AngloGold's focus on cutting costs

By Allan Seccombe

14 May 2013

AngloGold Ashanti is gearing up to sell a second mine as the company deepens its focus on delivering value to shareholders in a difficult gold market, new chief executive Srinivasan Venkatakrishnan said on Monday (13 May).

"AngloGold is cutting costs vigorously, with corporate and exploration costs reduced and the plan it is to deliver further capital expenditure cuts on top of the US$500m reduction it has made down to US$2.1bn for this year", Venkatakrishnan said at a presentation of the group's March quarter results.

He said AngloGold intends to take US$100/oz out of costs in the next 18 months, adding these savings would be made on procurement, mining and processing.

Tony O'Neill, executive vice president of business and technical development at AngloGold, said the company would also look at the way it is structured. "The savings target excluded shutting any parts of its business," he said.

Venkatakrishnan said the company would use capital allocation as a tool to keep each of its 21 mines on a "tight leash" to ensure they performed, but marginal, short-life mines with slim prospects of contributing to the group would be sold or restructured.

The first such mine is Navachab in Namibia, which AngloGold hopes to sell by the end of this year. There is a second mine up for sale, but Venkatakrishnan declined to name it, saying the company was engaged in talks with all stakeholders before announcing its plans.

No emotional attachments

"AngloGold has no emotional attachments to its assets," he said. Meanwhile, O'Neill stressed that productivity at the South African mines has had fallen to historic lows in 2012 and 2013.

The ounces produced per employee in SA have fallen to about 4.2oz in 2012 and this year compared with between 6.56oz and 5.63oz in the previous four years.

"It's not only impacting on the workforce but also on key management who are spending an enormous amount of time trying to deal with these issues," O'Neill said.

He emphasised that AngloGold would not tolerate any violence or intimidation from its workers during the forthcoming wage talks, which are due to start at the end of this month.

"There is a limit beyond which they'd must not step," he warned.

According to Venkatakrishnan AngloGold will not split the company into international and South African mines any time soon.

"I'm not convinced the corporate finance solution gets you very far until you've addressed the underlying issues impacting on the portfolio and the drivers of the operation," he said. "That is where our key focus is now, pulling the cost base down, getting quality ounces into production and realigning the portfolio to make it high quality so that it lends itself to multiple options later on," he said.

AngloGold's capital expenditure peaks this year before dropping off sharply as its Tropicana and Kibali projects in Australia and Democratic Republic of Congo respectively begin pouring gold probably before the end of this year.

"Those two mines will deliver 500,000oz a year of cash-generative production from next year," Venkatakrishnan said.

Capital allocation

Analysts questioned the strategy outlined by Venkatakrishnan, which entailed prudent capital allocation, improving the quality of the asset portfolio, preserving key long-term opportunities and delivering on objectives.

Citi Group analyst Johan Steyn, who attended the presentation, said: "The problem is even though all of this sounds fantastic on paper the reality is that AngloGold's value to shareholders has not really come through."

He asked Venkatakrishnan what would be different under his leadership particularly as AngloGold had not delivered value to shareholders over the past 15 years.

"AngloGold had good cash flow in 2011 and its share price performed," Venkatakrishnan responded, adding that cash flows dried up in the following two years because of three big growth projects.

"The market penalised the company because they didn't see free cash flow coming into shareholders' hands," he said.

"We are not fixated on growing the top line. The focus is on growing the bottom line," he said. "The story may sound the same but focus areas are different," he added.

Source: Business Day via I-Net Bridge