

17 August 2021

Corp

Ticker GEM:AIM

Mining
Shares in issue (m) 1,168.8
Next results H1 Sept

Price **11.5p**
Target price 19.0p
Upside 65%

Market cap **£134.4m**
Net debt/(cash) £9.1m
Other EV adjustments £0.0m
Enterprise value £143.5m

What's changed? **From** **To**
Adjusted EPS 0.9 n/c
Target price 19.0 n/c

Share price performance



%	1M	3M	12M
Actual	7.0	31.4	109.1

Company description

The company mines for rubies in Mozambique and emeralds in Zambia.

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GEMFIELDS*

Three records broken

Last week, Gemfields published results of its commercial quality emerald auction. Revenues were US\$23.1m, a record for a commercial quality emerald auction. As impressive was the new record average price of US\$6.61/carat, which bodes well for future pricing and reflects strong demand for the product. FY21 auction revenues now stand at US\$113.4m with two more auctions planned for 4Q21.

Although we didn't expect such strong revenues from this auction, we keep our FY21 revenue estimate unchanged at US\$161m for now. Our rationale is the potential impact of the COVID Delta variant on the 4Q auctions, for example from future travel restrictions in South and South East Asia. If both auctions go smoothly, our FY21 auction revenues would likely require upgrading.

- **Three records broken:** In addition to the record revenues and record average price, the auction had the "highest number of companies participating in the bidding". MD of Product & Sales Adrian Banks commented "We've witnessed a step-change in both market demand and in the prices bid by our clients, paving the way for an exhilarating cycle in the coloured gemstone sector".
- **US\$712m emerald revenues:** Including the first auction in July 2009, Gemfields has held 38 auctions and generated US\$712m.
- **Commercial quality rubies in future:** Gemfields does not as yet produce and market commercial quality rubies, likely a larger and more profitable market than CQ emeralds.
- Management plans to construct a new wash plant at Montepuez in CY22 or CY23 (definitive timing not announced). This would enable production of a commercial quality ruby product, in addition to increased volumes of the current mixed quality production.
- **Summary:** YTD revenues emphasise a strong underlying coloured gemstone market. This latest auction appears to show CQ emerald demand growth alongside some pent-up demand. The strong pricing is an important anchor. We expect consistent sales growth going forward (in a post COVID world) from emeralds, but more from the ruby division. We calculate a £222m valuation and 19p target price.

Key estimates		2018A	2019A	2020A	2021E	2022E
Year end:		Dec	Dec	Dec	Dec	Dec
Revenue	\$m	206.1	216.2	34.6	161.0	190.6
Adj EBITDA	\$m	54.2	69.6	-33.2	53.1	68.3
Adj EBIT	\$m	23.5	34.8	-54.2	25.8	43.5
Adj PBT	\$m	14.7	30.3	-60.0	22.5	40.7
Adj EPS	c	-3.2	1.1	-6.3	0.9	1.4
DPS	c	0.0	0.0	0.0	0.0	0.0

Key valuation metrics		2018A	2019A	2020A	2021E	2022E
EV/EBIT (adj)	x	8.4	5.7	-3.7	7.7	4.6
P/E (adj)	x	-4.9	14.0	-2.5	17.2	11.1
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash yield	%	-16.4%	1.4%	-17.1%	-4.6%	26.4%
Pre-tax ROCE	%	3.9%	5.5%	-10.0%	4.7%	7.6%

Three records broken

Income statement		2019A	2020A	2021E	2022E
Year end:		Dec	Dec	Dec	Dec
Sales	\$m	216.2	34.6	161.0	190.6
Gross profit	\$m	91.6	-24.5	70.2	96.1
EBITDA (adjusted)	\$m	69.6	-33.2	53.1	68.3
EBIT (adjusted)	\$m	34.8	-54.2	25.8	43.5
Associates/other	\$m	0.0	0.0	0.0	0.0
Net interest	\$m	-4.5	-5.8	-3.3	-2.8
PBT (adjusted)	\$m	30.3	-60.0	22.5	40.7
Total adjustments	\$m	37.1	-39.2	0.0	0.0
PBT (stated)	\$m	67.4	-99.2	22.5	40.7
Tax charge	\$m	-28.2	6.0	-5.0	-14.7
Minorities/Disc ops	\$m	10.8	-7.9	6.3	8.6
Reported earnings	\$m	28.4	-85.3	11.3	17.4
Adjusted earnings	\$m	13.3	-73.8	11.3	17.4
Shares in issue (year end)	m	1,171.0	1,168.8	1,168.8	1,168.8
EPS (stated)	c	2.2	-7.3	1.0	1.5
EPS (adjusted, fully diluted)	c	1.1	-6.3	0.9	1.4
DPS	c	0.0	0.0	0.0	0.0

