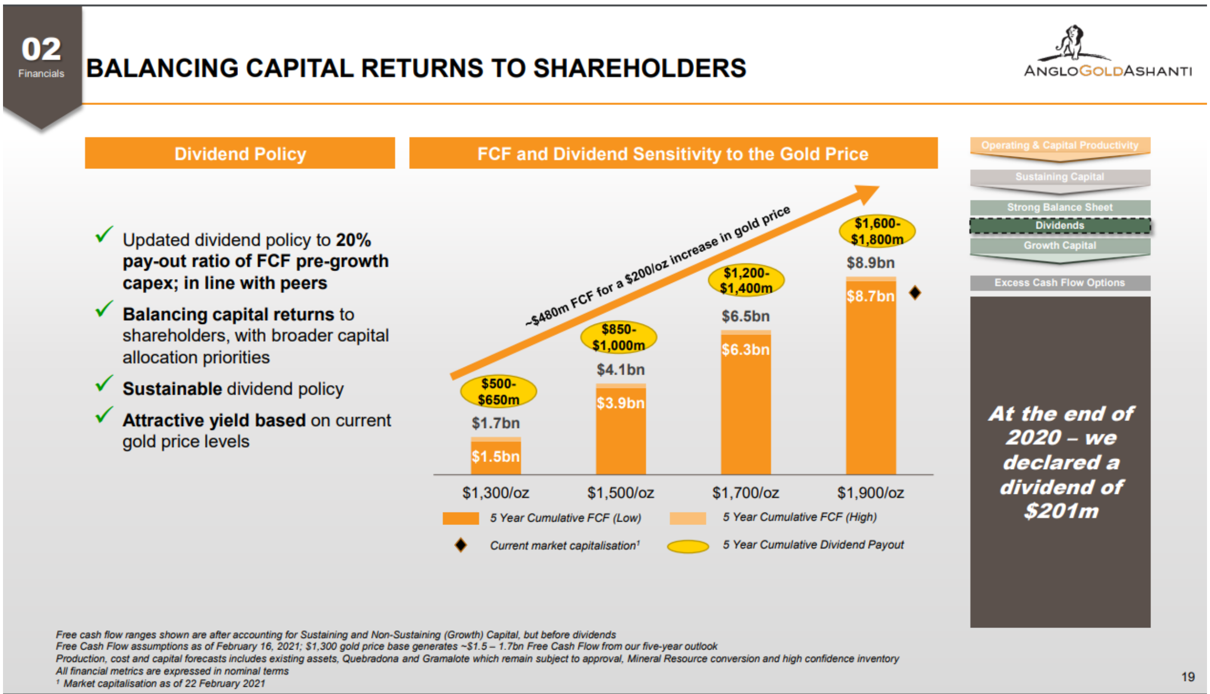


Spending will be for sustaining and growth capex, however, they will need to invest to mitigate those mines ending around 2025.

