

Quick Comment

Lucapa Diamond Co Ltd (LOM \$0.185) Speculative Buy

Analyst	Date	Price Target
Michael Emery	16 th January 2019	\$0.61/sh

Dec'18 Qly Update

Key Points

- Lulo grade recovered increased to 7.2cpht (vs 5.6cpht in Sept'18 Q) with 50 specials recovered (vs 46 Sept'18 Q);
- Strong Lulo sales increase to US\$6m @ US\$1,119/ct for Q (vs US\$4.5m @ US\$893/ct Sept'18 Q), however recent sales are not reflective of true production and operating result value due to the withholding of select high-value specials for sale under Angola's new international competitive bidding process (closing 31 Jan '19), expected to significantly increase price rec'd;
- Lulo mining company (SML) had cash of US\$5m (vs US\$7.2m Sep Q'18) and inventory of 1,935cts, suggesting strong diamond sales expected in Mar'19 Q, after announcing a US\$4m loan repayment to LOM and a pro-rata US\$4m dividend to SML partners;
- Commissioning of Mothae progressing well with first commercial diamond recoveries from SE domain totalling ~3kcts, grading 3.94cpht vs 1.83cpht forecast grade;
- Mothae expected to achieve first sales of commercial ROM diamonds during Mar'19 Q, as well as reach nameplate capacity (90kt/month);
- At Dec'18 end, LOM had cash of US\$8.2m (vs US\$2.9m Sep'18 Q), of which US\$3.9m is held at the Mothae level, along with an inventory of 3,089cts;
- Other significant milestones reached during Dec'18 Q across LOM's suite of projects:
 - Discovery of new alluvial source of premium-value diamonds at Lulo, including top-colour Specials up to 55cts;
 - Increased the number of confirmed kimberlites at Lulo from current drilling campaign to 68, with mineral chemistry results received from 32 of these;
 - Finalisation of historic agreement to sell select Lulo diamonds via an international competitive bid process, scheduled to close 31 Jan 2019, which should significantly increase price received;



46 carat pink



114 carats



85 carats



75 carats



70 carats



62 carats



43 carats

Figure 1: The seven Lulo Specials to be sold in the historic international competitive bid process closing 31 January 2019

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- Finalisation and draw-down of US\$7m Mothae project facility means project is well financed through commissioning;
- Sale of 4kcts from first batch of Mothae diamonds recovered during bulk sampling for US\$1.5m, with individual sale prices up to US\$15,000/ct;
- Completion of follow up exploration program at Brooking (WA) to follow up on spectacular LSC discovery, with results due Q1'19;
- Expect ongoing news flow Mar'19 Q including:
 - First sale of premium-value Lulo diamonds under Angola's new diamond marketing policy;
 - Nameplate capacity and first commercial diamond recovery from 1.1Mtpa Mothae mine;
 - Results from next stage of exploration at Brooking diamond discovery in WA;
- With a number of potential catalysts remaining in play, 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 and Lesotho. The Lulo (LOM 40%) alluvial diamond mining operation in Angola 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 (LOM 70%) mine in Lesotho 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 in Q1'19. The Brooking (WA) prospect has delivered staggering early results, with follow up bulk sampling and exploration results expected Q1'19. The high value segment of the diamond market is 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 Mothae and Brooking developments.

Lucapa Diamond Co Ltd (LOM)

Share Price	0.185	A\$/sh	Enterprise Value	110	A\$/m
Price Target	0.61	A\$/sh	Debt	31	A\$/m
Valuation	0.61	A\$/sh	Cash	11	A\$/m
Shares on issue	485	m(dil)	Largest Shareholder	Tazga Two	8.6%
Market Capitalisation	90	A\$m			

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