

25 March 2022

Corp

Ticker GEM:AIM

Mining
Shares in issue (m) 1,169.8
Next results FY Mar

Price 17.5p
Target price 25.0p
Upside 43%

Market cap £204.7m
Net debt/(cash) -£47.8m
Other EV adjustments £0.0m
Enterprise value £156.7m

What's changed? From To
Adjusted EPS 2.3 n/c
Target price 25.0 n/c

Share price performance



%	1M	3M	12M
Actual	20.7	32.1	137.3

Company description

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

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GEMFIELDS*

Excellent results and maiden dividend

Gemfields has announced strong FY21 results to December, which include record financials and a special dividend of US\$20m to be paid in H1 (1.7 US cents, ex-date 21 April). Revenue of US\$257.7m, EBITDA of US\$131m, profit after tax of US\$64.9m, which is reduced to US\$50.7m net of minorities, for EPS of 4.0p. This performance led to cash of US\$97.7m at December with US\$54.5m of auction receivables and US\$21m of tax to pay.

Looking forward, Gemfields has one more major capital project to complete. This year it will build a new washplant at the ruby mine (Montepuez) for a 200% capacity increase and 50%+ (our estimate) increase to ruby revenues. Based on FY21's ruby prices and revenue of \$147.4m, ruby sales should breach US\$200m in the medium term (2-3 years) and take group revenue to >US\$300m. The plan is to commission the new plant in 1Q23.

- **Strong balance sheet:** Gemfields started this year in excellent financial health with net cash of US\$63m, allowing the maiden US\$20m special dividend despite significant capex at Montepuez (second washplant). We forecast US\$50m capex in FY22 (Montepuez, Kagem and other).
- **Confident outlook:** There are various statements this morning which suggest market confidence and minimal impact from the war: "none of the Group's customers have raised any concerns regarding the conflict, and the scheduled CQ auction commenced on 15 March 2022" and, "there are no indicators that the current levels of gemstone pricing will not be achieved in 2022".
- **Six auctions scheduled:** Gemfields will continue to use its new successful auction format (multi-city/online) and has six planned for CY22, kicking off last week with the first commercial quality (CQ) emerald auction.
- **Cost increases:** Costs are expected to increase significantly YoY. Fuel and consumables inflation will be in-part exacerbated by the conflict. Also, G&A costs are expected to increase as expenditure on marketing and travel normalises to pre-pandemic levels. Together these will reduce the gross and operating profit margins. The effective tax rate will also remain high (FY21A 37.8%) due to continued strong mine-level performance and profits.
- **Group capital expenditure** will increase significantly in 2022 primarily due to construction of the new Montepuez washplant. Management sees this as a "transformational development" and it's an important part of our investment case, as probably the main driver of revenue growth.
- **Gemstone pricing underpins value:** Resilient and rising ruby/emerald pricing over 10 years differentiates Gemfields from other miners. Iron ore, copper, lead-zinc, gold, PGMs, speciality metals, potash, diamonds (etc) are volatile and sensitive to global supply-demand dynamics, which limits valuation multiples. We value Gemfields at US\$402m for a 25p target price.

Key estimates		2018A	2019A	2020A	2021A	2022E
Year end:		Dec	Dec	Dec	Dec	Dec
Revenue	\$m	206.1	216.2	34.6	257.7	251.3
Adj EBITDA	\$m	54.2	69.6	-33.2	125.2	101.6
Adj EBIT	\$m	23.5	34.8	-54.2	99.8	70.1
Adj PBT	\$m	14.7	30.3	-60.0	96.6	68.7
Adj EPS	c	-3.2	1.1	-6.3	4.0	2.3
DPS	c	0.0	0.0	0.0	0.0	1.7

Key valuation metrics		2018A	2019A	2020A	2021A	2022E
EV/EBIT (adj)	x	8.8	5.9	-3.8	2.1	2.9
P/E (adj)	x	-7.2	20.3	-3.7	5.8	10.0
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	7.4%
Free cash yield	%	-11.3%	0.9%	-11.8%	30.9%	9.5%
Pre-tax ROCE	%	3.9%	5.5%	-10.0%	17.2%	12.1%

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Income statement		2019A	2020A	2021A	2022E
Year end:		Dec	Dec	Dec	Dec
Sales	\$m	216.2	34.6	257.7	251.3
Gross profit	\$m	91.6	-24.5	145.5	122.7
EBITDA (adjusted)	\$m	69.6	-33.2	125.2	101.6
EBIT (adjusted)	\$m	34.8	-54.2	99.8	70.1
Associates/other	\$m	0.0	0.0	0.0	0.0
Net interest	\$m	-4.5	-5.8	-3.2	-1.5
PBT (adjusted)	\$m	30.3	-60.0	96.6	68.7
Total adjustments	\$m	37.1	-39.2	7.9	0.0
PBT (stated)	\$m	67.4	-99.2	104.4	68.7
Tax charge	\$m	-28.2	6.0	-39.5	-29.6
Minorities/Disc ops	\$m	10.8	-7.9	14.2	11.0
Reported earnings	\$m	28.4	-85.3	50.7	28.0
Adjusted earnings	\$m	13.3	-73.8	46.9	28.0
Shares in issue (year end)	m	1,171.0	1,168.8	1,168.9	1,168.8
EPS (stated)	c	2.2	-7.3	4.3	2.4
EPS (adjusted, fully diluted)	c	1.1	-6.3	4.0	2.3
DPS	c	0.0	0.0	0.0	1.7

