

7 December 2021

Corp

Ticker	GEM:AIM
Mining	
Shares in issue (m)	1,168.8
Next results	FY Mar

Price	13.3p
Target price	25.0p
Upside	89%

Market cap	£154.9m
Net debt/(cash)	£21.7m
Other EV adjustments	£0.0m
Enterprise value	£176.6m

What's changed?	From	To
Adjusted EPS	2.4	n/c
Target price	25.0	n/c

Share price performance



%	1M	3M	12M
Actual	1.9	8.2	103.8

Company description

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

Charlie Long

Research Analyst
clong@finncap.com
020 3772 4683

Sales desk 020 7220 0522

Trading desk 020 7220 0533

* denotes corporate client of finnCap

GEMFIELDS*

Record high quality emerald revenues

Gemfields has reported revenues of US\$37.8m from its 4Q emerald auction, held through 5 mini auctions during November and early December. This is a record result for a Higher Quality emerald auction.

The new mini auction format continues to work well, but most important is the very strong demand for Gemfields merchandise. As Gemfields' MD of Product & Sales commented "The auction result again underscores the step-change in both market demand and in the prices bid by our clients, aided by tightened supply stemming from the one-year suspension of operations at Kagem". This "step-change" underpins the investment case and if sustained should ensure strong cash generation and progressive dividends.

- **Dividend outlook:** In the interims, the Chairman indicated the potential for dividends during FY22. Today's announcement makes a dividend increasingly likely, future pandemic developments allowing.
- **Ruby auction:** Gemfields 4Q21 ruby mini-auctions are nearly complete, and we expect revenues from that event to be published shortly. Given today's result, we expect a strong ruby result.
- **Upgrade risk:** Before today, announced revenues were US\$120.3m; with today's news this is now US\$158m. This puts our bottom of the range forecast of US\$203m at risk.
- We are expecting US\$52m of 4Q21 ruby revenue and US\$8m of 2H21 Faberge and other revenue. This points to FY21 revenue of closer to US\$220m - we will adjust our numbers once the ruby auction result is announced.
- **Summary:** This is excellent news and management seems quietly confident that this strong pricing will continue into the future i.e. it is not simply the result of pent-up demand due to COVID.

Key estimates		2018A	2019A	2020A	2021E
Year end:		Dec	Dec	Dec	Dec
Revenue	\$m	206.1	216.2	34.6	203.1
Adj EBITDA	\$m	54.2	69.6	-33.2	85.3
Adj EBIT	\$m	23.5	34.8	-54.2	50.4
Adj PBT	\$m	14.7	30.3	-60.0	55.4
Adj EPS	c	-3.2	1.1	-6.3	2.4
DPS	c	0.0	0.0	0.0	0.0

Key valuation metrics		2018A	2019A	2020A	2021E
EV/EBIT (adj)	x	9.9	6.7	-4.3	4.6
P/E (adj)	x	-5.4	15.4	-2.8	7.4
Dividend yield	%	0.0%	0.0%	0.0%	0.0%
Free cash yield	%	-14.9%	1.2%	-15.6%	24.4%
Pre-tax ROCE	%	3.9%	5.5%	-10.0%	9.1%

Research

Mark Brewer	020 7220 0556	mbrewer@finncap.com	Dr Susie Jana	020 7220 0550	sjana@finncap.com
David Buxton	020 7220 0542	dbuxton@finncap.com	Michael Hill	020 7220 0554	mhill@finncap.com
Kimberley Carstens	020 7220 0548	kcarstens@finncap.com	Charlie Long	020 3772 4683	clong@finncap.com
Michael Clifton	020 3772 4682	mclifton@finncap.com	Nik Lysiuk	020 7220 0546	nlysiuk@finncap.com
Lorne Daniel	020 7220 0545	ldaniel@finncap.com	Mark Paddon	020 7220 0541	mpaddon@finncap.com
Andrew Darley	020 7220 0547	adarley@finncap.com	Nigel Parson	020 7220 0544	nparson@finncap.com
Raymond Greaves	020 7220 0553	rgreaves@finncap.com	Jonathan Wright	020 7220 0543	jwright@finncap.com
Guy Hewett	020 7220 0549	ghewett@finncap.com			

Equity Capital Markets

Andrew Burdis	020 7220 0524	aburdis@finncap.com	Tim Redfern	020 7220 0515	tredfern@finncap.com
Richard Chambers	020 7220 0514	rchambers@finncap.com	Sunila de Silva	020 7220 0521	sdesilva@finncap.com
Barney Hayward	020 7220 0518	bhayward@finncap.com	Charlotte Sutcliffe	020 7220 0513	csutcliffe@finncap.com
Alice Lane	020 7220 0523	alane@finncap.com	Harriet Ward	020 7220 0512	hward@finncap.com

Sales

Mark Chellingworth	020 7220 0516	mchellingworth@finncap.com	Jonathon Webb	020 7220 0511	jwebb@finncap.com
Louise Talbot	020 3772 4651	ltalbot@finncap.com	Ruth Watts	020 7220 0520	rwatts@finncap.com
Malar Velaigam	020 7220 0526	mvelaigam@finncap.com	Rhys Williams	020 7220 0522	rwilliams@finncap.com

Investor Relations

Brittany Henderson	020 7220 0592	bhenderson@finncap.com	Lisa Welch	020 7220 0519	lwelch@finncap.com
Lucy Nicholls	020 7220 0528	lnicholls@finncap.com	Helen Worrall	020 3772 4652	hworrall@finncap.com
Brittany Stevens	020 3772 4653	bstevens@finncap.com			

Sales Trading

Kai Buckle	020 7220 0529	kbuckle@finncap.com	Mark Fidgen	020 7220 0536	mfidgen@finncap.com
Charlie Evans	020 7220 0531	cevans@finncap.com	Daniel Smith	020 7220 0533	dsmith@finncap.com

Market Makers

Steve Asfour	020 7220 0539	sasfour@finncap.com	Oliver Ratcliff	020 7220 0530	oratcliff@finncap.com
Jamie Dunleavy	020 7220 0534	jdunleavy@finncap.com	James Revell	020 7220 0532	jrevell@finncap.com

Investment Companies

Johnny Hewitson	020 7220 0558	jhevitson@finncap.com	Pauline Tribe	020 7220 0517	ptribe@finncap.com
Monica Tepes	020 3772 4698	mtepes@finncap.com	Mark Whitfeld	020 3772 4697	mwhitfeld@finncap.com

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1 Bartholomew Close

London EC1A 7BL

Tel 020 7220 0500

Fax 020 7220 0597

Email info@finncap.com

Web www.finncap.com

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