

Lucapa: Smile, sparkle, shine



Few people had wider grins at this year's Mining Indaba conference in Cape Town than Stephen Wetherall and the team behind Lucapa Diamond Company Ltd.

The Lucapa crew had plenty to be chirpy about, be it either the successful commissioning of its new Mothae mine in Lesotho or the historic sale of \$22.9 million worth of Lulo diamonds in Angola, among other milestones to come which suggest 2019 is going to be another big year for the company.

Global diamond enthusiasts are now keeping more than a watchful eye on Lucapa as a bona fide high-end producer of quality stones. Analysts from both London and Australia recently gave glowing endorsements of the company's outlook, particularly for the budding operations at Mothae.

For Wetherall, who has been Lucapa's

managing director since late 2014, a position of quality in the diamond industry is far better than one of quantity.

"The objective and strategy that we're running as a company is we're not here to make waves in the industry; what we're here to do is find our niche in the industry and our niche is high-end production," Wetherall told **Paydirt**.

"We are a growing producer and we want to become a bigger producer – not the biggest, but a bigger producer of these very special stones – that's the strategy we are predominantly following as a company.

"We've got a very special mine in Angola and the start we've made at Mothae has been incredible. We are now the owners of two of the top five dollar-per-carat mines in the world; that is an extraordinary position to be in."

Lucapa began 2019 on a positive

note with commercial production at Mothae declared on January 1, less than two years after acquiring a 70% stake in the project from Lucara Diamond Corp for \$US9 million.

What is particularly impressive about Lucapa's development of Mothae over the past two years is that it was achieved for just \$US25 million, a fraction of the circa \$US260 million capex estimated by Lucara before the London-listed group walked away from the project in favour of developing another high-end diamond mine in Karowe, Botswana.

As can often be the case with acquisitions of unwanted assets, sections of the market were critical of Lucapa's purchase, especially with production at Lulo still firing up. However, Wetherall believed otherwise, having become well acquainted with the project's potential from his time at Gem Diamonds Ltd,

which owns and operates the nearby Letseng mine.

“There was never anything wrong with Mothae,” Wetherall said. “It came down to Lucara simply choosing one great asset over another. It was not because they didn’t believe in the project.”

Lucapa initiated a bulk sampling campaign at Mothae in mid-February 2018 with diamonds recovered via the existing treatment facility until early November when first ore was delivered to the newly minted 1.1 mtpa plant which houses two large XRT diamond circuits (Tomra and DEBEX) capable of recovering Type Ila and fluorescent stones.

More than 4,000ct were recovered from Mothae’s maiden run, including a 78ct white diamond and 89ct yellow diamond. The recovered grade of 2.61 cpht also exceeded both the resource (1.92 cpht) and forecast (1.83 cpht) grades.

The first sale of Mothae’s commercial-run diamonds was set for late February in Antwerp. The most recent diamonds put up for tender fetched about \$US1.5 million, with individual sale prices of

of full production before formally moving to the next phase.

“From a board perspective and from an internal management perspective, we have been surprised in the positive with the performance of the plant and we have been surprised in the positive with the additional grade that we have been getting through additional liberation,” Wetherall said.

“That said, it may not only be additional liberation...so that’s why we need to operate through Q1 to see if there are additional aspects there. Being seasoned diamond experts, perhaps our expectations of assets and what we see in the ground is far more detailed than most. But we are very, very excited by what’s happening and we look forward to bringing those revenue flows and cash genera-



Lucapa managing director Stephen Wetherall

the new plant, on top of recovering many more white specials, certainly gives us great excitement.”

Expansion is also on the cards at Lulo – the world’s highest dollar per carat alluvial diamond mine – with Lucapa’s plans bolstered by the success of January’s historic first tender under Angola’s new diamond marketing policy.

Seven large diamonds weighing 498ct from Lulo were sold via an electronic tender for \$US16.7 million (\$22.9 million). It was the first sale offered via competitive tender, with Angolan regulations previously limiting the number of buyers.

More than 30 international diamond-taires participated in the inaugural tender, with Wetherall hailing what he described as a “new era of investment” for Angola’s diamond industry.

“There is no doubting that the results of the tender have demonstrated to the Government how they can open up the industry to create more direct foreign investment,” Wetherall said.

“I really think it will create a much easier business environment to operate in. I mean, for instance, we have to import most products – spares, etc – from South Africa for our mines, but what you might find now is because the policy changes are going to attract many more players, those suppliers will open up their own agencies, etc in country so that those spare parts are readily available for the mine. So, for many of those reasons we are exceptionally excited about Angola.”

The inaugural tender in Angola pushed total sales of Lulo diamonds to \$US141 million, representing an average price of \$US2,105/ct, since the mine was switched on in 2015.

The next tender is likely to feature a 128ct Type Ila top-colour white diamond recovered from Lulo last month, with a

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\$US15,000/ct achieved.

Lucapa expects the plant to be operating at the 90,000 tpm nameplate capacity this month, having already achieved and exceeded the targeted treatment rate for extended periods since December. A revised production guidance is slated for release during the June quarter, with Wetherall and his team opting to wait for three months

tion to the market in due course.”

