

28 October 2016

Equity Research

Kieron Hodgson

+44 (0)20 7886 2773

kieron.hodgson@panmure.com



(Remains Unchanged)

Target Price: A\$0.50 (from A\$0.44)

Share Price: A\$0.49

(Price at close 27 October 2016)

Stock Codes LOM.ax / LOM AU

Market Cap A\$157m

Last Published Research: 11 October 2016

#### Analyst

Kieron Hodgson +44 (0)20 7886 2773

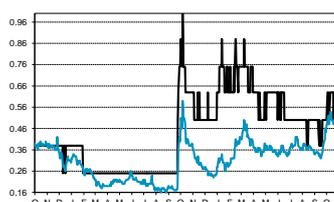
kieron.hodgson@panmure.com

#### Specialist Sales

Jamie Campbell +44 (0)20 7886 2736

jamie.campbell@panmure.com

#### Absolute & Relative Performance



— Absolute

— Relative to DS Mining

Source Datastream

This is a marketing communication

## MORNING NOTE LUCAPA DIAMOND COMPANY

### Q3 update confirms continued progress

Lucapa released its quarterly activities report for the period ended 30 September 2016 on 28 October which saw the company confirm that the strong operational performance announced at the interims, continued in Q3. Further production records, consistent sales and further cash distributions underscore the scale of the opportunity Lucapa offers. We reiterate our Buy recommendation and increase our target price to A\$0.50c from A\$0.44c.

- ▶ **Quarterly Activities Report** – Lucapa released its quarterly summation of activities for the period ended 30 September 2016 on 28 October that followed the solid Interim results in September.
- ▶ **Continued operational improvements** – In the period to 30 September, the Lulo Diamond Project through the mining company Sociedade Mineira Do Lulo (SML), recovered a record 8,853cts, including 137 special diamonds (>10.8cts) weighing a total of 3,210cts. 9 month production of 14,521cts is currently run-rating significantly ahead of our former expectations as are mining grades of 10.4 carats per 100m<sup>3</sup> driven by the exceptional 13.7 carats per 100m<sup>3</sup> grade in Q3.
- ▶ **Diamond sale volumes rising** – During the quarter, SML generated \$10.3 million from the sale of 7,837cts (+206% yoy) conducted by SODIAM, the Angolan Governments diamond marketing division, at three separate diamond sales held during the period. Nine month sales are now \$36.5million and average \$2,935/ct, comfortably ahead of our full year estimate of \$2,445/ct.
- ▶ **Reiterate Buy recommendation and increase TP to A\$0.50c** – 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\$0.50c (A\$0.44c) 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 capitalisation.

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	(43.8)	0.0
2016E	8.3	5.3	1.7	0.0	29.3	25.9	0.0
2017E	7.0	4.0	1.3	0.0	38.9	33.0	0.0
2018E	7.0	3.9	1.2	0.0	39.8	34.2	0.0

Source Company Data, Panmure Gordon

From time to time, we offer investment banking and other services (IBS) to Lucapa Diamond Company. Within the past 12 months, we have received compensation for IBS from Lucapa Diamond Company. Panmure Gordon & Co acts as corporate broker to Lucapa Diamond Company in the UK. We buy and sell these securities from customers on a principal basis. Accordingly, we may at any time have a long or short position in any such securities. We may make a market in the securities of Lucapa Diamond Company.

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				

This marketing communication has been prepared in accordance with COBS 12.3 on behalf of Panmure Gordon (UK) Limited ("Panmure Gordon"), as defined in the Financial Services and Markets Act 2000. It is not investment research in accordance with the legal requirements designed to promote investment research independence and is also not subject to any prohibition on dealing ahead of the dissemination of investment research. It may not be reproduced, redistributed or copied in whole or in part for any purpose.

We buy and sell these securities from customers on a principal basis. Accordingly, we may at any time have a long or short position in any such securities.

