Dacian Gold Ltd

(DCN $0.69) Speculative Buy

Analyst	Date	Price Target
Jon Bishop	30th September 2015	$0.98/sh

Mount Morgans' Scoping Study

Investment case

The Scoping Study is highly encouraging for a 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 given recent momentum on resource growth and project development. Moreover, on account of (particularly) grade and access to infrastructure, DCN's potential 2.5mtpa development compares highly favourably to GOR's recent PFS Stage 1 results for Gruyere. We maintain our Speculative Buy recommendation with an increased Price Target of $0.98/sh.

Key points

- DCN has released a detailed Scoping Study for its Mount Morgans Gold Project. We summarise the key parameters in the table below;
- Adjusting our model, our valuation inc. to $0.98/sh (prev. $0.89/sh) as a consequence of lower costs and changes to production profile;
- We highlight the main departures from our assumptions underpinning our previous valuation in the table:

		Publish Date		
	Units	20-Aug	30-Sep	Comments
Capex	A$m	150	157	EZL assumes plus working capital of A$20m
Throughput	mtpa	2.0	2.5	DCN run at 15-20% above nameplate
U/G Grade	g/t Au	5.5	5.4	
O/C Grade	g/t Au	1.8	1.7	
O/C strip LOM (inc. pre-strip)		6:1	7:1	
Resource Grade	g/t Au	2.0	2.2	
Reserve Grade	g/t Au	6.1	6.1	
Resource	moz	3.1	3.0	
Mining Inventory	moz	1.3	1.2	
Recoveries	%	92	92	
Production (LOM av.)	koz	210 pa	220 pa	
C1 Operating Cost (LOM av)	A$/oz	860	812	
AISC (LOM av)	A$/oz	950	929	
Mine Life	yrs	7	7	
NPV @ 10% post tax	A$m	400	488	EZL est.
IRR (post tax)	%	59	65	ungeared
MKT CAP	A$m	44	66	
FULLY DEVELOPED EV	A$m	194	250	inc. working capital
Share Price	A$/sh	0.46	0.69	
EZL Valuation unrisked/undil	A$/sh	3.12*	3.63*	GOR not under formal coverage
EZL Valuation risked (75%)	A$/sh	0.89*	0.98*	risked at 75% to reflect financing at FID
EZL Valuation last published	A$/sh	0.72*	0.89*	assumes 1.5mtpa scenario for 150kozpa @ A$1,170/oz;
				*assumes dil. For PFS equity issue

Source: Euroz, DCN company data

- We present a proforma financial model with this publication for the first time;
- A substantial drilling campaign as part of the feasibility seeks to upgrade inferred resource at Westralia to Indicated and Measured, as well as test new zones of minerealisation in the Jupiter (Callisto) and Transvaal prospect areas;

Analysis

The Scoping Study is highly encouraging for a material, standalone operation at DCN's Mount Morgans asset.

Adjusting our model, our valuation inc. to $0.98/sh (prev. $0.89/sh) as a consequence of lower costs and changes to production profile.

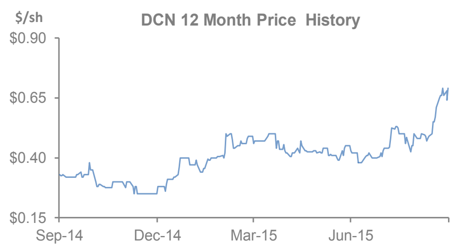
Dacian Gold		30 June
Share Price	0.69	A$/sh
Price Target	0.98	A$/sh
Valuation	0.80	A$/sh (npv 10%)
Shares on issue	96	m, diluted *
Market Capitalisation	66	A$m
Enterprise Value	63	A$m
Debt	0	A$m
Cash	3	A$m
Largest Shareholder		Brian Rodan 17.6%

Production F/Cast	2016f	2017f	2018f
Attrib. Prod'n (koz)	0	0	13
Cash Cost (A$/oz)	n/a	n/a	455
Total Cost (A$/oz)	n/a	n/a	715

Assumptions	2016f	2017f	2018f
Gold US$/oz	1150	1225	1263
AUDUSD	1.03	0.92	0.89

Key Financials	2016f	2017f	2018f
Revenue (A$m)	0	5	26
EBITDA (A$m)	-4	-4	12
NPAT (A$m)	-2	-2	3
Cashflow (A$m)	-4	-1	-110
CFPS (Ac)	-2	-52	-60
P/CFPS (x)	na	na	na
EPS (Ac)	-2	-2	3
EPS growth (%)	na	na	na
PER (x)	na	na	21.3
EV:EBITDA (x)	na	na	9.1
EV:EBIT (x)	na	na	12.6
DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%
ND:Net Debt+Equity (%)	na	na	33%
Interest Cover (x)	na	na	na

Share Price Chart



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We highlight that our valuation is diluted for an assumed Feasibility equity issue of circa $15m this H.

