

Gem Diamonds Limited

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Signs of life in the diamond market, but we're not out of the woods yet

Shares in Gem Diamonds Ltd (LON:GEMD) ticked up by just over 2.5% on 4 February after the company announced the discovery of a 183 carat stone from its Letseng mine in Lesotho. Given that diamonds from Letseng fetch more per carat than almost any other mine in the world, it might seem surprising that the shares didn't enjoy more of a jump.

But analysts' models about diamond mines invariably build in assumptions about the amount of high value stones that are likely to be unearthed in any given period of time. In the case of a mine like Letseng, which has a well-established history of yielding such high-value stones, baking such assumptions into broader estimates isn't particularly challenging.

Even in the case of smaller companies like BlueRock Diamonds (LON:BRD), which has begun pulling ten carat-plus stones out of its Kareevlei mine in South Africa with pleasing regularity, it's hard for any individual diamond to move the needle on share price.

Of course it doesn't help that the diamond market as a whole has been going through a torrid time of late. At the end of 2019 rough diamond prices were at the lowest they've been for five years, without much sign of any improvement on the horizon in 2020.

Indeed, in December 2019 broker Liberum stated explicitly that the immediate outlook is "likely to be difficult for the industry."

Yes, said the broker, some comfort might be drawn from cuts in supply from mining companies and the drawing down of stocks held further along the supply chain. But more gloomily, subdued jewellery demand, a surfeit of polished stone stocks and the threat from laboratory-grown stones are all likely to continue putting downward pressure on prices.

Since the start of 2020, though there have been faint glimmers of hope. Sales from the first De Beers' cycle of 2020 amounted to US\$545m, up considerably on the US\$500m generated in the corresponding period in 2019, when the market was also depressed.

Commentary from De Beers when such results are announced is always succinct and not necessarily to the point, though, and it isn't always easy to glean what the world's number one diamond miner really makes of things. This time round, Bruce Cleaver, the chief executive of De Beers said that demand for rough diamonds had "increased during the first Sight of 2020 following the end of year selling season and subsequent inventory restocking." And that was all.

But this wafer-thin snippet of optimism can be added to other recent statements from industry participants, in particular

Price: 31.2

Market Cap: £43.4 m

1 Year Share Price Graph



Share Information

Code: GEMD

Listing: LSE

52 week	High	Low
	88.2	27

Sector: Diamonds & gemstones

Website: www.gemdiamonds.com

Company Synopsis:

Gem Diamonds Lim is a global diamond company with a portfolio comprising of producing kimberlite, lamproite and alluvial mines, development projects, exploration assets as well as a diamond beneficiation centre. Operations are situated in Angola, Australia, Botswana, the Central African Republic, the Democratic Republic of Congo, Dubai, Lesotho and Indonesia.

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recent commentary from Petra Diamonds, which released second quarter results late in January.

Petra talked of "growing stability in pricing" and said that "demand continues to improve". In fact, the first few weeks of 2020 have even witnessed a slight improvement in rough diamond prices

But before anyone gets too excited, it's worth bearing in mind the caveats that Petra presented to the market at the same time. Any improvement in the diamond market generally will depend on "continued supply discipline from the majors", as well as macro-economic conditions.

In regard to supply discipline, the price is now somewhat supported by the De Beers decision in 2019 to reduce production by 13% to 30.8mIn carats. And as for the macro-economic situation, there's still the uncertainty of the US-China trade war to contend with, not to mention the ongoing and as yet unquantifiable effects of the coronavirus.

Diamond shows in Hong Kong have been postponed due to the virus, and Rapaport, one of the go-to sources for industry news and gossip, reports that demand in the Far East has turned sluggish as a whole.

What's more, says Rapaport, mining companies are holding large quantities of rough they were unable to sell in 2019. And although global production of rough is projected to decrease by 6% this year, the mining companies have enough inventory to offset the decline. Alrosa, for example, which is the world's second diamond company after De Beers, began the year with a stockpile of 22.6 mln carats.

So, whether supply and demand can reach any kind of a balance which will support an upward movement in prices remains unclear.

"Destocking of inventory will only end with sustained midstream margin improvement from rising polished prices," Liberum said in December. "But end-use jewelry demand remains bleak in key growth markets and synthetic diamond exports from India are exploding."

All of which makes for a decidedly mixed picture as 2020 gets underway in earnest. Companies like Firestone (LON:FDI) and Petra will continue to find it tough going. And the unearthing of large "special" stones, while making for attractive headlines, is unlikely to offset the effects of the industry's deeper underlying dynamics.

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