Cash flow		2019A	2020A	2021A	2022E
Year end:		Dec	Dec	Dec	Dec
EBITDA	\$m	67.4	-33.2	133.1	99.6
Net change in working capital	\$m	-25.3	31.3	-28.6	6.0
Other operating items	\$m	4.3	-3.3	3.4	0.0
Cash flow from op. activities	\$m	46.4	-5.2	107.9	105.6
Cash interest	\$m	-3.3	-3.0	-3.1	-0.3
Cash tax	\$m	-9.7	-15.0	-9.7	-29.6
Capex	\$m	-30.8	-8.6	-11.7	-50.0
Other items	\$m				
Free cash flow	\$m	2.5	-31.8	83.4	25.7
Acquisitions / disposals	\$m	35.2	0.0	0.0	0.0
Dividends	\$m	0.0	0.0	0.0	-10.0
Shares issued	\$m	-14.4	-0.2	0.1	0.0
Other	\$m	-7.8	-6.0	-7.8	-4.2
Net change in cash flow	\$m	15.6	-38.0	75.6	11.5
Opening net cash (debt)	\$m	9.8	25.4	-12.6	63.0
Closing net cash (debt)	\$m	25.4	-12.6	63.0	73.3

Balance sheet		2019A	2020A	2021A	2022E
Year end:		Dec	Dec	Dec	Dec
Tangible fixed assets	\$m	376.9	362.7	342.6	360.1
Goodwill & other intangibles	\$m	55.2	51.5	50.0	51.0
Other non current assets	\$m	75.3	43.7	53.6	53.6
Net working capital	\$m	168.7	133.3	139.7	133.7
Other assets	\$m	0.0	0.0	0.0	0.0
Other liabilities	\$m	-122.5	-95.6	-104.7	-104.7
Gross cash & cash equivs	\$m	78.2	43.9	97.7	84.0
Capital employed	\$m	631.8	539.5	578.9	577.7
Gross debt	\$m	52.8	56.5	34.7	10.6
Net pension liability	\$m	0.0	0.0	0.0	0.0
Shareholders equity	\$m	494.3	412.6	464.5	480.5
Minorities	\$m	84.7	70.4	79.7	86.5
Capital employed	\$m	631.8	539.5	578.9	577.7

Growth analysis		2019A	2020A	2021A	2022E
Year end:		Dec	Dec	Dec	Dec
Sales growth	%	4.9%	-84.0%	645.5%	-2.5%
EBITDA growth	%	28.5%	-147.7%	477.4%	-18.8%
EBIT growth	%	47.7%	-255.9%	284.1%	-29.7%
PBT growth	%	106.2%	-298.0%	260.9%	-28.9%
EPS growth	%	135.2%	-656.7%	163.5%	-42.4%
DPS growth	%	n/m	n/m	n/m	n/m

Profitability analysis		2019A	2020A	2021A	2022E
Year end:		Dec	Dec	Dec	Dec
Gross margin	%	42.3%	-70.9%	56.4%	48.8%
EBITDA margin	%	32.2%	-96.0%	48.6%	40.4%
EBIT margin	%	16.1%	-156.8%	38.7%	27.9%
PBT margin	%	14.0%	-173.6%	37.5%	27.3%
Net margin	%	6.1%	-213.4%	18.2%	11.1%

Cash flow analysis		2019A	2020A	2021A	2022E
Year end:		Dec	Dec	Dec	Dec
Cash conv'n (op cash / EBITDA)	%	68.8%	n/m	81.1%	106.0%
Cash conv'n (FCF / EBITDA)	%	3.8%	96.0%	62.6%	25.8%
U/lying FCF (capex = depn)	\$m	-1.4	-44.2	69.6	44.2
Cash quality (u/l FCF / adj earn)	%	-10.8%	59.9%	148.5%	158.1%
Investment rate (capex / depn)	x	0.9	0.4	0.5	1.6
Interest cash cover	x	14.1	n/a	34.8	414.1
Dividend cash cover	x	n/m	n/a	n/m	2.6

Working capital analysis		2019A	2020A	2021A	2022E
Year end:		Dec	Dec	Dec	Dec
Net working capital / sales	%	78.0%	385.8%	54.2%	53.2%
Net working capital / sales	days	285	1,408	198	194
Inventory (days)	days	187	1,244	164	172
Receivables (days)	days	148	392	119	112
Payables (days)	days	50	228	85	90

Leverage analysis		2019A	2020A	2021A	2022E
Year end:		Dec	Dec	Dec	Dec
Net debt / equity	%	net cash	3.1%	net cash	net cash
Net debt / EBITDA	x	net cash	n/a	net cash	net cash
Liabilities / capital employed	%	8.4%	10.5%	6.0%	1.8%

Capital efficiency & intrinsic value		2019A	2020A	2021A	2022E
Year end:		Dec	Dec	Dec	Dec
Adjusted return on equity	%	2.7%	-17.9%	10.1%	5.8%
RoCE (EBIT basis, pre-tax)	%	5.5%	-10.0%	17.2%	12.1%
RoCE (u/lying FCF basis)	%	-0.2%	-8.2%	12.0%	7.7%
NAV per share	c	42.2	35.3	39.7	41.1
NTA per share	c	37.5	30.9	35.5	36.8

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