【Int'l】 Higher Production Costs Impact De Beers' Earnings in H1 2018

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SourcE: Diamond Loupe

Despite a slight uptick in revenues (to $3.2 billion from $3.1 billion), higher production costs weighed down De Beers' first half underlying earnings (EBITDA/earnings before interest, taxes, depreciation and amortization) by 9% percent, falling to $712 million from $786 million. While the company's top representatives emphasized its strong first half both operationally and financially, with continued growth in consumer demand, De Beers CFO Nimesh Patel attributed the decline in EBITA "principally" to "the stronger [South African] rand. The rand has moved by 8%, and that impacts our production costs." CEO Bruce Cleaver explained the the stronger currenciy in diamond-producing countries was a major factor, as De Beers reports its figures in dollars, resulting in a negative impact on their overall income.

Additionally, De Beers said a higher proportion of waste mining costs having been expensed rather than capitalised drove earnings down, though this was mitigated by higher production, an "improvement in efficiencies" and a 4% rise the average price per carat earned ($162), which offset the group's 6 percent rise in the cost of production to $67 per carat. Lower trading margins also affected underlying EBITDA, they said. "The good news," Patel tells us, "is we've continued to invest in market development and in marketing. Marketing spend this year is expected to be $160 million, and market development spend will include initiatives we have announced, such as Tracr and Lightbox." Their statement says that the outlook for 2018 global consumer demand remains positive in most of the main diamond-consuming countries, based on world economic prospects, positive consumer sentiment and continued investment in marketing. And the preliminary data backs this up, indicating a slight improvement in global consumer demand for diamond jewelry, in US dollar terms, compared with the first six months of 2017. This was driven by growth in the US and China, and was further amplified by positive exchange rate movements in China and Japan against the dollar.