

## 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



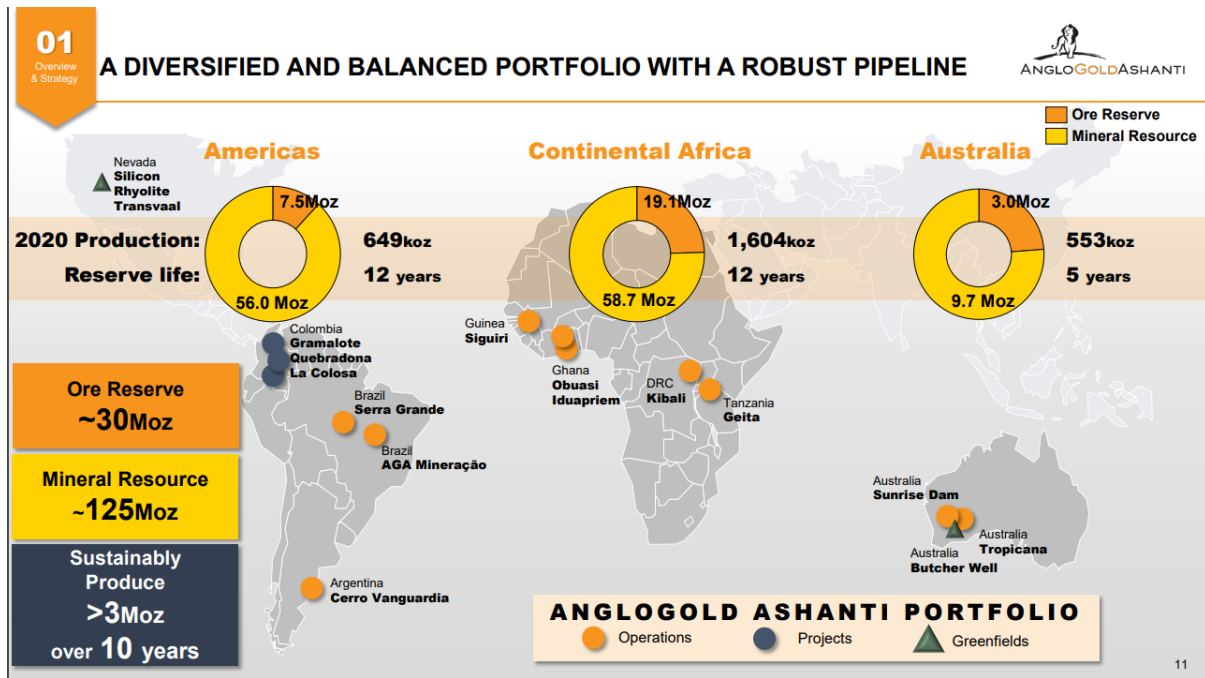
Open	21,68	Mkt cap	8,78B	Prev close	21,61
High	22,19	P/E ratio	9,75	52-wk high	38,50
Low	21,50	Div yield	2,61%	52-wk low	12,66

