



## STOCKS AND STONES

*As diamonds become a must-have jewellery item for both men and women, a handful of companies on Johannesburg's stock market are vying for the attention of investors, writes Jackie Cameron*

**MARILYN MONROE DID SOUTH AFRICAN DIAMOND MINING STALWART DE BEERS A HUGE** favour when she popularised the glittering gems in the 1953 hit 'Diamonds are a Girl's Best Friend'. But the *Gentlemen Prefer Blondes* star wasn't the only icon to boost the profile of diamonds.

Sex siren Elizabeth Taylor famously said that big girls need big diamonds. Big-mouthed comedian Joan Rivers' remark, that if God had wanted her to do exercise he would have put diamonds on the floor, has kept the cachet going.

But De Beers' marketers are no slouches. They came up with the line 'a diamond is forever', and have been spectacularly successful in developing this catchy theme.

There's barely a fiancé out there who doesn't know he should buy a quality diamond that costs a sizeable chunk of his income to impress his future wife. And, while size

counts, those who don't qualify for 'small rock' status can take comfort in a diamond's other attributes, such as clarity. Above all, your diamond should be real, not man-made, or your mate may be left with the feeling that your love is superficial.

For the 21st century, De Beers has engineered another consumer perception coup. Where diamonds were once largely the exclusive preserve of women, they are increasingly being worn by men.

Strapping macho hulks want to wear diamonds too; on their fingers, their ear lobes and anywhere else. While the trend has yet to really take off in South Africa, young Asian couples are increasingly buying his-and-hers diamond engagement rings.

The insatiable demand for diamonds is, of course, good news for the companies that make their money selling the gems. Just ask the Oppenheims, one of South Africa's richest families, thanks to their astute forbears, who quickly set to work sifting for diamonds in the 19th century mining rush in Kimberley.

These days you can participate in the Oppenheimer family wealth-creation machine through the JSE and London-listed Anglo American. Anglo now owns an 85% stake in De Beers (Botswana owns the rest), which was formerly controlled by the Oppenheims for nearly 100 years.

De Beers says it generates about 35% by value of global rough-diamond production. Analysts note that in the overall Anglo American picture, diamonds are a small (less than 10%) feature.

Stephen Meintjes, head of research at stockbroking firm Imara SP Reid, says Anglo is worth buying, but not just for its diamond interests. De Beers contributed only 6.25% to operating profit in the 2011/12 financial year (though it should be larger now, with Anglo's increased holdings in the company). Nevertheless, Meintjes believes prospects are good for diamond industry players and that De Beers' contribution to Anglo could grow significantly.

Peter Major, one of South Africa's top resources analysts, agrees that Anglo American itself looks like a particularly good investment opportunity, providing similar reasons. 'The shares have only been this cheap four times in the past 30 years,' he says of Anglo, which was trading at a single-digit price to earnings ratio towards the end of 2011 and in early 2012.

Major, head of mining and resources at Cadiz Corporate Solutions, notes that markets usually look ahead 18 months, and the market keeps thinking the commodities run is over. He reckons otherwise, saying the world keeps printing money to keep economies ticking over, and that it is unlikely that this addictive practice will stop now.

Demand will continue for commodities, as countries such as China keep modernising, building infrastructure and growing the middle class, predicts Major. And along with wealth creation and growing incomes, comes an enormous appetite for luxury items, for example, expensive diamonds.

If you want to invest in a stock that taps into global diamond demand, you have to opt for a dedicated producer, is the message from Major. 'And the smaller the company, the better the gearing to the growth in production of that commodity,' he says.

A small JSE-listed company that has piqued Major's interest is Rockwell Diamonds. 'The company is pretty lean and mean. I'd be tempted to buy it,' he says. 'It's lost 95% of its value the past four years and there are some big-name diamond people currently invested in it,' he remarks.

Imara SP Reid also thinks Rockwell Diamonds is worth a punt. Rockwell is the only JSE-listed diamond stock Imara was recommending for investment at the time of writing (February), on the basis that it expects an operational turnaround and a profitable set of financials this year.

It cautions that the risks for investors who pick up Rockwell include share liquidity, a finance deal falling through and a protracted black economic empowerment dispute. Imara also warns there could be a total collapse of global diamond demand, though that's highly unlikely when you consider that Asia, with its mushrooming, ever-materialistic

population, has only just been bitten by the diamond bug.

Less convinced about the merits of Anglo – or any JSE-listed diamond exploration companies for that matter – is Vestact Securities. It prefers industrial commodities such as iron ore, copper, oil and coal.

The diamond business is 'too volatile', according to Vestact analyst Paul Theron. He points out that this is partly because of stockpiling of rough stones in the cutting and polishing businesses. As for diamond exploration companies listed on Johannesburg's stock exchange, Theron calls them a 'motley bunch'.

Though the diamond asset in De Beers is of no real interest to Vestact, it does like luxury goods (including diamond jewellery) in general as an investment theme. 'We are enthusiastic holders of Richemont [one of the world's leading luxury goods groups], as a result of the surge in demand from new affluent societies such as China and India,' says Theron. 