

Quick Comment

Lucapa Diamond Company Ltd (LOM \$0.115) Speculative Buy

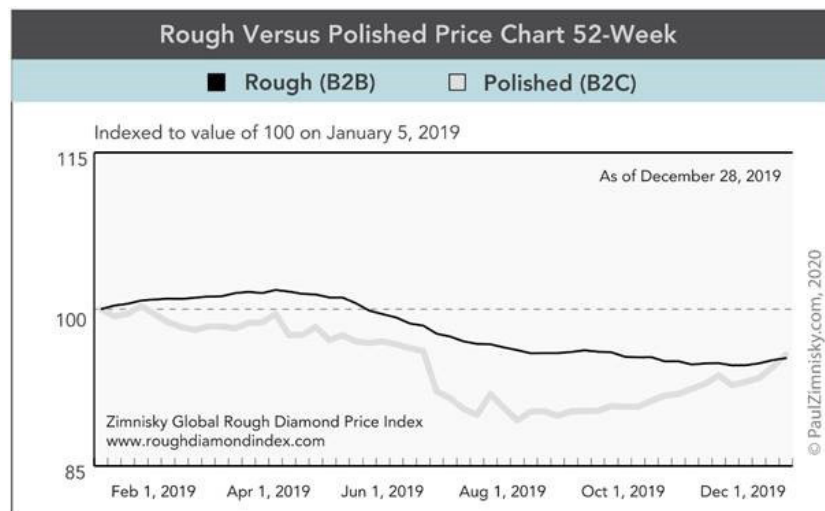
Analyst	Date	Price Target
Michael Emery	30 th January 2020	Under Review (prev. \$0.61/sh)

Record 2019 Production, Growth in 2020, Pricing to Recover

Key Points

Lucapa has delivered a record 2019 diamond production result, with total Group production of 49,120cts up 4% vs 47,210cts E2L:

- Mothae produced 30kcts in 2019, up 3% vs 29kcts E2L and up 45% vs original mine plan;
 - 11% increase in throughput and 31% increase in grade drove outperformance vs plan;
 - Minor plant modifications could increase plant capacity 36% to 1.5Mtpa in CY20;
- Lulo delivered 19kcts in 2019, up 6% vs 18kcts E2L:
 - We expect a 50% step-change in Lulo throughput in CY20 after completing the US\$12m self-funded expansion program;
- Operationally, Lucapa is performing exceptionally well with recoveries well above budget and costs below. This bodes well for LOM long term as they control the controllable to a high standard;
- Pricing remains soft however vs historical ave. but a notable improvement in mid-stream demand and pricing in late 2019 offers signs of a turnaround:



- Strong festive season jewellery sales in US has reduced abnormally high mid-stream inventories;
- Late CY19 replenishing of inventories has increased number of rough diamond tenders and sales pricing;
- Argyle set to close in CY20 removing 10% of world's diamond supply;
- Record total sales of US\$55m for 2019, despite the slump in pricing and we expect a meaningful uplift on this in 2020;

Euroz Securities Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Securities Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

Quick Comment

Lucapa Diamond Company Ltd (LOM \$0.115) Speculative Buy

- Lucapa has also completed its first foray into downstream cutting providing significant value uplift of polished product vs rough stone;
 - 36ct Mothae stone delivered six diamonds, incl. 8.88ct D-colour flawless pear brilliant;
 - First Lulo downstream results expected soon after partnering with Safdico, a subsidiary of leading international jeweller Graff;
 - We expect this strategy to grow in CY20, increasing margins on high value stones;
- Ongoing exploration at Lulo aims to identify the likely tributary feeding this prolific alluvial operation and testing bulk samples from key locations. This methodical approach increases our confidence in the discovery of the source which will re-rate the stock rapidly to our current Price Target of \$0.61/sh;
- Our Valuation is currently Under Review as we model increased throughputs at both mines and review prices received;

