



AlanHochreiter



Diamond Market



James Allan
Botswana
June 2009

Allan Hochreiter

- Allan Hochreiter is a corporate finance boutique based in Johannesburg (www.allanhochreiter.co.za)



James Allan

- Last top rated diamond analyst on the JSE.
- Represented minorities (25% of the shareholders) in the De Beers privatisation. Gained an extra \$2 per share for shareholders
- Predicted the coming shortfall of diamonds when De Beers stocks were ~\$5bn....



Rene Hochreiter

- Rated top platinum analyst 10 years in row
- Raised capital for Eland Platinum



Ken Greve

- Corporate finance executive for 15 years: Gold Fields/JP Morgan/Kumba/BHP Billiton
- Unbundling of Kumba from Iscor



Subsidiary – Partners Drilling

- 20 drills in SA and 6 in Africa in (Anglo Plats and De Beers and Rio main clients in SA)



Contents

- **Diamond Market**
 - Rough supply and demand
- **Diamond Market**
 - Share market
- **Conclusion**

How big is the diamond industry?

- ~150m cts in 2007
- ~\$14bn in 2008 rough
- Copper production ~\$120bn
- Gold production~ \$70bn
- Nickel production~ \$40bn
- Platinum production ~\$20bn

Who are the producers

- **De Beers/Debswana 45%**
- **Alrosa 20%**
- **Angola 9%**
- **Rio Tinto 8%**
- **BHPB 4%**
- **Harry Winston 3%**
- **Around 90% of production from 6 players..... More concentrated than other commodities**



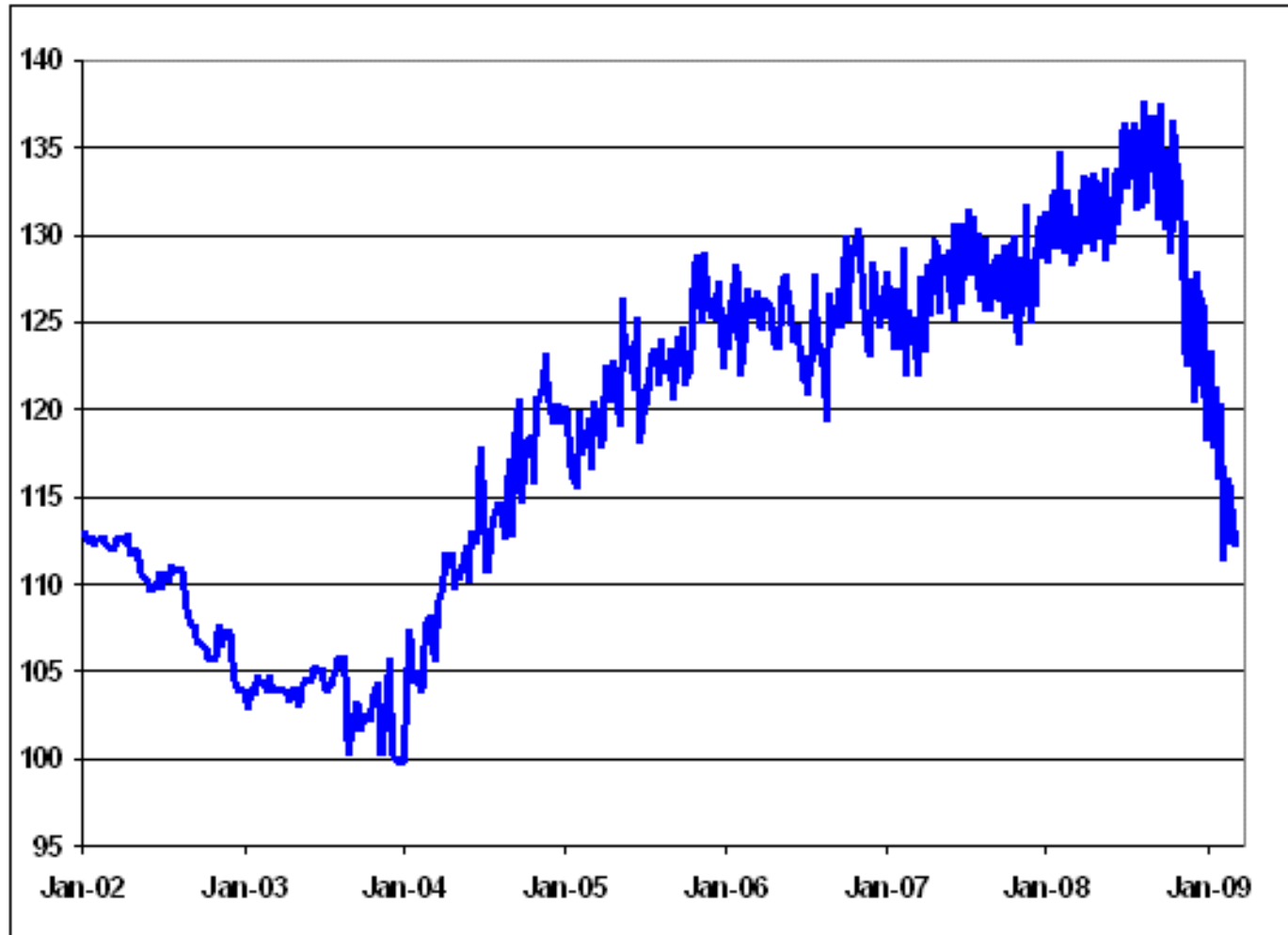
Recent diamond news

- Tiffany's profits down 62%(30 May)
- JCK Las Vegas "Buying up.....wave of optimism" (31May)
- Harry Winston Quarterly loss of \$45m c.f. profit of \$21m (4 June)
- Signet quarterly profit up....(5 June)



