

## AngloGold Ashanti: All eyes on the second half of 2021

*When investing in gold, the question always arises whether one should be buying the actual mining companies or that of the physical metal itself? It can be argued either way depending on one's perspective and ultimate goal. For Harvard House we have opted for companies over the physical metal as we prefer the option of at least a potential revenue stream via dividends rather than only relying solely on capital appreciation, coupled with the fact that the miners would hopefully be able to achieve positive gearing with rising gold prices. Unfortunately, there are no free lunches with investing and the risks associated with the miners themselves come in multitudes of forms. We review AngloGold Ashanti's results for the first half of 2021.*



**Roy  
Lamb**

### AngloGold Ashanti: A brief introduction

AngloGold Ashanti is the world's third-largest producer of the yellow metal and the largest on the African continent, yet it has no operations based in South Africa. Its last remaining assets in South Africa were sold in 2020 to Harmony Gold. Total production for the first half of 2021 amounted to 1.2 million ounces with 60% originating from

Africa (Ghana, Guinea, DRC and Tanzania), 22% from the Americas (Argentina and Brazil) and 18% from Australia.

These 1.2 million ounces were produced at an all-in sustainable cost of \$1,333/oz for the six months (that ended in June) versus \$1,002/oz for the comparable period last year. Furthermore, the actual ounces (oz) produced over the 6 months declined – from 1.323 million last year to the current 1.2 million. There was some good news in that the company did manage an increase in production of 4% for the second quarter of 2021. However, the suspension of mining activities at the Obuasi mine following an underground incident had a meaningful impact on the final numbers together with Covid-19 accounting for a further 42,000oz of lost production.

With inflation talk very much in vogue, a key driver of this result was higher oil prices (that increased costs) but added

### SPEED READ

- 'Challenging first half of the year' in the opening sentence of the Financial and Operating Report gives one an early hint of the operating and business environment over the past six months.
- A fatal accident in May this year forced the suspension of operations at its underground mine in Ghana (Obuasi Gold Mine).
- Not many companies have managed to escape the challenges associated with Covid-19. AngloGold has been no exception.

to this was lower production, lower grades received on the total portfolio and mining interruptions which ultimately raised the final cash costs to produce the mineral by 30% versus the first half of 2020. Inflationary pressures were not

only felt on the oil front but also with staff costs, specifically the Brazilian and Argentinean part of the business, where AngloGold cited wage pressure due to competition for mining skills.

After the surprising resignation of AngloGold's CEO in 2020, the company has recently announced the appointment of a new permanent CEO. Alberto

Calderon has more than twenty years of executive leadership in the global mining sector. Until March, he was CEO of Orica, the world's number one commercial explosives manufacturer, based in Melbourne, and before that a senior

**"Mining companies tend to be highly cyclical when it comes to shareholder returns."**

executive at BHP as well as CEO of Cerrejon, Columbia's largest mining operation. He comes with an impressive track record and is set to start his tenure on the 1st of September. The market will eagerly await any strategic guidance and planned changes to projects and developments, specifically around the restarting of the Obuasi Gold mine.

Another factor high on investors' radar is that of releasing cash locked up in the DRC and Tanzania, totalling \$485 million and \$144 million respectively. AngloGold has been unable to expatriate this cash due to various disputes with the respective governments, and this has impacted its balance sheet and cash flow. As if one needed reminding, doing business in Africa is very different from just buying and holding an exchange-traded fund. The new CEO has a few tough tasks ahead of him, but the positive is that there is now leadership in place. The market is never happy with uncertainty so at least on this front it has one less concern.

