

Quick Comment

Lucapa Diamond Co (LOM \$0.19) Speculative Buy

Analyst	Date	Price Target
Michael Emery	15 th March 2019	\$0.61/sh

Mothae Recovery and Gem Sale

Key Points

- LOM has recovered an 83 carat diamond from its new Mothae mine in Lesotho;
- It is the 4th +50 carat diamond recovered from the mine to date and, while this diamond is not gem quality, it confirms Mothae's status as a large-stone kimberlite resource;
- On a diamond macro front, Gem Diamonds has announced a record-breaking sale of a diamond from Letseng, which is within 5km of LOM's Mothae mine;
- The sale of the 13 carat Letseng pink fetched US\$656,933 per carat (US\$8.75m sale) which is further evidence of the "two-speed economy" in the diamond space, with top-quality diamonds achieving record prices at a time where low-quality diamonds are facing pricing headwinds;
- The market does not currently appear to be distinguishing between the two distinct sectors of the diamond market, creating a buying opportunity for LOM which is not being recognised for the high-quality nature of its diamonds;
- Argyle diamond mine is expected to shut in the next 12-18 months, removing 10% of the global diamond supply from the market which will further increase the value of LOM's production;
- We maintain our Speculative Buy and \$0.61/sh PT, with production upgrades at Lulo and updated guidance on Mothae expected shortly;

Investment Thesis

Lucapa is a profitable producer of high value diamonds in Angola and Lesotho. The Mothae (LOM 70%) mine in Lesotho is an exciting member of LOM's portfolio, with the high value kimberlite diamond mine achieving commercial production in January 2019. First sales of Mothae diamonds received up to US\$36k/ct, demonstrating the potential value of the operation. The Lulo (LOM 40%) alluvial diamond mining operation in Angola continues to produce the highest average diamond value of any alluvial mine in the world, with recent Angolan diamond marketing policy changes exacerbating the value of the project. Exploration for the kimberlite source is fully funded by alluvial operations and, if found, we expect a material rerating. The high value segment of the diamond market remains robust due to scarcity of supply and global growth in the number of uber-wealthy individuals. Our valuation is \$0.61/sh, with an eager eye on operational expansion at Lulo and further updates from Mothae.

Lucapa Diamond Co Ltd (LOM)

Share Price	0.19	A\$/sh	Enterprise Value	102	A\$/m
Price Target	0.61	A\$/sh	Debt	22	A\$/m
Valuation	0.61	A\$/sh	Cash	11	A\$/m
Shares on issue	480	m(dil)	Largest Shareholder	Tazga Two	8.7%
Market Capitalisation	91	A\$m			

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