



## This Canadian Diamond Company Is Striking it Rich in Botswana

### Description

**Lucara Diamond Corp** ([TSX:LUC](#)) has a decade-long history of success—a rare feat among resource companies. Even more impressive is its free cash flow profile, which helps support an impressive 6% dividend, a payout the company has maintained since 2014.

The root of Lucara's success stems from its focus on a resource rich, politically stable, mining friendly country: Botswana.

If you want to diversify your portfolio with commodity stocks but don't want the outsized risks associated with most mining companies, check out Lucara Diamond Corp.

### Fundamentals remain strong

Over the past decade, Lucara shares are up more than 200%, but don't think that it was an easy ride. The stock has swung wildly multiple times over the past 10 years, reaching highs of \$4 per share and lows of \$0.50 per share. Investors who stuck through the rollercoaster decade, however, were handsomely rewarded.

Since 2016 Lucara shares have been in a bit of a funk, falling by 60% to just \$1.60 apiece. Still, management has stuck by its dividend, pushing the yield up to 6%.

Looking ahead, it seems like this might be an opportune time to accumulate shares.

In 2018, Lucara sold 350,798 carats of diamonds for an average price of \$502 per carat. Record production brought revenues to \$176 million for the year.

Notably, 2018 was a great year for specialty diamonds, with 28 diamonds being over 100 carats each. A dozen diamonds sold for more than \$2 million last year, while one sold for more than \$10 million. Those figures are important given that while specialty diamonds only represent 5% of Lucara's volumes, they generate 70% of its revenues.

## Volatility is your friend

Lucara's stock has pulled back recently due to weak selling prices. For example, in 2017, the company achieved average prices of around \$850 per carat. In 2018, that metric fell to just \$502 per carat.

In total, revenues decreased last year from \$221 million to \$176 million. With steady operating costs, however, earnings per share plummeted from \$0.17 to just \$0.03.

Moving past this volatility, Lucara still looks incredibly well positioned. In 2018, the company mined more ore and sold more carats than ever before. Botswana remains one of the lowest-risk mining jurisdictions in the world, and the company believes it has the reserves to last until at least 2036.

Notably, insiders own 22% of the company. It's always nice to know that executives are fully aligned with your investing interests. They're not selling at current prices, and neither should you.

## Dollar cost average

Lucara is an ideal opportunity to implement dollar cost averaging. Diamond prices will continue to be volatile, but this company has a proven long-term ability to profitably mine and sell its output.

In 2020, supply and demand differentials are expected to widen as larger mines come offline. Over the next 12 to 24 months, don't be surprised if diamond prices rebound to levels where Lucara shares were trading at \$4 apiece.

By dollar cost averaging at different prices over time, you can make sure you're not making an all-in bet on exactly when that shift will occur.

### CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

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