Conference call transcript
Fourth Quarter and Full Year Results
Period ending 31 December 2013
Willie Jacobsz

Good day, ladies and gentlemen, and welcome to the Gold Fields fourth quarter and year end results. I would now like to hand the conference over to Nick Holland.

Nick Holland – CEO

Thank you for joining us today to discuss Gold Fields’ results for the fourth quarter and also for the full year results for the period that ended December 2013. With me today are Paul Schmidt, our Chief Financial Officer, and of course Willie Jacobsz, our Head of Investor Relations.

As you may recall, in mid-2012 Gold Fields embarked on a fundamental shift in its strategy, moving away from purely ounces of production, to a primary focus on driving margins and cash flow. To this end, and to sustain our business in the long-term, we started a process to engineer a sustainable and structural shift in the Group’s cost and production base.

This process continued through the December 2013 quarter and the results that we published today reflect much of the progress that we have made over the past 18 months. However, let me start with a few key quarterly numbers and salient features:

Our gold production was up 21% on the previous quarter at 598,000 ounces. This includes the first contribution from the newly-acquired Yilgar South assets in Australia which contributed 114,000 ounces during the quarter.

Normalised earnings $14 million compared to $12 million in the September quarter and the comparative period last year $127 million of course at a much higher gold price.

Encouraging is the fact that net cash generated by our core business, before financing and any other acquisition costs, was up from $3 million in the September quarter to $38 million in the December quarter. This is despite the fact that, at $1,265 per ounce, the average gold price for the December quarter was 4% lower than in the September quarter. This really has been the crux of our restructuring, to return the business to cash-generative after what has been a very difficult year with the gold price having declined significantly.

We have declared a final and full year dividend for 22 SA cents. This dividend is in accordance with our dividend policy, which is to pay out between 25% and 35% of our earnings. And this is midway between those two points on the curve. Our policy remains unchanged, as it has done over the last four years.

Impairments of $672 million have been incurred, principally in Australia and Ghana, and that is solely as a result of the lower gold price and higher discount rates used to discount future cash flows. Just to clarify here, essentially we haven’t really had any significant technical remodelling of our ore bodies. This represents a change in the economics as a result of the lower prices and the higher discount rate.

As far as costs are concerned, I am pleased to report that we continue to make good progress. In the December quarter all of our mines, except for the South Deep Project which is still in build-up, had costs below the gold price for the quarter, which as I said earlier was $1,265 per ounce.

The Group’s all-in sustaining cost for the December quarter is $1,054 per ounce. That is 3% lower than the
$1,089 per ounce achieved in the previous quarter and a 24% improvement on the $1,383 per ounce reported in the comparative quarter of 2012. I think that gives you an indication as to how much has been taken out of the cost base dropping from $1,383 in December 2012 to $1,054 in December 2013.

In our opinion, however, all-in cost is the more appropriate number as it includes all costs including all capital. So it doesn’t leave any judgment as to what we believe is sustaining or growth. In fact in this industry we would argue that all, if not most, capital is sustaining.

Gold Fields’ total all-in cost of $1,095 per ounce for the December quarter reflects an improvement of 7% on the $1,176 per ounce achieved in the September quarter and a 32% improvement on the $1,621 per ounce reported in the comparative quarter of 2012. Again you can see a massive shift in the cost base of $1,621 to $1,126.

If South Deep is excluded, then the Group all-in cost is $1,040 per ounce for the December 2013 quarter, and I say that because South Deep is still in mining ramp-up. It hasn’t yet got cash positive. That does however indicating the robustness of the rest of the portfolio, which includes of course the Yilgarn South mines.

Based on our annualised results for the December 2013 quarter, compared with the results for the year ended 2012, we have through the course of 2013 eliminated approximately $450 million from cost, capital and International projects and growth expenditure. Our costs are now approximately the same as they were three years ago, despite double-digit mining inflation in some of the past years.

I would like to talk about specific interventions we have implemented at our mines in pursuit of cost savings and efficiency initiatives. At Lawlers and the adjacent Agnew mine, the services, infrastructure and human resources have been consolidated and the mine is being operated as a single entity. The Lawlers plant was closed and all material is now transported to the Agnew plant.