Polished Prices Index

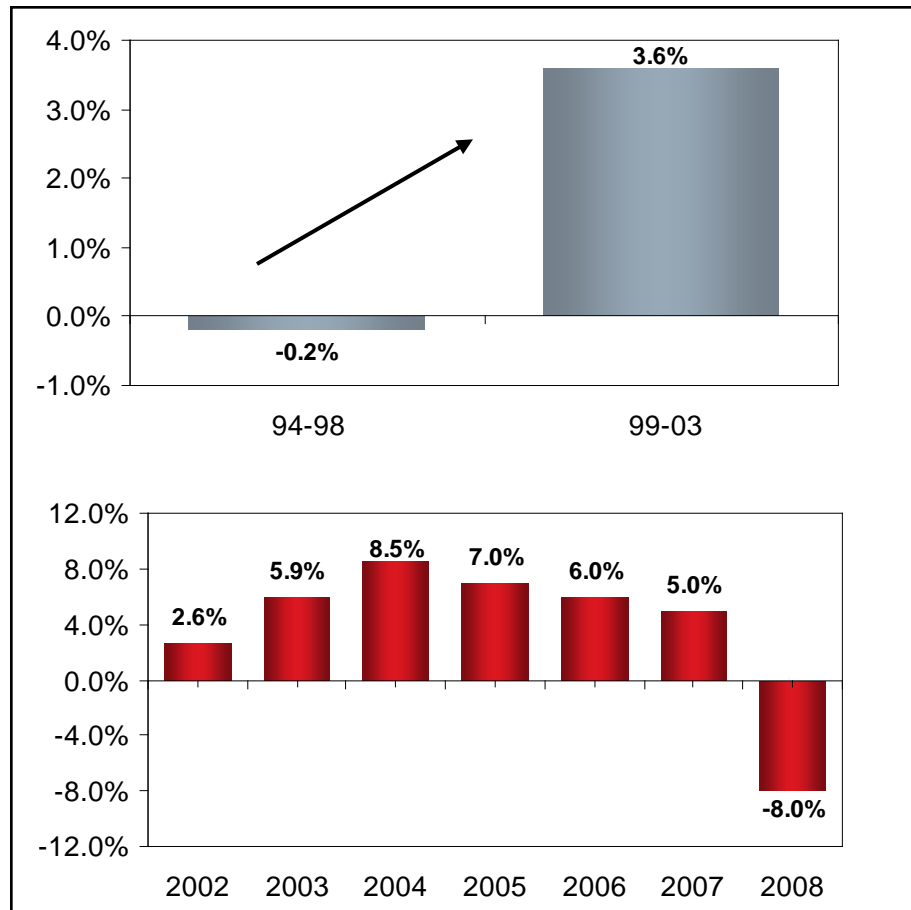
www.polishedprices.com



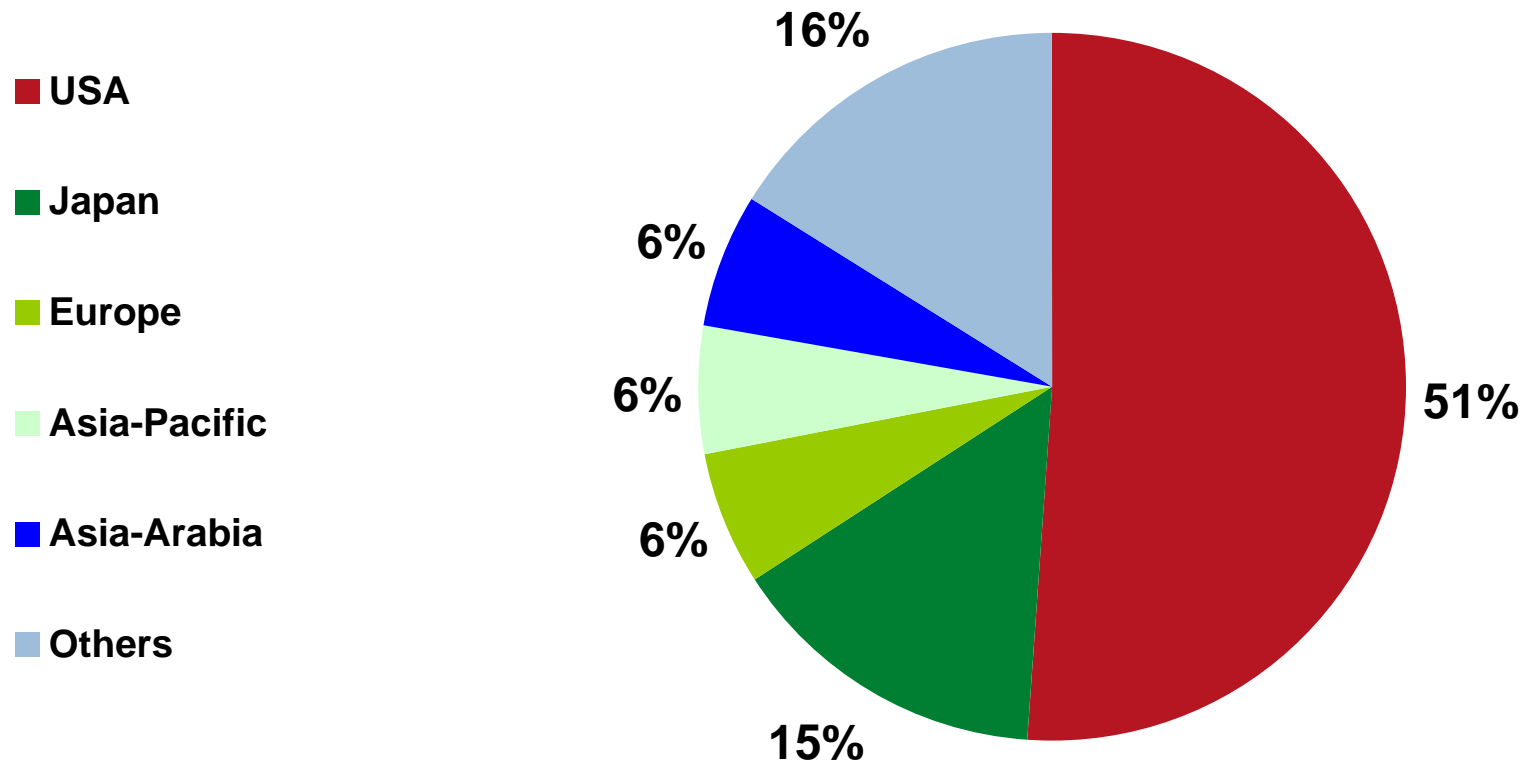
Driving Growth



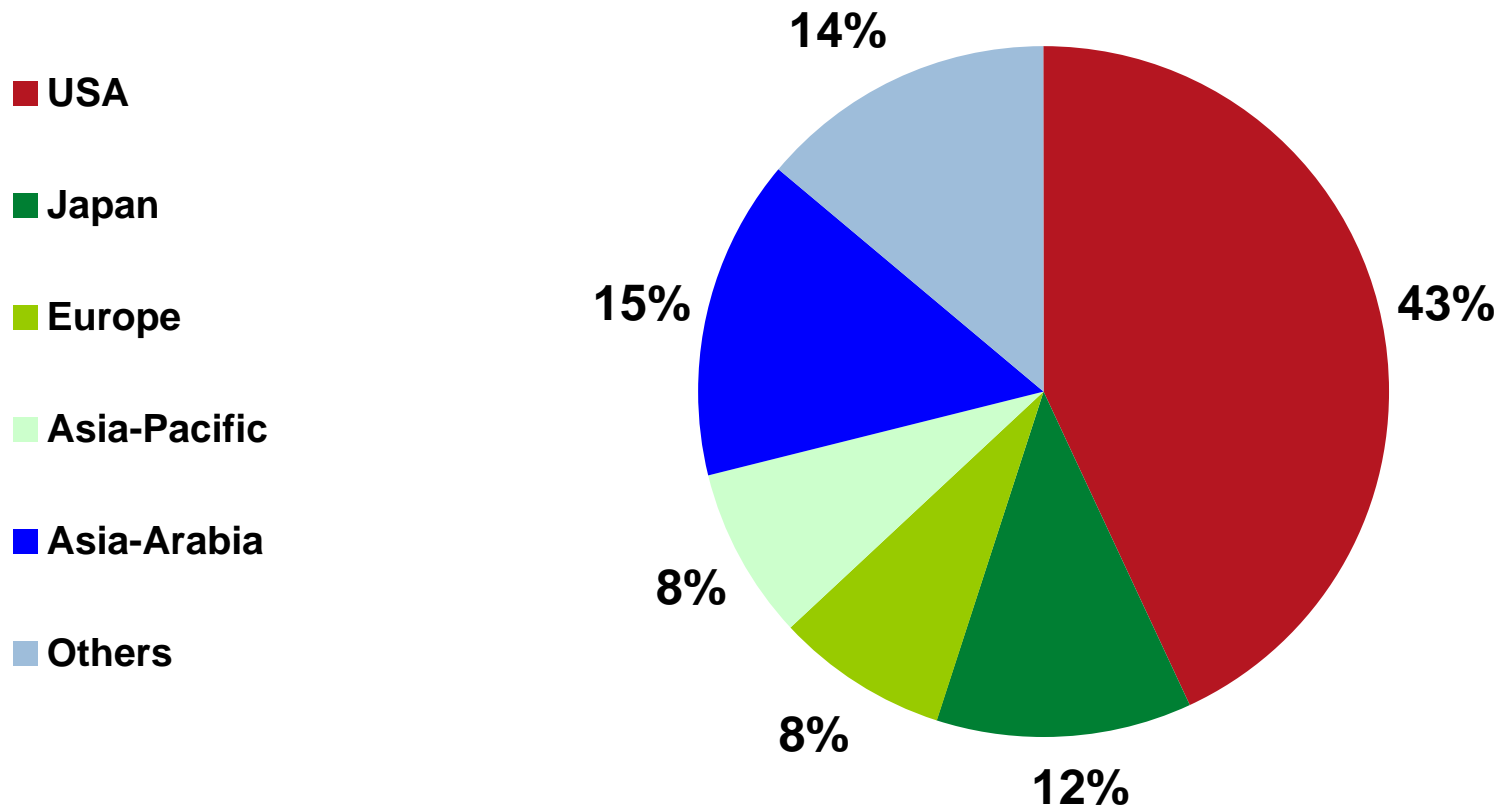
World Retail Sales (USD)



Retail Sales of Diamond Jewellery 2008 (\$70bn) (-10%)



Diamond Content 2008

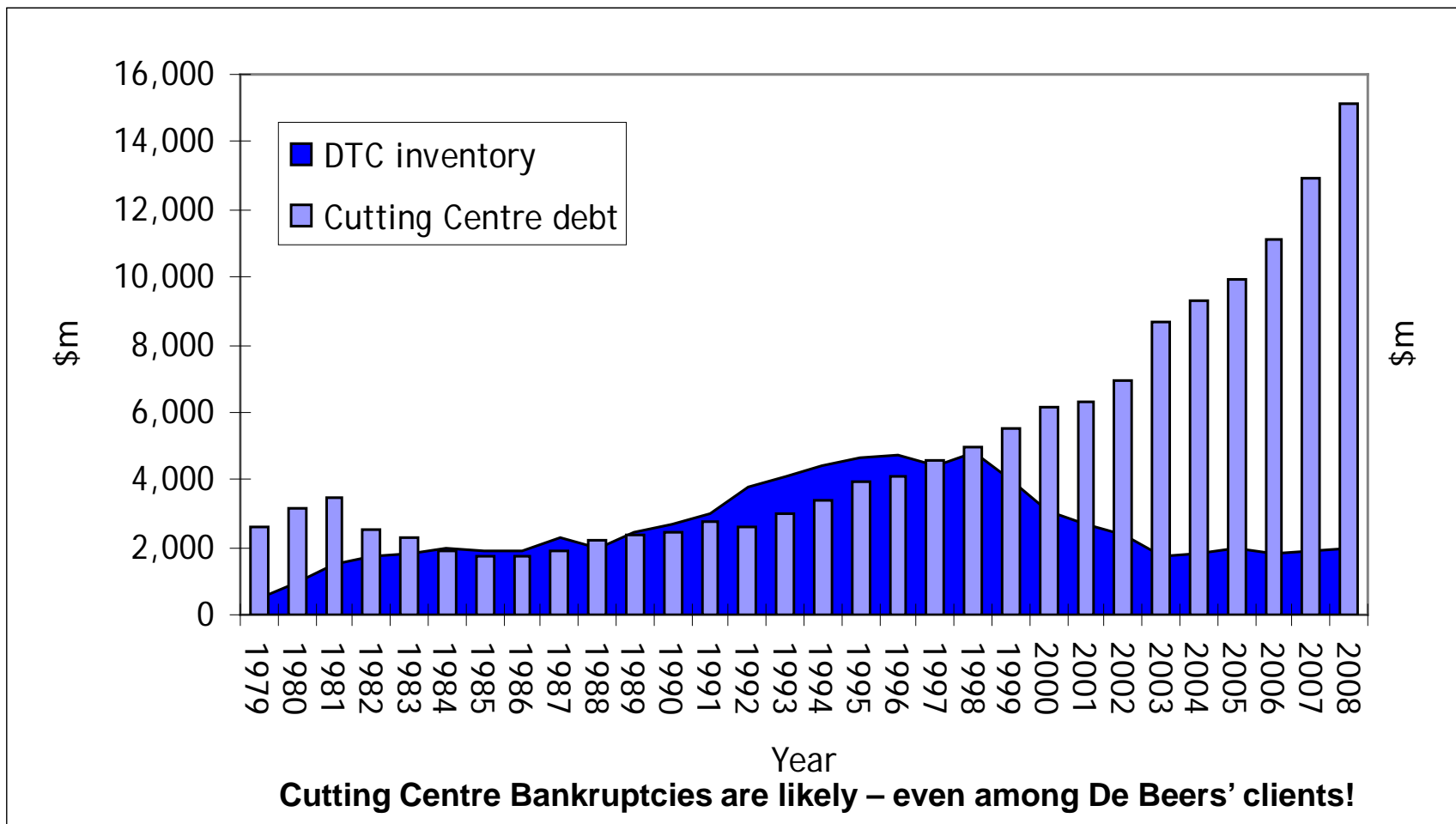


Supply Changes - 2008

- Australia down 6m carats
- Canada down 2m carats
- Russia down 1 m carats
- Botswana down 1 m carats
- South Africa down 0.3m carats
- Total supply estimated at 140m carats in 2008 (148m: 2007)
- But value climbed from \$12.8bn to \$14.3bn

Diamonds-Pipeline Debt

THE RISKS – Debt and no Liquidity in the Cutting Centres



Source: Company reports and RBC Capital Markets estimates for 2008

Bank funding for the pipeline “tightened”

- Credit for funding of pipeline stocks evaporated
- Diamond bank to client “ You have a \$10m facility with us and have \$3m drawn down. The other \$7m is no longer available and by the way we would you to start repaying the \$3m”
- Without working capital funding the market for rough disappeared overnight

The ripple effect

- De Beers have been trying to get away from this for years. What is it?
- A “small” change in retail sales has a large impact on rough sales....Why?
- Because of rough and polished stocks and debt in the pipeline.
- In the good times the banks extend credit into the pipeline to buy stock because prices are rising and in the bad times>guess what?
- A 10% change in retail demand can cause a 50% change in rough demand....

