

Lucapa Diamond Co. Ltd

(LOM \$0.265) Speculative Buy

EUROZ

Analyst	Date	Price Target
Michael Emery	11 th April 2018	\$0.61/sh

\$16.5m Placement

Investment case

Lucapa is a profitable producer of high value diamonds. The Lulo (LOM 40%) alluvial diamond mining operation in Angola currently produces the highest average diamond value of any mine in the world. Lulo mining funds the ongoing kimberlite drilling program which is closing in on the source of the alluvials, with the priority target drilling expected to be completed in CY'18. If proven diamondiferous, we expect a material rerating. The Mothae (Lesotho) project is an exciting high value kimberlite diamond development opportunity with Phase 1 production slated for H2'18. Recent exploration success in Brooking (WA) saw a single hole produce 119 diamonds with similar targets identified for drilling in Q2'18. The high value segment of the diamond market is robust due to scarcity of supply and growth globally in the number of uber-wealthy individuals. Our valuation remains at \$0.61/sh incorporating the progress on Mothae and the potential of Brooking.

Key points

- LOM has raised A\$16.5m in a placement at \$0.23/sh;
- Placement was via two tranches at the Company's pre-raise last price, indicating the strength of interest from the cornerstone investor;
- The funds raised will be directed at the upcoming Brooking exploration campaign on the back of spectacular results late 2017;
- The funds also provide a working capital buffer for the commissioning of the high-value Mothae diamond mine in H2'18;
- Our Valuation remains at \$0.61/sh as the dilution is offset by the progress at Mothae, the increased potential at Brooking and positive moves in Angola;
- Our Valuation is conservative and we expect a steady stream of positive news flow throughout the remainder of CY'18;
- Speculative Buy maintained. Our Price Target remains \$0.61/sh

Analysis

LOM has successfully raised A\$16.5m via a two tranche placement.

LOM will issue 51m new shares under its 7.1 placement capacity and 20.7m new shares under the Company's 7.1A placement capacity ahead of the Company's upcoming Annual General Meeting.

USE OF FUNDS

The funding package will enable Lucapa to immediately launch an extensive exploration program at the Brooking project to follow up on the spectacular Little Spring Creek discovery, in which 119 micro and macro diamonds were recovered.

The follow-up exploration program will include drilling at both the Little Spring Creek discovery, a second geophysical target about 350 metres to the north-east and other anomalies of interest. In addition, Lucapa will undertake extensive geophysical surveys including airborne and detailed ground-based EM, magnetics and gravity as well as ground penetrating radar to better define drilling targets.

Lucapa Diamond Co	Year End 31 Dec	
Share Price	0.265	\$/sh
Issued Capital		
Fully Paid Ord	454	m
Perf Rights	3	m
Options (m)	\$0.35	12 m
Options (m)	\$0.53	3 m
Options (m)	\$0.45	3 m
Total Diluted	475	m
Mkt Cap (dil)	126	\$m
Enterprise Value	114	\$m
Debt	-13	\$m
Cash	21	\$m
Turnover	1.5m sh/day	
12 mth Lo-Hi	\$0.20 - \$0.41	
Balance Date	31st Dec	

Directors

M Kennedy	Chair
S Wetherall	CEO
G Gilchrist	NE Dir
A Thamm	NE Dir
N Selby	Ex Dir

Shareholders

Carrington	2.7%
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Share Price Chart



Disclaimer

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This analyst declares that he has a beneficial interest in Lucapa Diamond Co. (LOM).

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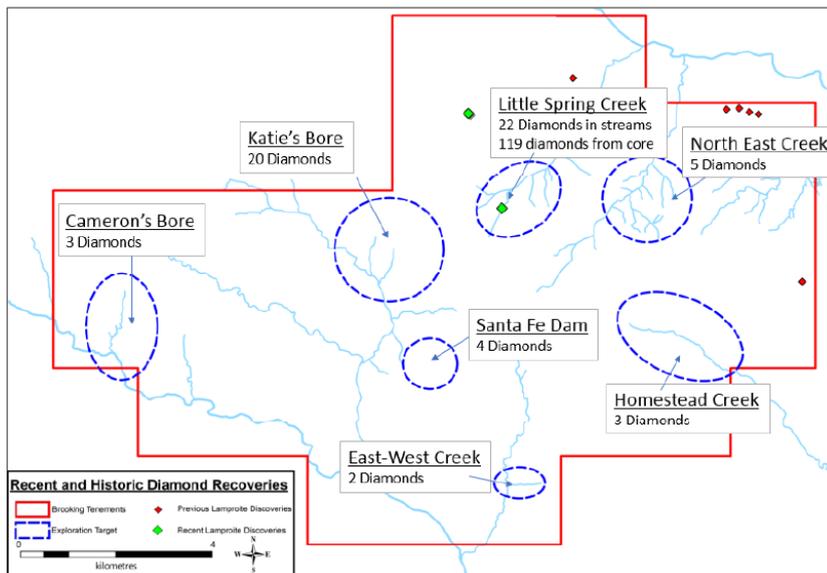
The funds will also provide a working capital buffer for the commissioning of the high-value Mothae mine in Lesotho which is on track and on budget for H2'18. The commencement of production from Mothae will provide Lucapa with two sources of income, with the profits from Lesotho expected to fund further exploration activity.

IMPACT TO VALUATION

Our Valuation remains \$0.61/sh as the dilution is offset by project derisking courtesy of the favourable funding package.

We reduce the risk associated with the Mothae mine development as it progresses and is currently on schedule and on budget. Part of the funds from the placement are mooted to provide a working capital buffer for the commissioning of the project, thereby reducing fears associated with start-up complications.

We also increase our Valuation of Lucapa's ex-Angolan exploration projects which have significant potential and are now funded for the upcoming programs. We expect consistent, strong news flow for the remainder of CY'18. Particularly, the Brooking project shows significant potential based on stream sampling and early drilling success as outlined below.



Source: Lucapa Diamond Co. Ltd

With drilling due to recommence this Q, any further results similar to Little Spring Creek should produce significant interest from a wider investor base.

Our pro forma SOP Valuation is:

Valuation	US\$m	A\$m	A\$/sh
SML (LOM sh)	71	95	0.20
Kimberlite (LOM sh)	43	57	0.12
Mothae (LOM sh)	68	91	0.19
Other Expl'n	22	29	0.06
LOM Cash	16	21	0.04
LOM Debt	-10	-13	-0.03
LOM WC	0	0	0.00
Unpaid Capital		7	0.01
Total		287	0.61

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Finally, recent positive moves in the Angolan Government initiatives have the potential to produce further catalysts to the share price in 2018, however these have not been factored into the Valuation. The new Angolan President, Joao Lourenco has pledged to double Angola's diamond production to 14 million carats within four years. To do so, President Lourenco has publicly outlined how he believes this could be achieved through the design and implementation of new investment policies and to re-evaluate its marketing policies to attract investors. As an operator in Angola for 10 years, Lucapa is well positioned to be a first mover and to be a part of development discussions with the new Government.

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