During the December quarter the combined Agnew/Lawlers mine produced 73,600 ounces of gold at an all-in cost of $929 per ounce. Granny Smith produced 62,600 ounces of gold at an all-in cost of $888 per ounce. The Darlot mine, which was previously a loss-making operation, the third of the three mines we acquired from Barrick, achieved production of 19,700 ounces at an all-in cost of $1,132 per ounce.

On a consolidated basis the newly-acquired Yilgarn South assets produced 114,000 ounces and an all-in cost of $940 per ounce during the quarter.

During the December quarter Damang and Darlot implemented a range of operational improvements, which have significantly reduced their costs and enabled them to return to profitability.

Damang produced 45,000 ounces at an all-in cost of $1,261 per ounce in the December quarter. This compares to 33,000 ounces at an all-in cost of $1,727. In other words we’ve seen around a $500 per ounce decline in all-in costs. We believe that this performance of Damang during the past quarter is a good platform going forward and that the interventions that we made in the past quarter have given Damang a new lease on life.

At Tarkwa the North heap leach was stopped at the end of December and will be reflected in the results from 2014 onwards.

Let’s talk about South Deep briefly. During 2013 the South Deep project continued its positive build-up
trajectory, with gold production improving by 12% to 302,100 ounces in 2013. Importantly the critical destress mining increased by 24% over the year and is now more than double what it was two years ago.

South Deep is also continuing the process of right-sizing the cost base in line with the mine’s production profile, and its cost performance in the December quarter reflects the work that we have done to date. South Deep’s all-in cost for the December quarter was $1,436 per ounce. This is 10% lower than the previous quarter but more importantly 35% lower than in the March 2013 quarter when it was over $2,223 per ounce. I think this gives a clear indication that South Deep is getting closer to cash break-even as it builds up its production.

Over the past six months we have done a comprehensive review of the build-up plan for South Deep and we today provided information on the revised ramp-up schedule for the mine. The outcome of this review, that was announced on 22 August last year, is that South Deep is expected to ramp up to a steady state production run-rate of between 650,000 and 700,000 ounces per annum by the end of 2017, at an all-in cost of about $900 per ounce.

During 2013 we also saw the rationalisation and prioritisation of all capital expenditure and, where appropriate, the deferral of non-essential capital expenditure remains a key focus for 2014. Capital expenditure for 2013 was reduced by $230 million from $970 million to $740 million. In fact, it was significantly lower than the $1.2 billion we spent in 2012. This is expected to fall to below $700 million during 2014.

We also completed the break-up of the Growth and International Projects division and the commensurate reduction of all GIP related expenditure from approximately $281 million in 2012 to $162 million in 2013, and a projected $46 million in 2014. As you can see, a very substantial reduction from what we spent in 2012.

We have reduced our exploration portfolio to only a handful of the best projects, all in the Americas, and relocated responsibility for these projects to our regional management. This is not to say that we have abandoned growth in Gold Fields. Growth is important, but we believe the key growth metric we should be looking at is not a growth in ounces but a growth in cash flow. And that really is our mantra going forward. We want to grow the cash flow of Gold Fields. If we can do that with more ounces or less ounces, we’re quite neutral on that.

But the important thing is we want to grow the cash flow. The days of wanting to grow the tonnage and ounce profiles are over, certainly for us. We want to grow our cash. If we can grow our cash we can pay more dividends and we can certainly look around for other opportunities if we want to grow the portfolio. But this is the first and most important platform for the future.

An important change in our portfolio in the last year is that we have changed the geographic footprint of the company significantly. In February we unbundled Sibanye Gold into a separate company. The fact that Sibanye is doing as well as it is, is a great comfort as that is exactly what we envisaged when we conceived the strategy to unbundle it and give it to our shareholders.

Neil Froneman, the CEO, is doing a commendable job and we believe that this strategy has created value for our shareholders. In October we finalized the acquisition of the Yilgarn South assets in Australia. Largely as a result of these two transactions, the Sibanye deal and the Yilgarn South deal, Gold Fields is today a very different company from what it was in 2012. We now source 43% of our production from Australia, 31% from Ghana, and 13% each from Peru and South Africa.
Before I end, I would like to make a few comments on our balance sheet. Our total outstanding debt is $2.06 billion with net debt of $1.7 billion. Based on our December results annualised, our net debt to EBITDA ratio is 1.5. Important is to mention that we have a conservative debt maturity ladder. 49% of our total debt is a 10-year bond with no covenants and a fixed coupon of 4.8% which matures in October 2020.