Anglogold stock price historical chart

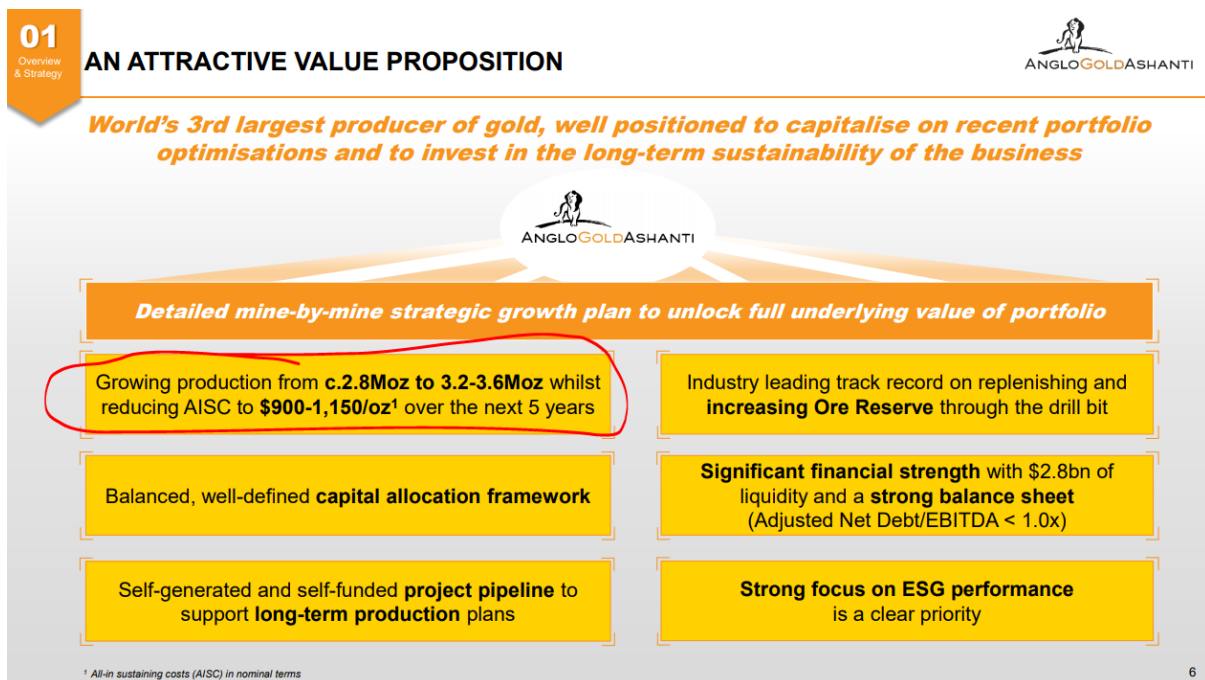
The stock chart shows extreme volatility over time and little returns to shareholders. Higher production costs, negative news in risky jurisdictions, lower life of mine, makes this all very risky and uncertain, and therefore you have volatility. If you like volatility, AU stock might be the gold stock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

**01**  
Overview & Strategy


## A SOLID YEAR – GOOD PROGRESS, WITH MORE TO DO




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**Generated \$1.0bn Free Cash Flow (FCF)** before growth – leading to **fivefold increase in dividends**




**Added 6.0Moz of gross Ore Reserve** – improving group Reserve life to **~11 years**




**Streamlined, margin-focused portfolio** – 10 operating assets and 2 greenfield projects



Prioritised the **wellbeing of our employees and communities** through our COVID-19 response



Significant balance sheet capacity - **\$2.8bn in liquidity**, leverage >80% below 1.0x target through the cycle




Provided **2-year detailed guidance**, as well as **5-year indicative outlook** on production, cost and capital

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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.

