

30 January 2008

# KimCor Diamonds

Price: 6.4p

Buy

**Upcoming Events:**  
 FY08 year end (Mar 08)  
 Full year results (Aug 08)  
 Tanzania bulk-samples (Sep 08)

Market cap	£17.1m
Ticker	KIM LN
EV / in-situ value	7.5%
EV / O8E revenue	2.0x
Cash in hand (£m)	3.4

52 week (p)	
High	12.25
Low	5.5

3M-avg. daily vol. (000s)	198
3M-avg. daily val. (£000)	6.0

Shares	
Basic	268.3m
Fully diluted	278.6m

Top shareholders	
Dwyka Resources	48.2%
FHF Nominees	12.1%
HSBC Nominees	7.7%
Coffee House Group	4.4%
Total	72.4%

### Share Price Performance (p)



Source: Fidessa

### Analyst

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*Ambrian acts as Broker to this company*

### Main Assets

Project	Ct (m)	Grade (cpht)	US\$/ct	US\$/t	Interest	Stage
Blaubosh u/g	324,120	30	110	33.0	70%	Production
Blaubosh tailings	72,000	8	50	4.0	70%	Production
Newlands u/g	635,631	23	85	19.6	70%	Production
Newlands tailings	19,740	7	50	3.5	70%	Production
Nooitgedacht alluvial	162,000	1	500	5.0	70%	Production
New Elands u/g	102,892	34	180	61.2	70%	Evaluation
SMI4 tailings	927,000	6	60	3.6	70%	Production
Bellsbank tailings	166,410	4.3	110	4.7	74%	Production
Tanzania JV	-	-	-	-	-	Exploration
Bricks/cement	-	-	-	-	-	Industrial
<b>Total</b>	<b>2,409,793</b>	<b>111.1</b>	<b>14.4</b>	<b>-</b>	<b>70%</b>	<b>-</b>

Source: Company data

### Company Description

**Focus and Strategy:** KimCor is focused on processing tailings, as well as kimberlite and alluvial resources, mainly around the Kimberley area of Southern Africa. Additional operations include a brick/cement business, which leverages off processed diamond tailings as feedstock for input, a central sorting facility where all stones are processed, a cutting and polishing business, and an exploration JV with De Beers in Tanzania.

The business model is based on ramping up production and increasing recovery at existing operations. This will be paid for by the capital injection provided by the £4.3m equity raise associated with the September 2007 acquisition of Dwyka Diamonds Holdings. The key growth driver for KimCor is achieving production targets from its five mining operations, the cutting and polishing works, and two industrial operations. A summary of the target diamond production and revenue for 2008 and 2009 is shown on the following page, based both on the CPR and subsequent objectives published by the company.

**Management:** KimCor is led by CEO Martyn Churchouse. Martyn is a geologist with 25 years' experience, including 14 years in South Africa, Namibia and Ghana. He also spent seven years working on exploration and mining projects in Eastern Europe, including as a mine manager at a 2.5Mtpa tailings treatment project. In South Africa, MD Cedric Bredenkamp has worked on a variety of diamond industry projects in both plant construction and operation roles and in management. Cedric also has experience in the brick and paving businesses. Non-executive Chairman Melissa Sturgess has experience in corporate development, and is also non-executive director of AIM-listed Bezant Resources, Churchill Mining and Sylvania Resources. Roger Harris, an engineer, is a non-executive director with 40 years' experience in the mining industry. He is executive chairman of Central Gold Securities.

