

# Quick Comment

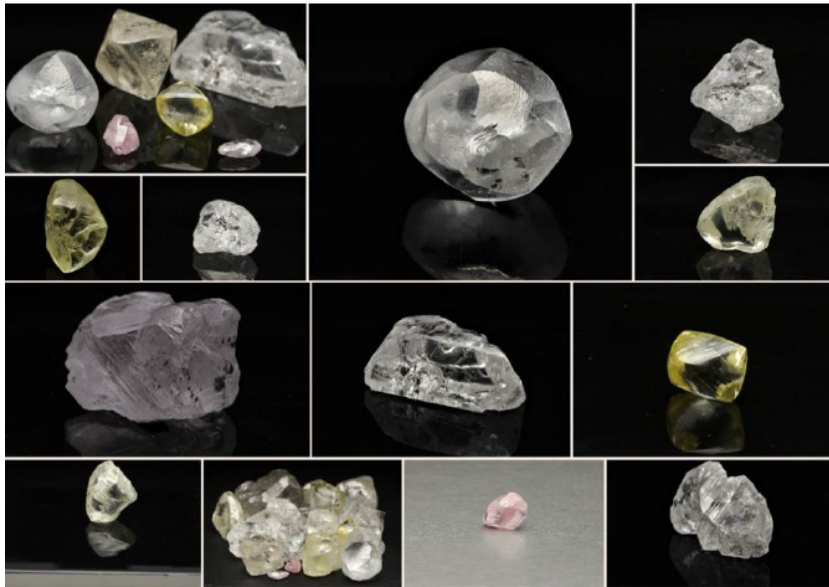
## Lucapa Diamond Co Ltd (LOM \$0.185) Speculative Buy

Analyst	Date	Price Target
Michael Emery	27 <sup>th</sup> February 2019	\$0.61/sh

### First commercial sale of Mothae diamonds fetches A\$5.3m

#### Key Points

- Sale of the first parcel of commercial diamonds from Mothae resulted in 5,411cts achieving US\$3.8m (A\$5.3m) at an ave. of US\$707/ct;



Selection of Mothae diamonds sold in the Antwerp tender

- While prima facie this appears a lower ave. price rec'd than forecast, the parcel included 1,300cts of small diamonds below the -11 sieve size fraction that averaged US\$36/ct which we do not view as representative of the orebody as a whole;
- Conversely, ave. price rec'd on 4,100cts above the 11+ sieve size fraction was US\$900/ct, with highest price for an individual diamond an impressive US\$36,664/ct;
- These smaller, less valuable diamonds are currently being recovered in the early stages of mining through weathered rock and while they do contribute to cashflow, they reduce the ave. price rec'd significantly;
- We expect an abatement of small diamond recovery as mining progresses to more competent kimberlite material and, importantly, mining has not yet commenced in the higher grade zones;
- The sale effectively announces Mothae's arrival on the global diamond stage as one of only a handful of high-value diamond mines globally;
- We expect updated guidance on Mothae in respect to volume, grade and price in Q2 2019 which will provide better look-through on true value of the asset;
- As previously guided, LOM will now focus on increasing high-value diamond production at Mothae and the Lulo alluvial diamond mine in Angola to maximise cash generation, with timing of future works at exploration assets Brooking (WA) and Orapa (Botswana) under review by management;
- Speculative Buy and PT of \$0.61/sh maintained;

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### Investment Thesis

Lucapa is a profitable producer of high value diamonds in Angola and Lesotho. The Mothae (LOM 70%) mine in Lesotho is an exciting member of LOM's portfolio, with the high value kimberlite diamond mine achieving commercial production in January 2019. First sales of Mothae diamonds received up to US\$36k/ct, demonstrating the potential value of the operation. The Lulo (LOM 40%) alluvial diamond mining operation in Angola continues to produce 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 high value segment of the diamond market remains 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 operational expansion at Lulo and further updates from Mothae.

### Lucapa Diamond Co Ltd (LOM)

Share Price	0.185	A\$/sh	Enterprise Value	100	A\$/m
Price Target	0.61	A\$/sh	Debt	22	A\$/m
Valuation	0.61	A\$/sh	Cash	11	A\$/m
Shares on issue	480	m(dil)	Largest Shareholder	Tazga Two	8.6%
Market Capitalisation	89	A\$m			

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