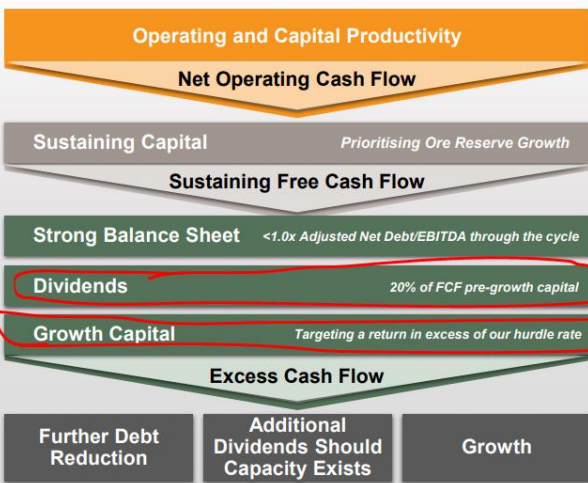
**01**  
Overview & Strategy

## DISCIPLINED, SHAREHOLDER-FOCUSED CAPITAL ALLOCATION



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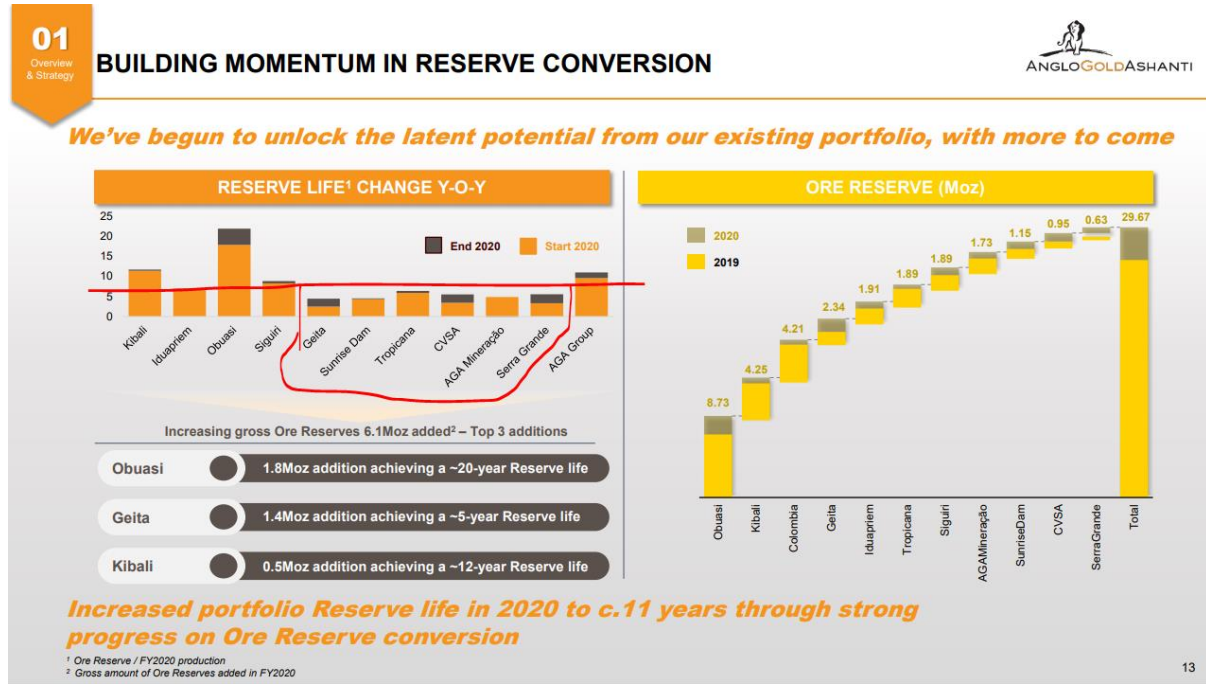
*Transparent allocation hierarchy to maximize long-term shareholder value and returns*



- Reinvesting in our asset base to support the long-term sustainability of our business
- Commitment to cash returns to shareholders
- Solid balance sheet underpins flexibility and optionality through the cycle
- Growth focused on risk-adjusted returns
- Allocation of excess cash tested against shareholder returns

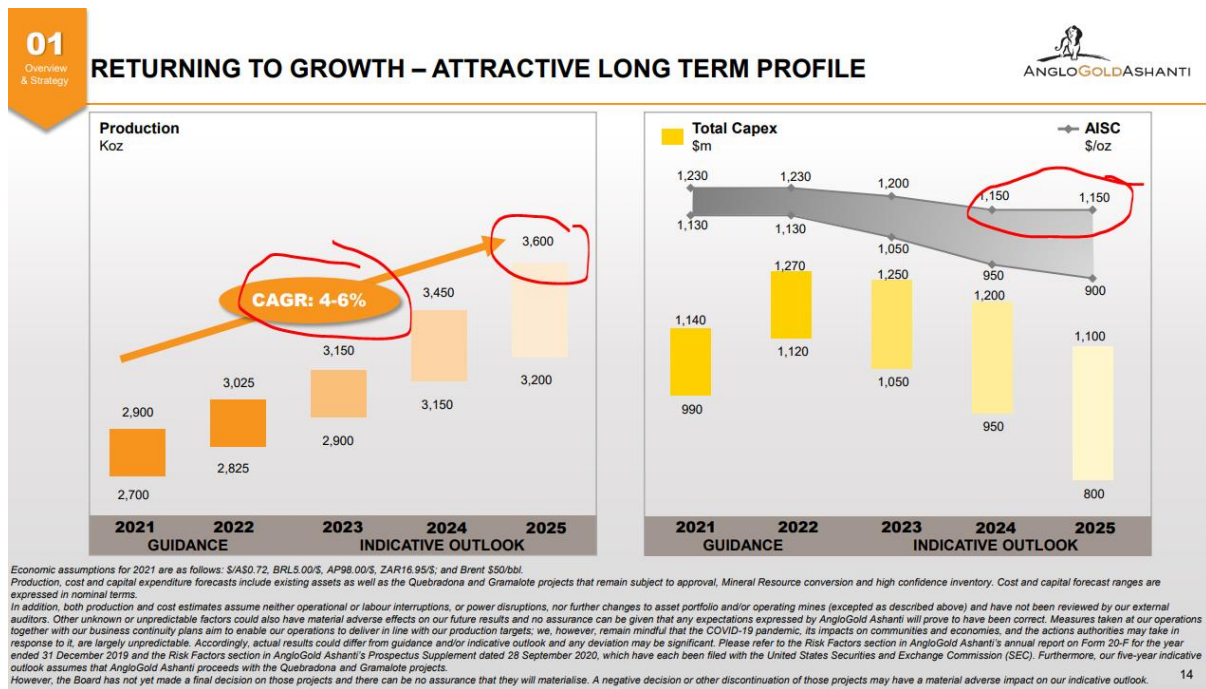
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They have to invest because their mines are not long-life.