## Project Summary

Project	Equity	Comment
<b>PRODUCING</b>		
Bellsbank - South Africa	74%	Tailings recovery, upgrade with DMS and pre-concentration plant underway
Blaauwbosch - South Africa	70%	Kimberlite and tailings production, underground development and plant upgrades underway
Newlands - South Africa	70%	Kimberlite fissure mine, underground development and plant upgrades underway
Nooitgedacht - South Africa	70%	Alluvial diamond mine, plant upgrade and expansion underway
SMI4 - South Africa	70%	Tailing treatment plant, high-volume potential, additional contract mining to start 1Q08
<b>EXPLORATION</b>		
Bosele - South Africa	70%	Exploration 30km NW of Kimberley, fissure kimberlites, near Bellsbank plant
De Beers JV - Tanzania	95%	Bulk-sampling of two kimberlites of 6.8ha and 2.3ha, De Beers can earn in 51%
Koffiefontein	70%	50km SE of Kimberley, 10,000ha prospective for kimberlite discoveries
<b>OTHER</b>		
Anmic - South Africa	50%	Cutting and polishing of high-value stones, particularly from Nooitgedacht alluvials
Supermix - South Africa	70%	Brick and cement business that operates with discounted inputs from Nooitgedacht
Sorting Facility - South Africa	70%	Diamond processing and recovery from concentrates

Source: KimCor

**Bellsbank (74%)**, 60km north-northwest of Kimberley, is a tailings recovery project processing ore from the underground Bellsbank Mine where a new plant was commissioned in late-2006. The current resource is 3.8Mt @ 4.3cpht and US\$110/ct. The current mine life is around three years, and KimCor is in discussions with owners of other dumps within an economic operating radius.

Development by KimCor includes the recent commissioning an 8tph DMS plant (currently being commissioned) and contemplation of a pre-concentration plant to increase throughput. The dense media separation plant has an increased name-plate processing capacity of 75,000tpm for expected production of 3,000cts. Further expansion aims to increase the production rate to 4,650cts per month. The average value of gem quality diamonds recovered at Bellsbank is US\$110/ct, whilst the industrial stones command US\$18/ct. With a recent ratio of 2.5:1, the blended average stone value is US\$85/ct.

**Blaauwbosch (70%)** is an operating underground kimberlite mine with additional production supplied by tailings processing. The project comprises a main kimberlite pipe (700,000t at 30cpht and US\$110/ct), fissures extending from the main pipe (380,500t at 35cpht and US\$110/ct), and tailings dumps (900,000t @ 8.0cpht and US\$75/ct). Of the total SAMREC-compliant resource, 25% is in the indicated category and 75% is in the inferred category.

The current emphasis is still on underground mine development and plant expansion, with ramp-up to full production expected by July 2008. The new processing plant design capacity is 21,000tpm, comprising 11,000tpm of primary ore from underground and 10,000tpm of tailings to be re-treated. The underground ore is expected to yield 3,300cts/month at US\$110/ct and the tailings to yield 800cts/month at US\$50/ct.

**Newlands (70%)** is an operating underground mine 60km north-west of Kimberley. The resource is based on several kimberlite fissures, which, in places, 'blow' out in thickness to form five economic mining zones. There are three shafts on the property, two of which are operational. The

current kimberlite resource is 2.9Mt @ 22.6cpht and US\$85/ct, while the tailings contain 0.28Mt @ 7.0cpht and US\$85/ct.

Mining is undertaken using shrinkage stoping methods, and exploration is underway to take bulk-samples from Blow 5, and to test continuity below Blow 3. Should these prove economic, hoisting from underground could increase from the initial planned 10,000tpm to 15,000tpm.

The bulk of underground development is complete with multiple sources being accessed to contribute to the planned production rate of 7,000tpm, which is expected to yield 1,600cts/month at US\$85-100/ct. Added to this, 25,000tpm of tailings material will be re-processed, and is expected to yield 1,200cts/month at US\$50/ct.

**Nooitgedacht (70%)** is an alluvial diamond operation 15km north-west of Kimberley. The current inferred resource is 16.2Mt at an estimated (non-SAMREC/JORC) 1.0cpht, with average diamond value of an estimated US\$500/ct. The mine is characterised by a low average grade and a small number of exceptional stones.

The key to the operation is an internal contract to supply aggregate to the Superkolong business unit from processed ore, as the plant has been reconfigured to deliver 'waste' gravel as aggregate. Costs are US\$4.20/t, with diamond revenue of only US\$4.45/t, but an additional US\$5.5/t is realised from aggregate sales.