Anglogold financial outlook

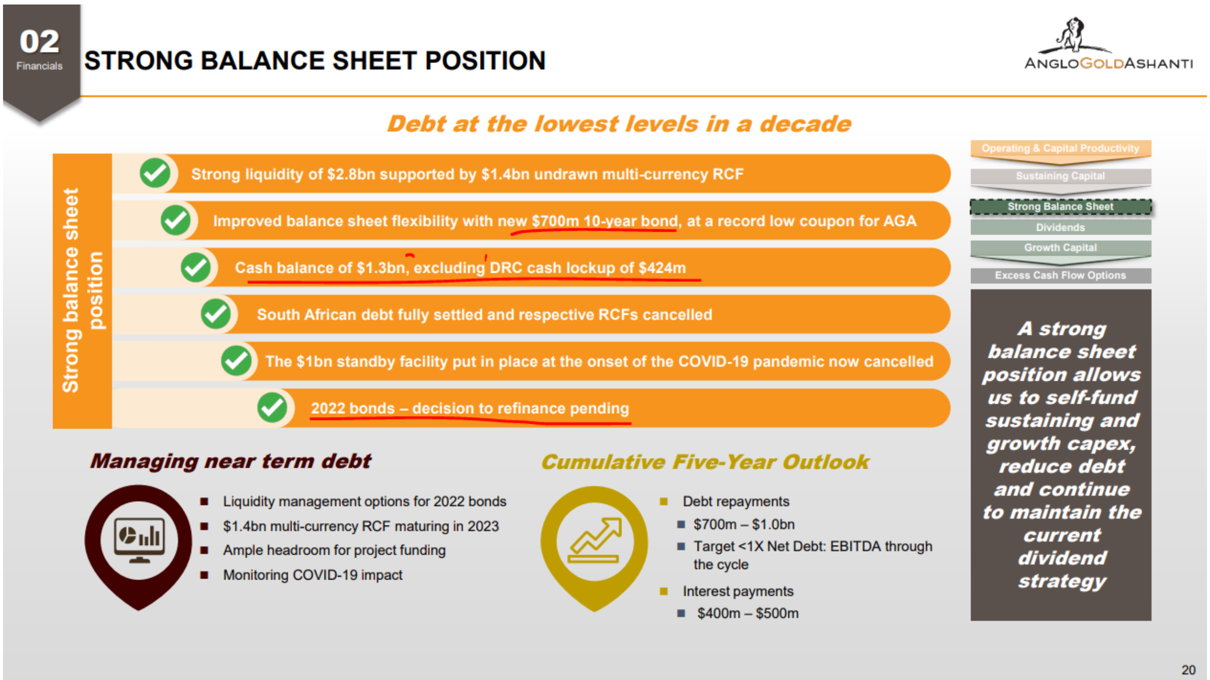


Sensitivity is pretty high as it has relatively high production costs.

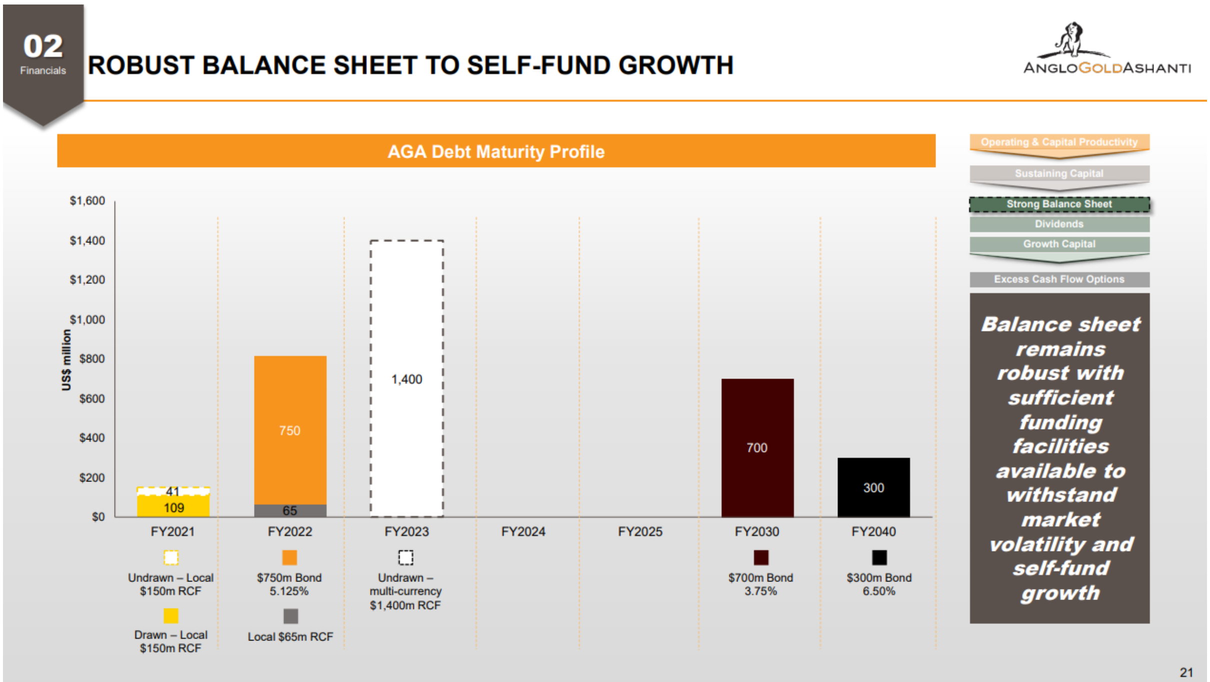


With gold at $1.900, they hope to pay $1.7 billion in dividends over the next 5 years. That would be around $300 million per year – not much, that is just above 3% in dividend. Ok, it is gold, but not much from an absolute return investment perspective.

