

Quick Comment

Lucapa Diamond Co (LOM \$0.27) Speculative Buy

Analyst	Date	Price Target
Greg Chessell	17 th August 2017	\$0.60/sh

Large Diamonds Recovered

Key Points

Seven diamonds of +50ct size have been recovered from the Lulo alluvial mine (LOM 40% of SML) during the current quarter so far. This compares to just two +50 carat diamonds during the June Q'17.

Highlights are 83ct Type IIa and 68ct Type IIa stones.

These diamonds will be included in the next sale scheduled for September 2017.

We expect a significant lift in average price received which has trended lower in 2017.

- Sales for the 7 months to end July 2017 are 11.6kct at an average of US\$1,458/ct.
- Total sales in 2016 were 17.1kct at an average price of US\$2,986/ct.

Lucapa Diamond Co (LOM)			
Lulo (SML) Diamond Sales 2016 - 2017			
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
YTD 2017	11,601	17	1,458

Source: Euroz Ltd

Sales are exponentially biased to large stones, whose recovery is seasonal due to access to higher grade mining areas. The following figure demonstrates the seasonal influence.

It is probable Lulo sales will fall short of our previous 2017 forecast of US\$52m in gross sales. However this can change on any day with recovery of a large diamond, like occurred in Feb 2016 with the 404ct stone which achieved US\$16m. We will review the forecast in the coming weeks.

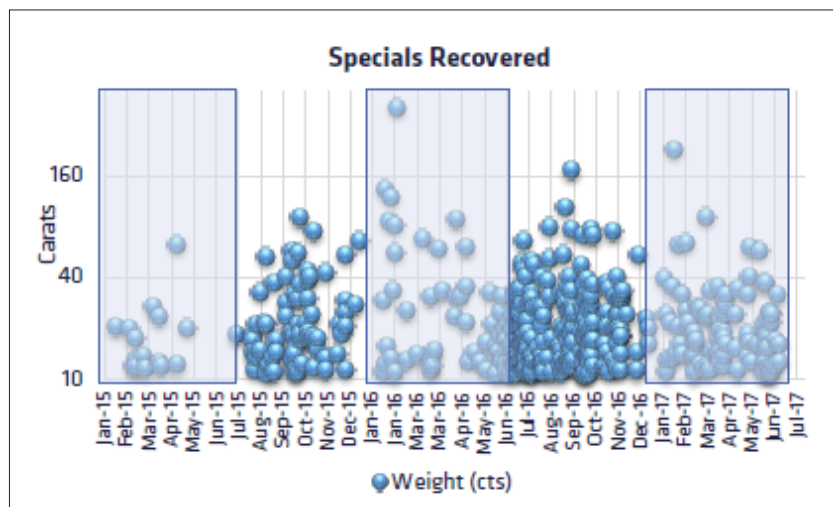
Lucapa has received US\$3.8m in loan repayment from SML, up from US\$2.5m at end June 2017, from the total US\$4.0m declared in March 2017. The total owed by SML to Lucapa was US\$39m at end 2016.

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Source: Lucapa Diamond Co. Ltd

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)

Share Price	0.27	A\$/sh	Enterprise Value	84	A\$/m
Price Target	0.60	A\$/sh	Debt	5	A\$/m
Valuation	0.60	A\$/sh	Cash	10	A\$/m
Shares on issue	330	m(dil)	Largest Shareholder Carrington	4.1%	
Market Capitalisation	89	A\$m			

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Contact Details

Euroz Securities Limited +61 8 9488 1400

International Toll Free

(If calling to Euroz from the following Countries)

Germany	0800 1800 554
Switzerland	0800 835 385
Hong Kong	800 900 936
Malaysia	1800 805 002
Singapore	800 6161 759
New Zealand	0800 441 271
USA	18 772 804 390
United Kingdom	08 000 929 851

Research Analysts

Greg Chessell - Head of Research	+61 8 9488 1409
Andrew Clayton - Resources Analyst	+61 8 9488 1427
Ben Laird - Industrials Director	+61 8 9488 1429
Gavin Allen - Industrials Analyst	+61 8 9488 1413
Jon Bishop - Resources Analyst	+61 8 9488 1481
Jerome Paz - Associate Research Analyst	+61 8 9488 1414

Institutional Sales

Andrew McKenzie - Executive Chairman	+61 8 9488 1407
Rob Black - Managing Director	+61 8 9488 1423
Jay Hughes - Executive Director	+61 8 9488 1406
Russell Kane - Executive Director	+61 8 9488 1426
Simon Yeo - Executive Director	+61 8 9488 1404
Peter Schwarzbach - Executive Director	+61 8 9488 1492
Timothy Bunney - Institutional Adviser	+61 8 9488 1461
Stacy Kitsantas - Institutional Adviser	+61 8 9488 1486
Nicholas Doherty - Assoc. Institutional Adviser	+61 8 9488 1473

Private Client Advisers

Chris Webster - Head of Private Clients	+61 8 9488 1412
Brian Bates - Executive Director	+61 8 9346 0314
James Mackie - Executive Director	+61 8 9488 1416
Tony Kenny - Executive Director	+61 8 9346 0302
Tim Lyons - Executive Director	+61 8 9346 0324
Lucas Robinson - Executive Director	+61 8 9488 1424
Tim Weir - Executive Director	+61 8 9346 0303
Paul Berson - Associate Director	+61 8 9346 0314
Phil Grant - Associate Director	+61 8 9346 0306
Steve Grove - Associate Director	+61 8 9488 1410
Giles McCaw - Associate Director	+61 8 9488 1462
Cameron Murray - Associate Director	+61 8 9488 1440
Ben Statham - Associate Director	+61 8 9488 1417
Ryan Stewart - Associate Director	+61 8 9488 1441
Brett Stapleton - Investment Adviser	+61 8 9488 1435
Duncan Relf - Investment Adviser	+61 8 9346 0322
Michael Bartley - Investment Adviser	+61 8 9346 0352
Michael Bowden - Investment Adviser	+61 8 9346 0307
Paul Cooper - Investment Adviser	+61 8 9346 0316
Richard Gardner - Investment Adviser	+61 8 9488 1444
Scott Fraser - Investment Adviser	+61 8 9488 1436
Steve Wood - Investment Adviser	+61 8 9346 0305
Blair Spaulding - Associate Adviser	+61 8 9488 1418

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