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HD **Corporate News: Diamonds Regain Sparkle for Miners --- Rising Demand, Lack of New Discoveries Mean Higher Profit for Rio Tinto, Anglo**

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LONDON -- Diamonds, it turns out, may not be forever.

There hasn't been a major new diamond lode discovered for years. Along with rising demand from new consumers in the East, that is good for mining companies whose profits are rising at the most lucrative part of the business: the rock face.

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The industry's shifting dynamics have prompted a rethink by some of the world's biggest mining companies, including Rio Tinto PLC and Anglo American PLC.

For years, falling commodity prices and rising costs made many of them question whether it was worth staying in the diamond business.

But now, diamonds have regained their sparkle.

"We expect the demand requirements to grow around 6% per annum for the course of the decade," said Alan Davies, head of the diamond unit for Rio Tinto, the world's third-largest diamond producer. "And when you look at the supply response there hasn't been a major find brought on for a long time."

Just 18 months ago, BHP Billiton PLC and Rio Tinto each had their diamond units on the block. In 2012, BHP sold its Ekati mine in Canada to jewelry maker Harry Winston Co. for $500 million.

Rio Tinto, however, didn't get a satisfactory offer, say bankers who advised the company. Instead, Rio hung on to its mines in Canada and Australia.

Now, digging the stones out of the ground is the most profitable part of the diamond value chain. In 2012, rough diamond miners achieved average profit margins of between 16% and 20%, according to a study by Bain & Co.

The next highest margins -- achieved through the sale of finished jewelry products by retailers such as Tiffany & Co. and Cartier -- averaged between 11% and 14%.

For Anglo American and Rio Tinto, diamonds now deliver some of the healthiest returns. Last year, margins from Rio Tinto's precious stones division were double those of aluminum, while the rate of return from Anglo American's diamond unit was higher than core businesses such as platinum and coal.

"If you look at prices across the mining industry, diamonds stand apart with prices continuing to rise," said Rene Medori, Anglo American's chief financial officer.

No major diamond finds have occurred since Rio Tinto's 1997 discovery of three kimberlites -- mineral-bearing igneous rock -- at Murowa in southern Zimbabwe. Without further discoveries, world diamond supply could peak in 2018, according to Bain.

Meanwhile, a newfound taste for diamonds as part of the betrothal process in China, India and Japan -- once a purely Western phenomenon -- has boosted demand. Last year, demand for diamond jewelry rose 18% in China, the world's fastest-expanding market.

In the U.S., still the dominant diamond market, demand increased 8%, according to De Beers, the world's largest producer of gem quality diamonds by value.

In the first half of 2014 alone, rough diamond prices charged by major mining companies rose 7% on average, according to a report by the New York-based Rapaport Group, the industry's main market information source.

Diamond values depend on their quality. Some sell for as little as $65 a carat -- a unit of mass used to measure gemstones.

In February, South African producer Petra Diamonds Ltd. sold a rare blue diamond recovered from its Cullinan mine for $25.6 million, or $862,780 a carat.

With upstream profit increasing, Anglo American shelved a plan to spin off De Beers in an initial public offering, according to people familiar with the matter. Anglo bought a 40% stake in De Beers for $5.1 billion in 2011 from the family, taking its total holding to 85%.

An Anglo American spokesman declined to comment.

The De Beersacquisition provoked mixed feelings inside Anglo American, the people said. Some executives felt De Beers was a poor fit given Anglo's focus on industrial commodities such as iron ore and copper. Others felt former Chief Executive Officer Cynthia Carroll had paid a high price for a controlling stake in the company.

"It is clear that we paid toward the top end of valuations, but this is a company and market that we know well given the long history between Anglo American and De Beers," said the Anglo American spokesman.

Anglo's new boss since 2013, Mark Cutifani, has sought to make De Beers a leaner operation and had some of Anglo's top technical experts oversee its mining operations.

Last year, De Beers, led by CEO Philippe Mellier, more than doubled its operating profit to $1 billion.

De Beers is spending $3 billion over 15 years developing one of the largest open-cast mines in the world, Botswana's Jwaneng, which includes an automated diamond recovery plant to filter the gems from other rocks.

CO aamcr : Anglo American PLC | bltplc : BHP Billiton PLC | rtz : Rio Tinto PLC | rtzcra : Rio Tinto Group | craaus : Rio Tinto Ltd | bkhlp : BHP Billiton Ltd

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