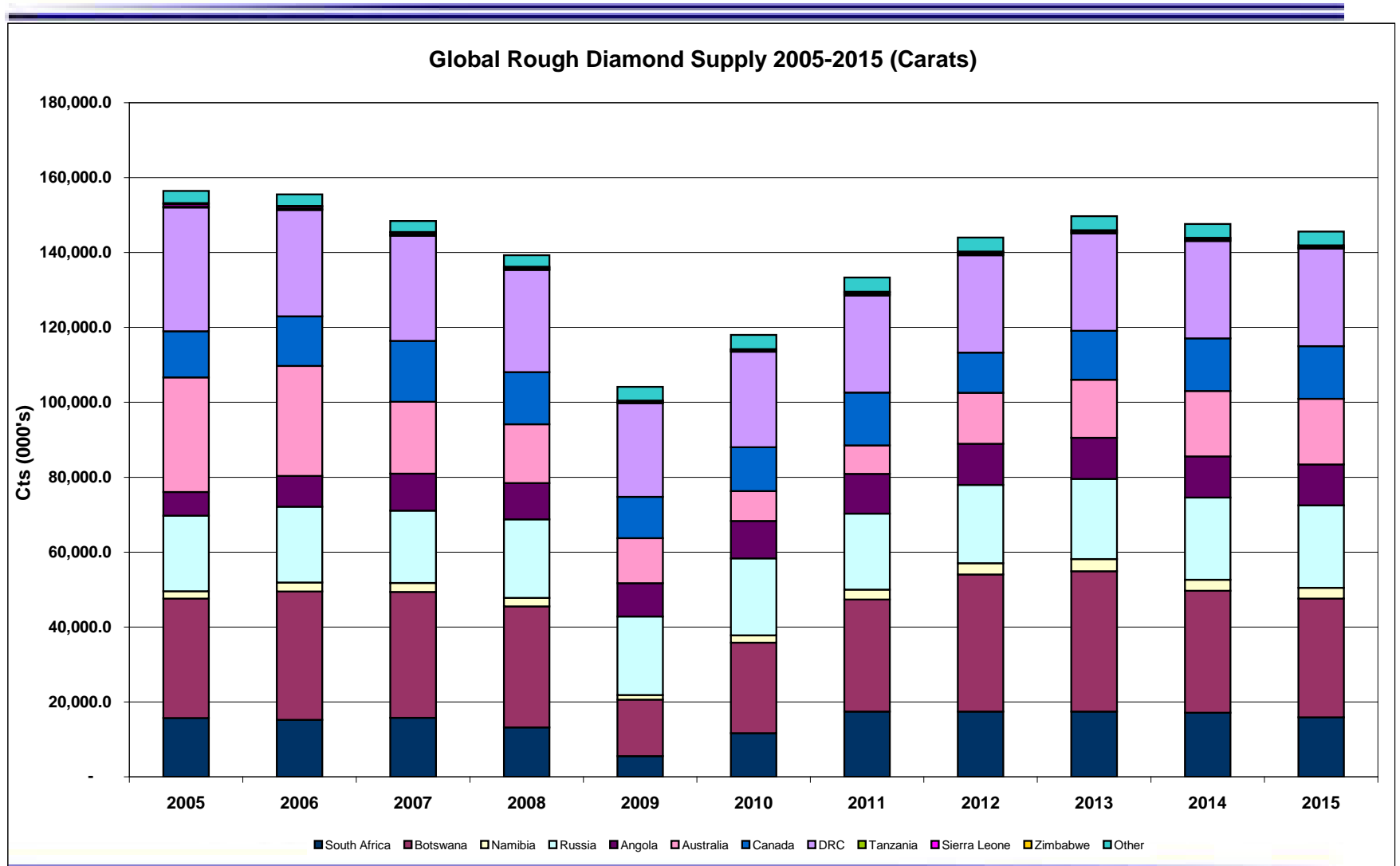
Producer responses to market in 2009

- De Beers (45%) closed mines in Q1 (and they were highly profitable mines) (No cash to fund a stockpile)
- Alrosa (20%) stockpiling at the Gokhran
- Angola (9%) Central bank stockpiling
- Rio Tinto (8%) Postponed u/g development at Argyle; decreased production at Diavik
- BHPB (4%) Full steam ahead
- Harry Winston (3%) decreased production

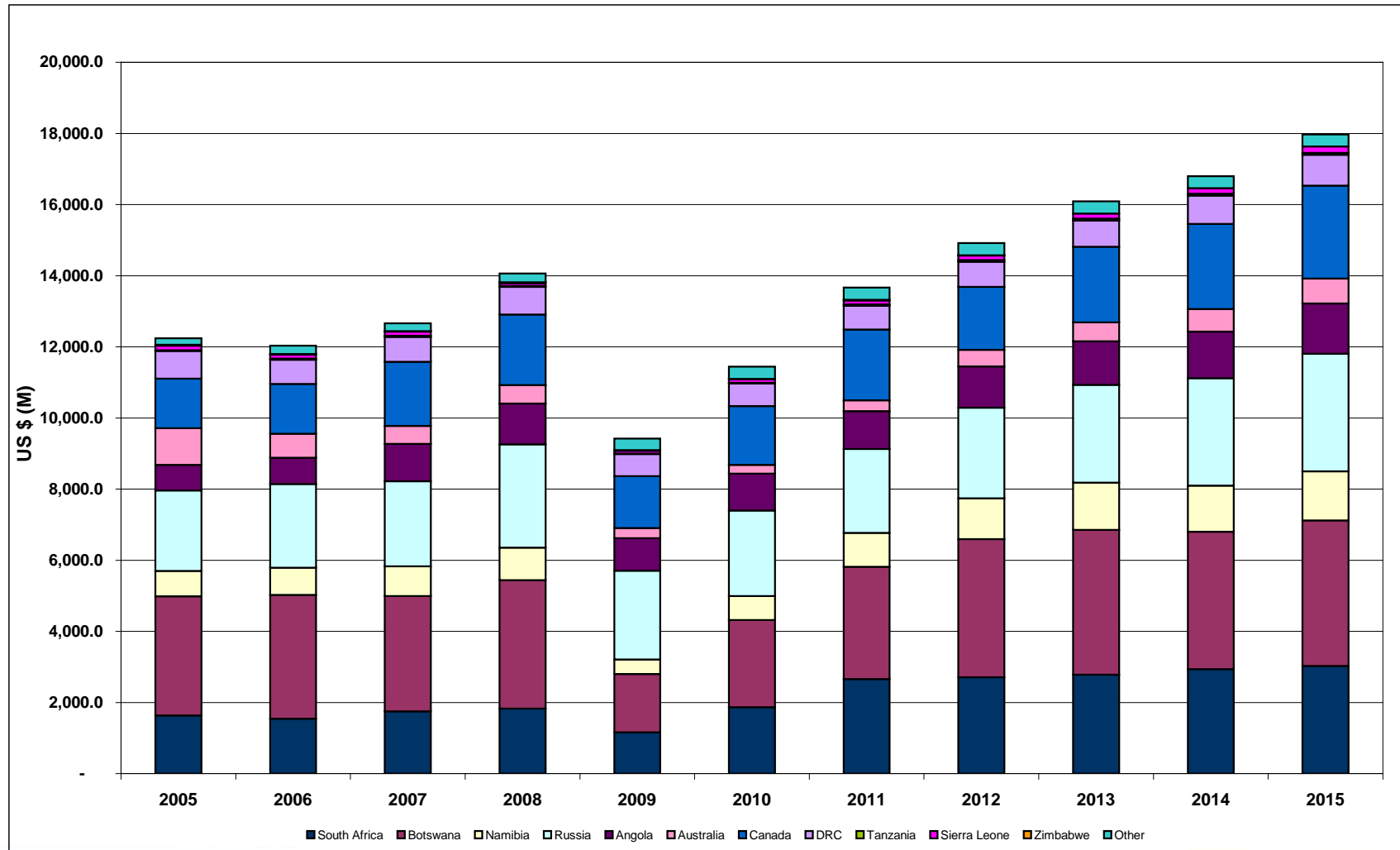
Seen on the way to Venetia?



Global Supply (carats)



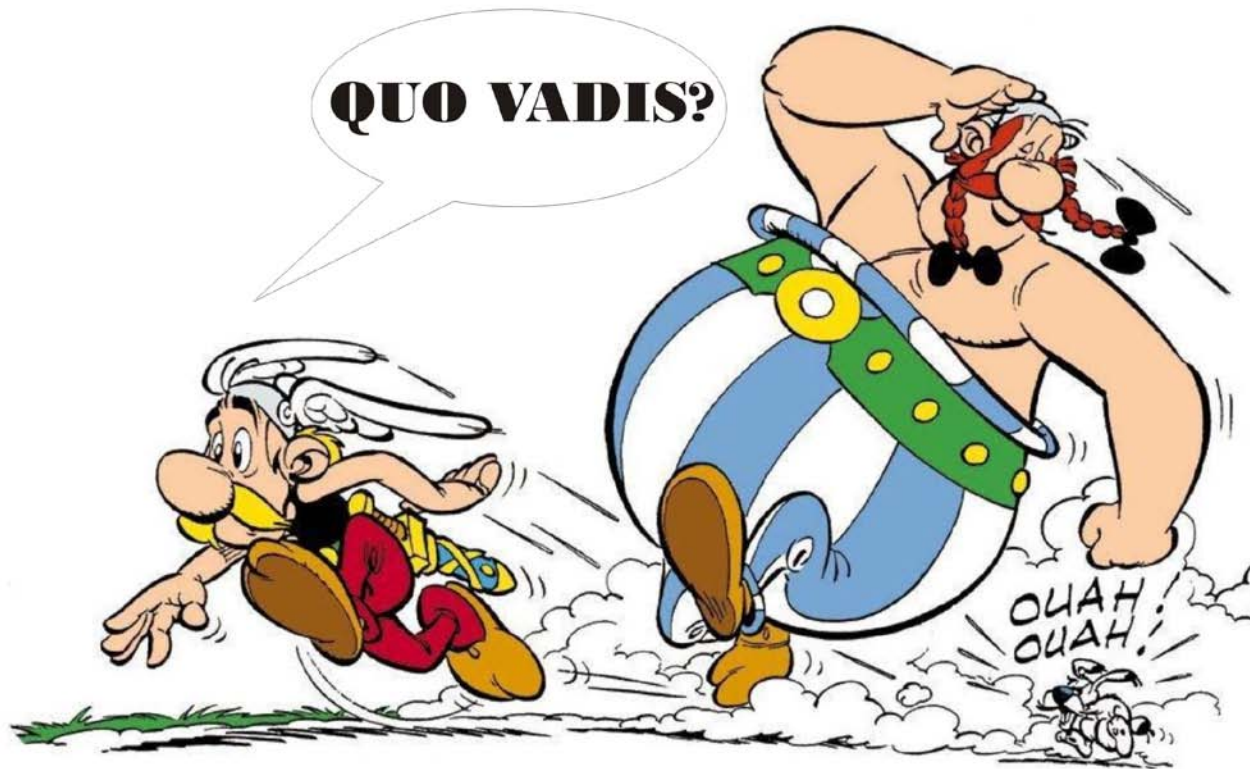
Global Supply \$ terms



Impact on the Botswanan economy



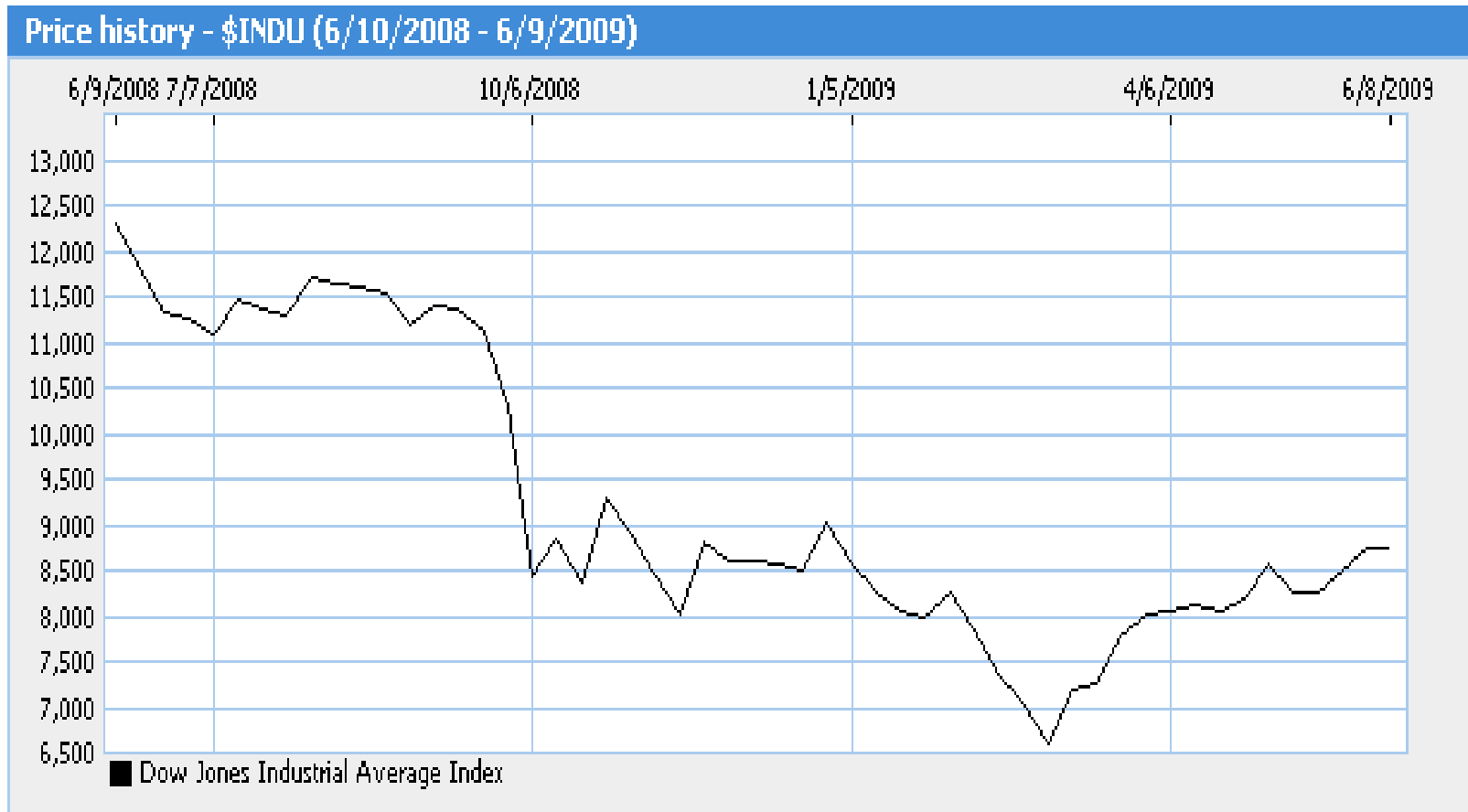
US Jewellery Sales- DJ and Consumer confidence: Leading to a reverse ripple?