Investment Thesis

The transformation of LOM into a multi-asset producer of rare, high-value diamonds is bearing fruit, evidenced by a record FY19 production result. This marks another milestone in the well-executed growth strategy of the Company and sets up a thrilling 2020 from both an operational and a financial standpoint. Self-funded expanded production at Lulo and interim expansion at Mothae are sure to continue record results into 2020, crystalizing LOM's position as a meaningful producer on the global diamond stage. Growing production, coupled with increased margins from the downstream cutting and polishing strategy should translate into record profits for 2020, particularly as pricing is expected to improve. Exploration at Lulo offers myriad potential catalysts to re-rate the stock. Speculative Buy maintained.

Lucapa Diamond Company Ltd (LOM)

Share Price	0.115	A\$/sh	Enterprise Value	77	A\$m
Price Target	Under Review	A\$/sh	Debt	21	A\$m
Valuation	Under Review	A\$/sh	Cash	2	A\$m
Shares on issue	507	m(dil)	Largest ShareholderTazga Two	8.6%	
Market Capitalisation	58	A\$m			

Euroz Securities Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Securities Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

Disclaimer

Copyright & Distribution

The material contained in this communication (and all attachments) is prepared for the exclusive use of clients of Euroz Securities Ltd (ACN 089 314 983) ("Euroz") only. Euroz is the holder of an Australian Financial Services Licence (AFSL 243302) issued by the Australian Securities and Investments Commission ("ASIC") and is a participant of the Australian Securities Exchange Group ("ASX Group").

The information contained herein is confidential and may be legally privileged. If you are not the intended recipient no confidentiality is lost nor privilege waived by your receipt of it. Please delete and destroy all copies, and contact Euroz on (+618) 9488 1400. You should not use, copy, disclose or distribute this information without the express written authority of Euroz.

Disclaimer & Disclosure

This report was prepared solely by Euroz Securities Limited. ASX Limited ABN 98 009 642 691 and its related bodies corporate ("ASX") did not prepare any part of the report and has not contributed in any way to its content. The role of ASX in relation to the preparation of the research reports is limited to funding their preparation, by Euroz Securities Limited in accordance with the ASX Equity Research Scheme.

ASX does not provide financial product advice. The views expressed in this research report may not necessarily reflect the views of ASX. To the maximum extent permitted by law, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by ASX as to the adequacy, accuracy, completeness or reasonableness of the research reports.

Euroz and its associates declare that they deal in securities as part of their securities business and consequently may have a relevant interest in the securities recommended herein (if any). This may include providing equity capital market services to their issuing company, hold a position in the securities, acting as principal or agent, or make a market therein and as such may effect transactions not consistent with the recommendation (if any) in this report.

Euroz declares that it may have acted as an underwriter, arranger, co-arranger or advisor in equity capital raisings, and will have received a fee for its services, for any company mentioned within this report during the last 12 months.

You should not act on any recommendation issued by Euroz without first consulting your investment advisor in order to ascertain whether the recommendation (if any) is appropriate, having regard to your investment objectives, financial situation and particular needs. Nothing in this report shall be construed as a solicitation to buy or sell a security, or to engage in or refrain from engaging in any transaction.

Euroz believes that the information and advice contained herein is correct at the time of compilation, however we make no representation or warranty that it is accurate, complete, reliable or up to date, nor do we accept any obligation to correct or update the opinions in it. The opinions expressed are subject to change without notice. No member of Euroz accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this material.

We cannot guarantee that the integrity of this communication has been maintained, is free from errors, virus interception or interference.

Analyst Certification

We hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities.

No part of our compensation was, is or will be directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in this research.

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
Harry Stevenson - Industrials Analyst	+61 8 9488 1438
Seth Lizée - 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
Jayne Walsh - Institutional Adviser	+61 8 9488 1418

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
Katrina Ryan - Associate Adviser	+61 8 9488 1453

Euroz Securities Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Securities Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.