



Diamonds Are a Dividend Investor's Best Friend

Description

The 1,109-carat Lesedi La Rona diamond, the second largest ever recovered, sold for US\$53 million. The Constellation, an 813-carat diamond, sold for a record US\$63.1 million. Both of these diamonds were mined by **Lucara Diamond Corp.** ([TSX:LUC](#)).

Lucara is among the world's top miners of rare, Type IIA diamonds. In 2017, Lucara's 100%-owned Karowe mine in Botswana produced 521 diamonds with weights greater than 10.8 carats, also known as specials. In the first quarter of 2018 ended March 31, Lucara had already recovered a further 218 specials.

While mining enormous diamonds has been very profitable for Lucara, its acquisition of Clara Diamond Solutions Corporation in February represents an exciting avenue for potential growth. The notable asset acquired in the Clara transaction is a digital sales platform that promises to revolutionize the diamond supply chain.

The Clara Diamond Platform provides analysis of rough diamonds and allows buyers to easily source stones that correspond to polished diamond demand. With Clara, producers sell directly to customers, eliminating traders and middlemen. Further, Clara incorporates [blockchain technology](#) in order to allow for complete provenance tracking across the supply chain.

Lucara estimates that the Clara platform will allow it to unlock as much as 20% more value all the way down the supply chain, while allowing it to realize higher prices for its rough diamonds. Lucara hopes that other diamond providers and diamond buyers will adopt the platform in an effort to modernize, and Clara will capture a portion of the value of their transactions.

Clara represents a significant milestone for Lucara as it begins to diversify away from its core mining business and invest in potentially disruptive technologies. Security, transparency, and provenance are of great importance in the diamond industry, and blockchain technology is uniquely suited to these applications.

Financials, valuation, and dividend

As of March 31, Lucara had [no debt](#), \$43.6 million in cash, and an undrawn credit facility of \$50 million. The acquisition of Clara was paid for with 13.1 million shares, having no impact upon Lucara's financial position and representing dilution of about 3.7%.

At its current price, Lucara trades at a price-to-earnings multiple of about 10.5 and a price-to-book ratio of around 2.3, which compares to a sector median of 12.1 and 1.6, respectively.

Lucara pays a quarterly dividend of \$0.025, which translates to an annualized yield of roughly 4.8%. Lucara's dividend policy also allows for one-time special dividends, such as those issued in December of 2014 and September of 2016.

Conclusion

With the acquisition of Clara, Lucara Diamond has further strengthened its business and has positioned itself with first-mover advantage in the modernization of the diamond supply chain. Lucara's impressive balance sheet, reasonable valuation, and strong dividend make for a compelling investment case.

The three analysts covering Lucara have an average rating of "buy," and the consensus price target is \$3.15, representing over 50% upside potential from its current price. Perhaps diamonds are, indeed, an investor's best friend.

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