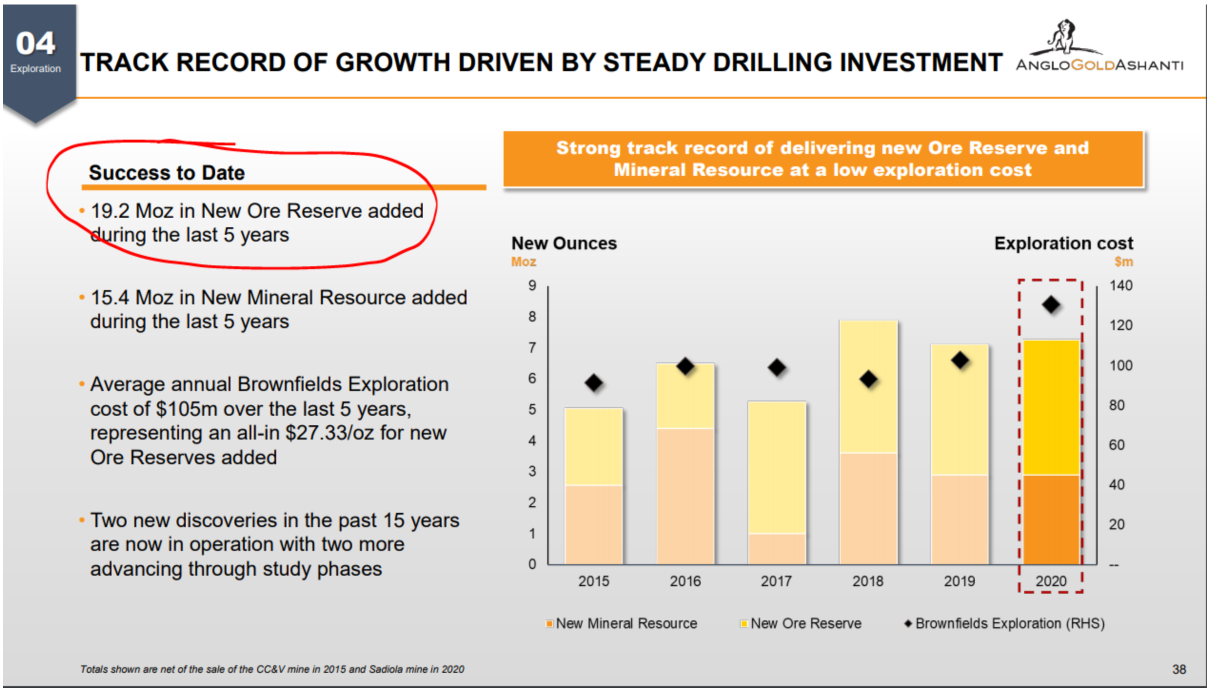
Given the high gold prices, liquidity is good, but these things can change fast with gold miners.