This report has been approved in the UK by Panmure Gordon solely for the purposes of section 21 of the Financial Services and Markets Act 2000. In the UK, this report is directed at and is for distribution only to persons who (i) fall within Article 19(1) (persons who have professional experience in matters relating to investments) or Article 49(2)(a) to (d) (high net worth companies, unincorporated associations etc.) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (as amended) or (ii) are professional customers or eligible counterparties of Panmure Gordon (all such persons together being referred to as "relevant persons"). This report must not be acted on or relied upon by persons in the UK who are not relevant persons. Panmure Gordon may buy and sell these securities from customers on a principal basis. Accordingly, we may at any time have a long or short position in any such securities. Panmure Gordon is not a US registered broker-dealer. Transactions undertaken in the US in any security mentioned herein must be effected through a US-registered broker-dealer in accordance with SEC Rule 15a-6. Neither this report nor any copy or part thereof may be distributed in any other jurisdiction where its distribution maybe restricted by law and persons into whose possession this report comes should inform themselves about, and observe, any such restrictions. Distribution of this report in any such other jurisdiction may constitute a violation of UK or US securities laws, or the law of any such other jurisdiction. This report does not constitute an offer or solicitation to buy or sell any securities referred to herein. It should not be so construed, nor should it or any part of it form the basis of, or be relied on in connection with, any contract or commitment whatsoever.

The information in this report, or on which this report is based, has been obtained from sources that Panmure Gordon believes to be reliable and accurate. However, it has not been independently verified and no representation or warranty, express or implied, is made as to the accuracy or completeness of any information obtained from third parties. The information or opinions are provided as at the date of this report and are subject to change without notice. The information and opinions provided in this report take no account of the investors' individual circumstances and should not be taken as specific advice on the merits of any investment decision. Investors should consider this report as only a single factor in making any investment decisions. Further information is available upon request. No member of the Panmure Gordon accepts any liability whatsoever for any direct or consequential loss howsoever arising, directly or indirectly, from any use of this report or its contents. By accepting this report you agree to be bound by the foregoing limitations.

## NOTICE TO US INVESTORS

This report is not "Globally Branded" as defined in FINRA Rule 1050 for purposes of distribution in the US. This report was prepared, approved, published and distributed by Panmure Gordon (UK) Limited, a company located outside of the United States (a "non-US Group Company"). This report is distributed in the U.S. by Panmure Gordon Securities Limited, a U.S. registered broker dealer, on behalf of Panmure Gordon (UK) Limited, only to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption in Rule 15a-6 and any transaction effected by a U.S. customer in the securities described in this report must be effected through Panmure Gordon Securities Limited. Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the Financial Industry Regulatory Authority, Inc. ("FINRA") or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization.

**Analyst Certification.** Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report. Please bear in mind that (i) Panmure Gordon (UK) Limited is the employer of the research analyst(s) responsible for the content of this report and (ii) research analysts preparing this report are resident outside the United States and are not associated persons of any US regulated broker-dealer and that therefore the analyst(s) is/are not subject to supervision by a US broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with US rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

**Important US Regulatory Disclosures on Subject Companies.** This material was produced by Analysts of Panmure Gordon (UK) Limited solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. It is distributed in the United States of America by Panmure Gordon Securities Limited and elsewhere in the world by Panmure Gordon (UK) Limited or an authorized affiliate of Panmure Gordon (UK) Limited. This document does not constitute an offer of, or an invitation by or on behalf of Panmure Gordon (UK) Limited or its affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which Panmure Gordon (UK) Limited or its Affiliates consider to be reliable. Panmure Gordon (UK) Limited does not accept any liability or responsibility whatsoever for the accuracy or completeness of any such information. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document.

Panmure Gordon Securities Limited assumes responsibility for the research reports content in regards to research distributed in the U.S. Panmure Gordon Securities Limited or its affiliates has not managed or co-managed a public offering of securities for the subject company in the past 12 months, has not received compensation for investment banking services from the subject company in the past 12 months, does not expect to receive and does not intend to seek compensation for investment banking services from the subject company in the next 3 months. Panmure Gordon Securities Limited has never owned any class of equity securities of the subject company. There are not any other actual, material conflicts of interest of Panmure Gordon Securities Limited at the time of the publication of this research report. As of the publication of this report Panmure Gordon Securities Limited, does not make a market in the subject securities.

For further information and regulatory disclosures, please refer to [www.panmure.com/legal](http://www.panmure.com/legal)

By accepting this report you agree to be bound by the foregoing limitations.

*This is non-independent research, a marketing communication*

Panmure Gordon (UK) Limited (Registered Office)  
One New Change  
London EC4M 9AF  
+44 (0)20 7886 2500  
*Member of the London Stock Exchange*  
*Authorised and regulated by the Financial Conduct Authority*  
*Copyright 2016 The Panmure Group: All rights reserved*

Panmure Gordon Securities Limited  
US Broker Dealer  
One New Change  
London EC4M 9AF  
+44 (0)20 7886 2500  
*Member of the Financial Industry Regulatory Authority, Inc. ("FINRA")*  
*Member of the Securities Investor Protection Corporation ("SIPC")*