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# Recent Upgrades Bring A Shine Back To Leading Gold Producers

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S&P Global Ratings recently took three positive rating actions in the gold sector: It upgraded Barrick Gold Corp. to 'BBB' from 'BBB-' and Kinross Gold Corp. to 'BBB-' from 'BB+', and revised its outlook on Goldcorp Inc. to stable from negative. These actions returned each company to a position not seen for more than two years and are consistent with our positive bias for the gold sector.

We now view leading gold producers as better positioned to manage the risks inherent in the industry, notably future price volatility, potential cost inflation and operating challenges. Much of this reflects the deleveraging and unit cost improvement by these issuers in the past few years. We expect debt will remain near or below current levels, which in turn should improve the companies' financial flexibility.

### Key Takeaways

- We recently took positive rating actions on leading gold producers Barrick Gold Corp., Kinross Gold Corp., and Goldcorp Inc.
- These actions primarily reflected the companies' deleveraging and unit cost improvement that we expect will improve issuers' flexibility to manage the risks inherent in this industry.
- Our outlook for the gold sector is favorable for at least the next 12 months.
- Nevertheless, ratings upside will likely require more than just stronger gold prices.

## Our Positive Rating Bias Is Mostly Reflected In Recent Rating Actions

Our positive rating actions on leading gold producers Barrick, Kinross, and Goldcorp were primarily driven by the companies' execution on debt reduction and unit cost improvement, and our expectation for continued conservative financial policies. The majority of gold-focused issuers we rate have gradually improved leverage and unit costs, and are emphasizing balance-sheet strength. In addition, we believe there is comparatively less risk of material and sustained downside in prices materially below our assumption. These factors contribute to our favorable view of the sector, with 20% of the gold-focused issuers we rate having positive outlooks. (See chart 1 for ratings distribution, and chart 2 for gold spot prices.)

Chart 1

**Global Gold Companies' Distribution By Rating**

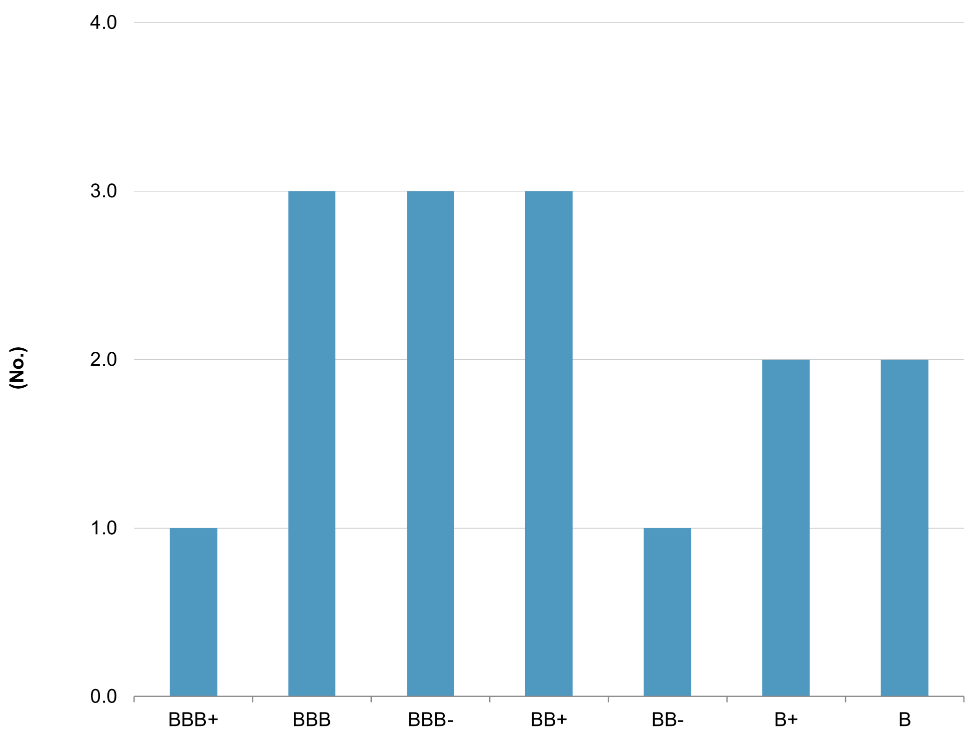
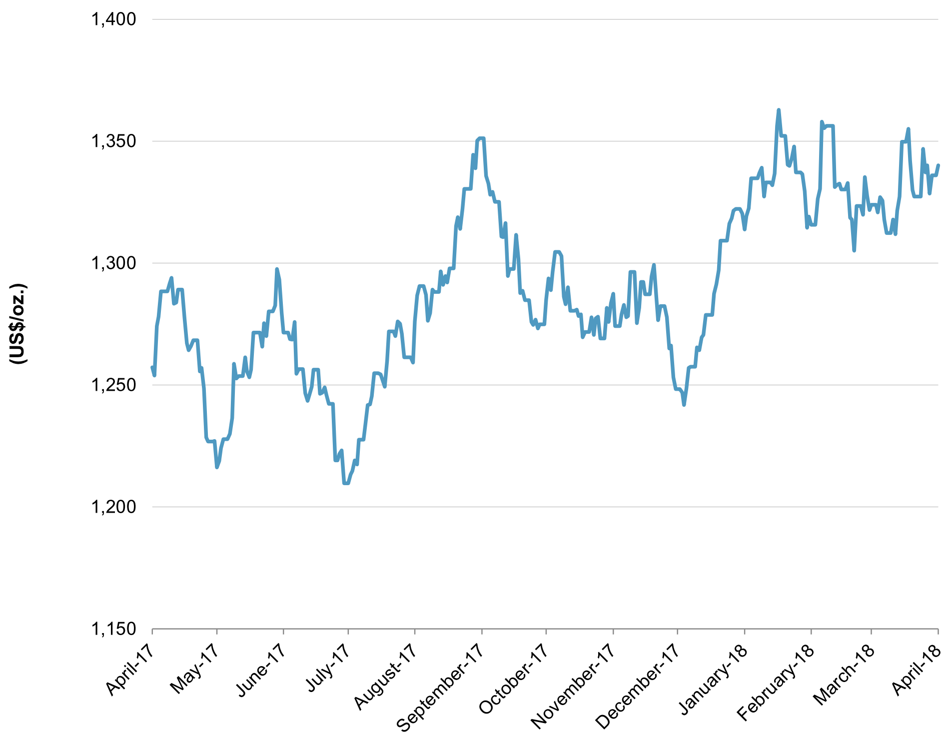


