



Diamonds: An Investor's Best Friend?

Description

Diamonds cause heads to turn whenever on display. Can they be part of a successful and diversified stock portfolio? Here are five things to consider when researching diamond mining companies.

1. Diamond mining is an unpredictable sector

Currency fluctuations affect the diamond market, as do the peaks and valleys of retail jewellery sales. Tight credit also affects mining companies. This causes companies to revamp operations for greater efficiency.

Dominion Diamond (TSX: DDC)(NYSE: DDC), previously known as Harry Winston Diamond Corp., operates the Ekati Diamond Mine and has an 80% ownership stake. It has performed process plant improvements at Ekati and its estimation is that the improvements made so far have improved the recovered grade during Q1 2015 (Feb. to April) by approximately 15%.

In 2013, Dominion Diamond sold its luxury brand segment to Swatch Group for \$750 million and Swatch Group's assumption of up to \$250 million of pro forma net debt. With Dominion's Ekati diamond mine purchase it acquired physical assets and ore reserves. This is added to the company's diamond sorting and marketing competencies.

2. Resources directed at new discoveries are vital

Peregrine Diamonds (TSX: PGD) has discovered two new diamond districts. One is its Chidliak Project in Nunavut, Canada, which covers 748,000 hectares. The other is the Nanuq Project in Nunavut, which covers 156,946 hectares.

This month, at the Chidliak project, the company reported a 7.47 million carat Inferred Resource for the top 250 metres of the CH-6 kimberlite and tonnage estimates for CH-7 and CH-44. The CH-7 kimberlite tonnage estimate is between 2.75 and 3.97 million tonnes from the surface to a depth of 280 metres. The CH-44 tonnage estimate is between 1.16 and 2.05 million tonnes from surface to a depth of 230 metres.

3. Shared capital expenditures expedite advancement of projects

This week, **Mountain Province Diamonds** (TSX: MPV)(AMEX: MDM) announced that it is undertaking a non-brokered private placement to raise roughly \$35 million. Part of the proceeds will be used to support its share of ongoing capital expenditures at the Gahcho Kue project. The company is a 49% participant with De Beers Canada in the Gahcho Kue joint venture at Kennady Lake in the Northwest Territories.

Gahcho Kue is the largest and richest new diamond development project in the world. A 2014 feasibility study report filed by Mountain Province Diamonds denotes that the Gahcho Kue project has an internal rate of return of 32.6%.

4. Geopolitical uncertainty affects the diamond trade

For example, it was reported on www.mining.com this week that the EU may be considering a possible ban on Russia's diamonds. This involves more sanctions because of Russia's involvement with Ukraine. Russian state-controlled diamond mining company Alrosa is the leader of the world diamond mining industry. It operates in nine countries and across 10 Russian regions. Alrosa sells over 50% of its production in Antwerp, Belgium, annually.

5. Creative public relations can spur company interest and profits

After all, we're talking diamonds here. There has to be some flair involved in getting the word out about company initiatives. **Rio Tinto** ([NYSE: RIO](https://www.nyse.com/quote/NYSE:RIO)) operates the Diavik mine in the Northwest Territories, and has a 60% interest in it (Dominion Diamond has the remaining 40%). Diavik has an annual production of approximately 6-7 million carats of chiefly large, white, gem-quality diamonds.

This week, Rio Tinto unveiled its application of Oculus Rift technology at a jewelry show. This technology provides an "interactive virtual journey" into the Diavik mine. It's an excellent public relations stunt in an industry dependent on jewelery sales.

Brandee Dallow, Rio Tinto Diamonds' North American manager, said, "it is important for the diamond industry, from the trade through to the final consumer, to gain an understanding of where Rio Tinto's diamonds come from and how they are mined."

Diamonds can be an investor's best friend. Sure, there are risks, as with any other sector. However, the initiatives of these companies, aligned with your risk profile, can mean opportunities for your portfolio to sparkle a little brighter.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:RIO (Rio Tinto plc)

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