Cash flow		2019A	2020A	2021E	2022E
Year end:		Dec	Dec	Dec	Dec
EBITDA	\$m	67.4	-33.2	53.1	68.3
Net change in working capital	\$m	-25.3	31.3	-45.4	11.9
Other operating items	\$m	4.3	-3.3	0.0	0.0
Cash flow from op. activities	\$m	46.4	-5.2	7.7	80.2
Cash interest	\$m	-3.3	-3.0	-0.5	-0.3
Cash tax	\$m	-9.7	-15.0	-5.0	-14.7
Capex	\$m	-30.8	-8.6	-10.9	-16.0
Other items	\$m				
Free cash flow	\$m	2.5	-31.8	-8.6	49.1
Acquisitions / disposals	\$m	35.2	0.0	0.0	0.0
Dividends	\$m	0.0	0.0	0.0	0.0
Shares issued	\$m	-14.4	-0.2	0.0	0.0
Other	\$m	-7.8	-6.0	0.0	-0.6
Net change in cash flow	\$m	15.6	-38.0	-8.6	48.5
Opening net cash (debt)	\$m	9.8	25.4	-12.6	-24.1
Closing net cash (debt)	\$m	25.4	-12.6	-24.1	22.0

Balance sheet		2019A	2020A	2021E	2022E
Year end:		Dec	Dec	Dec	Dec
Tangible fixed assets	\$m	376.9	362.7	345.4	335.6
Goodwill & other intangibles	\$m	55.2	51.5	52.5	53.5
Other non current assets	\$m	75.3	43.7	43.7	43.7
Net working capital	\$m	168.7	133.3	178.7	166.8
Other assets	\$m	0.0	0.0	0.0	0.0
Other liabilities	\$m	-122.5	-95.6	-95.6	-95.6
Gross cash & cash equivs	\$m	78.2	43.9	30.8	64.9
Capital employed	\$m	631.8	539.5	555.5	568.9
Gross debt	\$m	52.8	56.5	54.9	42.9
Net pension liability	\$m	0.0	0.0	0.0	0.0
Shareholders equity	\$m	494.3	412.6	423.8	441.2
Minorities	\$m	84.7	70.4	76.8	84.8
Capital employed	\$m	631.8	539.5	555.5	568.9

Growth analysis		2019A	2020A	2021E	2022E
Year end:		Dec	Dec	Dec	Dec
Sales growth	%	4.9%	-84.0%	365.7%	18.4%
EBITDA growth	%	28.5%	-147.7%	259.9%	28.7%
EBIT growth	%	47.7%	-255.9%	147.7%	68.4%
PBT growth	%	106.2%	-298.0%	137.5%	80.8%
EPS growth	%	135.2%	-656.7%	114.7%	54.2%
DPS growth	%	n/m	n/m	n/m	n/m

Profitability analysis		2019A	2020A	2021E	2022E
Year end:		Dec	Dec	Dec	Dec
Gross margin	%	42.3%	-70.9%	43.6%	50.4%
EBITDA margin	%	32.2%	-96.0%	33.0%	35.8%
EBIT margin	%	16.1%	-156.8%	16.1%	22.8%
PBT margin	%	14.0%	-173.6%	14.0%	21.4%
Net margin	%	6.1%	-213.4%	7.0%	9.1%

Cash flow analysis		2019A	2020A	2021E	2022E
Year end:		Dec	Dec	Dec	Dec
Cash conv'n (op cash / EBITDA)	%	68.8%	n/m	14.4%	117.4%
Cash conv'n (FCF / EBITDA)	%	3.8%	96.0%	-16.2%	71.9%
U/lying FCF (capex = depn)	\$m	-1.4	-44.2	-25.0	40.4
Cash quality (u/l FCF / adj earn)	%	-10.8%	59.9%	-221.8%	232.5%
Investment rate (capex / depn)	x	0.9	0.4	0.4	0.6
Interest cash cover	x	14.1	n/a	16.8	233.2
Dividend cash cover	x	n/m	n/a	n/a	n/m

Working capital analysis		2019A	2020A	2021E	2022E
Year end:		Dec	Dec	Dec	Dec
Net working capital / sales	%	78.0%	385.8%	111.0%	87.5%
Net working capital / sales	days	285	1,408	405	320
Inventory (days)	days	187	1,244	256	222
Receivables (days)	days	148	392	182	130
Payables (days)	days	50	228	33	32

Leverage analysis		2019A	2020A	2021E	2022E
Year end:		Dec	Dec	Dec	Dec
Net debt / equity	%	net cash	3.1%	5.7%	net cash
Net debt / EBITDA	x	net cash	n/a	0.5	net cash
Liabilities / capital employed	%	8.4%	10.5%	9.9%	7.5%

Capital efficiency & intrinsic value		2019A	2020A	2021E	2022E
Year end:		Dec	Dec	Dec	Dec
Adjusted return on equity	%	2.7%	-17.9%	2.7%	3.9%
RoCE (EBIT basis, pre-tax)	%	5.5%	-10.0%	4.7%	7.6%
RoCE (u/lying FCF basis)	%	-0.2%	-8.2%	-4.5%	7.1%
NAV per share	c	42.2	35.3	36.3	37.7
NTA per share	c	37.5	30.9	31.8	33.2

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