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Equity Research

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(Remains Unchanged)

Target Price: A\$0.39

Share Price: A\$0.36

(Price at close 2 August 2016)

Stock Codes LOM.ax / LOM AU

Market Cap A\$116m

Last Published Research: 18 May 2016

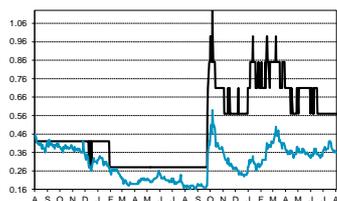
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Absolute & Relative Performance



— Absolute

— Relative to DS Mining

Source Datastream

MORNING NOTE LUCAPA DIAMOND COMPANY

Record recoveries in July

Lucapa has today announced exceptional operational results from the Lulo operation in July. Record production in the month has been driven by both plant and machine upgrades and also exceptional grades at Mining Block 8. Exploration activities are also yielding better than expected results with the programme now being accelerated. We reiterate our Buy recommendation.

- ▶ **Exceptional production in July** – Lucapa has this morning announced a number of production records from Mining Block 8 Lulo in July. The company has announced the recovery of 59 large Special diamonds and the overall recovery of 3,164 carats driven by record grades of 15 carats per 100 cubic metres. The impact of the new earth moving fleet and processing plant upgrades also drove record processing volumes of 21,114 bulk cubic metres (bcm), ahead of our expectations. The company also held a small sale raising \$1.8m from the sale of 1,985cts at an average price of \$905/ct; the sale did not include any significant special goods and Lucapa currently holds an inventory of 2,440cts including 50 special diamonds weighing 1,057cts.
- ▶ **Further plant upgrades planned** – The company has confirmed that it expects to install and operate a new XRT diamond recovery unit by the end of September with all oversize material currently being stockpiled for future processing.
- ▶ **Exploration success** – After experiencing initial delays, drilling at kimberlite target L259 continues with early results yielding re-sedimented volcanoclastic kimberlite, or crater lake sediments after initially targeting pyroclastic kimberlite. As a result, management has decided to acquire an additional larger drill rig to accelerate the drill programme. Alluvial exploration at this time has not been forgotten and a further potential production zone measuring up to 1.6km in length has been identified 3km upstream of the delineated JORC diamond resource at E46. The company believes the potential for the whole of the 51km length of the Cacuilo River within the at Lulo tenements continues to improve.

Year End Dec	Sales (A\$m)	PBTA (A\$m)	EPS (c)	DPS ord (c)	P/E (x)	EV/EBITDA (x)	Yield (%)
2015A	0.0	(3.6)	(1.4)	0.0	n/a	(32.4)	0.0
2016E	8.3	5.3	1.7	0.0	21.6	18.3	0.0
2017E	7.0	4.0	1.3	0.0	28.6	22.9	0.0
2018E	7.0	3.9	1.2	0.0	29.3	23.7	0.0

Source Company Data, Panmure Gordon

- ▶ **Reiterate Buy and 39c target price with significant upside potential** - Our target price of A\$0.39/share incorporates our longer term diamond price assumptions, FX forecasts, the full dilution arising from options outstanding and our highly conservative approach to the valuation of alluvial diamond projects. Whilst we anticipate the return of capital from the alluvial expenditure in due course, we ascribe no value to for the recovery of the A\$39m spent to develop the Lulo project to date (worth A\$0.12c/share). We see at least 30% upside to our Lulo base case of A\$98.8m if we assume managements base production profile, an average resource grade in line with the resource statement and an average production value of \$2,000/ct thus producing a A\$130m or A\$0.47c/share value. At this time we ascribe no value for the kimberlite exploration programme but should the upcoming drilling programme prove successful; the investment opportunity would be significant.

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Rating: GUIDELINE (return targets may be modified by risk or liquidity issues)

Overall Global Distribution (Banking Client*)

Buy	Hold	Sell	Buy	Hold	Sell
74% (45%)	20% (3%)	6% (0%)	Buy	Hold	Sell

* Indicates the percentage of each category in the overall distribution that were banking and/or corporate broking clients

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