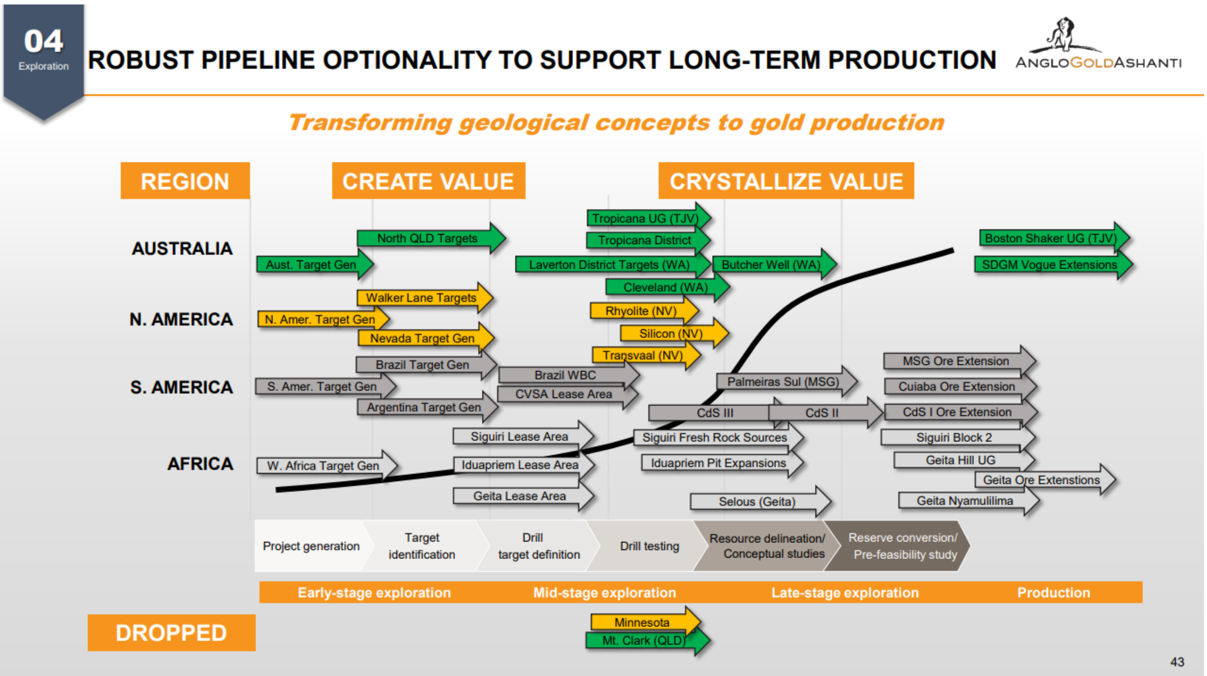
There is in total $1.92 billion in debt, which is a significant amount. If interest rates go up, gold prices go down, there could be issues for the company and higher interest cost burdens, plus they will need to finance both growth and life of mine.



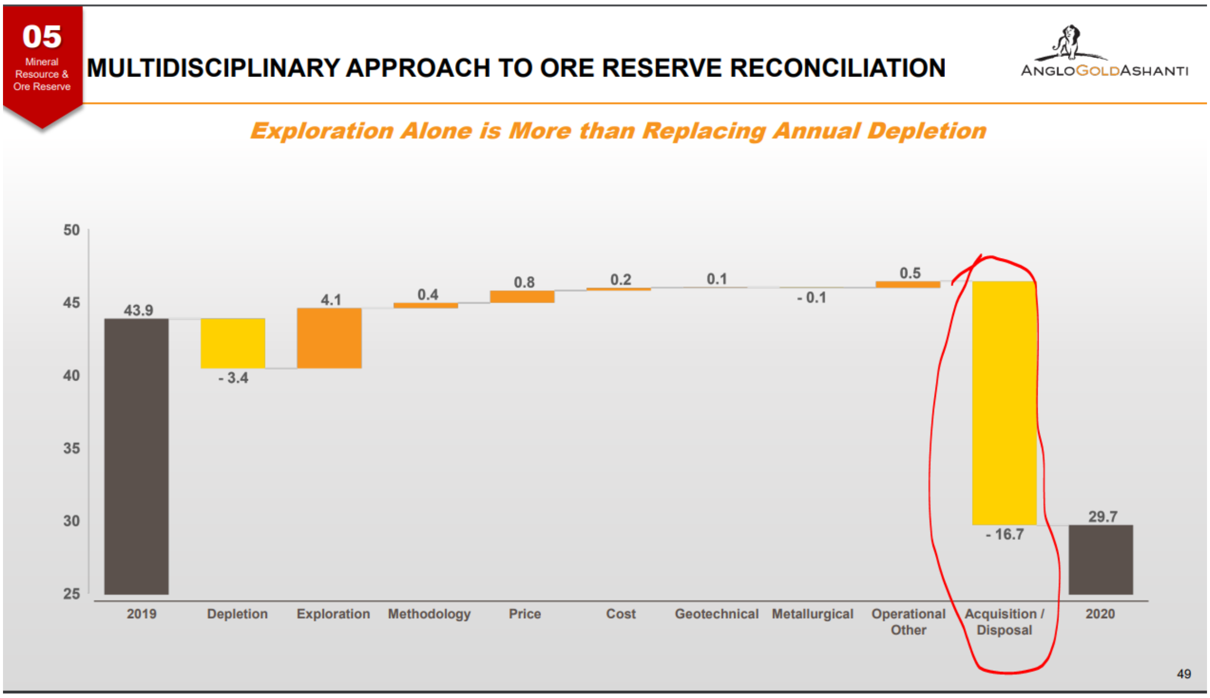
They have been very successful at adding reserves and if they keep it that way, we can estimate longer than 10 years of mine life.