Chart 2

### Gold Spot Prices-Last 12 Months






However, we see limited rating upside for Goldcorp--the highest-rated gold company in our portfolio--likewise for Barrick and Kinross (see table). The upgrade triggers for these issuers center now more on business risk profile improvement, which we believe these companies will have difficulty achieving. Moreover, we would likely require conviction that financial policies will remain conservative, specifically as they relate to growth and shareholder-friendly initiatives. While a stronger gold price environment would presumably benefit earnings and cash flow, a higher gold price by itself does not necessarily mean improved credit quality and higher ratings.

## Global Gold-Focused Producers Rated By S&P Global Ratings

| Issuer | CCR | Outlook | Financial risk | Business risk | SACP |
|---|---|---|---|---|---|
| Goldcorp Inc. | BBB+ | Stable | Modest | Satisfactory | bbb+ |
| Barrick Gold Corp. | BBB | Stable | Intermediate | Satisfactory | bbb |
| Newmont Mining Corp. | BBB | Stable | Intermediate | Satisfactory | bbb |
| China National Gold Group Corp. (CNG)* | BBB | Stable | Aggressive | Fair | bb |
| Newcrest Mining Ltd. | BBB- | Positive | Intermediate | Satisfactory | bbb- |
| Kinross Gold Corp. | BBB- | Stable | Intermediate | Fair | bbb- |

### Global Gold-Focused Producers Rated By S&P Global Ratings (cont.)

| Issuer | CCR | Outlook | Financial risk | Business risk | SACP |
|---|---|---|---|---|---|
| China Gold International Resources Corp. Ltd. (CGIR)* | BBB- | Stable | Aggressive | Weak | b+ |
| AngloGold Ashanti Ltd. | BB+ | Stable | Intermediate | Fair | bb+ |
| Gold Fields Ltd. | BB+ | Stable | Intermediate | Fair | bb+ |
| Yamana Gold Ltd. | BB+ | Stable | Intermediate | Fair | bb+ |
| Polyus PJSC | BB- | Positive | Intermediate | Fair | bb- |
| Sibanye Gold Ltd. | B+ | Positive | Aggressive | Weak | b+ |
| IAMGOLD Corp. | B+ | Stable | Aggressive | Weak | b+ |
| New Gold Inc. | B | Stable | Highly leveraged | Weak | b |
| Eldorado Gold Corp. | B | Stable | Highly leveraged | Weak | b |

Note: Ratings as of April 17, 2018. *Investment-grade ratings are due to sovereign linkage. CNG and CGIR are excluded from the charts and text that reference investment-grade-rated issuers within the article. CCR--Corporate credit rating. SACP--Stand-alone credit profile.