WALLPAPERS.DUBLE.COM

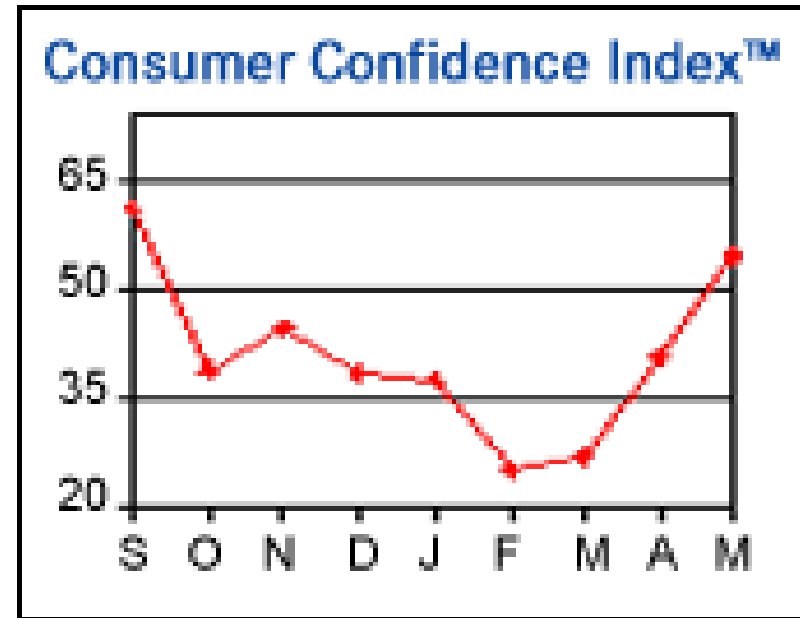
US Jewellery Sales- Dow Jones

Dow Jones Industrial Average 1 Year Chart

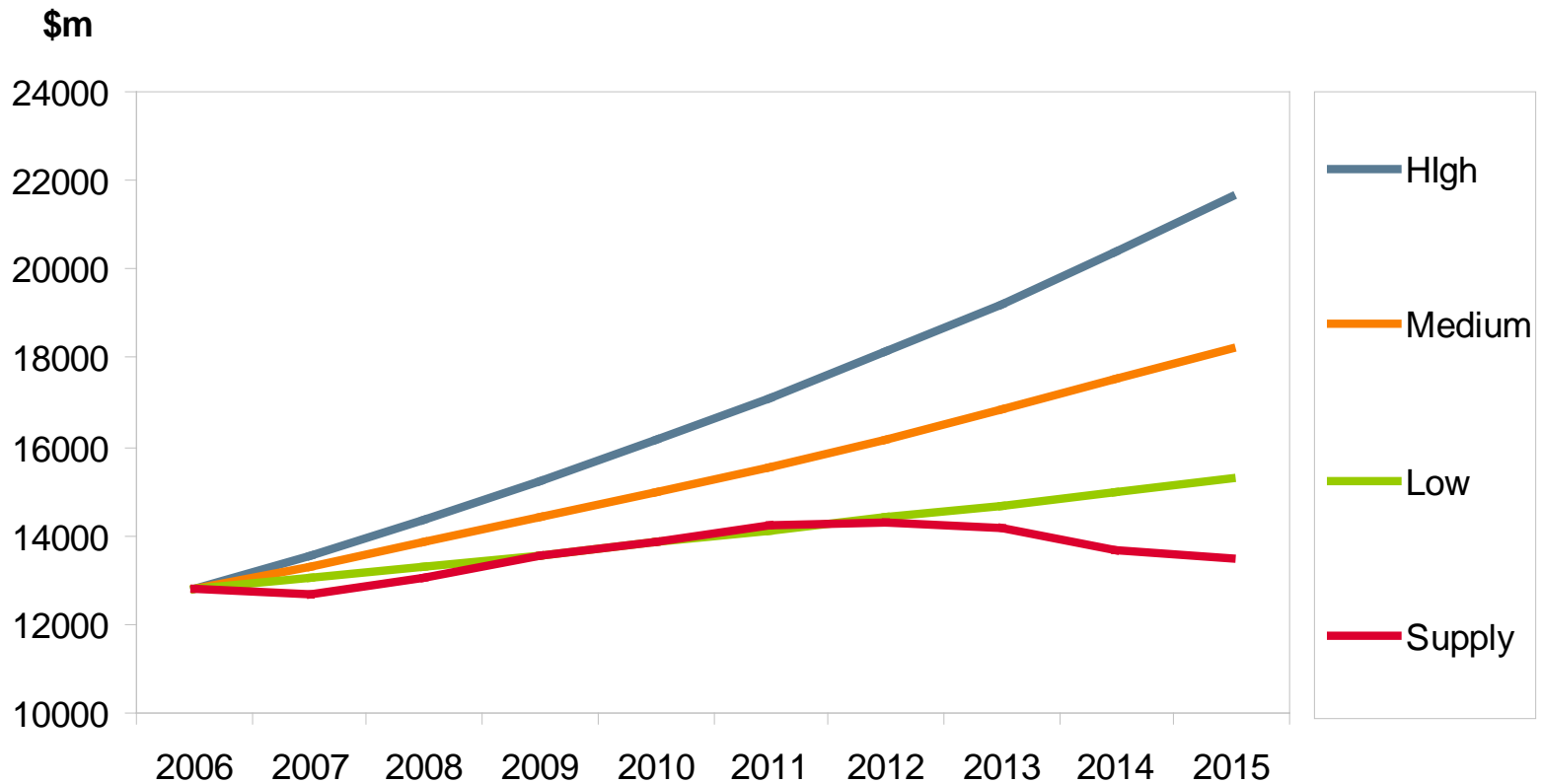


US Jewellery Sales- Consumer Confidence is the key

- Consumer Confidence improves sharply (26 May)
- US economy: Consumer Confidence jumps by most in 6 years
- “As far as consumers are concerned the worst is behind us” Lyn Franco, Director of the Conference Board Consumer Research Centre
- 28 point jump in April and May is the biggest two month rally since records began in 1967.....
- “Pent up demand is increasing with each passing day as reflected in these confidence numbers” HIS Global Insight
- But what did the Canadian High Commissioner say last night?



Demand Scenarios and Mine Supply (Botswana-July 2007)

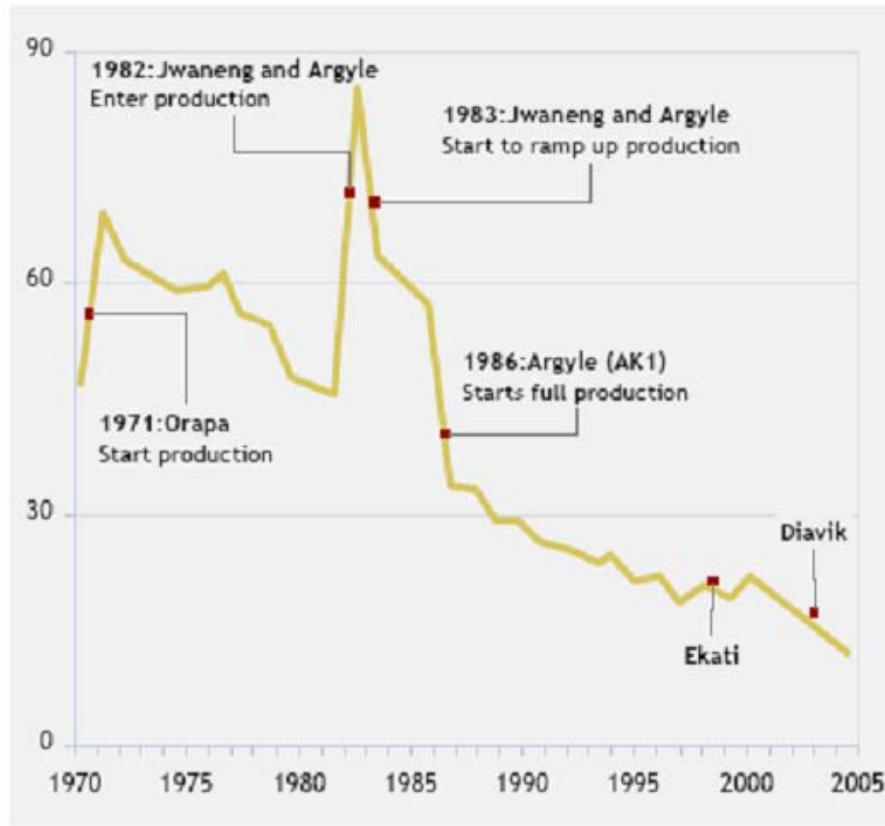


Major drivers for the industry

- “Brilliant” product
- Profitable and large kimberlites are hard to find
- And take even longer to come into production
- Major mines coming to end of open pit lives (10 years)
- Margins are generally good
- US consumer is battered>but recovering
- China, India and Middle East growing strongly

Diamond reserves

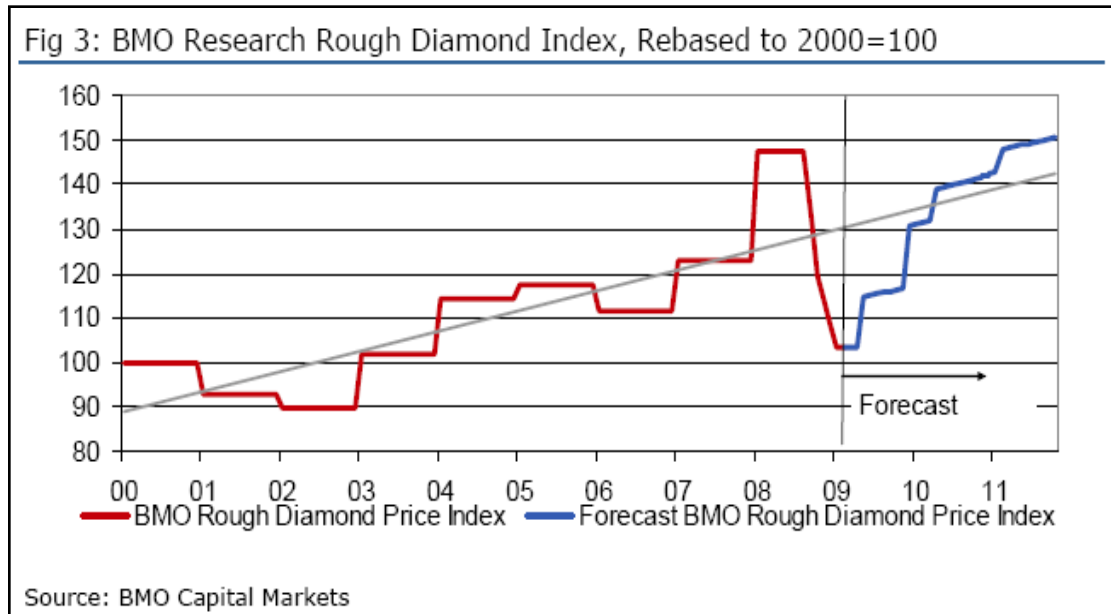
Reserves of major operating mines (years) at current annual production



Source: BHP Billiton

Longer Term Diamond Market Outlook Positive

- In March 2009, BMO forecast a gradual recovery in diamond prices starting mid-2009, as destocking is completed amidst shortages created by the cuts in sales and production from De Beers and Alrosa



**Diamond Prices Will Rise as the
Global Economy Recovers**

Conclusion on the Diamond Market

- Demand fell in 2008> the US decline outweighed all other markets
- Most major producers cut production> no cash to stockpile!
- Carat supply declined in 2008 by 10mcarats>to ~ 40m carats in 2009 (lower than in 2000!)
- Prices collapsed in late 2008 because of the banks withdrawing credit lines and a pipeline that was choked with stock
- Pipeline has destocked to some extent> production resuming. But will only get back to 2008 levels in 2012
- US sentiment is improving....