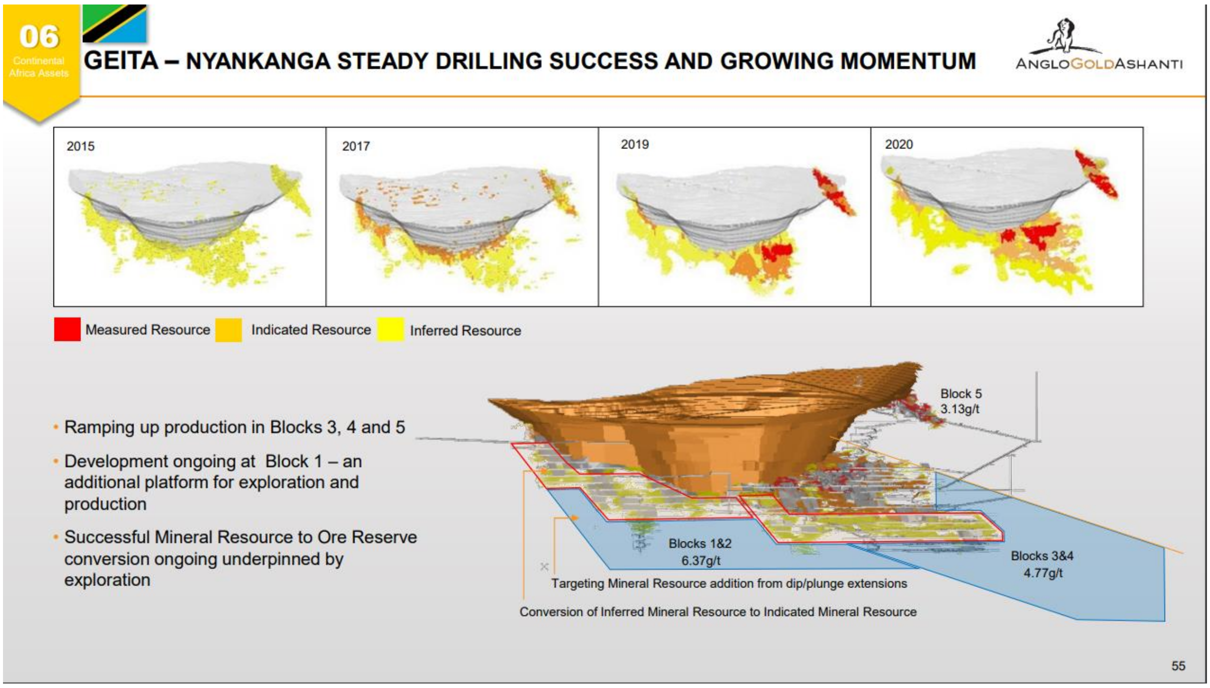
However, with higher gold prices, many potential investments suddenly look very attractive, but if gold prices fall, their value and the companies prospects with them quickly goes to zero and the billions invested down the drain. A similar scenario happened in the early 2010s.