On the downside, we believe most issuers--specifically those we rate investment-grade--can maintain current ratings at an average gold price of about US$1,150 (and in some instances, lower),. At this level, estimated leverage and coverage ratios approach rating downside triggers, assuming no change in our cost and production estimates. We view this price scenario as unlikely, particularly over the next 12 months. Prices have trended positively over the past year despite rising interest rates in the U.S., strong macro-economic growth and, to this point, tepid inflation--all typically bearish factors for prices. Our assumption remains unchanged at US$1,250 per ounce for the rest of 2018-2020 (see "Metals Stay Strong: S&P Global Ratings Raises Its Price Assumptions For Metals Again," published March 8, 2018, on RatingsDirect), but year-to-date prices have averaged about US$1,330 per ounce. For 2018, it is primarily mathematics: the longer prices remain above our assumption, the greater the decline likely required to pressure ratings.

## Beyond Just Gold Prices

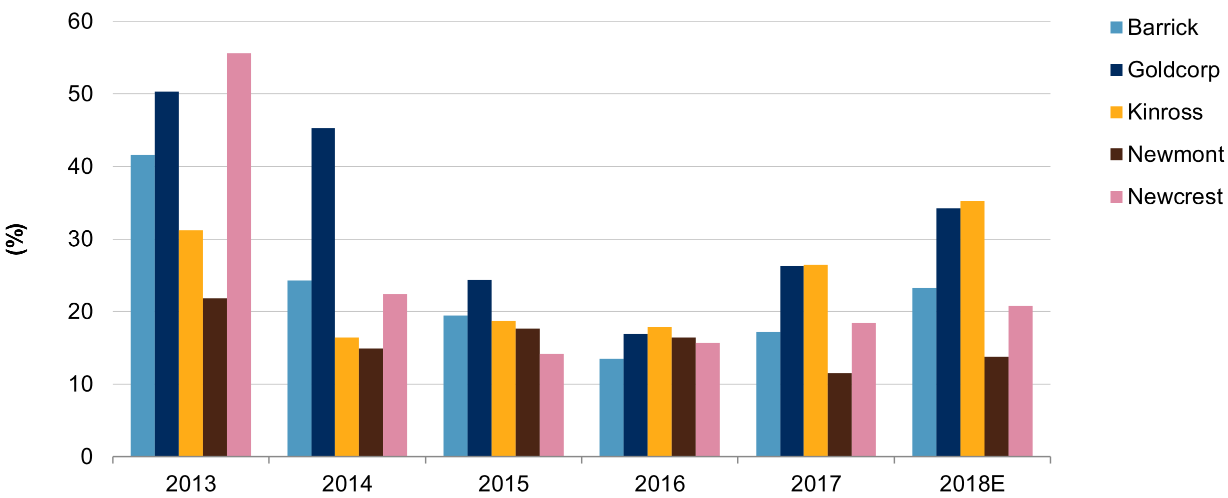
### Gold producers should sustain leverage improvement

Our favorable view of the sector incorporates our expectation that the majority of gold issuers will maintain balance-sheet strength at similar levels of debt. Specific to investment grade-rated issuers, we see few signs that material debt-financed acquisitions will emerge within our rated portfolio as a means to accelerate growth and boost share prices. We assume internal development initiatives, mostly through brownfield projects, will remain the preferred option, funded primarily with cash and internally generated cash flow. That said, we would not be surprised to see investment-grade issuers deploy an increase in capital for high-quality deposits owned by junior mining companies. Given the balance-sheet repair these companies have engaged in, we believe they can accommodate modest acquisitions without pressure to the ratings.