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

**02**  
Financials

**SUSTAINING AND GROWTH CAPEX**

**Strong track-record of operating and developing projects on-budget, with initiatives to reduce the capital intensity of the business**

**Sustaining Capex**

**Total 5Y cumulative Sustaining Capex: \$3.2bn – \$3.7bn**

- ✓ Capex intensity expected to decline in the outer years as targeted Ore Reserve levels are achieved and Brazilian tailings compliance spend reduces
- ✓ Sustaining capex for next five years estimated at an average of **\$640m to \$740m per year**
- ✓ Average intensity of **c.\$260/oz to \$290/oz** - normalised at **c.\$160/oz to \$200/oz** in outer years
- ✓ Key areas of additional spend in 2021:
  - ✓ Ore Reserve Development and Deferred Stripping excl. Obuasi (c.\$30/oz)
  - ✓ Growing Mineral Resource and Ore Reserve (c.\$20/oz)
  - ✓ TSF compliance capital in Brazil (c.\$20/oz)
  - ✓ TSF expansions at Iduapiem, Tropicana and Siguirí (c.\$15/oz)
  - ✓ Obuasi ORD and SIB (c.\$30/oz)

**Growth Capex**

**Total 5Y cumulative Growth Capex: \$1.7bn - \$2.3bn**

- ✓ Growth capex for next 5 years estimated to amount to an average of **\$340m to \$460m per year**
- ✓ Obuasi redevelopment fully completed in **2022**
- ✓ Gramalote project spend forecast at c.\$900m to \$1bn (100% basis), based on PEA
- ✓ Quebradona project spend forecast at c.\$1.3 – \$1.4bn based on the updated PFS
- ✓ Gramalote will contribute an average estimated **c.250koz to 300koz** (100% basis) at an estimated AISC of c.\$600/oz to \$700/oz
- ✓ Quebradona will contribute a copper AISC with an estimated margin of c.60% to 70%

Operating & Capital Productivity

Sustaining Capital

Strong Balance Sheet

Dividends

Growth Capital

Excess Cash Flow Options

**Sustaining and Growth Capex to drive Ore Reserve and production growth, as well as long-term cash flow generation**

Production, cost and capital forecasts includes existing assets. Quebradona and Gramalote which remain subject to approval. Mineral Resource conversion and high confidence inventory Cost and Sustaining and Growth Capital group forecast ranges are expressed in nominal terms. Quebradona and Gramalote Growth capex and AISC in real terms

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

**02**  
Financials

**BALANCING CAPITAL RETURNS TO SHAREHOLDERS**

Dividend Policy

- ✓ Updated dividend policy to **20% pay-out ratio of FCF pre-growth capex; in line with peers**
- ✓ **Balancing capital returns** to shareholders, with broader capital allocation priorities
- ✓ **Sustainable dividend policy**
- ✓ **Attractive yield based** on current gold price levels

FCF and Dividend Sensitivity to the Gold Price

Gold Price (\$/oz)	5 Year Cumulative FCF (Low)	5 Year Cumulative FCF (High)	5 Year Cumulative Dividend Payout
\$1,300/oz	\$1.7bn	\$500-\$650m	\$1.5bn
\$1,500/oz	\$3.9bn	\$850-\$1,000m	\$4.1bn
\$1,700/oz	\$6.3bn	\$1,200-\$1,400m	\$6.5bn
\$1,900/oz	\$8.7bn	\$1,600-\$1,800m	\$8.9bn

◆ Current market capitalisation<sup>1</sup>    ● 5 Year Cumulative Dividend Payout

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Excess Cash Flow Options

**At the end of 2020 – we declared a dividend of \$201m**


Free cash flow ranges shown are after accounting for Sustaining and Non-Sustaining (Growth) Capital, but before dividends. Free Cash Flow assumptions as of February 16, 2021. \$1,300 gold price base generates ~\$1.5 – 1.7bn Free Cash Flow from our five-year outlook. Production, cost and capital forecasts includes existing assets. Quebradona and Gramalote which remain subject to approval. Mineral Resource conversion and high confidence inventory. All financial metrics are expressed in nominal terms. <sup>1</sup> Market capitalisation as of 22 February 2021

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.