We risk adjust our DCF by 75% to account for the assumed $180m in debt and equity we assume is required for development and working capital.

Key Changes to our Previous Assumptions

We have summarised our current vs previous assumptions in the table above, noting that the uplift to valuation is a consequence of reduced cost assumptions (more in-line with those provided in the Scoping Study) and adjustment to cost profile pertaining to waste movement (note that the Heffernans pit is first in the open pit schedule and does not require pre-strip capex) and development.

Processing costs are lower than our previous assumptions, however we note that these assume DCN utilises the gas pipeline infrastructure crossing their tenements.

As we understand it, the current domgas market in WA and the Eastern Goldfields Pipeline has spare capacity, thus we believe these cost assumptions to be reasonable.

Similarly, the Scoping Study has resulted in adjustment to our assumed production profile particularly in years 3-5.

We highlight that yrs 1&2 at 210kozpa appears to be a robust forecast on account of resource ratio for assumed feed of 90:10 M&I Resources vs Inferred.

However, we have risk adjusted the forecast boost to production (vs previous assumptions) to circa 280koz in yrs 3 and 4 in our model to reflect that these ounces are derived from inferred underground material.

This is reflected in the resource ratio for assumed feed of 50:50 M&I vs Inferred Resources.

We will de-risk this part of our model as planned infill drilling is undertaken through the feasibility study.

Further, the Company highlights that the historical operations demonstrated a high conversion rate for Inferred to Indicated Resources.

Forward Programme

A substantial drilling campaign as part of the feasibility seeks to upgrade inferred resource at Westralia to Indicated and Measured, as well as test new zones of mineralisation in the Jupiter (Callisto) and Transvaal prospect areas.

Further metallurgical testwork will be undertaken, particularly on the new resource areas.

Metallurgical testwork undertaken to date suggests 90-95% recoveries (gravity and CIL) for the underground material and 40-63% gravity recovery for the Heffernans open pit.

This compares with 91% av. gravity and CIL recovery from the historical operation.

Given pre-existing operations at Westralia, Jupiter and Morgans North, the preliminary results give us a high level of comfort that metallurgy is relatively low risk.

Risks

The key risks beyond commodity price – this appears low as we note A$ gold remains above A$1,600/oz vs AISC LOM of A$930/oz – and market risk (again these margins should attract debt and equity funding) rest with development execution and operational risk.

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In terms of financing, we note that DCN has had commitment in principle (and subject to the results of the Feasibility Studies) to assist with any debt financing for the project.

Development Risk – appears low on account of an established track record by Management in taking exploration through development and into production at Avoca.

Furthermore, that the tenements are largely permitted and project location is within an established mining district, with access to gas pipelines, seal roads, water and mining workforce.

Operational Risk – Mine feed will be sourced from 7 operations over the 7yrs of mine life. Whilst the 7 operations will not be simultaneous there will be overlap and this may prove challenging logistically and from a scheduling standpoint.

However, again, the Management team did manage several operations as Avoca matured.

Conclusions

The Scoping Study looks highly encouraging for a standalone development however we are more circumspect on the likelihood of an early approach from GoldFields (in order to fill its Granny Smith Mill) given the early stage nature of the project.

However, the relative outperformance of GOR provides us with conviction that DCN can achieve similar share price performance over the medium to long term given recent momentum on resource growth and project development.

Moreover, on account of (particularly) grade and access to infrastructure, DCN's potential 2.5mtpa development compares highly favourably to GOR's recent PFS Stage 1 results for Gruyere.

We maintain our Speculative Buy recommendation with an increased Price Target of $0.98/sh

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Market Statistics			Year End 30 June	
Share Price	**$0.69**	**A$/sh**	**Directors**	
Issued Capital			R Williams	Ex Chr'n
Fully paid Ord. Shares	96.1	m	R Reynolds	NE Dir
Opts var AV $0.80/Sh	10.2	m	B Patterson	NE Dir
Total	**98.1**	**m**		
			Shareholders	
Market Capitalisation	$66	m	Brian Roden	17.6%
Enterprise Value	$63	m	Dir & Mgmt	12.0%
Debt	$-	m		
Cash	$3	m		
Hedging	Nil			

Asset Valuation	A$m	A$/sh
Mt Morgans project (risk adj 75%)	122	0.85
Hedging	-	-
Corporate	(20)	(0.14)
Exploration	20	0.14
Unpaid Capital*	17	0.12
Debt	-	-
Cash	3	0.01
Total	**142**	**0.98**

*assumes $15m raising in FY'16

F/Cast Production (A$m)		2016f	2017f	2018f	2019f	2020f
Mount Morgans	**koz**	**0**	**0**	**13**	**201**	**209**
Cash Cost (A$/oz)	US$/oz	n/a	n/a	455	707	727
Total Cost (A$/oz)	US$/oz	n/a	n/a	715	857	895
All in Costs (A$/oz)				**876**	**890**	
Spot Price (US$)	US$/oz	1,150	1,225	1,263	1,275	1,275
Price Rec'd (A$)	US$/oz	1,620	1,690	1,672	1,635	1,635
USD:AUD	US$/oz	0.71	0.73	0.76	0.78	0.78

