

15 September 2016

Equity Research

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(Remains Unchanged)

Target Price: A\$0.44 (A\$0.39)

Share Price: A\$0.33

(Price at close 14 September 2016)

Stock Codes LOM.ax / LOM AU

Market Cap A\$107m

Last Published Research: 4 August 2016

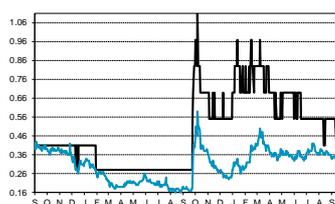
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#### Absolute & Relative Performance



— Absolute

— Relative to DS Mining

Source Datastream

## MORNING NOTE LUCAPA DIAMOND COMPANY

### Positive news drives Lulo forward

Lucapa released Interim Results to 30 June 2016 on 13 September that will serve to remind investors of the scale of the opportunity Lucapa offers. Record production and sales volumes act as solid backdrop for a company that has the potential to identify the first major diamond resource in Africa for a generation. We reiterate our Buy recommendation and increase our target price to A\$0.44c from A\$0.39c.

- ▶ **Interim results** – Lucapa released Interim Results for the period ended 30 June 2016 on 13 September which saw the company announce a maiden profit of \$3.3 million for the period, following the special distribution of diamond sale proceeds. Basic EPS for the period was \$1.2c (Interim FY2015: \$0.9c loss).
- ▶ **Excellent operational performance** – In the period to 30 June, Lulo recovered a record 5,668cts including 53 special diamonds, an increase of 105% vs. H1 FY2015 driven by a 145% uplift in material processed. Operations continue to exceed expectations with record recoveries in July and August, as special stone recoveries (>10.8ct) reached 59 and 39 diamonds respectively. The company also announced it had recovered a 38.6ct pink diamond, surpassing the previous record for the largest fancy coloured diamond recovered from Lulo to date.
- ▶ **Diamond sales: Another record broken** – Lulo generated \$26.1 million (A\$36.6 million) from the sale of 4,601cts (+54% yoy). Post period end, Lulo held two sales raising a total of \$6.2 million through the sale of 1,985cts at an average of \$905/ct (not including any significant special goods) and a sale of 3,624cts at an average of \$1,212/ct, including a 28.5ct light pink. We believe that whilst Lulo can consistently produce large high value white diamonds, there remains significant potential for high value coloured diamonds to be recovered, further increasing the overall value of the project. As at the sale cut-off date, inventory held by Lulo was 1,685cts.

| 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     | (29.7)        | 0.0       |
| 2016E        | 8.3          | 5.3         | 1.7     | 0.0         | 19.8    | 16.5          | 0.0       |
| 2017E        | 7.0          | 4.0         | 1.3     | 0.0         | 26.2    | 20.5          | 0.0       |
| 2018E        | 7.0          | 3.9         | 1.2     | 0.0         | 26.8    | 21.2          | 0.0       |

Source Company Data, Panmure Gordon

- ▶ **Reiterate Buy recommendation and increase TP to A\$0.44c** – Our price target, normally generated by using a blended average of NAV/per share and earnings per share, is not applicable at this time. Our group target of A\$0.44c (A\$0.39c) reflects our longer term diamond price and FX forecasts. We ascribe no value to the kimberlite opportunities other than what has already been contributed by Lucapa but we believe that should a drilling programme define economically viable targets, we could envisage a valuation significantly in excess of the current market capitalization.

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*Founded 1876*

| Distribution of investment ratings for equity research (as of 1 Jun 16) |             |             | Rating: GUIDELINE (return targets may be modified by risk or liquidity issues) |  |
|---|-------------|-------------|--|--|
| 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 |
| 74% (45%)   | 20% (3%)    | 6% (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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