**02**  
Financials

## STRONG BALANCE SHEET POSITION



*Debt at the lowest levels in a decade*

**Strong balance sheet position**

- ✓ Strong liquidity of \$2.8bn supported by \$1.4bn undrawn multi-currency RCF
- ✓ Improved balance sheet flexibility with new \$700m 10-year bond, at a record low coupon for AGA
- ✓ Cash balance of \$1.3bn, excluding DRC cash lockup of \$424m
- ✓ South African debt fully settled and respective RCFs cancelled
- ✓ The \$1bn standby facility put in place at the onset of the COVID-19 pandemic now cancelled
- ✓ 2022 bonds – decision to refinance pending

**Managing near term debt**

- Liquidity management options for 2022 bonds
- \$1.4bn multi-currency RCF maturing in 2023
- Ample headroom for project funding
- Monitoring COVID-19 impact

**Cumulative Five-Year Outlook**

- Debt repayments
  - \$700m – \$1.0bn
  - Target <1X Net Debt: EBITDA through the cycle
- Interest payments
  - \$400m – \$500m

Operating & Capital Productivity

Sustaining Capital

Strong Balance Sheet

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Excess Cash Flow Options


**A strong balance sheet position allows us to self-fund sustaining and growth capex, reduce debt and continue to maintain the current dividend strategy**

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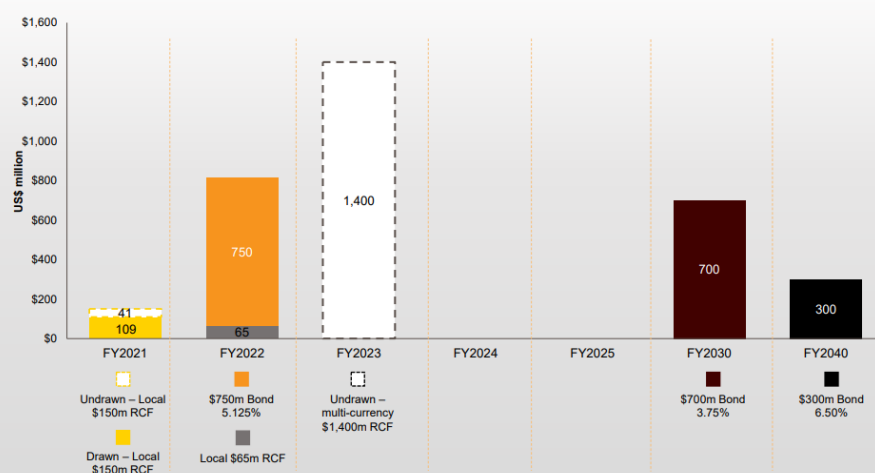
There is in total \$1.92 billion in debt, which is a significant amount. If interest rates go up, gold prices go down, there could be issues for the company and higher interest cost burdens, plus they will need to finance both growth and life of mine.

**02**  
Financials

## ROBUST BALANCE SHEET TO SELF-FUND GROWTH



**AGA Debt Maturity Profile**



Fiscal Year	Debt Component	Amount (US\$ million)	Interest Rate
FY2021	Undrawn – Local \$150m RCF	109	
	Drawn – Local \$150m RCF	41	
FY2022	Local \$65m RCF	65	
	\$750m Bond	750	5.125%
FY2023	Undrawn – multi-currency \$1,400m RCF	1,400	
FY2030	\$700m Bond	700	3.75%
FY2040	\$300m Bond	300	6.50%

