

Quick Comment

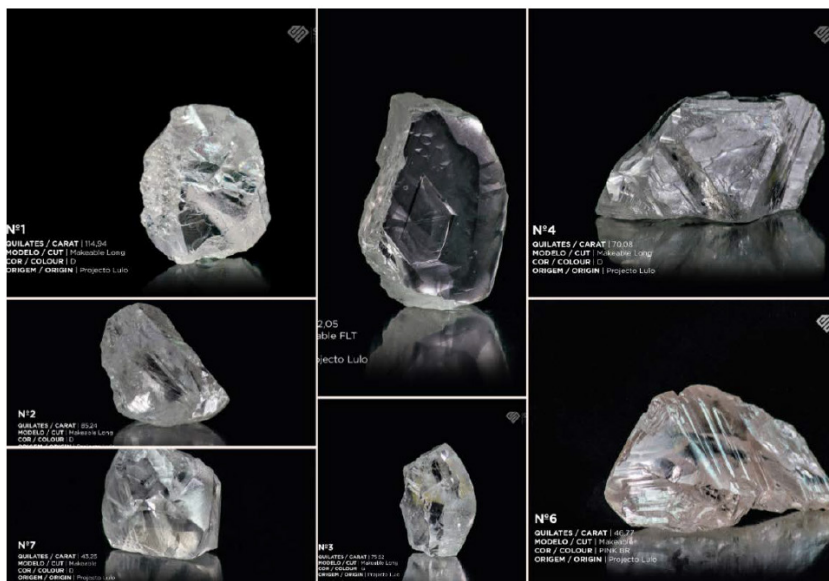
Lucapa Diamond Co Ltd (LOM \$0.20) Speculative Buy

Analyst	Date	Price Target
Michael Emery	1 st February 2019	\$0.61/sh

Lulo Diamonds Sell for A\$22.9m in Historic Tender

Key Points

- The inaugural sale of seven large and top-quality special diamonds under Angola's new diamond marketing policy has delivered a stunning A\$22.9m (US\$16.7m) to SML (LOM 40%);



The seven Special Lulo diamonds in the historic Angolan tender organised by Sodiam

Source: Lucapa Diamond Co Ltd

- Total size of the parcel was 498 carats, representing an exceptional average price of US\$33,530/ct;
- Prima facie, price received appears to be ~50% higher than historical sales, demonstrating the significant step change that the new marketing policy delivers to the project;
- The sale also highlights that appetite for high value special diamonds remains robust, in contrast to the low value diamond market which is facing pricing headwinds;
- For context, average sales price for low value diamonds are typically ~US\$100/ct, with recent De Beers' sales slumping 25% YoY in this segment;
- This further validates LOM's strategy of operating in the high end sector of the diamond market, a niche segment which is largely insulated from the rest of the diamond market;
- Given uncertainty around the price effect the new policy would have, we had estimated a range of US\$12-15m for this parcel, further highlighting the significance of this result;
- With committed outflows of US\$8m already announced by SML vs cash balance of US\$5m at 31 Dec'18, the additional US\$16.7m would suggest an expansion of ops at Lulo is possible or perhaps an increased distribution to LOM, either of which would be well received by the market;
- Encouragingly, the inaugural sale under Angola's new marketing policy demonstrates the new government's ability to deliver on its promises and should go some way to reducing investor aversion towards the country;
- Speculative Buy maintained with PT of \$0.61/sh with further results from Lulo drilling, Mothae commissioning and Brooking bulk sampling expected this Q;

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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, with recent Angolan diamond marketing policy changes exacerbating the value of the project. 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	0.20	A\$/sh	Enterprise Value	117	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	97	A\$m			

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