

# Quick Comment

## Lucapa Diamond Co Ltd (LOM \$0.305) Speculative Buy

Analyst	Date	Price Target
Greg Chessell	25 <sup>th</sup> May 2017	\$0.57/sh

### Repatriation of Loan

#### Key Points

Lucapa has received its first capital loan repayment from SML, the Angolan alluvial mining subsidiary in which it owns a 40% equity interest.

Lucapa has received US\$2.4m (A\$3.2m) into its Australian account. A further US\$1.6m (A\$2.1m) is in process.

We expect the funds will be directed toward payment of the US\$4.1m instalment due shortly for the Mothae acquisition (Lesotho).

This is a significant derisking milestone for Lucapa. Until now SML had distributed dividends only, which Lucapa was entitled to a 40% equity share, and in which the Lulo partners also shared the proceeds. To date LOM has received US\$7.5m in dividends from SML.

The distribution declared 8th March 2017, comprised US\$8m, 50% as loan repayment and 50% as dividend. The dividends had already been received, with LOM's share US\$1.6m retained in Angola to fund exploration for source kimberlite for the Lulo alluvials.

SML owed Lucapa US\$39.4m (nominal) or US\$33.3m (after discounting) at 31st Dec 2016, the latter recorded as a non-current receivable in the balance sheet.

With the imminent onset of the dry season alluvial mining is expected to move into higher grade & larger stone areas. This should yield greater cashflow for SML over the next 6 months or so.

#### Investment Thesis

Lucapa is a profitable self-funding producer and explorer of high value diamonds. This segment is robust due to scarcity of supply and growth of uber-wealthy individuals globally. Lulo (Angola) alluvial diamond mining operations, producing the highest average diamond value of any mine in the world, is on course to achieve a similar gross sales outcome as in 2016. Exploration for the kimberlite source is exciting, and if successful will result in a material rerating. The large size and irregular shape of alluvial diamonds recovered suggest the source is proximal. The Mothae acquisition is an exciting medium term high value kimberlite diamond development opportunity. Our valuation is \$0.57/sh.

#### Lucapa Diamond Co (LOM)

Share Price	0.305	A\$/sh	Enterprise Value	94	A\$/m
Price Target	0.57	A\$/sh	Debt	Nil	A\$/m
Valuation	0.57	A\$/sh	Cash	6	A\$/m
Shares on issue	327	m(dil)	Largest Shareholder	Carrington	6.1%
Market Capitalisation	100	A\$m			

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