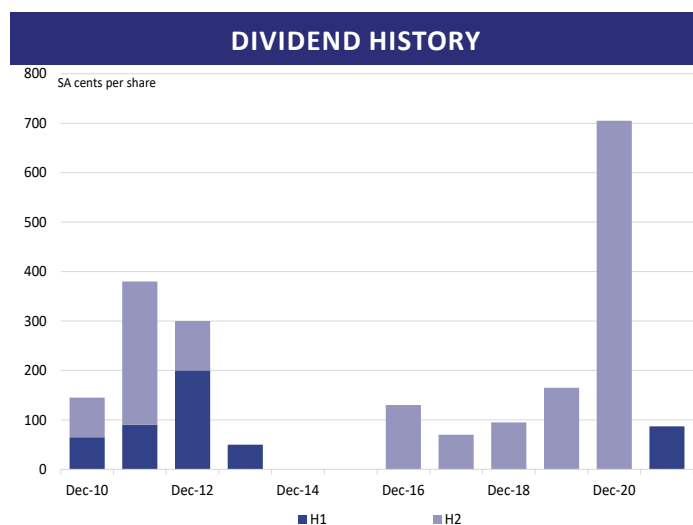
Unfortunately, but not surprisingly, the company revised down its guidance for full-year production by 10% – from a range of 2.7moz – 2.9moz to a revised 2.45moz – 2.6moz – to take into account the difficulties and set-backs already reported in the first six months. Ultimately, it really is going to boil down to what can be achieved in the second half and whether the new CEO can instill confidence in the investing community. Mining companies tend to be highly cyclical when it comes to shareholder returns and thus having a conservative overall holding in the portfolio is paramount. The dividend history chart below reflects this cyclical nature. Another indicator we take heed of is the company's net debt to adjusted earnings. This ratio has been reduced consistently over the past eight years and is well within their guidelines (1x vs. the current 0.37x) which gives them



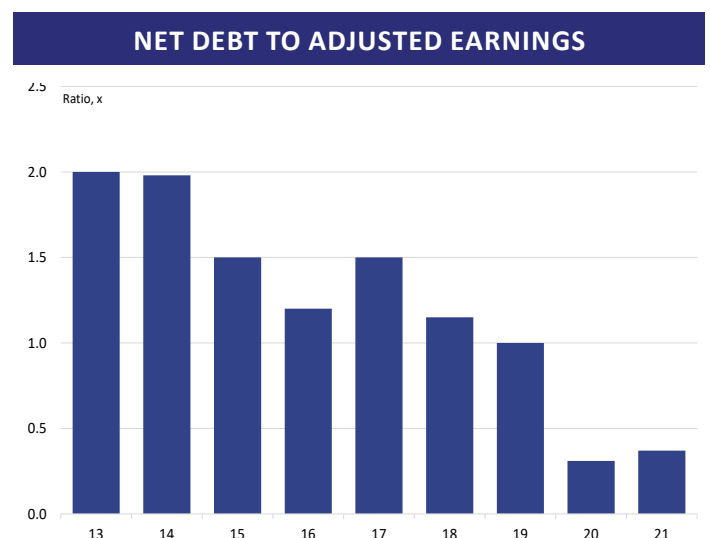
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the flexibility to pay larger dividends, undertake capital projects, or make potential acquisitions – or a combination of the three. They have made comments about adding to their Nevada assets in the US to complement their current mines in that region. Whilst this might put pressure on net debt levels, the lower levels of gearing should ensure that the ratio remains within acceptable levels.

With the gold price hovering around \$1,800/oz and AngloGold's all-in cost of production for 2021 estimated to be around \$1,600, there does seem to be little margin for error. But the cost per ounce should drift lower in future years as production ramps up from new projects and recovery within their existing operations takes place. As always, the movement of the rand will add to the cyclical nature given that they report both earnings and dividends in US Dollars. Nonetheless, we believe that the gold price will continue to be underpinned by ongoing QE and its role as a hedge against possible future inflation. AngloGold has certainly had a tough six months, but the future should be brighter.



*This is the first interim distribution since 2013. Historically, they have tended to pay a stronger final dividend, which bodes well for rising shareholder returns.*



*Net debt has declined steadily, to a level that now gives the company flexibility to pursue acquisitions, new capital projects and higher shareholder returns.*



Please note, due to the concerns over the 3rd wave of Covid, Harvard House has decided to cancel our Insight presentations until further notice.



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**Topic:** n/a

### **Natal Midlands**

Date:	TBC
Venue:	Fernhill Hotel Midmar / Tweedie Road Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

### **Johannesburg**

Date:	TBC
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am

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Performance figures quoted for the portfolio is from Morningstar, as at the date of this document for a lump sum investment, using NAV-NAV with income reinvested and do not take any upfront manager's charge into account. Income distributions are declared on the ex-dividend date. Actual investment performance will differ based on the initial fees charge applicable, the actual investment date, the date of reinvestment and dividend withholding tax. Performance fees do not apply to any funds managed by Harvard House. The manager does not provide any guarantee either with respect to the capital or return of the portfolio. A schedule of fees, charges, and maximum commissions are available on request from the manager.

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