Operating & Capital Productivity

Sustaining Capital

Strong Balance Sheet

Dividends

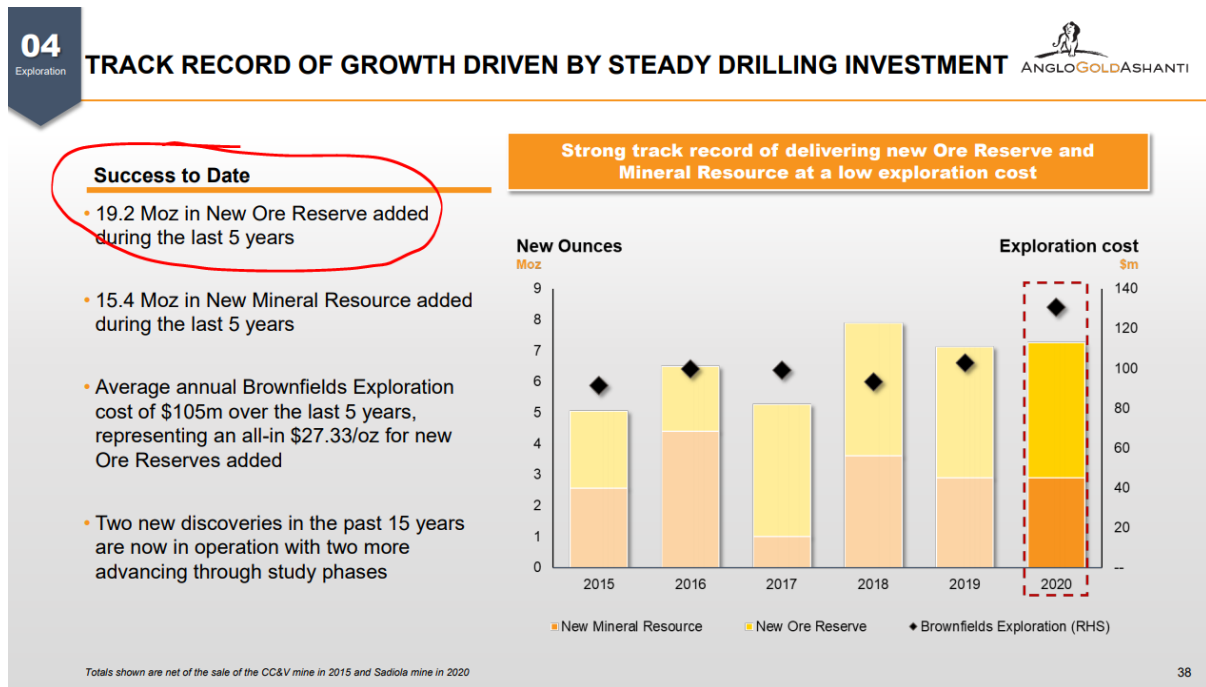
Growth Capital

Excess Cash Flow Options

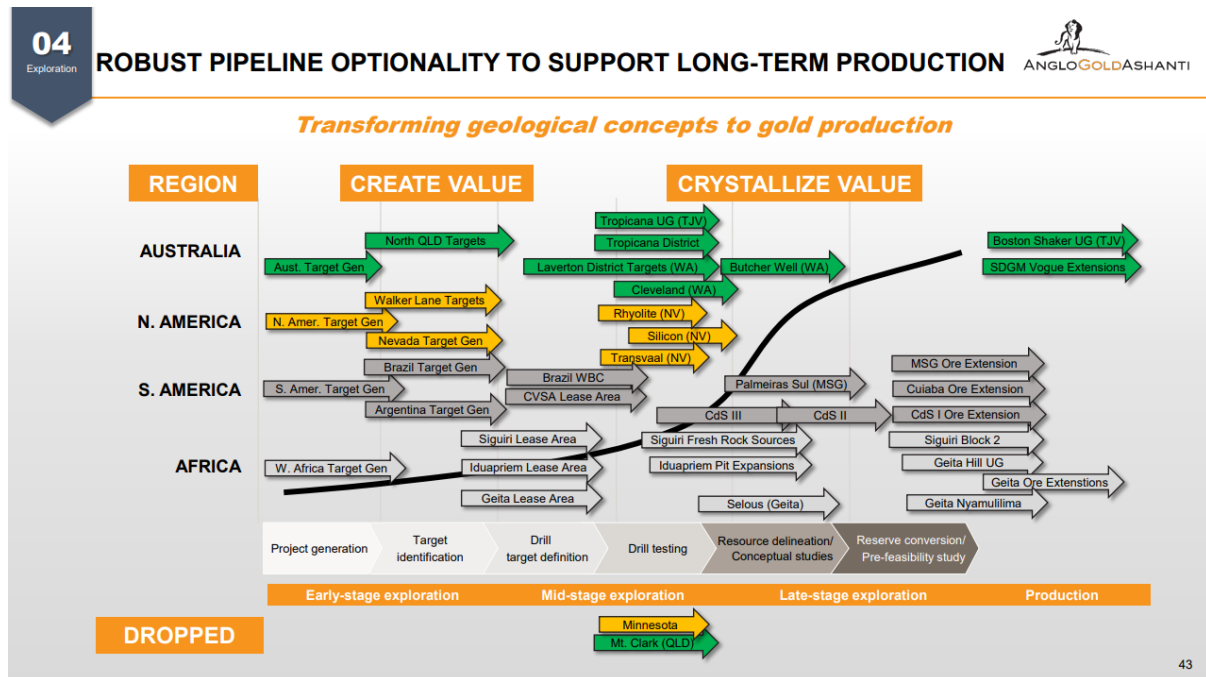
**Balance sheet remains robust with sufficient funding facilities available to withstand market volatility and self-fund growth**

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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.