These investments are not without execution risks, however, and S&P Global Ratings expects capital expenditures (capex) as a share of sales to creep higher in 2018. That said, the magnitude of projected capex is well below previous cycle-peak levels. Average capex for the sector was about US$2.5 billion in 2013, but basically cut in half in 2014 and has remained at or below US$1 billion since then. In S&P Global Ratings' view, the modest estimated increase in capex to sales is not a concern and poses far less financial risk than the sector's significant mergers and acquisitions activity (see chart 3).

Chart 3

**Capital Expenditures-to-Sales--Investment-Grade Gold Issuers**




All figures are S&P Global Ratings-adjusted. E--Estimated.

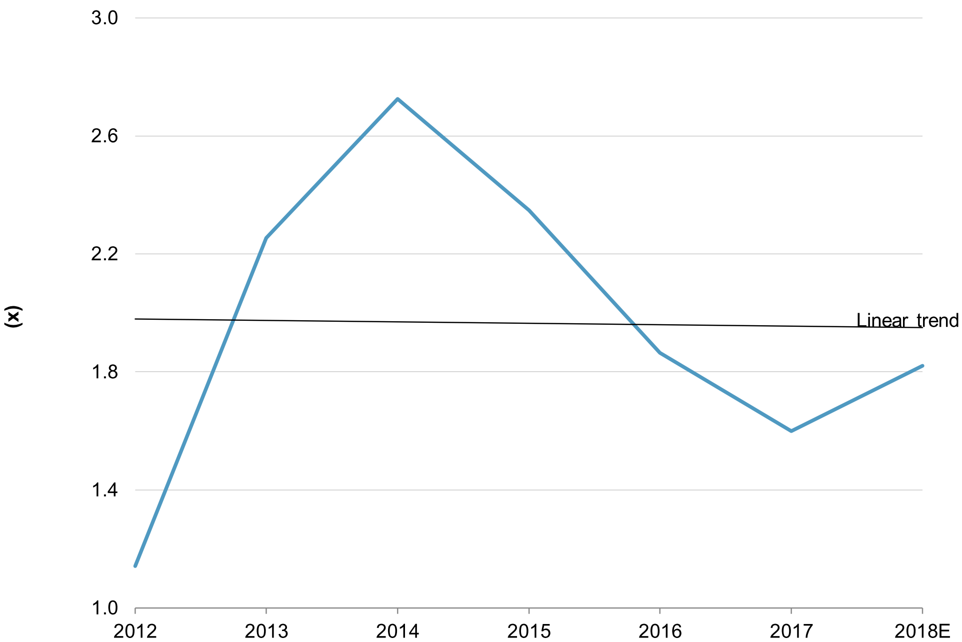


Investment-grade issuers' curtailment of capex in the past few years contributed to leverage improvement across the sector. The corresponding cash increase (we net surplus cash from our adjusted debt calculations) and gross debt reduction were key drivers, notably at Barrick: The company cut reported debt to about US$6.4 billion at year-end 2017 from about US$13.0 billion at year-end 2014. This deleveraging was facilitated in part by asset sales, but also from free cash flow generation. We estimate adjusted debt-to-EBITDA will remain near year-end 2017 levels of just below 2x on average for the sector over the next two years, and well below peak 2014 levels of close to 3x.

Sustaining debt near current levels reduces the sensitivity of credit measures to future gold price and unit cost volatility relative to the past few years. We have different leverage expectations for each gold issuer, but all are close to the expected average for the sector that we view as conservative. Goldcorp, Newcrest Mining Ltd., and Newmont Mining Ltd. are likely to generate an adjusted debt-to-EBITDA ratio firmly below 2x over the next two years. We estimate about 2x for Kinross and the low-2x area for Barrick, which accounts for the modest increase in this ratio for the sector (see chart 4). However, we expect gross debt levels to be relatively unchanged or even decline. For example, Barrick targets reported debt of about US$5 billion at year-end 2018 from about US$6.4 billion at year-end 2017.

