Should You Buy Dominion Diamond Corp. After the 9.5% Drop?

Description

With growth in China slowing, **Dominion Diamond Corp.'s** (TSX:DDC)(NYSE:DDC) stock price fell 9.5% on August 24. The company is about 38% below its 52-week high of $24. At close to $15 per share, it yields close to 3.2% with a payout ratio around 60%.

The fall is somewhat understandable because 16% of diamond consumption came from China in 2013. However, investors shouldn't be too worried because in the same period, 40% consumption came from the United States.

The business

Dominion Diamond is the only major diamond producer operating exclusively in Canada. It owns close to 89% of the Ekati Diamond Mine and 40% of the Diavik Diamond Mine. Both mines are located in the low political-risk environment of the Northwest Territories.

The diamond producer supplies rough diamonds to the global market through its sorting and selling operations in Canada, Belgium, and India. Dominion Diamond is also the world's third-largest producer of rough diamonds.

Dominion Diamond only had negative earnings once in the past decade, and its debt-to-cap is only 2%. So, it's unlikely that it would default.

Anticipated development capital spending includes $965 million for Ekati from 2015 to 2020 and $157 million for Diavik from 2015 to 2018. Further growth is expected to come from its projects, including Misery Main, which is coming into production in the first quarter of 2016, and the Jay Project, which is planned to come online in 2020.

Valuation

The book value is the value of assets shareholders would theoretically receive if the company were liquidated. Currently, it has a price-to-book ratio (P/B) of 0.8, the cheapest it has been since it hit a P/B of 0.4 in 2008.

Dividend

Dominion Diamond intends to pay an annual dividend of US$0.40 per share. Half of that is expected to be paid out in November 2015, and the other half to be paid in May 2016.

However, investors shouldn't rely on the dividend too much for any company that relies on its underlying commodity prices to do well. Dominion Diamond is such a company. This is in comparison to utility dividends, for example, that are expected to be much more reliable.

Diamond-demand outlook

Dominion Diamond expects the United States and China to remain the key markets to buy diamonds. In 2013 the total consumer demand for diamond was US$25 billion, and the forecast for 2018's demand is expected to increase to US$31 billion.

Should investors buy today?

With anticipated above-average growth post-2015, there's plenty of time to pick up some shares before Dominion Diamond is expected to soar from its growth projects. If Dominion Diamond falls to $12-14, it could be a good three to five-year investment for double-digit annualized gains.

CATEGORY

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