

SPEC BUY

Current Price **\$0.66**
Target Price **REVIEW**

Ticker: **DCN**
Sector: **Materials**

Shares on Issue (m): **96.1**
Market Cap (\$m): **63.4**
Cash Estimate @ 30th June (\$m): **4.6**
Enterprise Value (\$m): **58.8**

52 wk High/Low: **\$0.70** **\$0.25**
12m Av Daily Vol (m): **0.07**

Mineral Inventory (100% basis, CIL only)

	Mt	g/t	Moz
Reserves	-	-	-
Resources	41.7	2.2	3.0

	\$/oz
EV / Reserve	-
EV / Resource	20

Directors:

Rohan Williams	Executive Chairman
Barry Patterson	Non-Executive Director
Robert Reynolds	Non-Executive Director

Substantial Shareholders:

Redland Plains	14.7%
Directors	11.8%

Share Price Graph



Friday, 25 September 2015

Dacian Gold

Fields have eyes

Analysts | Patrick Chang, CFA | Matthew Keane

Quick Read

With the upcoming Scoping Study (due imminent), Argonaut provides an analysis of what if Goldfields (GFI:SJ) acquired Dacian (DCN)? GFI owns the adjacent underutilised Granny Smith mill and the high grade Wallaby mine. Argonaut calculates (assumptions on Page 2) an acquisition of DCN is accretive up to a price of A\$1.45 per share. The stock remains one of Argonaut's preferred gold development stocks given AUD denominated costs, exploration upside and proven management. Argonaut recognises the strategic value of DCN to a neighbouring corporate could be significantly higher than our A\$0.70 valuation (under review pending Scoping Study) and maintains a SPEC BUY.

Event & Impact | Positive

Significant WA player: GFI produced 1Moz in CY14 and generated US\$218m in net cash flow from four West Australian mines (see Page 3). Australia makes up 45% of GFI global production. The Company is pursuing exploration (A\$85m exploration budget, ~550km drilling in CY15) and M&A opportunities to realise further value from its Australian operations. GFI's future acquisition criteria states (extracted from CY14 annual report):

- *all new opportunities must be in production and improve the quality of our portfolio on a FCF per ounce basis*
- *are located in or near our existing regions, in well-understood, stable countries that offer favourable regulatory regimes – and offer near-mine growth potential and/or synergies with our existing operations or regional structures*

A case for business combination: GFI owns the Granny Smith processing facility and the high grade Wallaby underground mine. Given the proximity (~15km from Jupiter) of the operations to DCN's Mt Morgans Project (see Figure 2), the spare capacity at Granny Smith (~2Mtpa) and GFI's desire to secure future ore sources, a potential business combination with DCN can be value accretive for GFI. Based on our assumptions (see Page 2), acquiring DCN up to A\$1.45 is accretive for GFI (at a hurdle rate of 15%).

Further upside: Significant exploration upside exists at Jupiter, with the testing of multiple targets expected during H2 CY15. These targets include the intersection of the Cornwall Shear Zone and a large, high intensity magnetic anomaly immediately to the south-east of the historic Jupiter pit. Regionally, a few sizable magnetic anomalies (potential syenite targets), as well as BIF targets could deliver further upside. Note we exclude regional exploration success from our scenario analysis.

Recommendation

Argonaut recognises the strategic value of DCN to a neighbouring corporate could be significantly higher than our A\$0.70 valuation (under review pending Scoping Study) and maintains a SPEC BUY.

A case for business combination

A business combination with DCN could be accretive...

...given GFI's desire to secure future ore sources

Based on Argonaut's modelled assumptions...

...paying <A\$1.45 per share would be accretive for GFI...

...assuming a hurdle rate of 15% and not factoring in further exploration upside

A potential business combination with DCN can be accretive for GFI given proximity of the operations, sunk costs, spare capacity at Granny Smith mill and GFI's desire to secure future ore sources. Based on our assumptions (see below), an acquisition cost of up to A\$1.45 per share is accretive. Further upside on this figure includes:

- Lower processing costs on Wallaby ore by running the mill at nameplate capacity
- Potentially lower AISC by utilising GFI's mining expertise and equipment
- Mine life upside through further exploration success

Argonaut assumptions

Argonaut's scenario (see Table 1 below) models additional value to Granny Smith by utilising the spare capacity (~2Mtpa), producing an additional ~200koz pa.

