

Companies

Desmond stumps up \$50 million for diamond firm

Mountain Province, the businessman's struggling diamond mine company, is in 'serious financial difficulty', directors confirm, due to Covid-19-related market closure



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Dermot Desmond's diamond mine company, Mountain Province, is in 'serious financial difficulty'.

Last week, Dermot Desmond had to put his hand in his pocket to help out Mountain Province, his struggling diamond mine company. According to stock exchange filings, the billionaire businessman stumped up \$50 million through a Bahamas-based company called Dunebridge Worldwide.

The circumstances were pressing, Mountain Province revealed in a press release. Its directors "unanimously found that that the company is in serious financial difficulty".

That's probably not surprising. The Covid-19 lockdown has shut traditional markets for rough diamonds and Mountain Province, like other miners, has found itself starved of buyers. So up stepped Desmond, who owns 32 per cent of the shares in the company and a chunk of its debt.

It's not the first time Mountain Province has been in difficulty in recent years, which might seem odd for a firm that once valued the diamonds in its mine at more than \$20 billion.

But that was back in 2016, when rough diamonds were going for more than \$180 per carat. Since then diamonds prices have fallen, at one point dropping below \$100, depending on the quality.

As a junior mining stock, Mountain Province felt the pinch more than giants like Anglo American. Last year, BlackRock, the giant US investment firm, said in a report that the company's performance in 2018 had "disappointed the market".

Ian Cockerill, chairman of BlackRock World Mining Trust, said that "diamond exposure has continued to disappoint in 2018, with Mountain Province Diamonds disappointing the market on cost guidance as well as dividends".

In fairness to Mountain Province, it wasn't alone; several other junior miners were also struggling. At an industry conference early last year Paul Bosma, chief executive of Firestone Diamonds, said the situation for smaller diamond companies was difficult, since it was "so sensitive to the diamond price".

"At \$85/carats our cash position doubles," he said. "But if the price sticks at \$75/carats for another two years then ourselves, Petra Diamonds, Stornoway and Mountain Province are all going to be in deep trouble."

The price of diamonds has risen since then but things have remained tricky for Mountain Province. Earlier this year, after several times falling below a technical requirement on the US Nasdaq exchange to keep its share price above a dollar, the company had to relocate to the FTSE in London.

At the time, Jonathan Comerford, the company's chairman, told the Business Post that "conditions in the market are tough; you can look at every one of our peers and diamond markets are tough".

"I think we're one of the best-performing recently," he added..

The company was quite bullish, in fact, arguing that anticipated mine closures over the next 18 months "will help to establish a more balanced supply-and-demand equilibrium in the diamond market", while consumer confidence and spending remained strong, particularly in the US and China.

That was before Covid-19 shut down the diamond markets and forced Desmond to give the company the dig-out, which will allow him to sell on the diamonds and split the profits with the company if the share price rises.

That's a quite likely outcome according to Paul Zimnisky, a New York-based diamond industry analyst, who believes that both the diamond market and Mountain Province will turn a corner soon.

For starters, he said, the company has been transparent about its cashflow difficulties and the size of its debt – some of which is held by Desmond himself – and had flagged up the possibility of a non-traditional sale in May.

According to Zimnisky, "given circumstances and the other options for MPV, I really like this deal . . . they don't have to restructure the company or the debt or dilute the equity with a financing".

Providing there isn't a second shutdown of the global economy, he said, it provides Mountain Province with the liquidity it needs. In fact, with the shutting down of production "there could certainly be some pent-up demand for diamonds", he said, particularly with LVMH Moët Hennessy indicating that sales figures are strong in China.

Either way, Desmond will be watching the price of diamonds more closely than usual for the next few months.

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