



TFSA Investors: This Diamond Stock Is Ridiculously Cheap

Description

Lucara Diamond ([TSX:LUC](#)) is a [diamond producer](#) and explorer focused on developing the company's portfolio of advanced stage diamond assets in Africa. The principal asset of Lucara is the Karowe Mine in Botswana. Lucara has approximately 350 employees in Canada and the United Kingdom plus approximately 500 contractors employed in the Karowe Mine in Botswana.

Operational efficiencies

The Karowe mine came into production in 2012 and produced a total of 433,060 carats last year. The company mines and markets high quality rough diamonds from the Karowe mine in Botswana. The company sorts the rough diamonds into internationally recognized sales assortments according to a number of such as size, colour, clarity, expected polished yield and value. After valuing the rough diamonds, the diamond are sold from Botswana into various international diamond markets via a sealed bid tender process.

Beginning in 2018, the company moved to a [blended tender](#) process where run of mine production and exceptional stones are sold together, reducing the inventory time for exceptional stones and ensured that quarterly revenues are more stable. In 2020, there were four blended tenders held. Each tender lasts between seven and 10 working days, during which time customers view the assortments and place a confidential electronic bid on desired parcels of their choice. Upon conclusion of the tender, the highest bidder won the parcel. In 2020, viewings for tenders were held exclusively in Gaborone, Botswana.

Diversified customer base

The company's rough diamond clients are international diamond buyers based in the major diamond cutting and polishing centers across the globe. Lucara expanded the company's business in 2018 with the purchase of Clara, a company whose primary asset was a secure, digital rough diamond sales platform that uses proprietary analytics together with cloud and blockchain technologies to modernize the existing diamond supply chain.

This acquisition drove efficiencies and ensured diamond provenance. Manufacturers participated in sales on Clara by placing electronic orders specifying the polished diamond parameters required. Using proprietary analytics, Clara matched individual, scanned rough diamonds to the buyers' optimal polished requirements creating a sale.

In 2020, during the ramp-up phase of the platform, fifteen diamond sales were completed. As additional third-party producers and manufacturers are on-boarded and in response to increasing variety and size of orders received, Lucara is expected to increase the frequency of appropriate, qualifying goods through Clara. The company will also continue to augment Lucara's overall sales strategy for Karowe goods through Clara, with the objective of achieving the highest possible price for all diamonds sold.

Market challenges and future outlook

In 2020, the market for rough diamonds remained challenging, with price decreases exceeding those observed in the past four years. Weaker currencies in diamond consuming markets, challenging polished sales, tightening liquidity in the diamond industry, and lower margins in manufacturing all contributed to the price weakness in all size classes.

Following actions taken by producers, stable polished diamond pricing, and a reduction in inventories in the mid-stream, price recovery was observed in late 2020. Despite these short-term challenges, the long-term outlook for the diamond market remains positive, which should serve Lucara's shareholders well.

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Date

2025/06/30

Date Created

2021/03/13

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