

Dryblower on the great diamond revival

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IN HINDSIGHT, *Dryblower* should not have been surprised by the hottest commodity at last week's Mines and Money conference in London, simply because it's been a long time between drinks for the diamond industry.



But it was a genuine surprise to have the three-day event start with a conversation with a Swiss investor about Kimberley Diamonds.

After a quick check of the date to be assured that he had not entered a time warp when passing through the doors of the old Agricultural Hall in the dowdy inner London suburb of Islington, it became obvious that the clever Swisse was one step ahead; as his kind too often is.

The reason the man from Zurich was keen to talk about Kimberley was that, quite remarkably, it had been the best performing stock on the Australian exchange over the past few months, and he had been soaking up shares in diamond companies around the world.

The reason *Dryblower* did a double-take and calendar check was that Kimberley, and its primary project at Ellendale near Derby in WA's North West, was a genuine blast from the past.

In fact, it was some 30 years ago that Rio Tinto's predecessor company, CRA, carted a pile of scribbles to the Ellendale and Argyle diamond discoveries at the start of what was a fun, but largely ill-fated adventure in the secretive world of gemstones.

Back then, Ellendale was seen as the likely first Australian diamond mine, only to be shoved aside by the discovery of the vast volumes of gems (mainly low grade) in Argyle.

It is history now that Ellendale became an unloved diamond field with multiple pipes (the ancient volcanoes that gave birth to the diamonds) but none regarded as being of sufficient quality or size to justify development.

Failure to "use it" led to WA's first "lose it" decision, with the state government telling CRA to sell Ellendale or have it taken off it and passed to a company that would do the developing.

Enter Miles Kennedy and Karl Simich, who created the original Kimberley Diamond Company, developed Ellendale and fell foul of a sharp fall in gem prices, a rising Australian dollar and stiff competition from CRA and the self-appointed guardian of the diamond industry, De Beers.

Ellendale, after several more changes of hand, has now ended up in a reborn Kimberley Diamonds, staffed by a team from the immediate previous owner, Gem Diamonds of London, and landed smack bang in the middle of great diamond demand (and price) recovery.

On the stock market, the new Kimberley Diamonds has been performing like a skyrocket, zooming up from about A28c in June to recent trades of 95c – a 240% rise that sounds (and is) pretty fabulous, but still leaves the stock capitalised at a very modest \$58 million because it only has 61 million shares on issue.

It's the tight capital structure that is helping Kimberley look extra special on the market, though the underlying driver, the price of diamonds, is certainly helping and the major reason why Swiss investors have taken a liking to the sector after it was stuck for several years in the doldrums.

Two recent reports on the diamond industry, one from the investment bank, Citi, and another from the management consultancy, Bain, have helped light a fire in the diamond sector because both have identified the fundamental shift underway in both supply and demand for gems.

On the supply side there is a classic example to be seen of an industry that has enjoyed little success in recent years thanks to a combination of limited exploration investment and a lack of luck in discovering major new sources of diamond.

On the demand side, there is evidence of growing Chinese preference for men to give a woman a diamond engagement ring, in what should be no surprise given the Chinese habit of adopting western tastes for everything from booze to dairy products.

Diamonds, it seems, are just another step along the pathway being followed by an increasingly richer China, with all that means when the 1.1 billion population is factored into the demand side of the equation.

So with Chinese men being coerced into buying diamond engagement rings, and global diamond supply showing signs of peaking and then falling off a cliff sometime in the next three years, it was inevitable that the mining world would enter a new diamond boom.

How long this diamond boom lasts is anybody's guess. The important point is that it's just starting and that can only be a sign of future fun for explorers and investors.