A key assumption is ~12Mt future ore feed from Jupiter and Westralia would be in-fill drilled to mostly Measured and Indicated Categories with no material adverse change to the current geological interpretations. Following in-fill drilling, DCN would also be in a position to deliver advanced Feasibility Studies. Total costs associated with the drilling and studies are estimated at ~A\$20m (funded by DCN). The project funding (A\$34m) is assumed to be internally generated by GFI.

We have assumed a hurdle rate of 15%. Exploration upside and residual mineral Resource has not been factored in. Other assumptions are presented below.

Table 1: Key assumptions for a takeover scenario

Scenario Summary	Goldfields Scenario
Mt Morgans	1.43
Cash	0.02
Total @15% discount rate	1.45
EV / Resource @ 1.45 (A\$/oz)	63
EV / Mining Inventory @ 1.45 (A\$/oz)	149

Key project assumptions	Additional contribution from Mt Morgans (\$ps)	
Mt Morgans		
Ownership	%	100
Ore milled	Mtpa	2.0
Head grade	Au g/t	3.3
Recovery	%	92
Production	koz Eq pa	193
Mine Life	yrs	6.0
Strip ratio (Open pits)	:	6.0
"All-in" sustaining cost	A\$/oz	1112
Pre-production Capex	A\$m	34
Study / drilling costs	A\$m	20
Long term Pricing		
Gold price	US\$/oz	1200
Exchange rate	:	0.75
Fiscal		
Government royalty	%	2.5
Third party royalty	%	1.3
Tax Rate	%	30
Discount Rate	%	15

*Mining Inventory based on Argonaut's estimate

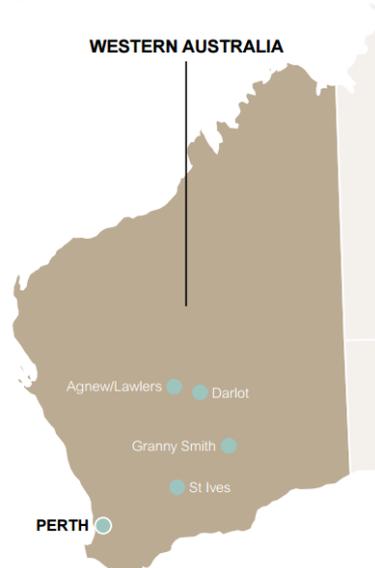
Source: Argonaut

Goldfields in Australia

GFI operate four mines in Western Australia...

GFI operates four mines in Western Australia, including Granny Smith, Agnew / Lawlers, St Ives and Darlot. These assets produced a total of 1.0Moz at an “all-in” cost of US\$1,015/oz, and generated net cash inflow of US\$218m in CY14.

Figure 1: GFI's WA operations



...Granny Smith, Agnew / Lawlers, St Ives and Darlot...

Source: GFI

...producing ~1Moz pa

Since its acquisition of the Yilgarn South assets in late CY13 (see below, highlighted), Western Australia has become a significant part of GFI's global portfolio (~45% of group production in CY14). Brownfields exploration is a focus for the Company, with a sizable exploration budget of A\$85m across its Australian operations in CY15.

Table 2: Recent Australian transactions

Date	Target	Acquirer	Valuation	Asset Location	EV / Resource	EV / Reserve
			(\$m)		\$/oz	\$/oz
Development projects						
Apr-14	Bullabulling (BAB)	Norton (NGF)	24	Western Australia	5	-
Jan-14	Norilsk (Thunderbox)	Saracen (SAR)	23	Western Australia	11	32
Oct-14	Mutiny Gold (MYG)	Doray Minerals (DRM)	37	Western Australia	73	135
Apr-15	Tanamai (CTP)	Northern Star (NST)	72	Northern Territory	27	-
Jun-15	Pheonix Gold (PXG)	Evolution (EVN)	56	Western Australia	13	-
Existing mines						
Aug-13	Barrick (Yilgarn South)	Gold Fields (GFI:US)	330	Western Australia	75	127
Sep-13	Alacer (Australian Business)	Metals X (MLX)	40	Western Australia	6	27
Dec-13	Plutonic (Barrick Gold)	Northern Star (NST)	25	Western Australia	14	121
Jan-14	Barrick (Kanowna)	Northern Star (NST)	75	Western Australia	49	121
May-14	Jundee (Newmont)	Northern Star (NST)	82.5	Western Australia	163	201
Apr-15	La Mancha (Frog's Leg)	Evolution (EVN)	413	Western Australia	157	529
May-15	Cowal (Barrick Gold)	Evolution (EVN)	704	New South Wales	138	323

Source: Argonaut

CY15 budget features an impressive A\$85m...