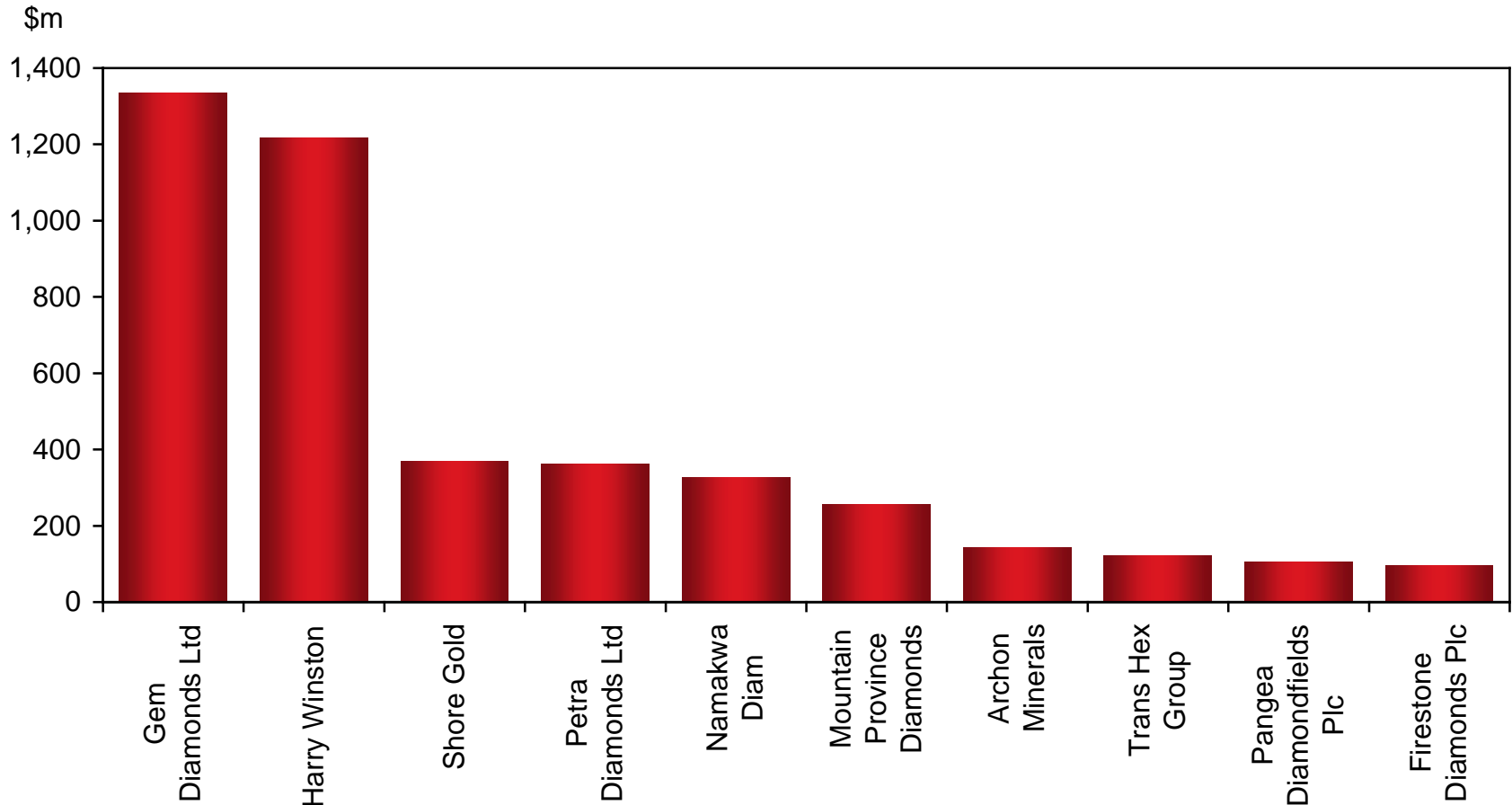
And now for the other market.....

- Fear and greed overcomes reason
- Highly visible and sometimes very painful
- Prices can move for seemingly no rational reason...

Listed Diamond Companies

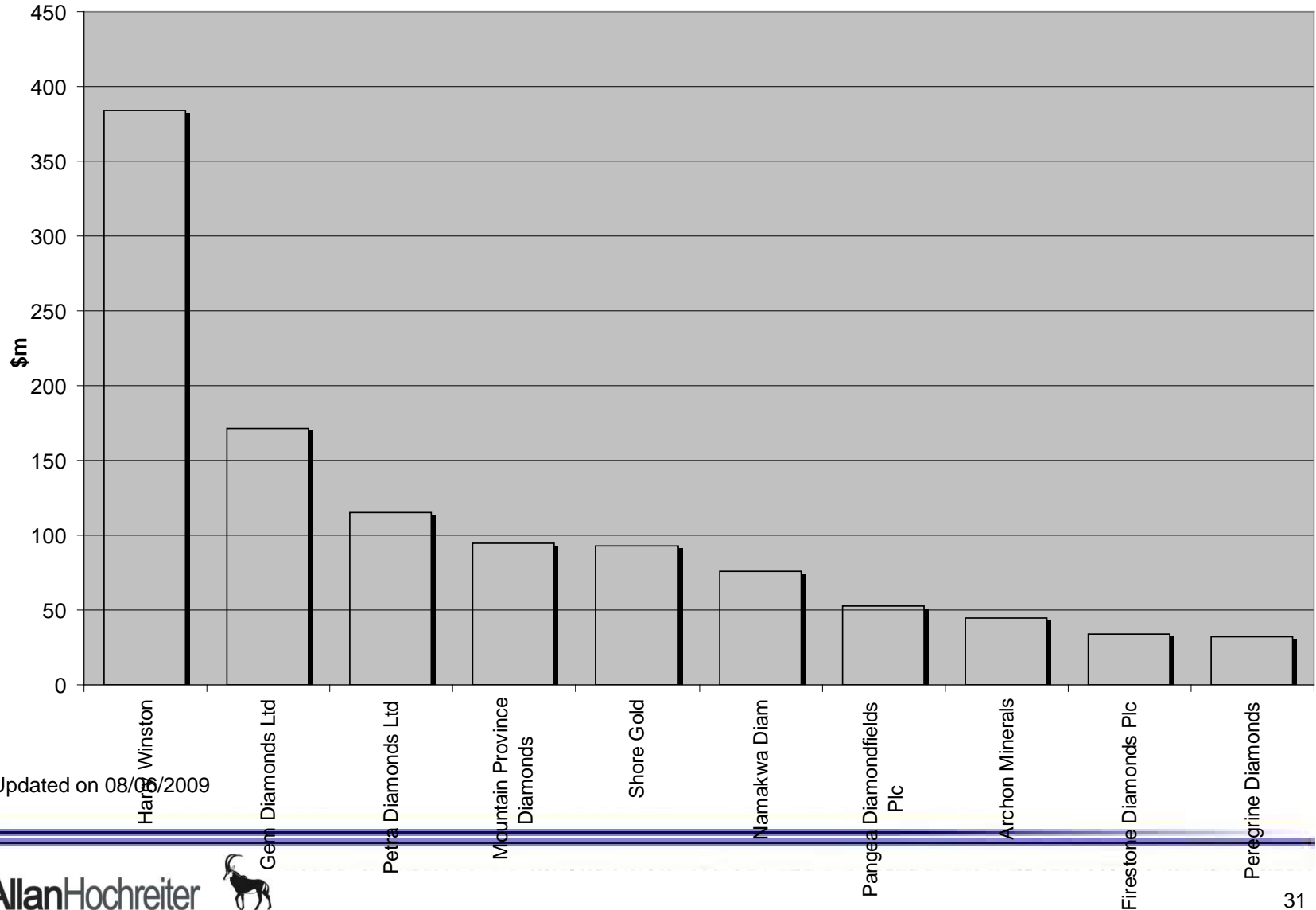
- 37 companies
- 9 Producers; rest developers or explorers
- Combined market capitalisation (\$1.5bn)
(2008:\$5bn)

Market Cap. Top Ten Diamond Companies (2008) (\$4bn)

