

Quick Comment

Lucapa Diamond Co (LOM \$0.30) Speculative Buy

Analyst	Date	Price Target
Greg Chessell	5 th July 2017	\$0.60/sh

June Q'17 Production

Key Points

SML (LOM 40%) produced 4,203ct during June Q'17, similar to the 4,098ct in Mar Q.

Production is characterised by a higher grade processed (7.3 v's 5.8cpht), producing more special size diamonds (57 v's 38) however offset by a smaller average size of special stones (21 v's 30ct/st).

March & June Q's are both typically wet season affected periods. Sep & Dec Q's are expected to be much stronger production results as mining is able to access the more prolific Mining Blocks 6 & 8, which are most affected by wet season.

In 2016 SML had produced just 29% of its annual carat production in the 1st H, and just 20% of total carats in specials, with the balance being produced in 2nd H.

We expect Sep & Dec Q production of ~6.5kct from volume processed of 60k m³ in each period. We also expect a significant lift in proportion of special size diamonds. Consequently this will result in an exponential lift in value per carat.

June Q sales of 5,033ct yielded US\$4.8m gross, down from 4,498ct yielding US\$10.7m gross. The Mar Q sales were influenced by sale of a 227ct diamond.

SML had an unsold diamond inventory of 1,716ct at end June, and we expect cash balance to be US\$11-12m.

The near term horizon will see an update on kimberlite exploration, especially interpretation of the recent airborne geophysics survey.

Investment Thesis

Lucapa is a profitable producer of high value diamonds in Angola. The Lulo (LOM 40%) alluvial diamond mining operations, producing the highest average diamond value of any mine in the world, is expected to generate a similarly strong production and sales result in the 2nd H'17 as it did in 2016. Exploration for the kimberlite source is exciting with recent discovery of Kimberlite rock 2km upstream from the most prolific alluvial mining block. If proven diamondiferous we expect a material re-rating. The large size and irregular shape of alluvial diamonds recovered from MB08 suggest the source is proximal. The Mothae acquisition is an exciting medium term high value kimberlite diamond development opportunity that will grow value in time. The high value segment of the diamond market is robust due to scarcity of supply and growth in uber-wealthy individuals globally. Our valuation remains \$0.60/sh.

Lucapa Diamond Co (LOM)

Share Price	0.30	A\$/sh	Enterprise Value	123	A\$/m
Price Target	0.60	A\$/sh	Debt	-6	A\$/m
Valuation	0.60	A\$/sh	Cash	3	A\$/m
Shares on issue	394	m(dil)	Largest Shareholder	6.1%	
Market Capitalisation	134	A\$m	Carrington		

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