

Quick Comment

Lucapa Diamond Co Ltd (LOM \$0.23) Speculative Buy

Analyst	Date	Price Target
Michael Emery	22 nd October 2018	\$0.61/sh

Commissioning of Mothae diamond mine commences

Key Points

- Commissioning phase has commenced at LOM's second high-quality diamond mine, the 1.1Mtpa Mothae kimberlite project in Lesotho;
- First commercial diamond recoveries expected early Nov'18;



The 1.1Mtpa Mothae diamond treatment plant, where commissioning has commenced despite the challenges of the winter snowfalls (below) in the Maluti Mountains – an altitude > 3,000 metres



Source: Lucapa Diamond Co Ltd

- LOM recovered ~4,100 carats of diamonds from pre-production bulk sampling of areas previously untested or under-tested by former owners, Lucara;
- LOM's bulk sampling recoveries were consistent with results from previous trial mining operations between 2008 and 2012 by Lucara, with LOM recoveries including an 89ct, 28ct and 25ct stone (below);

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Mothae bulk sampling diamonds weighing (left to right) 89 carats, 28 carats and 25 carats

Source: Lucapa Diamond Co Ltd

- First parcel of ~2,500 bulk sampling diamonds already in Antwerp with the remaining bulk sample diamonds planned for export to Antwerp, ready for first scheduled sale in Dec Q'18;
- We now look to a smooth ramp up to nameplate capacity of 1.1Mtpa by end of Dec Q'18;
- First sales of commercial production diamonds will provide good insight into price received moving forward for the high-value Mothae diamonds and we are eagerly awaiting the commercial recoveries achievable with the advanced XRT diamond recovery circuits installed at the mine;
- This marks a very exciting time for LOM which will have two high-quality diamond mines in operation and, importantly, feeds into LOM's strategy of partnering with diamantaires to increase downstream exposure for its large, premium-value diamonds;
- LOM's management team had all previously held senior roles with Letseng (Mothae's neighbour), providing a sound basis for their confidence in Mothae's ability to deliver >US\$1,000/ct from operations;
- We maintain our PT of \$0.61/sh, with a keen eye to first production results from Mothae;

Investment Thesis

Lucapa is a profitable producer of high value diamonds in Angola. The Lulo (LOM 40%) alluvial diamond mining operation 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 (Lesotho) mine 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 by end of CY'18. The Brooking (WA) prospect is staggering, with 1,100 macro and micro diamonds recovered from a recent follow-up hole, confirming a diamondiferous discovery. Near-term trenching plans should define the significance of the discovery in due course. The high value segment of the diamond market is robust due to scarcity of supply and growth globally in 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	0.23	A\$/sh	Enterprise Value	117	A\$/m
Price Target	0.61	A\$/sh	Debt	20	A\$/m
Valuation	0.61	A\$/sh	Cash	13	A\$/m
Shares on issue	479	m(dil)	Largest ShareholderTazga Two	8.6%	
Market Capitalisation	110	A\$m			

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