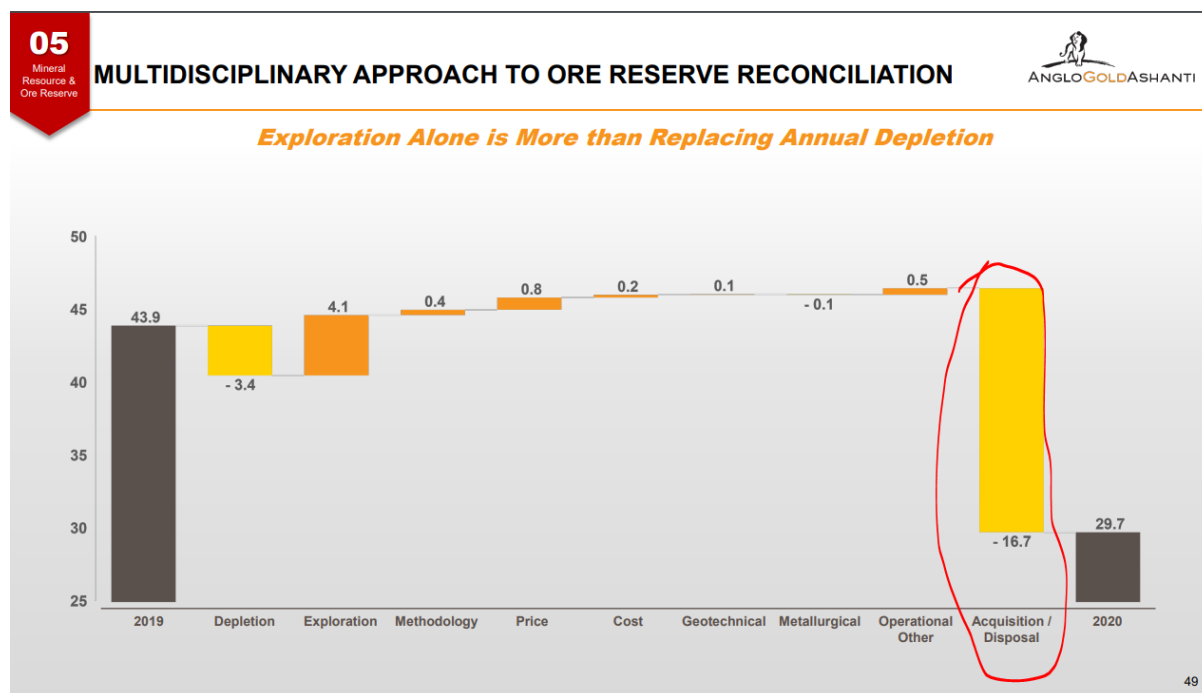


However, with higher gold prices, many potential investments suddenly look very attractive, but if gold prices fall, their value and the companies prospects with them quickly goes to zero and the billions invested down the drain. A similar scenario happened in the early 2010s.