Anglogold has sold all its SA assets over the last years so that is also something to keep in mind. The last [sale was for $300 million](#) and took away 12 million ounces in reserves too.



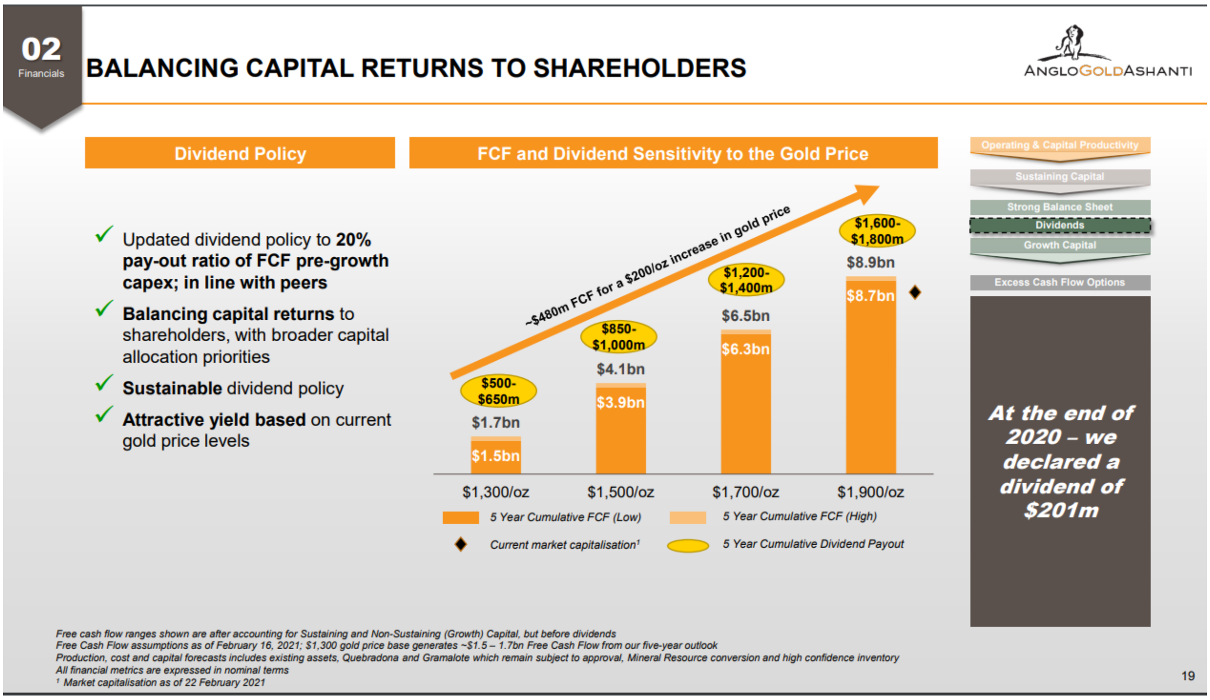
All their mines have a lot of resources, if they can invest and turn those into reserves, then the company will do good over time. Here is the Geita example and how they developed it over the last 5 years.



To conclude on the business, it looks ok, it is not stellar, the jurisdictions are definitely not great, so that is another risk to keep in mind. But, as always, it depends on the price you pay, thus the risk you take, compared to the possible upside.

AngloGold stock valuation

The free cash flows according to the company should be around $300 million in case of gold at $1,250 and $1.7 billion per year in case of gold at $1,900.



The valuation is simple, in case gold hits $1250, the company will be valued at 10 times FCF, which is then approximately $3 billion, if gold stays at $1,700, the cash flows are around $1 billion per year, times 9, we are at the current $9 billion. With gold at $1,900 the company will be valued at less than 9 times FCF so we could say with cash flows of $1.8 billion, the stock could go to $12 billion. It all also depends on sentiment and how attractive gold stocks are. The current environment is very negative, so things might get interesting.

Here is a first analysis, I'll be doing more, so let's follow over time and see whether there is something to add to the portfolio.