A further 35% of our debt, some $720 million, has a maturity date that is at the end of 2015. While this is not an onerous maturity schedule, we continuously look at ways in which we can position ourselves better. We also have about $750 million of committed headroom, should we need it. Just to remind you that that 1.5 times net debt to EBITDA is well within our debt covenant ratio.

Finally, other changes that we will see in 2014 include that, as from Q1, Gold Fields will exclusively report its costs in accordance with the new World Gold Council definition for all-in sustaining costs and all-in costs and we will no longer report in cash costs, which in any event we believe is misleading, and notional cash expenditure. From Q1 2014 you will only see those cost metrics that we identified back in August and in November. Also from quarter one this year Gold Fields will report in US dollars only, as we believe that it is now appropriate to unitise our reporting in US dollars given that we have a global portfolio of assets.

Thank you very much for your time. I will now open the line for questions and either myself or Paul will do our best to answer your questions. Thank you very much.

Patrick Mann – Deutsche Bank

Just two follow-up questions. On the depreciation, it was obviously up 24% from the previous quarter. That was attributed to the acquisition of the Yilgarn South assets. Where do you see that going next quarter given that we’ve had the large impairment at the end of this quarter? Are you expecting it to remain so high or should it take a step change down again? One more question. No impairments at South Deep in this round of impairments. Is it possible that it could be impaired? Have you done any impairment tests? Just give a little bit of colour around that. Thanks a lot.

Paul Schmidt – CFO

I will talk to both. South Deep has got quite a lot of headroom in terms of the impairment count. So I don’t see any impairment of South Deep in the foreseeable future. Of all our assets I think it is the one with the biggest headroom. In terms of the depreciation, yes, with the impairment of the assets in Australia and Ghana we most probably expect in the region of a 10% decrease in depreciation from what you saw this quarter.

James Bender – Scotiabank

Nick, you mentioned that you will no longer be providing total cash costs as guidance, but just to help us out for 2014 would it be possible to give us a ballpark of what the 2014 total cash costs would be?

Nick Holland – CEO

No, we’re not reporting it. As we said back in August we want to move off cash costs. We don’t believe that it’s an appropriate measure. And we are driving ourselves towards all-in costs. As I understand the other members of the industry have agreed to, so we won’t be providing that in the future. We gave significant advance warning on that. And we believe the best indication of costs is the all-in cost and all-in sustaining...
cost, so that’s what we’re going to be reporting.

Brian Nunez – Gramercy

Your forward-looking guidance of all-in costs of $1,150 per ounce for 2014, is that still taken at a 15% pre cash flow margin? Can I assume you’re planning on a $1,350 gold price?

Nick Holland – CEO

What we’re doing is we’re striving to get every asset to make a 15% cash flow margin. Now, obviously some of them make it and some of them don’t make it. Clearly South Deep we’d like to try and get it as close as we can to break-even. Mines like Damang we’re losing money, so just to break even I think would be a good start. Ghana was also losing money, so to get that positive also would be a good start. On a blended basis we don’t get every asset to 15%, but we get Australia pretty close to that, we believe, at that price. And also Tarkwa. But that’s really the target. On a blended basis we don’t quite achieve it, but we’re moving towards that. That should indicate to you why the numbers don’t quite add up.

Paul Schmidt – CFO

We’re using a $1,300 gold price, but you must remember that in all-in sustaining cost, we have share based payments. At Gold Fields we issue shares, and that’s not a cash expense. So if you back that out our actual cash number is a little bit lower and it comes closer to the 15% at $1,300 gold price.

Brian Nunez – Gramercy

Understood. And the exchange rate you used in the planning of R9.50 to the dollar, given that I would expect a lot the operating costs in terms of labour are Rand-based, if you see a weaker Rand would that benefit you?

