

Quick Comment

Lucapa Diamond Company Ltd (LOM \$0.15) Speculative Buy

Analyst	Date	Price Target
Michael Emery	10 th October 2019	\$0.61/sh

Record Quarterly Production and US\$10.4m Sales

Key Points

- LOM has delivered a record Qtly prod. result as it continues to hit key operational milestones at both of its high-value diamond mines, Lulo and Mothae;
- Total prod. of 14.6kcts for the Q puts LOM on track for its aspirational 60kctpa run-rate, making it a meaningful player on the global stage;
- At the Mothae (70% LOM) kimberlite diamond mine in Lesotho:
 - Diamond cts recovered of 7.01kcts vs 5.5kcts Euroz (up 27%);
 - Grades recovered of 2.3cpht vs 2.0cpht Euroz (up 16%);
 - Record throughput of 299kt vs 270kt Euroz (up 11%);
- Importantly, Mothae continues to demonstrate the high-value nature of the orebody, with 39 Specials recovered during the Q and 135 +4.8ct diamonds;
- Mining has transitioned to higher-margin diamond zone in the southern pit and we expect ongoing recoveries of Specials to demonstrate the high-value nature of this asset;
- The latest diamond sale from Mothae has demonstrated a turnaround in diamond pricing with 5,307cts sold for US\$4.4m at an ave. US\$837/ct and US\$1,031/ct from +11 sieve size fraction;
- These prices received are impressive vs last Q's sales which achieved ave of US\$400/ct for total production and US\$475/ct for +11 sieve size fractions, less than half the current sales price;
- While we acknowledge the pricing to be skewed higher with the inclusion of the 64ct D-colour Type Ila stone, we believe the US\$1m+ price received for this diamond indicates an improved sentiment in the sector, particularly the high-value diamond segment;
- At the Lulo (LOM 40%) alluvial diamond mine in Angola:
 - Diamond cts recovered of 7.6kcts vs 6.6kcts Euroz (up 15%);
 - Grades recovered of 10.5cpht vs 8.0cpht Euroz (up 31%) as more material was processed from the new higher grade flood plain Mining Blocks 19 and 31;
 - 297 +4.8ct diamonds recovered during Q (up 138% on PCP) including 97 specials (up 111% on PCP);
- Lulo expansion on track to increase production 50% to 450kbcm/year. This expansion will increase CF to SML and accelerate loan repayments due to LOM;
- Importantly, the expansion is self-funded by SML with minimal additional capex required to increase output, favourable vs peers who require high capex injections to maintain current output;
- The latest diamond sale from Lulo saw 5,469cts sold for US\$5.9m at US\$1,087/ct vs US\$1,234/ct last sale, with this price skewed lower as LOM continues to withhold high value diamonds for its downstream strategy;
- This value-adding strategy of partnering downstream to cut and polish select high-value diamonds is an excellent strategy to improve margins and increase CFs as a result;
- We expect an announcement highlighting the improved financial benefits of this strategy once the first diamonds are sold under this arrangement, likely this H;
- With expansion of operations and mining in higher-value zones, together with increased margins from cutting and polishing strategy, we expect LOM will deliver an impressive Dec H financial result that demonstrates the CFs that can be generated from these exceptional assets;
- Speculative Buy maintained and PT of \$0.61/sh;

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Investment Thesis

The transformation of LOM into a multi-asset producer of rare high-value diamonds is starting to bear fruit, evidenced by a record Q production result and improved pricing. This marks another important milestone in the well-executed growth strategy of the Company and sets up a thrilling H2 CY'19 from both an operational and a financial standpoint. Self-funded expanding production at Lulo and recently commenced mining of the higher-margin zone at Mothae are sure to continue record results moving forward, cementing LOM's position as a meaningful producer on the global diamond stage. Growing production, increased margins and the exciting next phase of Lulo exploration all offer potential catalysts to re-rate LOM towards our \$0.61/sh Price Target. Speculative Buy maintained.

Lucapa Diamond Company Ltd (LOM)

Share Price	0.15	A\$/sh	Enterprise Value	89	A\$m
Price Target	0.61	A\$/sh	Debt	21	A\$m
Valuation	0.61	A\$/sh	Cash	8	A\$m
Shares on issue	507	m(dil)	Largest Shareholder	Tazga Two	8.6%
Market Capitalisation	76	A\$m			

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Contact Details

Euroz Securities Limited +61 8 9488 1400

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
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
Ian Harrison - Investment Adviser	+61 8 9488 1422
Lauren Walker - Investment Adviser	+61 8 9488 1495
Michael Bartley - Investment Adviser	+61 8 9346 0352
Tom Kenny - Investment Adviser	+61 8 9488 1431
Zac Vinten - Associate Adviser	+61 8 9488 1473
Laurence Grescos - Associate Adviser	+61 8 9488 1419

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