

Quick Comment

Lucapa Diamond Co (LOM \$0.27) Speculative Buy

Analyst	Date	Price Target
Greg Chessell	8 th September 2017	\$0.60/sh

Diamond Sale

Key Points

Sale of the 7th parcel of diamonds for 2017 from the Lulo (LOM 40%) alluvial mine has yielded impressive results.

A total of 3,214 carats yielded US\$7.4m in gross sales, avg price of US\$2,299/ct.

This is the 2nd largest parcel ever sold by the partners, and is the 3rd largest gross proceeds after two sales in 2016 that included very high value diamonds.

This sale includes the seven +50ct diamonds that were announced in mid August.

Sales in 2017 to date are up 80% on 2016 on comparable period in terms of carats, and down 20% in terms of gross value. We note that the 2016 results were heavily influenced by the spectacular US\$16m result from a single 404ct diamond in February.

The conclusion is that Lulo is operating well in 2017 to date, and we expect a similarly strong finish to 2017 as was seen in 2016.

Lulo production is seasonally affected, and the typically greater yielding period should run for the remainder of 2017, as was seen in 2016 in terms of sales results and number of special stones recovered. See table and chart below.

Lucapa Diamond Co (LOM)			
Lulo (SML) Diamond Sales			
Date	Diamond (ct)	Sales US\$m	Avg Price US\$/ct
25-Jan-16	178	0.3	1,652
29-Feb-16	404	16.0	39,604
03-Mar-16	1,349	6.8	5,041
18-May-16	1,862	2.1	1,128
27-Jun-16	808	0.9	1,114
06-Sep-16	3,642	4.4	1,208
28-Sep-16	2,029	4.1	2,021
?	2,166	1.8	831
07-Nov-16	1,864	8.3	4,453
14-Nov-16	2,812	6.3	2,240
Total 2016	17,114	51	2,980
09-Feb-17	2,946	3.8	1,290
03-Mar-17	1,552	6.9	4,446
11-Apr-17	1,919	2.5	1,303
16-May-17	1,878	1.3	692
19-Jun-17	1,236	1.0	769
31-Jul-17	2,070	1.5	710
08-Sep-17	3,214	7.4	2,299
YTD 2017	14,815	24	1,641

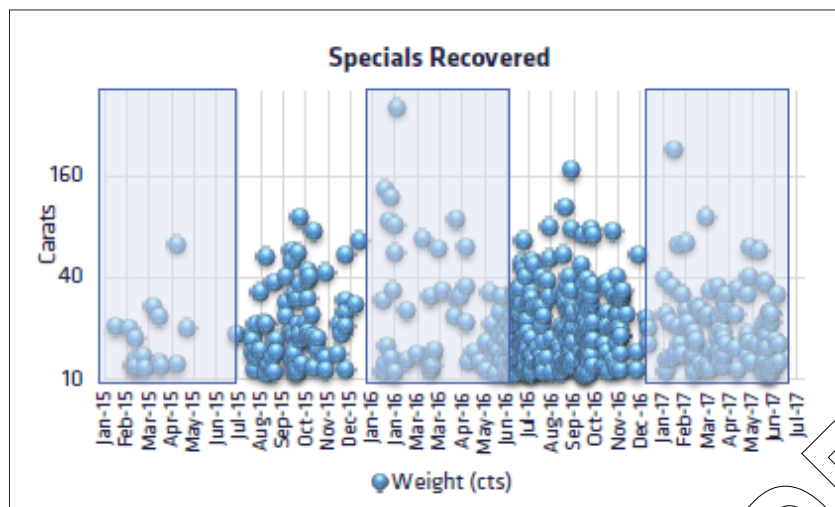
Source: Euroz Ltd

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Source: Lucapa Diamond Co. Ltd

The looming expiry of 46m options exercisable at \$0.20/sh (\$9.3m) at 30th Sep'17 is temporarily weighing on the share price. While the option exercise is underwritten, undoubtedly the marginal option holder may be inclined to sell fully paid shares to fund the option exercise, thereby creating a short term overhang. We expect the stock to tighten post September.

Investment Thesis

Lucapa is a profitable producer of high value diamonds in Angola. The Lulo (LOM 40%) alluvial diamond mining operations, producing the highest average diamond value of any mine in the world, is expected to generate a similarly strong production and sales result in the 2nd H'17 as it did in 2016. Exploration for the kimberlite source is exciting with recent discovery of Kimberlite rock 2km upstream from the most prolific alluvial mining block. If proven diamondiferous we expect a material rerating. The large size and irregular shape of alluvial diamonds recovered from MB08 suggest the source is proximal. The Mothae (Lesotho) acquisition is an exciting medium term high value kimberlite diamond development opportunity that will grow value in time. The high value segment of the diamond market is robust due to scarcity of supply and growth globally in number of uber-wealthy individuals. Our valuation remains \$0.60/sh.

Lucapa Diamond Co (LOM \$0.27)

Share Price	0.27	A\$/sh	Enterprise Value	96	A\$/m
Price Target	0.60	A\$/sh	Debt	6	A\$/m
Valuation	0.60	A\$/sh	Cash	3	A\$/m
Shares on Issue	376	m (dil)	Largest Shareholder Carrington	6.1%	
Market Capitalisation	102	A\$m			

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