Paul Schmidt – CFO

Obviously in terms of the weaker rand we benefit in terms of the revenue line. For South Deep on the operating cost line probably 95% of the costs are South African sourced. The only exposure that they have is to some of the capital feed that comes in from Europe. A weaker Rand would definitely be advantageous.

Brian Nunez – Gramercy

Could you give a little more colour on what you did with the Damang asset? You’ve gone through this review on how you plan to utilise it going forward. It seems like you’re going to continue. Maybe you could give a little bit of colour on what you’re actually mining. I’m just not clear on that.

Nick Holland – CEO

Sure. Damang was made up of three principle ore sources. It was the Huni, the Saddle and then Juno. And our original plan was to try and come out with a big bang consolidated approach to that ore body and see how we could tackle 6 million to 7 million ounces in the ore body. We’ve realised that at a $1,300 gold price that strategy isn’t going to work because of the strip ratios in particular.

The best strategy for us is to actually mine this ore body incrementally as we go. What we are doing now is we’re mining the Juno area. That is probably the focus of 40% to 50% of our mining. And then we will be
mining judiciously into the Saddle area into a very different style of mineralisation that has higher grades but shallower bands of mineralised zones, so we need a different approach to that. And then also getting into Huni.

And that is going to give us, we believe, a much more sustainable cost base. And we will learn more about the ore body as we get into it. Ultimately to bring forward some of the resource that is not in reserve – we have a reserve of a million ounces and a resource of about 6 million – we would need to do a pushback of the original Damang pit at some point in time.

But we believe that this is at least five years off. We’ve got enough ahead of us to economically mine at around $1,300 a million ounces over the next five years. So that’s going to be our approach. And then also to look at satellite pits along the trend to give ourselves more flexibility and options as we get into the pit.

So as we learn more about the Saddle area, as we learn more about Huni, we may adjust our plans going forward. But for now we want to make sure that we generate cash, that we maintain a profile that gives us a reasonable contribution of gold so that we can cover all of our cost, and so that we can make a return sufficient to at least provide some exploration dollars and give some money into the central coffers.

So this will be very much an interim phase. But in the worse case scenario we are comfortable we have five years. But we will continue to look for ways to optimise the ore body and see how we can bring forward more ounces. So this is now a strategy really of saying how do we digest this elephant in smaller bite-sized chunks as opposed to trying to develop it all in one big bang, which I think at these prices is going to be too risky.

Brian Nunez – Gramercy

The $720 million due February 2015. Which asset is that serving? Is that serving the South Deep asset?

Paul Schmidt – CFO

If you’re talking about the $720 million that’s a dollar facility. It’s nothing to do with South Deep. It’s one of my offshore borrowings. And it expires in November 2015, and we have the option to evoke a one year extension to it as well, which obviously we probably will take up. That will only be due and payable at the end of 2016.

It’s a syndicated bank loan. We have 16 banks I think. There are two $720 million facilities that we had. We initially had a $720 million revolver and a $720 million term. We subsequently changed the $720 million term to a $100 million term and a $620 million revolver. It is due in November 2015 with a one year extension.

Brian Nunez – Gramercy

Part of the issues with ramping up South Deep was the availability of the underground fleet and putting in new workshops. And there were a number of workshops coming on line during this year. Is that still on track to be met and do you see that de-bottling?

Nick Holland – CEO

Yes. We’ve got a brand-new workshop on 93 level that we expect to commission this time next year. In fact,
we’ve finished blasting it out and we will be spending the rest of this year just doing the support and the equipping of the workshop. So we’re well underway to make sure that it is commissioned. But we’re not waiting for that. We are also de-bottlenecking all of the existing workshops to make sure that we can actually improve the space that we have for maintenance of our fleet. So that’s all on schedule and we’re seeing improvements on that.

James Bender – Scotiabank

Hi. I just have a follow-up question on the previous question on the foreign exchange. I just want to confirm that you said the operating costs there are in Rand. And then my follow-up question is do you have any hedges in place?

Paul Schmidt – CFO

95% of my operating cost are Rand denominated, not influenced by dollars at all. We had some currency hedges at the end of 2013. We have none at the moment on the Rand-Dollar or on the Aussie Dollar US Dollar.