...associated with regional exploration

Granny Smith / Wallaby

GFI operates the Wallaby underground mine and Granny Smith mill...

GFI operates the high grade Wallaby underground mine and the adjacent Granny Smith processing facility. The mill is located ~15km from DCN's Jupiter deposits (see Figure 2 below for locations).

Table 3: Granny Smith Resource and Reserve

Operation	Tonnes (Mt)	Grade (g/t)	Gold (Moz)
Granny Smith Resources	17.4	6.61	3.7
Granny Smith Reserves	4.5	6.02	0.9

Source: GFI

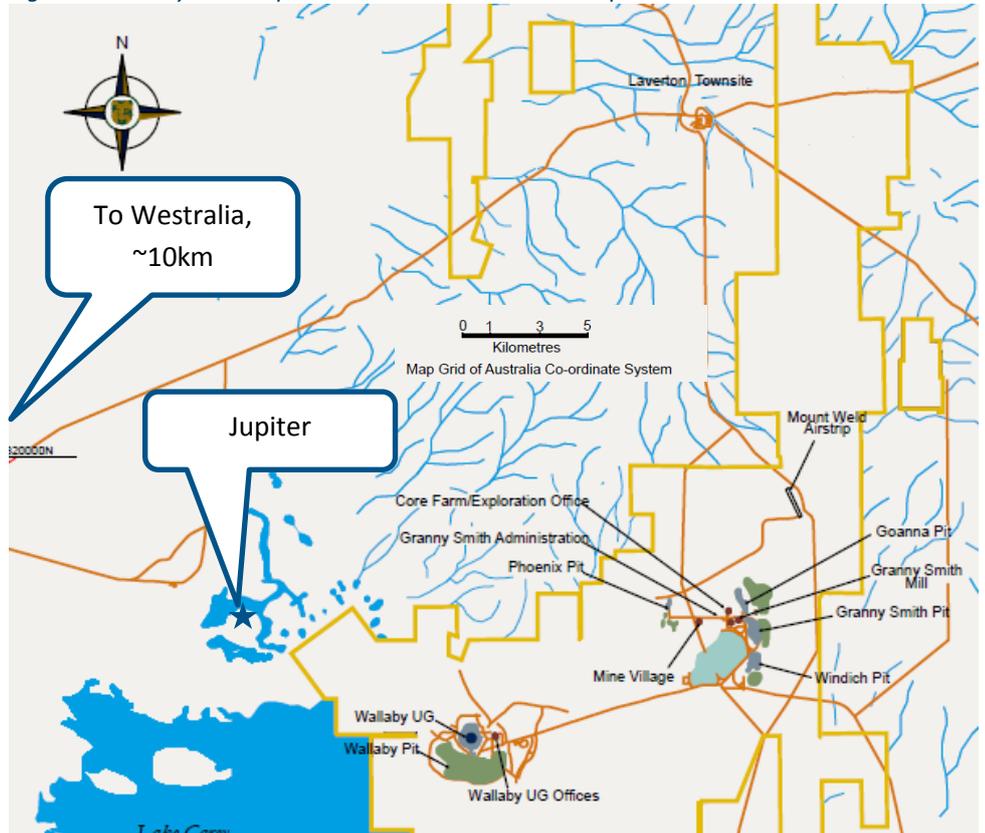
...featuring 0.9Moz @ 6.0g/t of Reserve...

The CIL facility has ~2Mtpa spare capacity and was running at ~41% (in CY14) of its nameplate capacity of 3.6Mtpa, operating on a campaign basis (15 days per month).

The operation has <5 years of mine life (based on current run rate and existing Reserves) to CY19. GFI's CY15 exploration budget at the mine includes Resource drilling and extensional targets at Wallaby, Granny Smith open pit and potential underground extensions. In addition, this program will target earlier stage prospects at Lake Carey, Kerringal (~350koz) and Jubilee (~200koz). CY15 exploration program comprises 150km of drilling, including 63km of diamond drilling.

...located adjacent to DCN's Mt Morgans operation...

Figure 2: Granny Smith operation with Westralia and Jupiter labelled



Source: GFI, modified by Argonaut

...with ~2Mtpa spare capacity

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Important Disclosure

Argonaut currently holds or controls 94,000 DCN shares.

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