Two contractors will be engaged in 1Q08 to process 1.2Mtpa of alluvial gravel, paying 15% royalty (sliding to 25% for high-value stones), adding directly to the bottom line.

**SMI4 (70%)** – KimCor recently acquired 26.4% of diamondiferous tailing mineral resources (TMRs) in Kimberley, South Africa, from De Beers for £195,000. KimCor's share of the TMRs totals 15.4Mt, a significant increase on the previous resource of 3.7Mt. These will be processed by the existing upgraded SMI4 plant, extending the project life by at least ten years.

The SMI4 plant was commissioned prior to acquisition by KimCor, and processed at a rate of 32,000tpm for an expected production of 2,000-2,200cts at US\$45-60/ct. Phase 2 expansion by KimCor is underway and SMI4 is scheduled to increase production rates to 100,000tpm for an expected production of 6,000cts/mth by the end of February, with a further increase to 150,000tpm generating 9,000cts/mth by July 2008. This should provide equivalent to 50% of the group's annual target production from the end of 2008.

**Supermix (70%)** comprises a brick and paving producer and a ready-mix concrete producer, located on the outskirts of Kimberley. In addition, two business units feed into these producers – the Nooitgedacht aggregate production as described above, and De Hoop, which owns a mining permit to produce sand and gravel. Changes in operating procedure at Supermix implemented by KimCor post-acquisition have turned around the business which is now operating profitably.

**Anmic (50%)** is a cutting and polishing business that should be able to realise significant profits from cutting, especially on large stones. Cut prices are typically 100% higher than rough prices, but with cutting loss and costs this equates to 50% uplift. For example, a 1ct rough stone valued US\$200 would sell for US\$300 net of costs.

De Beers JV (95%) is currently bulk-sampling kimberlites. Under the JV KimCor will process 18,000t of kimberlite until September 2008. Once bulk-sampling is complete, these pipes have the potential to increase KimCor's diamond inventory substantially, with the two pipes representing the largest single kimberlite resource within the group's portfolio. De Beers has the right to acquire 51% through reimbursement of 3x costs.

The two pipes cover 6.77ha and 2.3ha, with estimated grades of 26.2cpht and 8cpht, respectively, based on interpretation of microdiamond studies only. A pilot processing plant is now in transit to Tanzania, with commissioning expected in 1Q08. Drill core sampling by De Beers indicates the pipes are potentially economic.

## Opinion

Since combining the Dwyka and KimCor diamond assets, KimCor's management has consistently hit operational targets giving us confidence the company will achieve its production rate of 200,000ctpa in 2008. For this reason we remain positive on KimCor; our forecast for 2008 revenue is £9m excluding industrial operations and cutting. However, the company remains in a state of transition as it expands and improves operations on an ongoing basis.

Recently-announced diamond sales revenue shows robust diamond prices across five operations, with US dollar per carat values in line with resources after several months of consolidating operations.

## Investment Case and Recommendation

**Investment Case:** We estimate revenue potential of approximately US\$17m in 2008, rising to an annual rate of up to 250,000cts from 2009 for over US\$20m in revenue, with additional upside from the ready-mix concrete and brick/paving business.

The key share price driver will be achieving annualised production of 200,000ctpa in 2008. Based on rough estimates of operating costs, we believe KimCor could achieve attributable operating profits of £3.9m from existing diamond operations. This equates to a P/E ratio of 4.4x based on the current share price; we would expect this to approach 7.5x when operating targets are achieved.

Further uplift will come from both the cutting and polishing business (50% mark-up on rough prices from recent Blaauwbosch and Newlands production) and industrial brick, paving and cement operations. However, these are only rough estimates, and we await a more detailed breakdown of costs by operation, as well as updates on mining and processing rates, before we prepare a DCF model of operations.

**Recommendation: BUY.** We maintain our BUY recommendation, with growth offered through potential bolt-on acquisitions, and exposure to diamond price escalation. In the medium term, we would also expect development of exploration ventures to provide additional diamond production revenue.

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