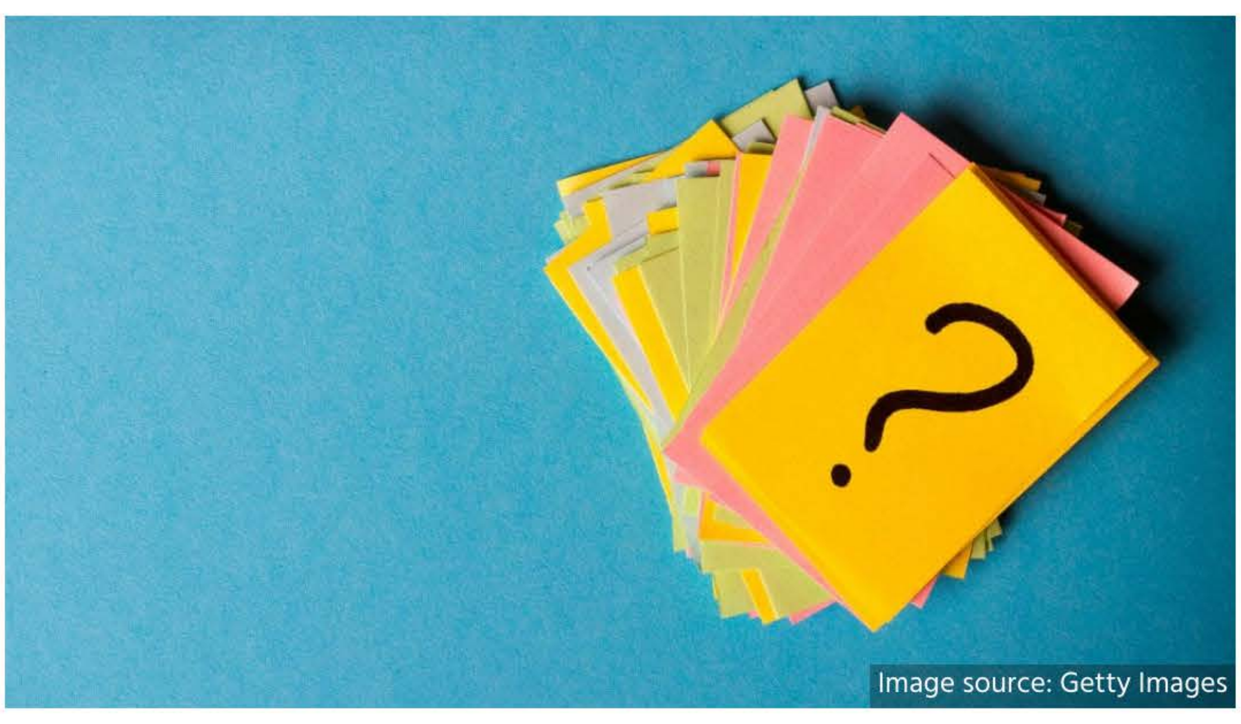
Is this hated FTSE 250 stock actually a brilliant buy for July?

Royston Wild | Sunday, 30th June, 2019 | More on: PDL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Is it about time investors took another look at **Petra Diamonds** (LSE: PDL)? The diamond digger's share price continues to sink and sink (and sink). Down 65% over the past 12 months alone, this **FTSE 250** share is worth around a fifth of what it was five years ago.

For some braver share pickers, Petra Diamonds could be seen as an attractive punt at current prices. Boasting a forward P/E ratio of just 3.9 times, it could be considered a snip in relation to its predicted near-term earnings trajectory, as does a corresponding PEG reading of 0.1.

But what on Earth could prompt anyone to buy into the business right now? The promise of rebounding diamond prices? Of course.

Near-term worries rise

But Petra has found itself in the doghouse with market makers, in part because of wretched diamond demand in recent years. Soft stones demand in China and high inventories of polished items are battering the sector and, according to the firm's most recent financials, revenues sank a lacklustre 7% in the three months to March, to $135.2m. That's a reversal driven by a 6% slump in volumes to 1.06m carats.

Have conditions picked up since then? Not if trading at **Anglo American's** De Beers unit is anything to go by. The firm advised this week sales in its fifth cycle had plummeted to $390m, from $591m a year earlier.

It's unlikely prices will improve in the near term either, given the impact US-Chinese trade wars have had on the already-slowing economy in the Far East — battles which threaten to persist despite hopes of a breakthrough at this weekend's G20 summit. And let's not forget the prospect of a downswing in the solid North American market amid signs of growing economic stress there.

So what's the score?

On the other hand, Petra and its peers could be considered attractive investments for patient investors amid hopes of recovering stones prices from the start of the next decade.

Diamond market expert Paul Zimnisky recently told **UBS** that natural diamond production will slip 12% in the five years to 2022 as existing mine supply is depleted and old assets are shuttered, factors that could give prices a much-needed leg-up. He also noted diamond demand is growing while voicing doubts over the impact of the man-made segment on natural product demand too. In particular, he downplays the possible disruption that synthetic stones will cause in the luxury jewellery market.

So what should investors do? Take a ride with Petra in the hope of improving supply/demand values in the next few years? Certainly not, I would argue.

Whether or not an improvement in the diamond market's fundamentals eventually materialises, the risks to the company remain formidable.

Reasons to be fearful? The prospect of fresh currency headwinds should the slowing global economy hit the South African Rand. More mining and shipment problems in South Africa and Tanzania. And, of course, an elevated net debt pile which still sat north of $550m as of March.

It's quite likely that fresh financials slated for 22 July will release some fresh horrors, given recent newsflow. Thus the chances of additional share prices drops are high. For this reason, I think Petra remains best avoided and quite possibly remain so for the considerable future.

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