

Dacian Gold Ltd

(DCN \$0.46) Speculative Buy

EUROZ

Analyst	Date	Price Target
Jon Bishop	20 th August 2015	\$0.85/sh

Potential Development Compares Favourably

Investment case

On the back of strong resource growth and further encouraging drilling results at Westralia, we are increasingly seeing scope for material, standalone operation at DCN's Mount Morgans asset. The relative outperformance of GOR provides us with conviction that DCN can achieve similar share price performance over the medium to long term. Moreover, on account of (particularly) grade and access to infrastructure, DCN's potential 2mtpa development compares highly favourably to GOR's recent PFS Stage 1 results for Gruyere. We maintain our Speculative Buy recommendation, with an increased \$0.85/sh Price Target.

Key points

- Since initiating coverage on DCN in April '15, the Company has more than doubled resources at its Mount Morgan assets to 3.1moz @ 2.0g/t;
- Resource growth at the high grade underground Westralia Project to 1.5moz @ 5.1g/t provides considerable scope to support a standalone development at Mount Morgans;
- The Company is contemplating a 2.0mtpa development which would deliver circa 210kozpa @ <A\$1,000/oz AISC for +7yrs;
- Comparing DCN to GOR (following GOR's recent PFS), development of Mount Morgans looks compelling, particularly in light of the relative market capitalisations and implied EVs ascribed to each Company:

	Units	GOR	DCN	Comments
Capex	A\$m	435-475	150	
Throughput	mtpa	7.5	2.0	DCN run at 15-20% above nameplate
U/G Grade	g/t Au	-	5.5	
O/C Grade	g/t Au	1.2	1.8	
O/C strip LOM (inc. pre-strip)		1.9-2.7:1	6:1	
Resource Grade	g/t Au	1.2	2.0	
Reserve Grade	g/t Au	n/a	6.1	
Resource	moz	5.5	3.1	
Mining Inventory	moz	2.8-4.1	1.3	
Recoveries	%	89-93	92	
Production (LOM av.)	koz	250 pa	210 pa	
C1 Operating Cost (LOM av)	A\$/oz	966	860	
AISC (LOM av)	A\$/oz	1,040-1,140	950	EZL est
Mine Life	yrs	10-15	7	
NPV @ 10% post tax	A\$m	302	400	EZL est.
IRR (post tax)	%	23	59	
MKT CAP	A\$m	270	44	
FULLY DEVELOPED EV	A\$m	705-745	194	
Share Price	A\$/sh	0.39	0.46	
EZL Valuation unrisks/undil	A\$/sh	0.58	3.12*	GOR not under formal coverage
EZL Valuation risked (75%)	A\$/sh	0.25	0.90*	risked at 75% to reflect \$160m in financing for DCN & \$450m for GOR
EZL Valuation last published	A\$/sh	n/a	0.72*	assumes 1.5mtpa scenario for 150kozpa @ A\$1,170/oz;

Source: Euroz, DCN and GOR company data

*assumes dil. For PFS equity issue

Dacian Gold	as at 30 June	
Share Price	0.46	A\$/sh
Price Target	0.85	A\$/sh
Valuation	0.89	A\$/sh
	(npv 10%)	
Shares on issue	96	m, diluted *
Market Capitalisation	44	A\$m
Enterprise Value	39	A\$m
Debt	0	A\$m
Cash	5	A\$m
Largest Shareholder	Brian Rodan 17.6%	

Share Price Chart



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- In light of the likely inc. to potential project scope at Mount Morgans (from our 1.5mtpa prev. assumed to 2.0mtpa) we have increased our Price Target to A\$0.85/sh to capture the value uplift implied by risked assessment of a 2mtpa development;
- Our valuation has improved to \$0.89/sh (allowing for a 75% discount to our Mount Morgans DCF) from \$0.72/sh last published.

Analysis

We have considered a 2mtpa standalone development of DCN's 3.1moz @ 2.0g/t Mount Morgans Project.

Benchmarking development, mining costs with existing open pit and underground operations based in Western Australia, we have made the following assumptions:

- Mine Life - 7yrs, comprising 5yrs of 50:50 underground:open-cut feed and the remainder 2yrs open-cut;
- Plant Capacity - 2mtpa mill with optimised through-put capacity of up to +20% on open-cut feed
- Production - 190kozpa LOM av. (210kozpa yrs 1-5);
- Capex - A\$160m inc. working capital; A\$33m/yr sustaining with combined operation;
- Opex - Open-cut: A\$33/T (inc. royalties); Underground: A\$105/T (inc. royalties);
- Operating Costs (C1): A\$870/oz LOM av.;
- AISC: A\$954/oz LOM av.
- NPV(10) - A\$406m (unrisked)
- IRR - 59%
- Gold Price - US\$1,275 and forex USD0.78.

Valuation & Risks

On account of the funding required post DFS of A\$160m, we discount our DCF by 75% to derive a sum of the parts valuation of \$0.89/sh on this basis.

We have upgraded our price target to \$0.85/sh (from \$0.75/sh last published) to reflect the changing scope of the project.

However, we highlight that full Feasibility work will require at least 70,000m of infill diamond drilling on the Westralia resource to substantiate the detailed project scope: only 25% of the Westralia resource is currently Indicated.

Financing of \$160m in development capex and working capital will be required at FID. However, our valuation has been discounted by 75% to reflect the uncertainty of the financing package.

Additionally, the interim requirement for PFS funding has been assumed and appropriately accounted for in terms of a diluted capital structure.

