

16 May 2016

Equity Research

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(Remains Unchanged)

Target Price: A\$0.39

Share Price: A\$0.38

(Price at close 13 May 2016)

Stock Codes LOM.ax / LOM AU

Market Cap A\$106m

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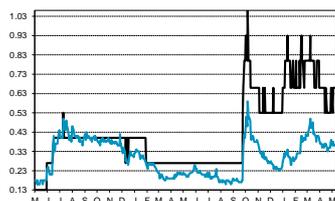
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#### Absolute & Relative Performance



— Absolute

— Relative to DS Mining

Source Datastream

## MORNING NOTE LUCAPA DIAMOND COMPANY

### Lulo Diamond Mining Company incorporated

Lucapa has today announced the completion of another of our key catalyst for further investor acceptance by formally incorporating Sociedade Mineira do Lulo Limitada, the new alluvial mining company for the Lulo Diamond Project in Angola. We recently initiated on Lucapa in the Quarterly Carat and reiterate our positive stance.

- ▶ **Major step achieved** – Lucapa Diamond Company Limited today announced, in partnership with Endiama and private partner Rosas & Petalas, the signing of documents to incorporate Sociedade Mineira do Lulo Limitada, the new alluvial mining company for the Lulo Diamond Project in Angola. Lucapa is a 40% shareholder in SML and operator, Endiama holds a 32% interest and Rosas 28%. SML will now hold the Lulo alluvial diamond mining licence, which was gazetted in July 2015. Lucapa will now commit to a \$7m investment programme, funded from on-going diamond sales and existing cash resources.
- ▶ **Kimberlite drilling programme to commence** – The company also confirms that it has secured work permits for several senior operational roles at Lulo, including specialist drillers for the kimberlite drilling program. As a result, Lucapa expects the kimberlite drilling program to commence at Lulo on the high-priority L259 kimberlite target as soon as the next three year kimberlite exploration programme application, agreed at the last Lulo board meeting, is approved by the Angolan Ministry of Geology and Mines.
- ▶ **Recently initiated with a Buy recommendation and 39c target price** – 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.

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	(29.6)	0.0
2016E	8.3	5.3	1.7	0.0	22.8	16.5	0.0
2017E	7.0	4.0	1.3	0.0	30.2	20.4	0.0
2018E	7.0	3.9	1.2	0.0	30.9	21.1	0.0

Source Company Data, Panmure Gordon

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Overall Global Distribution (Banking Client*)			<b>Buy</b>	Total return of >10% in next 12 months
<b>Buy</b>	<b>Hold</b>	<b>Sell</b>	<b>Hold</b>	Total return >-10% and <+10% in next 12 months
71% (41%)	20% (7%)	9% (0%)	<b>Sell</b>	Total return <-10% in next 12 months

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

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