

Quick Comment

Lucapa Diamond Co Ltd (LOM \$0.215) Speculative Buy

Analyst	Date	Price Target
Michael Emery	30 th October 2018	\$0.61/sh

Sept Qtly

Key Points

- Lulo alluvial diamond ops in Angola saw mining volumes up 35% to 81kBCM, with focus on exploring and testing new areas;
- Large high-value diamond recovery continues with Specials including 114cts, 85cts, 62cts and a 17ct light pink;
- Q sales of US\$4.5m at US\$893/ct, lower than ave price rec'd of US\$1,384/ct for CY, however a parcel of Special diamonds was withheld for sale in Q4 under Angola's new marketing policy which should increase price rec'd meaningfully;
- Kimberlite exploration in Angola ongoing (69 of 80 targets drilled) with lab results outstanding on 12 kimberlite cores;
- Mothae diamond mine in Lesotho commissioned post-Q with first commercial recovery expected early Nov'18;
- >4,100cts of Mothae bulk sampling diamonds ready for sale during Q4 to bolster cash balance;
- Brooking (WA) first follow-up exploration drilling produced 1,100 micro and macro diamonds, triggering bulk sample program initiation;
- LOM US\$3.0m cash balance at Q end, with Angola's SML (LOM 40%) cash of US\$7.2m;
- ~2,300ct SML diamond inventory and Mothae's >4,100ct inventory ready for sale in Q4 and US\$7m Mothae development facility secured post-Q with IDC of South Africa;
- Expect significant newsflow in Q4:
 - First sale of premium-value Lulo diamonds under Angola's new diamond marketing policy, facilitating another distribution to LOM;
 - Completion of remaining Lulo exploration drilling;
 - Commissioning and first commercial diamond recovery from new 1.1Mtpa Mothae mine;
 - Completion of next stage of exploration at Brooking diamond discovery in WA;
- With a number of potential catalysts remaining in play for CY'18, we expect that LOM will have every opportunity to move towards our \$0.61/sh PT. Speculative Buy maintained;

Investment Thesis

Lucapa is a profitable producer of high value diamonds in Angola. The Lulo (LOM 40%) alluvial diamond mining operation produces the highest average diamond value of any alluvial mine in the world. Exploration for the kimberlite source is fully funded by alluvial operations and, if found, we expect a material rerating. The Mothae (Lesotho) mine is an exciting member of LOM's portfolio, with the high value kimberlite diamond mine having commissioned in Oct'18. Nameplate throughput of 1.1Mtpa is expected by end of CY'18. The Brooking (WA) prospect is staggering, with 1,100 macro and micro diamonds recovered from a recent follow-up hole, confirming a diamondiferous discovery. Near-term trenching plans should define the significance of the discovery in due course. 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 is \$0.61/sh with an eager eye on Mothae and Brooking developments.

Lucapa Diamond Co Ltd (LOM)

Share Price	0.215	A\$/sh	Enterprise Value	119	A\$/m
Price Target	0.61	A\$/sh	Debt	20	A\$/m
Valuation	0.61	A\$/sh	Cash	4	A\$/m
Shares on issue	479	m(dil)	Largest ShareholderTazga Two	8.6%	
Market Capitalisation	103	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

Jon Bishop - Head of Research	+61 8 9488 1481
Andrew Clayton - Resources Analyst	+61 8 9488 1427
Michael Emery - Resources Analyst	+61 8 9488 1430
Ben Laird - Industrials Director	+61 8 9488 1429
Gavin Allen - Industrials Analyst	+61 8 9488 1413
Seth Lizee - 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
Timothy Bunney - Executive Director	+61 8 9488 1461
Peter Schwarzbach - Executive Director	+61 8 9488 1492
Stacy Kitsantas - Institutional Adviser	+61 8 9488 1486

Private Client Advisers

Chris Webster - Head of Private Clients	+61 8 9488 1412
Ben Statham - Executive Director	+61 8 9488 1417
Brian Bates - Executive Director	+61 8 9346 0314
Cameron Murray - Executive Director	+61 8 9488 1440
James Mackie - Executive Director	+61 8 9488 1416
Lucas Robinson - Executive Director	+61 8 9488 1424
Ryan Stewart - Executive Director	+61 8 9488 1441
Tim Lyons - Executive Director	+61 8 9346 0324
Brett Stapleton - Associate Director	+61 8 9488 1435
Giles McCaw - Associate Director	+61 8 9488 1462
Michael Bowden - Associate Director	+61 8 9346 0307
Richard Gardner - Associate Director	+61 8 9488 1444
Paul Berson - Associate Director	+61 8 9346 0314
Paul Cooper - Associate Director	+61 8 9346 0316
Phil Grant - Associate Director	+61 8 9346 0306
Lauren Walker - Investment Adviser	+61 8 9488 1495
Michael Bartley - Investment Adviser	+61 8 9346 0352
Steve Wood - Investment Adviser	+61 8 9346 0305
Tom Kenny - Associate Adviser	+61 8 9488 1431

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