

Alert: Gem Diamonds (GEMD.L) - Q4 Trading Update: Stronger Than Expected

Record production - The key growth mine at Letseng produced 29,783 carats vs. Citi expectations of 25,400, a beat of 17% on the back of record production. Prices also held up well coming in slightly ahead of our forecasts. The declining Ellendale mine managed to increase production sequentially on Q3 by c.8% to 35,305 carats, a 4% beat vs. Citi.

Encouragingly, operations at the processing plant appear to have stabilised after several tough quarters. Strong 2012 guidance - The company guided to 2012 production for carats recovered at Letseng and Ellendale of 112-114k and 160-170k, respectively. This is well ahead of our expectations. We model 106k at Letseng and 133k at Ellendale. Growth project update - Project Kholo, the expansion at Letseng was given board approval with expectations of expanded capacity coming online by July 2014. We model expanded production from 1H15. The firm's Ghaghoo mine, designed to replace Ellendale, has also been confirmed as on budget.

Buy Rated - Gem has an impressive mine in Letseng but faces risks as Ghagoo is unlikely to meaningfully contribute prior to a rapid decline in production at Ellendale. We maintain our Buy rating and £2.61 target price.

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