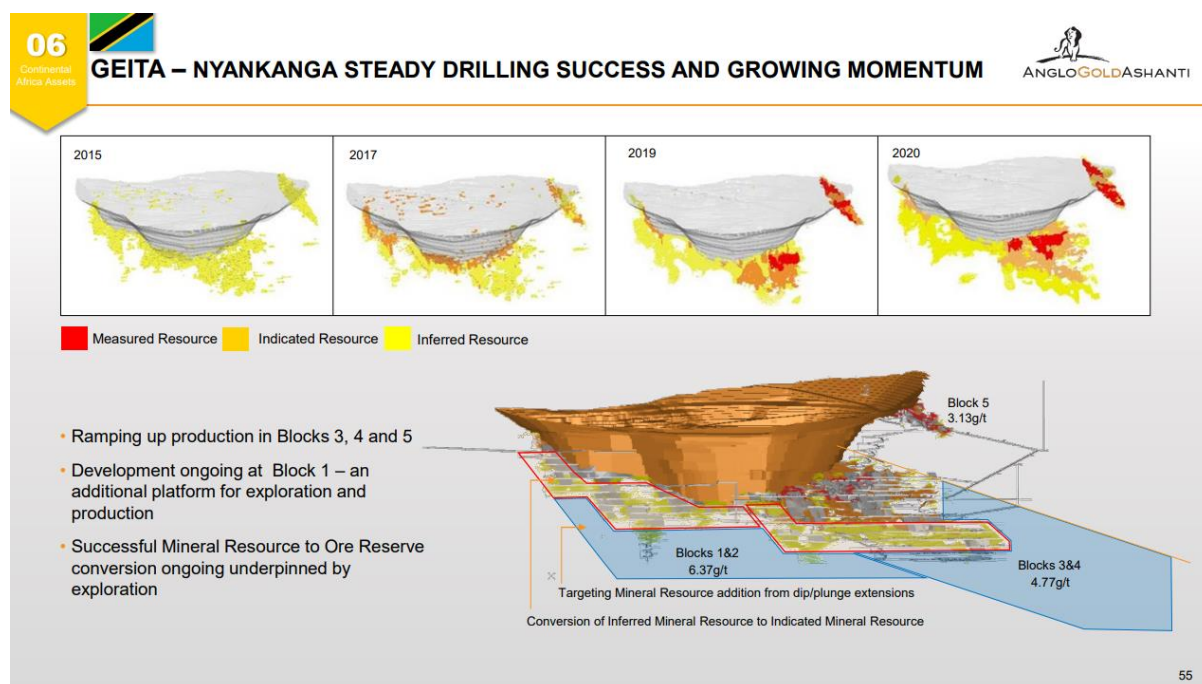


Anglogold has sold all its SA assets over the last years so that is also something to keep in mind. The last [sale was for \\$300 million](#) and took away 12 million ounces in reserves too.





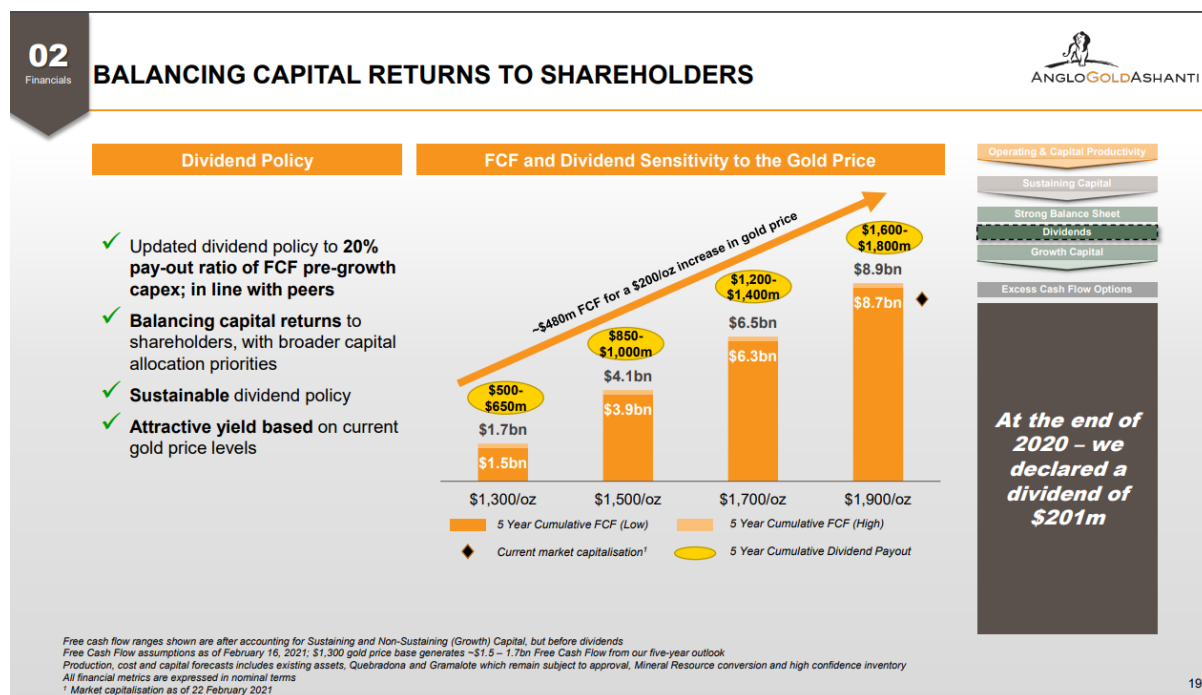
All their mines have a lot of resources, if they can invest and turn those into reserves, then the company will do good over time. Here is the Geita example and how they developed it over the last 5 years.



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.