

Quick Comment

Lucapa Diamond Co Ltd (LOM \$0.175) Speculative Buy

Analyst	Date	Price Target
Michael Emery	9 th April 2019	\$0.61/sh

March Quarterly 2019

Key Points

- The Mar'19 Q has been transformational for LOM, emerging as one of only a few global producers of large and premium-value diamonds from two operating mines – Mothae and Lulo;
- First full Q of prod. at Mothae delivered 6,918 cts, up 54% vs plan and our est. of ~4,500 cts thanks to ave. diamond grade recovered of 2.44ctpht (29% ahead of plan) and treatment of ~283kt (20% ahead of plan);
- Importantly, Mothae has delivered 138 +4.8ct diamonds, including 42 Specials (three +50ct), confirming its status as a high-value, large stone resource;
- Next sale of Mothae diamonds is slated for this Q with 4,552cts in inventory;
- We also expect updated guidance for Mothae this Q and see an interim expansion as a possibility, given the early success of the operation and the recently strengthened financial position of LOM;
- At Lulo, SML treated ~73kbcm of alluvial gravels, a wet season record and 18% above PCP;
- Grade recovered was 4.6cphm³, down 37% from 7.3cphm³ in PCP which resulted in overall recovery of 3,369cts, down 25% from 4,507cts in PCP;
- The discrepancy is a result of Mar'18 Q focusing on higher grade mining blocks while Mar'19 was predominantly in lower grade mining blocks due to mining limitations in low lying areas during the wet season;
- We expect grades to return to LT ave. from next Q as the wet subsides and higher grade blocks become accessible;
- SML diamond inventory at end of Q was 4,871cts, almost 5x PCP balance of 976cts. We expect a sale this Q and look forward to further signs of improved pricing under Angola's new diamond marketing policy;
- The search for the hard-rock source of Lulo's exceptional alluvial diamonds is ongoing, fully funded by continued ops.;
- To date, lab results have been rec'd from 32 of 71 confirmed kimberlites with further results expected in Jun'19 Q. We also expect details of a follow-up program this Q after a review of results rec'd to date;
- At Q end, LOM had US\$7.1m cash, down from US\$8.2m at end of Dec'18 Q, however this does not include a US\$4m loan repayment and US\$1.6m dividend to LOM by SML, announced in Dec'18 Q and expected to be rec'd in Jun'19 Q;
- US\$3.2m in loan repayments were made during the Q and subsequent to the Q (4th April) LOM announced restructuring of existing facilities to be approved by shareholders;
- The restructure comprises a A\$10m facility with New Azilian to lower finance costs and involves an Equigold capital repayment and bringing forward a convert option to effectively reduce Equigold debt to US\$7.5m;
- We maintain our Speculative Buy recommendation and \$0.61/sh PT;

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Investment Thesis

Lucapa has completed a transformational Quarter, emerging as one of the few global producers of large and premium-value diamonds from two operating mines – Mothae and Lulo. Mothae's first full Quarter of production has been exceptional, recovering -7,000 carats (54% ahead of plan) including 42 Specials and rare Type IIa and IIb diamonds. We expect updated guidance on Mothae this Quarter given the exceptional early signs from the mine. Lulo, the world's highest US\$ per carat alluvial diamond producer, achieved record wet season plant throughput of -125kt for the Quarter and is expecting to ramp up production by 25% in CY19. Exploration for the kimberlite source is fully funded by alluvial operations and, if found, we expect a material rerating. Our Valuation is \$0.61/sh and we maintain our Speculative Buy.

Lucapa Diamond Co Ltd (LOM)

Share Price	0.175	A\$/sh	Enterprise Value	97	A\$/m
Price Target	0.61	A\$/sh	Debt	22	A\$/m
Valuation	0.61	A\$/sh	Cash	10	A\$/m
Shares on issue	486	m(dil)	Largest ShareholderTazga Two	8.7%	
Market Capitalisation	85	A\$m			

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