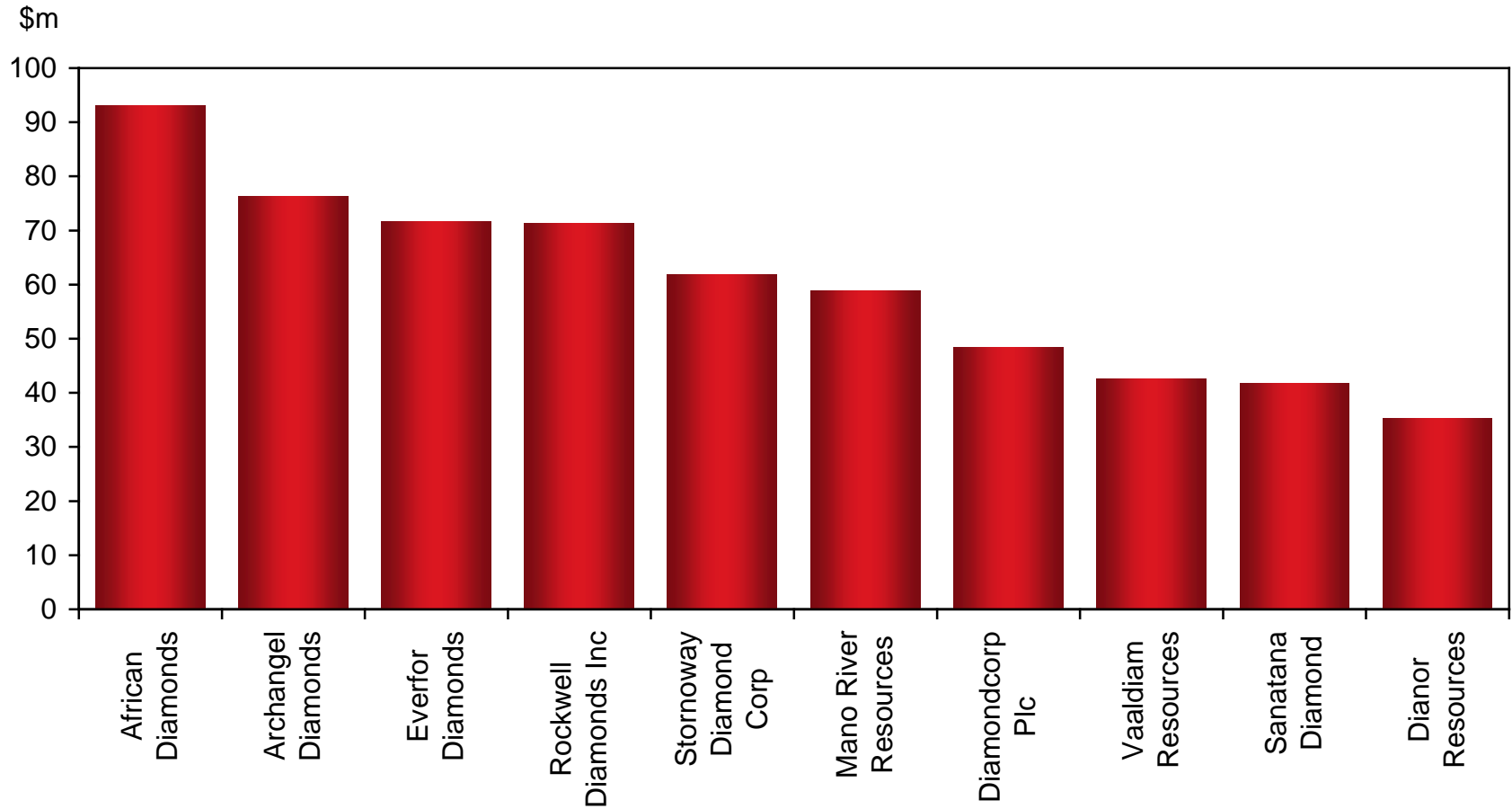


Updated on 18/07/2008

Market Cap. Top Ten Diamond Companies (2009) (\$1.1bn)

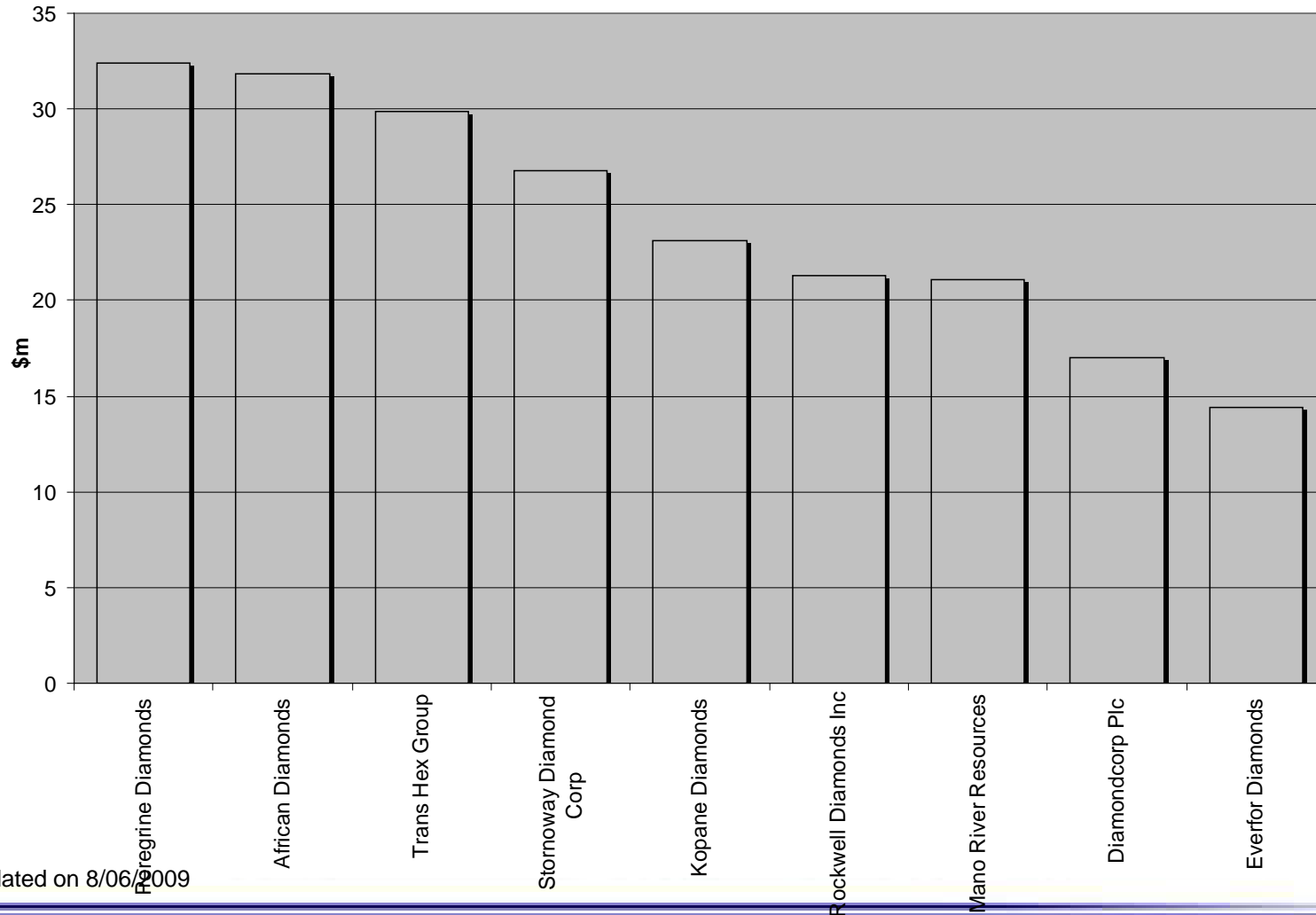


Market Cap. 2nd Ten Diamond Companies 2008 (\$617m)



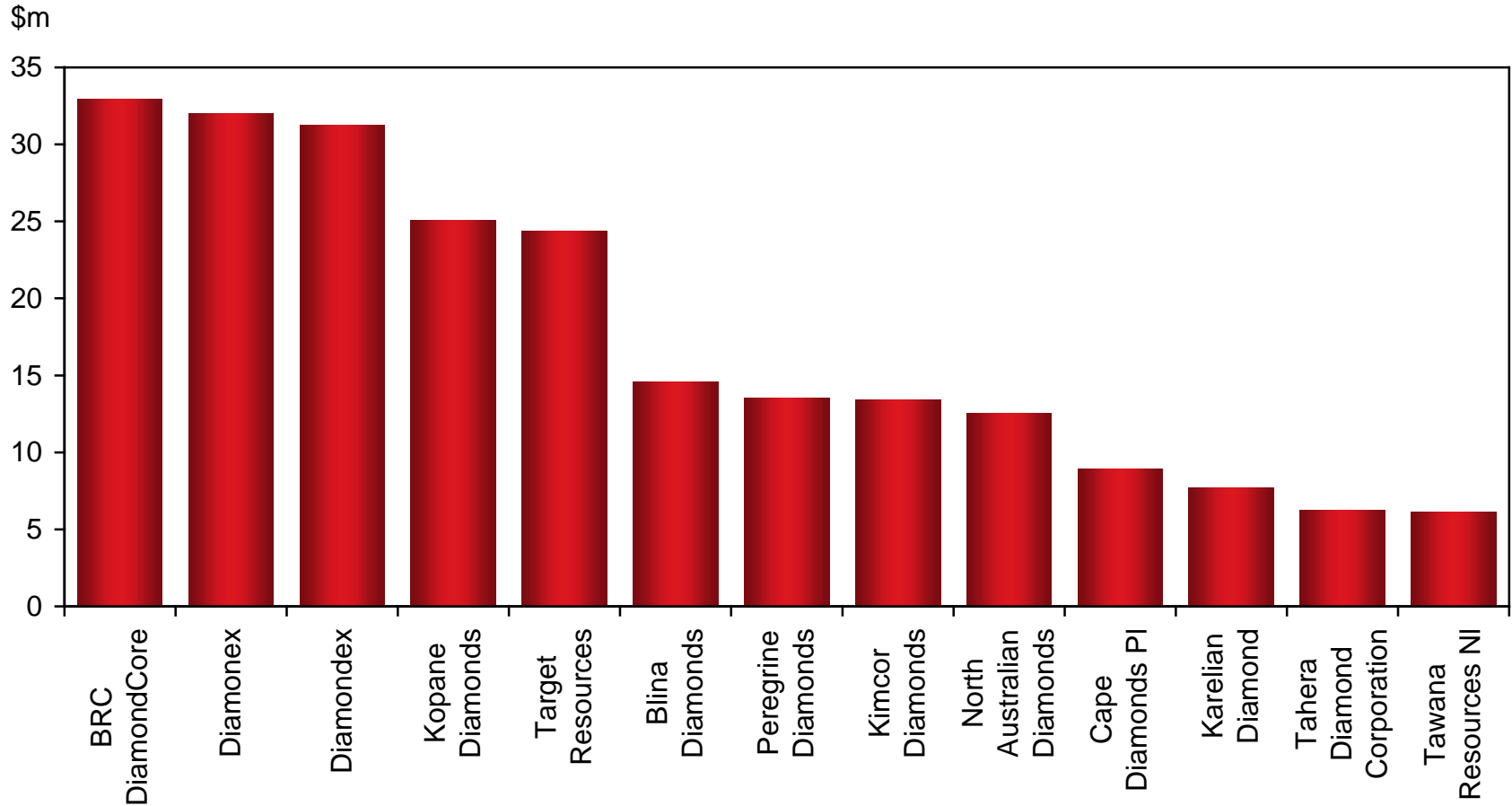
Updated on 18/07/2008

Market Cap. 2nd Ten Diamond Companies 2009 (\$212m)



