

Anglo American plc

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De Beers' latest sales figures bring scant comfort to the diamond mining industry

There's a certain skill involved in interpreting the periodic rough diamond sales statements that come out of De Beers every time a sightholder cycle is completed - a skill that's reminiscent of the old science of Kremlinology or of the detailed dissection of every phrase and nuance that comes out of the minutes of the Federal Open Markets Committee in the US.

The latest announcement released by DeBeers' owner Anglo American PLC (LON:AAL) comprises just two sentences. The first gives the sales figure in dollar terms, in this case US\$280mln. The second provides a quote from De Beers chief executive Bruce Cleaver pertaining to the way DeBeers views the market.

"With midstream participants continuing to work down polished diamond inventory levels and reduced levels of manufacturing in the key cutting centres, De Beers Group provided customers with further supply flexibility during the seventh cycle of 2019," says Cleaver.

What that statement really means requires a certain amount of familiarity with the diamond market, to say the least.

First off, it's worth noting that in this seventh sales cycle of 2019, De Beers's sales of rough diamonds were down significantly on the US\$503mln booked in the corresponding cycle in 2018.

Those with memories of greater capacity than a goldfish will recall that the diamond market wasn't exactly in rude health back in 2018. So, for sales to drop by roughly 45% from an already depressed position tells a story all of its own.

Not surprising that Anglo American's shares dipped slightly on the news, and not surprising either that De Beers is so taciturn.

Others, like Lucara Diamonds (TSE:LUC), provide more detail.

"The market for both rough and polished diamonds remains challenging due to an excess supply of polished diamonds and reduced credit available in the mid-stream of the supply chain," Lucara said in a statement released in early August.

"Liquidity issues and concerns over manufacturers' profitability have resulted in weaker demand, while global trade disputes and unrest are also contributing factors, resulting in lower prices for rough diamonds. Weaker demand has been reported across all size classes and larger producers are withholding goods or allowing their customers to defer rough diamond allocations."

De Beers itself is mighty enough to give "supply flexibility" to its customers, or to put it another way, provide credit and hold back inventory.

Price: 2158

Market Cap: £29.62 billion

1 Year Share Price Graph



Share Information

Code: AAL

Listing: LSE

52 week High Low
2294 1654.8

Sector: Mining

Website: www.angloamerican.co.uk

Company Synopsis:

Anglo American is one of the world's largest diversified mining groups with portfolio of mining assets and natural resources includes precious, base metals and bulk commodities in Africa, Europe, South and North America, Australia and Asia.

action@proactiveinvestors.com

But other companies in the diamond space don't have that luxury.

Broker Shore Capital highlights in particular Petra Diamonds Ltd (LON:PDL) and Firestone Diamonds Ltd (LON:FDI), both with operations in southern Africa, as being particularly vulnerable.

Although Shore doesn't spell it out the real issue with both companies isn't so much the diamond price as the debt burden that they're carrying. Petra and Firestone both invested heavily in new capacity on the assumption that the market would be much stronger than it is. The result: margins are being squeezed and debt covenants are coming under pressure.

The tough market has already claimed the scalps of Petra's top management, and there has been something of a revolving door at Firestone too.

Meanwhile, shares in Lucara Diamond Corp (TSE:LUC), Mountain Province Diamonds (TSE:MPVD), Gem Diamonds Ltd (LON:GEMD) and Stornoway Diamonds (TSE:SWY) are all bumping along around at five year lows.

These companies are less burdened by debt and can draw comfort from better margins, but it's only too clear what the investment community thinks of them.

At the smaller end of the market BlueRock Diamonds (LON:BRD) continues to be buoyed by the discovery of large stones at its Kareevlei mine in South Africa, while Botswana Diamonds (LON:BOD) continues to draw encouragement from the interest of majors in its ground and from the granting of licence extensions.

All told though, these are not good times for the diamond mining industry. And how long the current conditions will last is an open question.

In time, as prices continue low, supply from unprofitable mines will disappear and the absence of new projects coming on stream will exacerbate that pressure. Theoretically that should lead to an uptick in prices, and consequently in mining company share prices.

So it might just be that the smart money will be looking to enter the market shortly, while the maximum uplift is still available. If it does, the chances are it will go into mid-tier companies that are profitable or at least generating significant cash, like Mountain Province and Lucara.

The next bellwether statement will be results from Gem Diamonds on 5th September. It will be interesting to see if any scraps of comfort can be gleaned from them.

But don't hold your breath: broker Shore Capital says it's not expecting the results to be pretty.

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Contact us +44 (0)207 989 0813 action@proactiveinvestors.com

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