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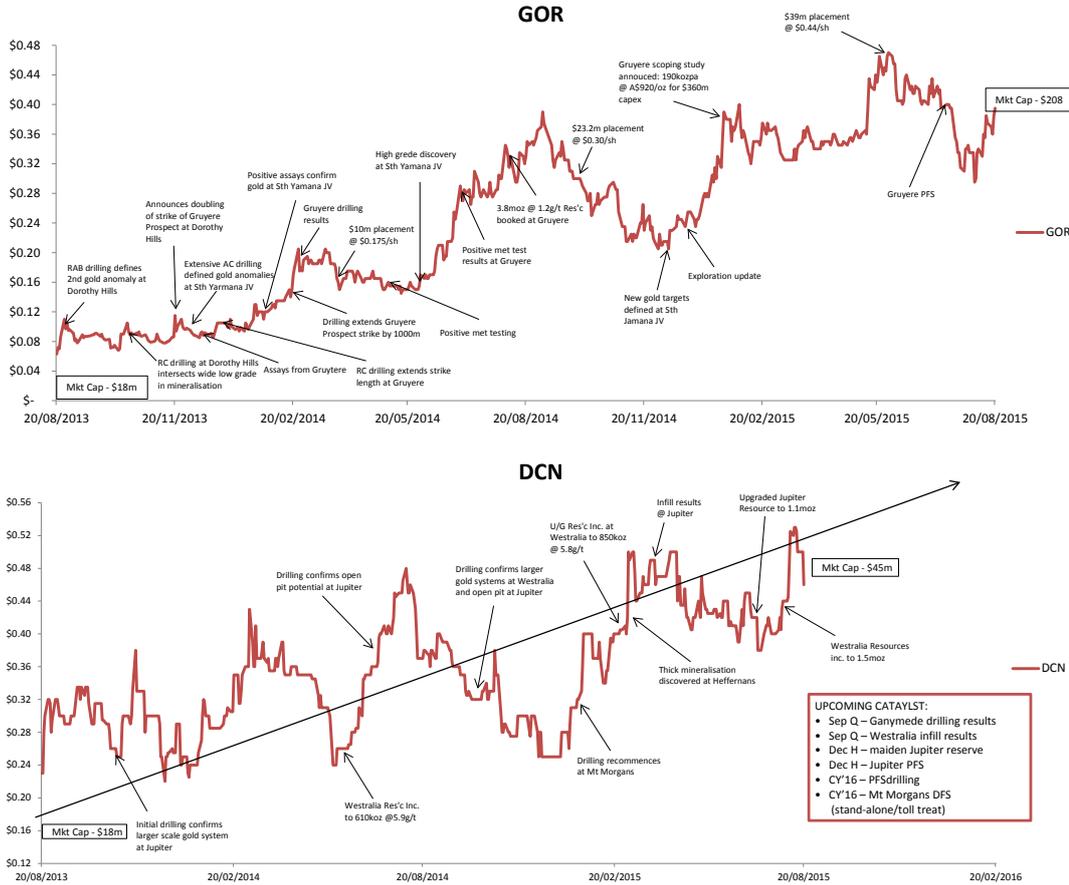
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Comparison to GOR

As noted previously, we unashamedly point to the positive performance of GOR in terms of gold exploration stories.

On the back of its virgin 5moz Gruyere discovery, the Company has been capitalised at +A\$250m. We provide a share price chart of GOR and material newsflow below. DCN's performance is plotted for comparison:



Source: Euroz, DCN and GOR company data

Allowing for between \$430-480m in development and working capital, the Company now commands an implied fully developed EV in excess of A\$700m.

On this basis and noting DCN's \$45m mkt cap (and implied ~\$200m EV) the likely development contemplated at the Mount Morgan asset, compares highly favourably to the recent Gruyere PFS (as highlighted in the table above).

On account of higher av resource grade (2.9g/t vs 1.2g/t for Gruyere), a similar production base (~200kozpa) can be achieved at a lower AISC.

NPV (+33% vs GOR) and post-tax IRRs (>2.5x) therefore compare highly favourably for DCN's assets.

Furthermore, the DCN management team have form in terms of discovery, development, production and sale of gold assets with their Avoca Resources journey.

And we argue - to be further demonstrated by upcoming drilling resource generation work at both the Westralia and Jupiter Projects - that the Mount Morgans asset has similar exploration upside to GOR's tenure in the Yamana Belt.

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Therefore, playing DCN for possible corporate appeal has equal validity as per GOR.

Consequently, the relative valuation differential between GOR and DCN at 6x the market capitalisation (GOR:DCN) and 2.5x the implied EV suggests that the risk reward proposition is heavily stacked in favour of DCN, even after accounting for the relative project maturities (ie Gruyere has undertaken a PFS vs Mount Morgans entering into PFS).

Additionally, ascribing a similar risk (discount of 75%) to our GOR valuation, to reflect our estimation of ~A\$450m in financing to enter production, results in a \$0.25/sh valuation.

Noting that GOR is trading at a 56% premium to our valuation whilst DCN trades at 50% discount, we believe that DCN will outperform GOR over the short to medium term.

Path Forward & Upcoming Newsflow

Drilling (6 diamond holes) targeting the shallow mineralised BIF identified at Westralia has been concluded: Assays are due shortly.

Similarly, RC drilling at the Ganymede prospect at Jupiter, is due to conclude shortly. Assay results are due in the short term.

From mid Dec H CY'15, a combined PFS will be undertaken on Westralia and Jupiter, with a view to a Final Investment Decision by mid CY'16 on the way forward in terms of toll treatment or standalone.

We understand that drilling will be dominantly focused upon the Westralia resource to convert the Inferred ounces into (at least) Indicated (70,000m of diamond). A further +20,000m of dominantly RC will be undertaken at Jupiter.

Assay results and testwork, will provide a steady stream newsflow over the next 12mnths on that basis.

Clearly we are of the view that the ongoing resource drilling success and growth to inventories will justify a standalone development.

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