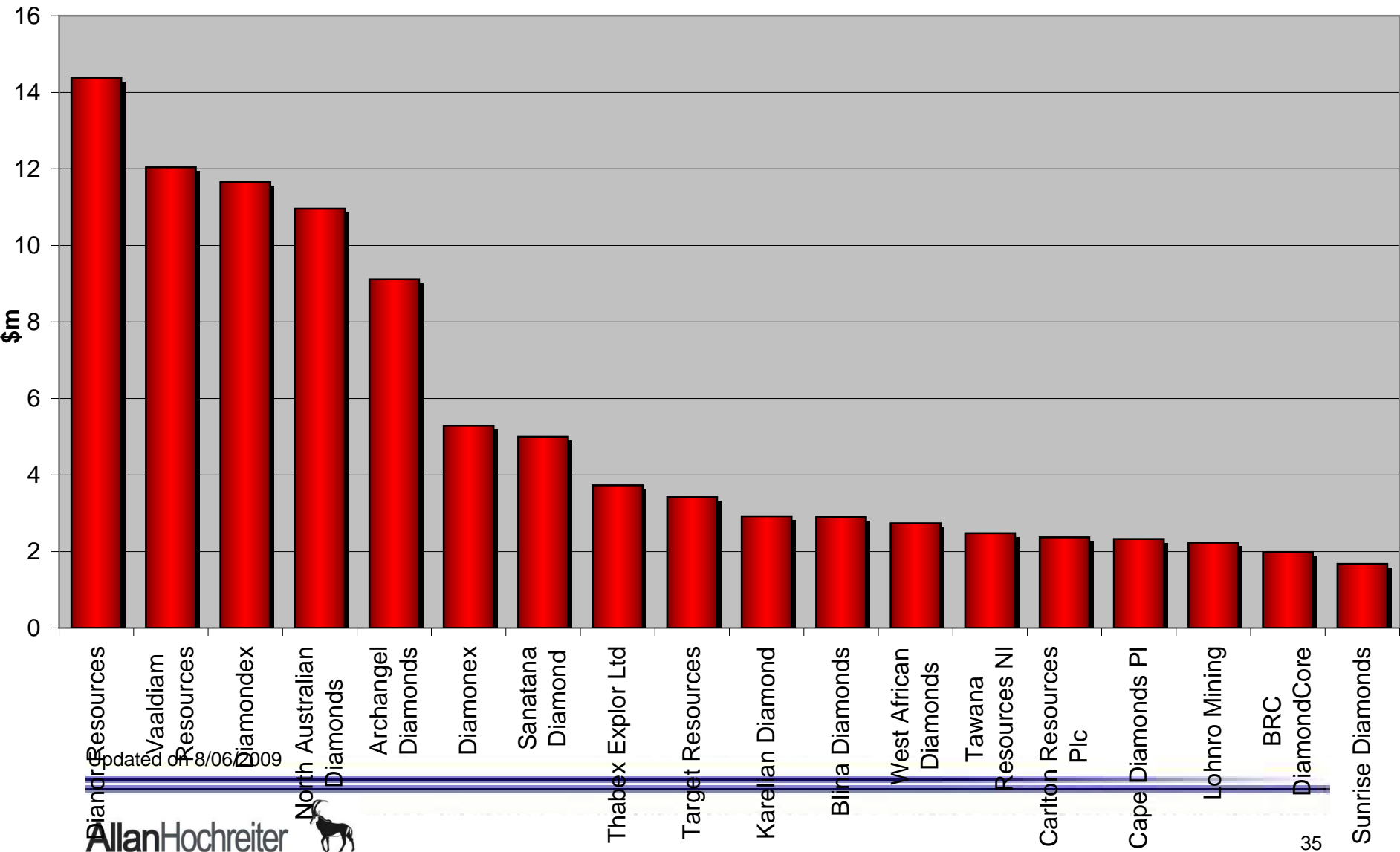
Updated on 8/06/2009

Remaining Diamond Companies Over \$10m (2008) (\$173m)



Updated on 18/07/2008

Remaining Diamond Companies Over \$1m (2009) (\$58m)



Updated on 8/06/2009

Selected Diamond Shares

Company	Date High	Highest Share Price	Current Share Price	% inc/dec
BRC Diamondcore	2008/02/04	35.00	0.70	-98%
Pangea Diamonds	2007/05/29	0.30	0.02	-94%
Shore Gold	2007/04/06	7.74	0.58	-93%
Diamonex Limited	2008/01/08	0.50	0.05	-91%
Rockwell Diamonds	2007/07/30	0.79	0.11	-87%
Gem Diamonds	2008/05/08	11.91	1.70	-86%
TransHex	2007/04/17	15.80	2.75	-83%
Firestone Diamonds	2008/05/09	2.02	0.38	-81%
African Diamonds	2007/04/19	1.33	0.26	-80%
Petra Diamonds	2007/08/07	1.66	0.35	-79%
Namakwa Diamonds	2007/12/14	1.81	0.41	-78%
Mountain Province Diamonds	2007/05/23	5.93	1.77	-70%
Kopane Diamonds Development	2007/07/18	0.25	0.09	-66%

Diamond Companies not alone- Selected Platinum Shares

EXPLORERS (In Cents)	Domicile Currency	Highest Price	Date	Current Price	% decrease
Beartooth	CAD	220	29 February 2000	2	-99%
Consolidated Puma	CAD	220	25 May 2007	6	-97%
Blackthorn Resources	AUD	395	26 June 2007	34	-91%
Platmin	CAD	1088	13 July 2007	95	-91%
Eastern Platinum	CAD	407	05 March 2008	60	-85%
Wesizwe	ZAR	1495	19 April 2007	262	-82%
Anooraq	CAD	506	26 October 2007	117	-77%
Nkwe Platinum	AUD	121	23 March 2007	35	-71%
Platinum Group Metals	CAD	440	29 October 2007	137	-69%
Jubilee Platinum	GBP	124	01 June 2007	43	-65%
Ridge Mining	GBP	290	13 June 2002	101	-65%
Platinum Australia	AUD	308	02 July 2008	108	-65%
Caledonia Mining	GBP	11	05 May 2006	4.75	-57%
Sylvania	AUD	328	13 July 2007	155	-53%
Platinum Group of India	RUP	n/a		n/a	
Average					-76%

Platinum Producers also off

PRODUCERS (in whole units)	Domicile Currency	Highest Price	Date	Current Price	% decrease
Aquarius	ZAR	135	21 Feb 2008	37	-73%
Lonmin	ZAR	612	12 July 2007	189	-69%
Anglo Platinum	ZAR	1460	19 May 2008	595	-59%
Northam	ZAR	79	11 March 2008	35	-56%
Implats	ZAR	368	04 March 2008	187	-49%
Average					-61%

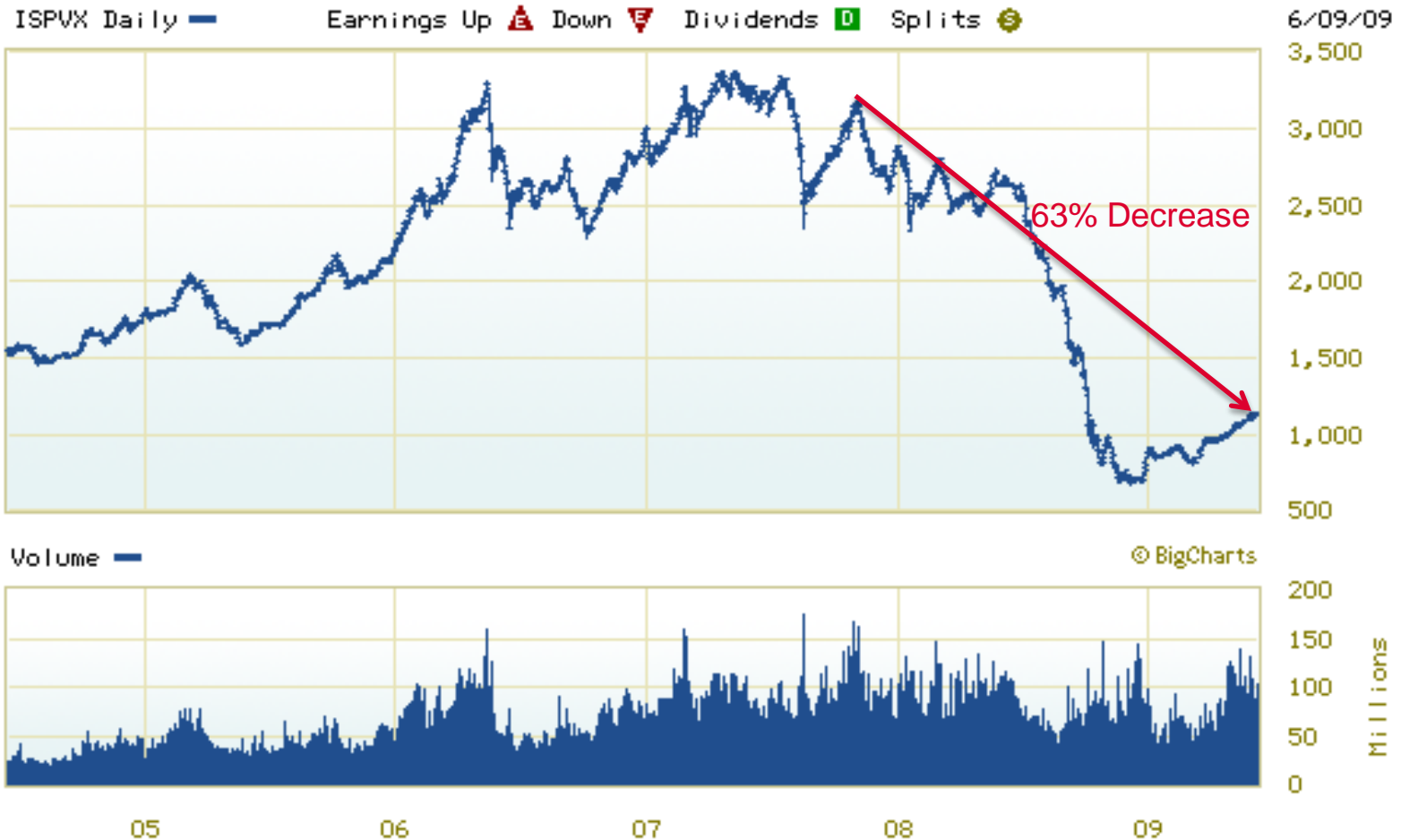


TSX Venture Exchange Index (July 2008)

■ .SPCDNX Price Chart



TSX Venture Exchange Index (June 2009)