Ratio Analysis (A$m)	2016f	2017f	2018f	2019f	2020f
CF (A$m)	(4)	(1)	(110)	157	169
CF / Sh (Ac/sh)	(2)	(52)	(60)	89	97
CF Ratio (x)	na	na	na	0.8	0.7
Earnings (A$m)	(3)	(3)	4	133	138
EPS (Ac/sh)	(2)	(2)	3	96	101
EPS Growth (%)	na	na	na	2870%	5%
Earnings Ratio (x)	na	na	21.3	0.7	0.7
E'prise Val. (A$m)	87	65	148	35	(86)
EV : EBITDA (x)	na	na	9.1	0.3	0.3
EV : EBIT (x)	na	na	12.6	0.4	0.4
Net Debt / ND+Eq (%)	na	na	33%	na	na
Interest Cover (x)	na	na	na	27.3	na
EBIT Margin (%)	na	na	39%	46%	44%
ROE (%)	-18%	-2%	3%	49%	34%
ROA (%)	-27%	-2%	5%	60%	47%
Div. (Ac/sh)	-	-	-	-	-
Div. payout ratio (x)	-	-	-	-	-
Div. Yield (%)	0%	0%	0%	0%	0%
Div. Franking (%)	0%	0%	0%	0%	0%

Profit and Loss (A$m)	2016f	2017f	2018f	2019f	2020f
Gold Revenue	0	0	22	329	341
Hedging Revenue	-	(0)	-	-	-
Interest Revenue	0	5	4	2	6
Other Revenue	-	-	-	-	-
TOTAL REVENUE	**0**	**5**	**26**	**331**	**347**
Operating Costs	0	0	6	142	152
Dep/Amort	0	0	3	30	35
W/O & Provisions	-	-	-	-	-
Corp O/H	4	4	4	4	4
EBITDA	(4)	(4)	12	183	186
EBIT	(4)	(4)	9	153	150
Interest Expense	-	4	8	7	2
NPBT	(4)	(3)	5	148	154
Tax	(1)	(1)	1	44	46
Minorities	-	-	-	-	-
NET PROFIT	**(2)**	**(2)**	**3**	**104**	**108**
Net Abnormal Gain/(Loss)	-	-	-	-	-
NET PROFIT After Abn'l	**(2)**	**(2)**	**3**	**104**	**108**

Cash Flow (A$m)	2016f	2017f	2018f	2019f	2020f
Net Profit	(2)	(2)	3	104	108
+ Working Capital Adj.	-	-	-	-	-
+ Dep/Amort	0	0	3	30	35
+ Provisions	-	-	-	-	-
+ Tax Expense	(1)	(1)	1	44	46
- Tax Paid	(0)	(1)	1	36	37
- Deferred Revenue	-	-	-	-	-
Operating Cashflow	**(3)**	**(2)**	**7**	**143**	**152**
-Capex + Development	-	70	90	20	20
-Exploration	8	5	-	10	10
-Assets Purchased	-	-	-	-	-
+Asset Sales	-	-	-	-	-
+ Other	-	-	-	-	-
Investing Cashflow	**(8)**	**(75)**	**(90)**	**(30)**	**(30)**
+Equity Issues	15	100	-	-	-
+Loan D'down/Receivable	-	80	-	-	-
-Other (share buy back)	0	0	0	0	0
-Loan Repayment	-	-	-	40	40
-Dividends	-	-	-	-	-
Financing Cashflow	**15**	**180**	**-**	**(40)**	**(40)**
Period Sur (Def)	**4**	**103**	**(83)**	**73**	**82**
Cash Balance	**6**	**108**	**26**	**98**	**180**

Balance Sheet (A$m)	2016f	2017f	2018f	2019f	2020f
Assets					
Cash	6	108	26	98	180
Current Receivables	0	0	0	0	0
Other Current Assets	-	-	-	-	-
Non-Current Assets	9	79	165	155	140
Total Assets	**15**	**187**	**191**	**253**	**320**
Liabilities					
Borrowings	-	80	80	40	-
Current Accounts Payable	0	0	0	0	0
Other Liabilities	1	1	1	1	1
Total Liabilities	**2**	**82**	**82**	**42**	**2**
Net Assets	**13**	**106**	**109**	**212**	**319**

Reserves and Resources	Reserves			Resources		
	mt	g/t	koz	mt	g/t	koz
Westralia		6.2	136	9.2	5.1	1,500
Jupiter				28.9	1.6	1,468
Jupiter heap-leach				9.0	0.4	112
Total (koz)			**136**			**3,080**
EV per oz						23

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