Chart 4

**Leverage--Investment-Grade Average**
Adjusted debt-to-EBITDA



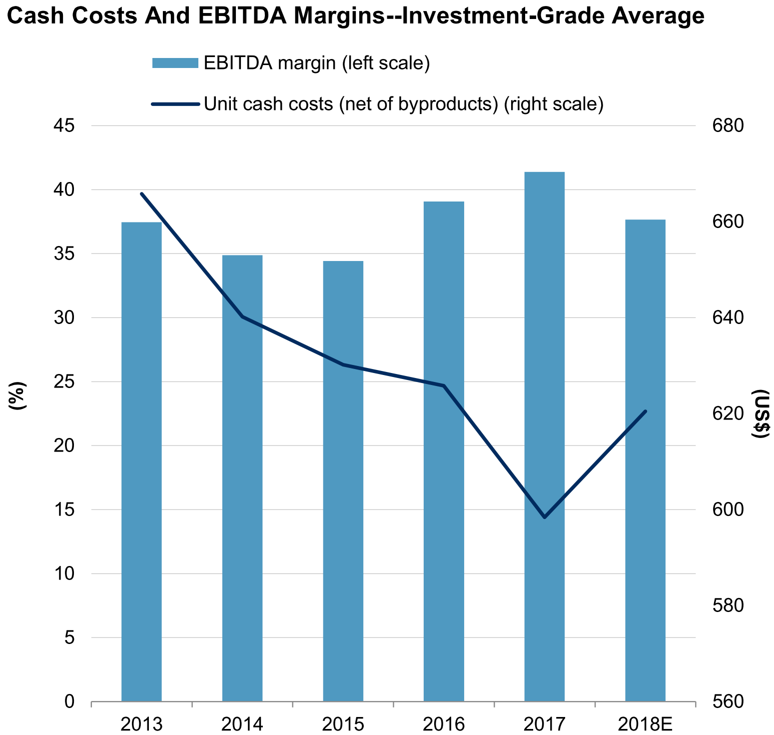

E--Estimated.


## Operating costs have trended downward and are manageable

Unit cost improvement among the investment-grade gold producers we rate has persisted for much of the past several years despite relatively flat production. The sale of highest-cost, lowest-return assets has also been a material factor. However, we have witnessed an increasing focus on cost containment.

Efficiency programs were widely introduced to combat the impact of generally sluggish gold prices on margins and cash flow in previous years, and we believe they have contributed to lower unit costs across the industry. As examples, Goldcorp expects to achieve (and possibly exceed) US$250 million of annual cost savings, and Barrick continues to invest in digital technology and innovation. Barrick has achieved the most notable cost improvement in the past few years, given the material decline in its annual gold output (to about 5.3 million ounces in 2017 from approximately 7.2 million ounces in 2013). In our view, the focus and execution on productivity improvement, particularly at the mine level, will remain an important mandate across the sector that we believe will help limit the impact of cost inflation on labor, consumables, and, to the extent they are not hedged, fuel and foreign exchange.

Chart 5




E--Estimated.



We estimate a modest increase in unit costs in 2018 for investment-grade gold producers--to close to US$620 per ounce from about US$600 per ounce (see chart 5). The uptick is a departure from the gradually declining trend for most issuers in recent years, and mainly a function of mine and grade transitions (for Barrick and Kinross). However, we expect unit costs on average to decline in 2019; the inclusion of new projects into production, grades reverting to life-of-mine average levels, and continued productivity initiatives should facilitate the improvement.

## The Future Is Brighter For Now

The risks gold producers face have not gone away but they have certainly faded for most compared with the past few years. We believe much of this diminished risk is the result of lower debt burdens and operating cost improvements. Our favorable outlook for the sector supports limited downside to ratings across the industry at least over the next 12 months, particularly for those we rate investment-grade. The companies' continued execution of balance-sheet repair and efficiency gains, and maintenance of conservative financial policies play important roles, as our recent positive rating actions on Barrick, Kinross, and Goldcorp. reflect. We acknowledge the risks associated with development projects and issuers not achieving our earnings and cash flow estimates, not least because of price downturns. However, in our view, the improved leverage to conservative levels and cost efficiency in the past year provides greater flexibility to manage these risks.

## Related Research

- Metals Stay Strong: S&P Global Ratings Raises Its Price Assumptions For Metals Again, March 8, 2018
- Barrick Gold Corp. Upgraded To 'BBB' From 'BBB-' On Balance-Sheet Repair; Outlook Stable, March 22, 2018
- Goldcorp Inc. Revised To Stable From Negative On Improving Costs And Balance Sheet; 'BBB+' Ratings Affirmed, March 22, 2018
- Kinross Gold Corp. Upgraded To 'BBB-' From 'BB+' On Consistently Low Leverage; Outlook Stable, March 22, 2018