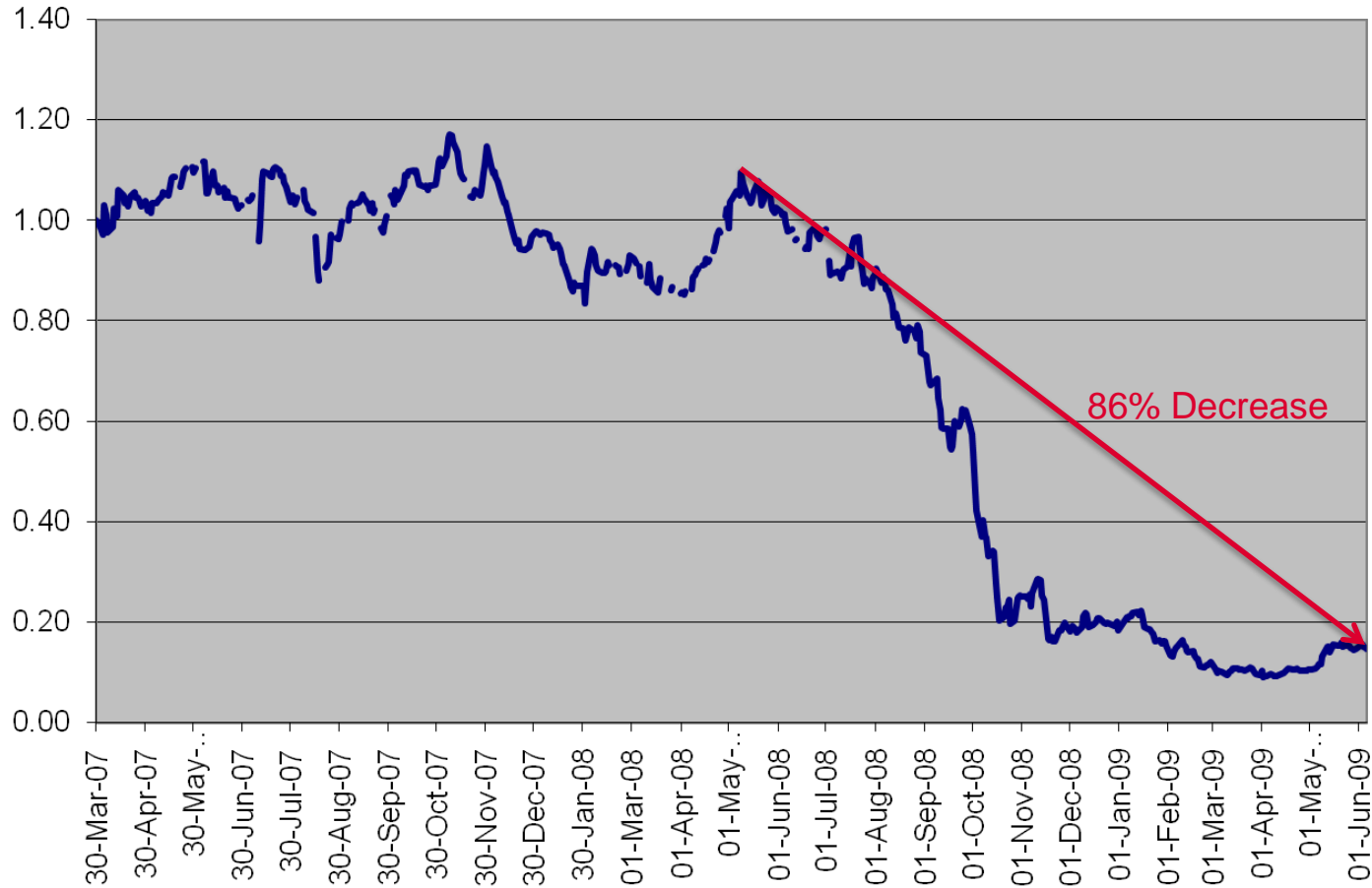


Diamond Sector Index- AH

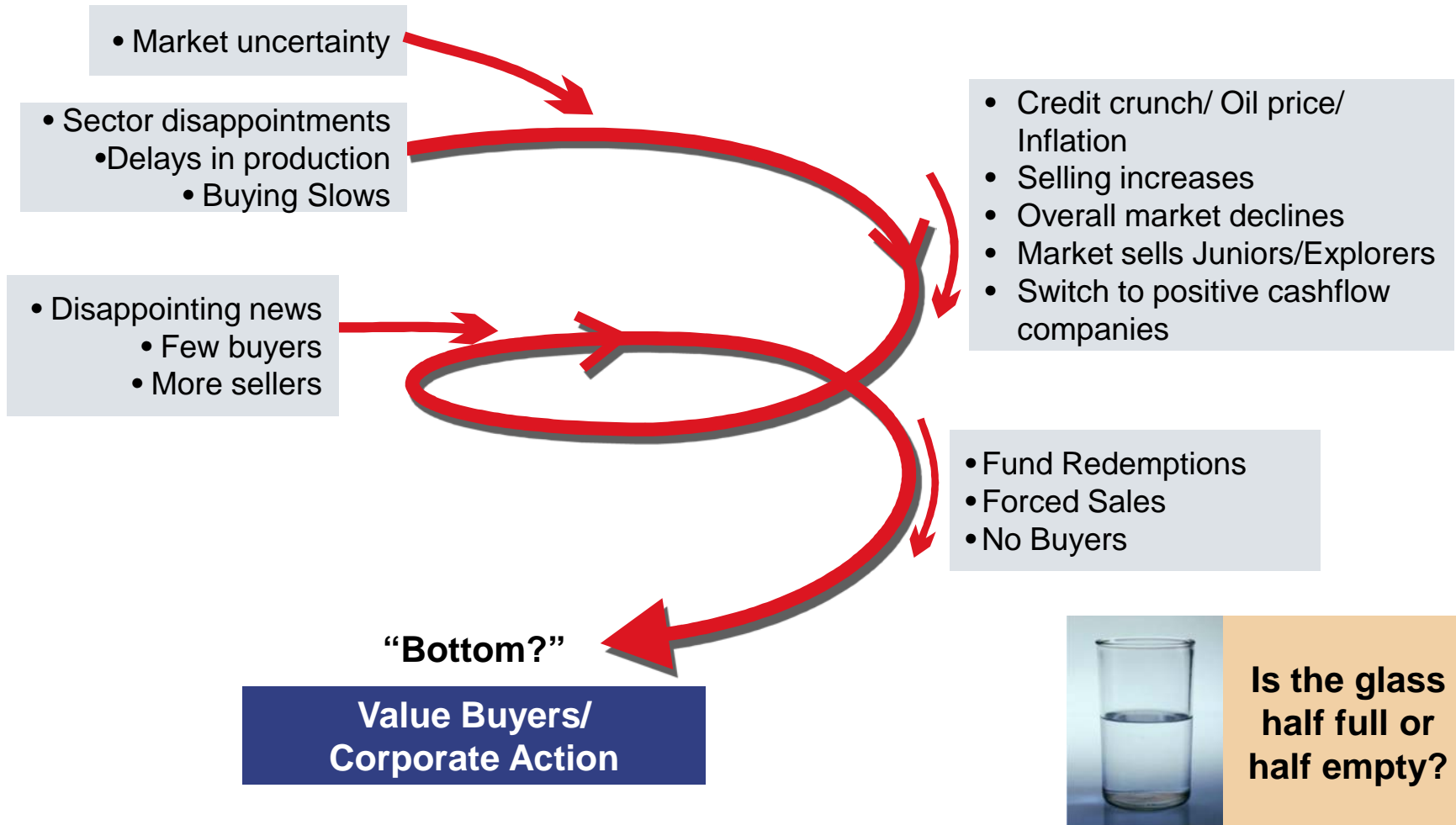
GEM	34%
Shore	24%
Petra	15%
Mountain Province	8%
Rockwell	4%
Trans Hex	4%
African Diamonds	4%
Pangea	4%
Firestone	4%

All rounded

Diamond Index



The Market Spiral

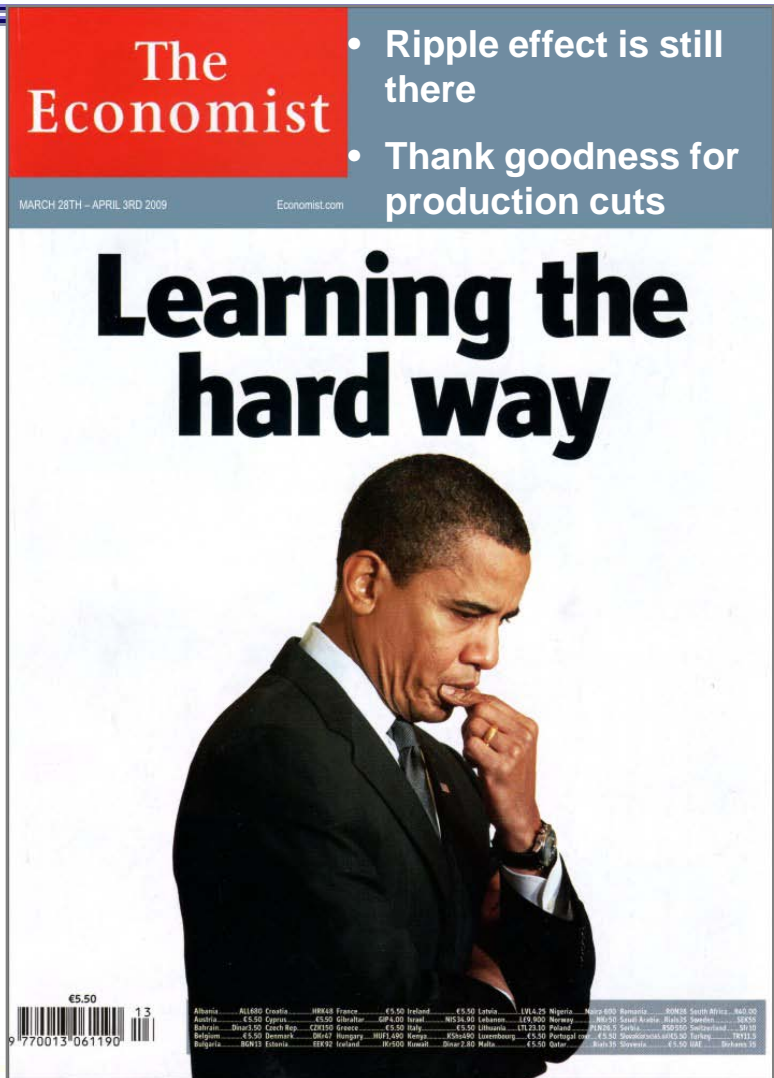


Conclusion on the Diamond Shares

- Low share prices – impact on capital raising
- Corporate action? Who has the cash?
- Companies should focus on delivery and cash flow
- In a bear market even good news is discounted
- Bears seize on bad news
- Have faith....there is value out there in the listed diamond stocks (more so now than in 2008!)

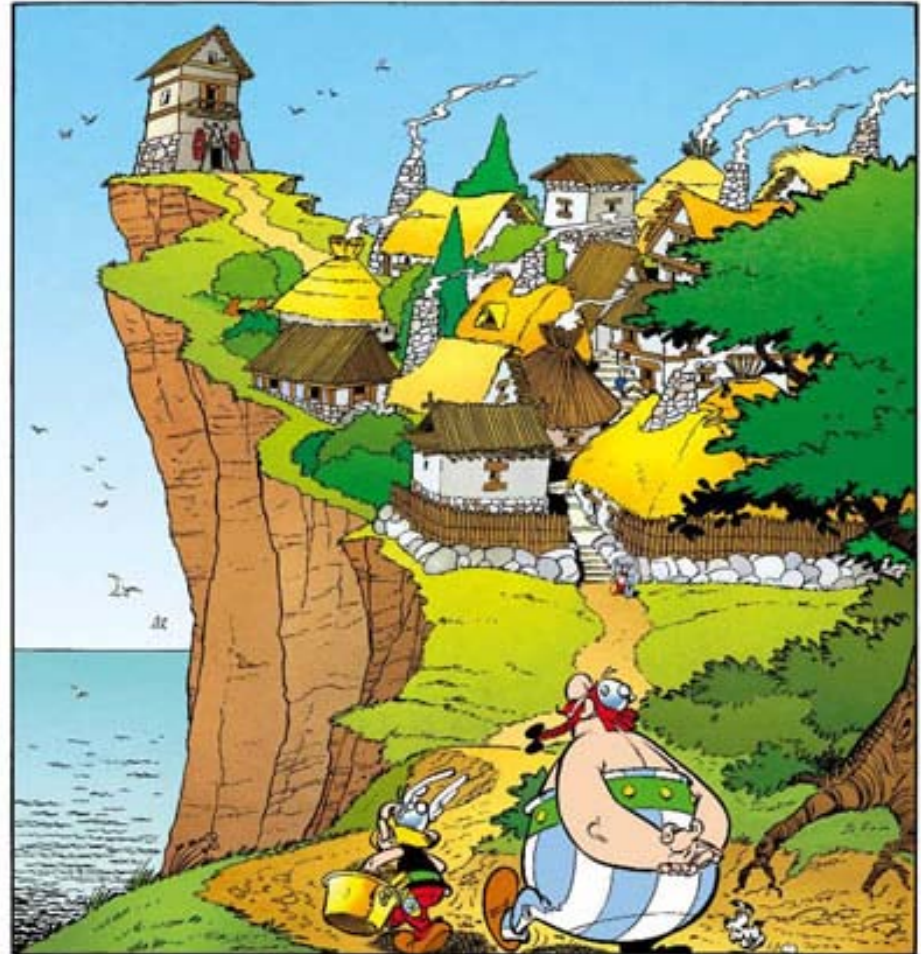
Diamond Industry

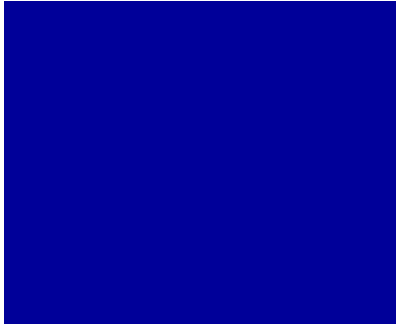
- Consensus doesn't mean that you are right!
- Too much debt and stock in the pipeline ultimately leads to tears
- Diamantaires were buying because “shortages were going to lead to price increases” > only have themselves to blame
- Only production cuts and renewed consumer confidence will save the industry
- The diamond industry: “Things are never as good as people say they are and they are never as bad as people say they are”
- Long term fundamentals/ supply/demand remain in place



Conclusion

- And what of my two friends...Asterix and Obelisk?
- On their way back up?
- Or still looking for the druid Getaifx?





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Questions?

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