Plans are also under way to double Mothae’s production to 2.2 mtpa earlier than the previously announced target date of 2021. Initial studies indicated about \$US50 million would be needed for the plant upgrade, although the company is confident of identifying and implementing various cost savings.

“The ramp-up phase of the plant highlighted to us the fact that we actually need to re-look at our mine plan and our guidance because we started to recover diamonds far more efficiently through this new process than was originally planned,” Wetherall said.

“Recovering an 89ct during the bulk sampling phase and then recovering a 78ct through



Improved water and tailings storage facilities are expected to be in operation by the end of this year

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7.5ct fancy purple-pink gem. It was the 12th plus-100ct diamond recovered from the mine to date.

Lulo production is forecast to grow by 25% in 2019 with a third shift to be added to the 150 tph operation. Exploration work is also continuing with three drill rigs on site at the time of print as the company reviews the potential of multiple diamondiferous pipes discovered on the licence.

While Lucapa is seemingly kicking both operational and sales goals from all angles, the company is yet to see that success translate to its home market in Australia. At the time of print, its shares were trading just below 20c, contrasting price targets of 50c from Panmure Gordon and 61c from Euroz.

Wetherall attributed the lack of love for Lucapa to the limited local knowledge of the diamond sector.

"The Australian investor hasn't been able to look at and understand diamond investment since Kimberley Diamond Company privatised," he said.

"If you're a local investor and you're looking at diamonds, you're looking under Rio Tinto [Ltd], which is Argyle, and they really don't say much on what's happening up there, so investment fund managers, analysts from the various houses, etc. haven't really looked at diamonds because they're not exposed enough to the industry here in Australia.

"Internationally we get great recognition for what we've done, unfortunately we don't get as much recognition here locally. The rest of the world is watching us. London, in particular, is a very knowledgeable diamond market and they are watching us closely, as are a lot of other mining companies. Unfortunately, I think because the Australian market isn't as educated in the diamond space as perhaps the UK market is, we're probably not getting a fair reflection of the goals

and the boxes that we've ticked over the last two years."

Wetherall added the top 45% of Luca-pa's share register, headed by the likes of respected mining identity Ross Stanley and company founder and chairman Miles Kennedy, were very supportive and their investments remain fairly stagnant. However, he conceded the remaining 55% were more retail-focused, speculative investors who were influencing the share price fluctuations.

"If you're investing in Lucapa, you're investing in the long game," he said. "The diamond industry is very different to these new energy metals coming through and even to the gold sector; you need to be patient with your outlook.



Lucapa chief technical officer Ian Kaner explains how the company plans to exploit the Neck lobe which currently sits outside of the Mothae resource

Ross Stanley is a great example of someone who has come to grips with that and it's why he has invested in us in a big way."

With Argyle – which accounts for about 10% of the world's diamond supply – set to close later this year, it could signal the end of Western Australia's diamond industry unless Lucapa, via its Brooking project, or Gibb River Diamonds Ltd at Blina can land a major find to maintain local interest.

Such a scenario is not lost on Wetherall, but he reiterated that Lulo and Mothae were the clear frontrunners in the Lu-

capa portfolio.

"Certainly the Brooking programme that we're running, being a local programme, brings the interest from the Australian investors to Lucapa," he said.

"It's very early days at Brooking. We've identified a body that we recovered micro diamonds from in high concentration, but there are many steps to go before we can determine that we've got a mine there.

"Of course, a local programme brings local eyes, but if you have a look at all the assets we have across our group, Lulo and Mothae are the ones investors should really be focusing on because our

main game is growing production and working those hard to generate returns for our shareholders."

For Lucapa, the biggest growth opportunity could come from beyond the mine gates at Lulo and Mothae. Having had a taste of the downstream sector from establishing Gem's diamond marketing and manufacturing division, coupled with input during the recent e-tender in Angola, Wetherall believes Lucapa is ideally placed to add polishing, jewellery manufacturing and branded sales services to its existing income stream.

"This isn't something new to me, I've



Mothae sorters check for diamonds as Wetherall eagerly watches on



The first sale of commercial-run diamonds from Mothae was scheduled for late February

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seen the value that was derived from the Letseng production that Gem sold and I believe those margins are something we should be chasing in our own production,” he said.

“The nice thing about this is we don’t have to spend a cent on facilities, we will do it on an outsource basis.”

In the meantime, Lucapa will stay focused on becoming a leading high-end diamond producer. While there remains some softness in the pricing for quality stones, high-end producers are not experiencing anywhere near the same

pressure being felt by those spitting out smaller, lower quality stones.

According to Wetherall, high-end production is Lucapa’s best chance of entering the downstream sector – and will ensure he and his fellow directors and shareholders retain their wide summer grins for a little while longer.

“It is far easier for us to compete in the sector with large stones than it is to compete with low value, high volume,” Wetherall said.

“The Indian diamantaires cut and polish at costs which are unparalleled in

the industry and therefore every other jurisdiction that has tried to compete with the Indian cutters has generally not succeeded.

“There’s significant margins to be made as a large stone producer. Whilst, we don’t want to cut all of our production, we want to have a look at those stones which we believe can accrete additional value. That is the strategy that we are building in this company.”

– Michael Washbourne