Diamondcorp Plc

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DiamondCorp ramping up to cash flow break-even point

"We'll be cash flow positive by the end of the year," reveals Diamondcorp (LON:DCP) chief executive Paul Loudon.

He's speaking on the phone from the company's flagship asset, the Lace diamond mine in the South Africa's Free State, where he's lived for several years now, overseeing a project that has gradually revitalised one of the country's oldest diamond mines.

Lace was first mined back in 1901 and, in the following 30 years, some 4.5mln tonnes of rock was extracted, containing around 750,000 carats of diamonds.

Not bad going for an old-time operation, but as the effects of the Great Depression reverberated around the world in the early 1930s it was felt that the mine no longer had anything else to give.

It was shut in 1931 and lay dormant until interest revived in the boom of the last decade and Loudon and his black economic empowerment partners moved in with new finance.

Their efforts are at last coming to fruition and, having overcome geological and labour issues, not to mention hostile equity markets, mining is now all set to commence.

Share Information

Code: DCP
Listing: AIM
Sector: **Diamonds & gemstones**
Website: **www.diamondcorp.plc.uk**

Company Synopsis:
DiamondCorp plc is an emerging diamond producer focused on maximising shareholder value through the development of high-margin diamond production assets. The company is incorporated in the UK, and operates in the long established diamondiferous regions of southern Africa.

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"We start our ramp-up of mining from the first block in the second half of this year", says Loudon.

Those with one eye on a calendar will note that as May rolls into June it could well be that he's talking in weeks rather than months.

After all, this is a plan that is already running four months ahead of schedule, and which will mine material that wasn't even in the original calculations. Diamondcorp, it seems, has been pretty nimble in responding to favourable developments underground.

"The original plan was to go straight to the block cave," says Loudon.

"The mine plan was based on below the 345-metre level because that's all that was known from the old days.

"But when we de-watered and got underground we discovered that at the higher levels, where we'd assumed that there was less than 600,000 tonnes, there was actually 2.6 million tonnes. It became apparent that there was a lot more in the upper levels. This material would have fallen into the cave five years down the track, but there was an opportunity to go in now."

So, while the first block cave is being developed, higher up in the system a conventional long-hole stoping operation will start churning out ore.

The economics of this material are certainly compelling. It grades a healthy 60 carats per hundred tonnes, with each carat valued at around US$150. All told, that makes it US$90 rock, which Diamondcorp reckons it will be able to mine and process for just US$20 per tonne.

That gives chunky margins right off the bat, and, with general and administrative costs set to come down for a third year in a row, a great deal of it should reach the bottom line.

That's because Loudon has never been one to pile on the costs. His move to Lace took place some years ago and the company's chief operating officer also lives there.

"We maintain a small office in London," Loudon says, but apart from that everything is run out of South Africa where it's cheaper.

That's why losses in the most recent financial year were cut by around £900,000 to £2.6mln having fallen in the previous year too.

At City broker Panmure Gordon, where analyst Alison Turner takes a healthy interest in Diamondcorp's progress, the thinking is that this year's production will generate earnings of around £3mln, rising next year to £10.9mln and then to £22.5mln the year after, as the longer-term block caving operation begins to build momentum.

Following a recent US$7mln royalty deal the company has more than enough cash in the bank to see it into production. After that the emphasis will turn to shareholder returns.

And while Panmure isn't yet modelling for a dividend, it is something that's very much at the forefront of Loudon's mind.

"This will be a return of capital model," he says.

"The key is to get cash back into shareholder's pockets from 2017."

And how much cash will come back? In part that depends on the diamond market.

It's worth noting that back in September of last year, De Beers, the greatest force in global diamond mining flagged up a likely decline in production right across the industry.

"Unless major new discoveries are made in the coming years, supply can be expected to decline gradually from 2020", it said.

That plays very nicely into Diamondcorp's hands as far as the likely pricing of its product is concerned. Loudon doesn't expect a great deal of strengthening in the price this year, but thereafter there could be significant uplift.

"Diamond prices have to increase because the world can't produce enough," he says.

Diamondcorp can. It has a 25-year life at Lace, potentially producing around 500,000 carats per year. It won't be enough to challenge the hegemony of De Beers, but it should certainly provide the wherewithal for the substantial return of cash to shareholders that Loudon holds so dear.

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