

# Dacian Gold Ltd

## (DCN \$0.79) Speculative Buy

EUROZ

Analyst	Date	Price Target
Jon Bishop	29 <sup>th</sup> October 2015	\$1.05/sh

### Sep Q'ly Report

#### Investment case

The Sep Q'ly saw the release of the Mt Morgan's Scoping Study. The results are 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.

#### Key points

- The Sep Q'ly saw the release of a detailed Scoping Study for its Mount Morgans Gold Project:
  - 7yr mine life at an average rate of 220kozpa over first 5yrs for total production of 1.2moz;
  - LOM AISC of A\$929/oz (C1 A\$812/oz)
  - Metallurgical testwork undertaken 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;
  - Capex of A\$157m inc. +20% contingency;
  - DFS and Reserve by end CY'16;
  - First production in CY'18;
- From this Q, a substantial drilling campaign as part of the PFS 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;
- Our Valuation improves to \$1.05/sh (from \$0.98/sh prev.) on account of assumed reduced dilution.

#### Analysis

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.

And noting the execution of the AVO story, we view that Management are eminently back-able.

We maintain our Speculative Buy recommendation with an increased Price Target of \$1.05/sh on account of lower assumed dilution.

Noting the recent sustained strong price performance, we assume \$25m to be raised by issue of 35m new shares (vs our previous assumptions of \$15m from 37.5m shares).

Dacian Gold Ltd	Year End 30 June	
Share Price	0.79	A\$/sh
Price Target	1.05	A\$/sh
Valuation	1.05	A\$/sh

Shares on issue	96	m, diluted *
Market Capitalisation	76	A\$m
Enterprise Value	73	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)	1	5	26
EBITDA (A\$m)	-4	-4	12
NPAT (A\$m)	-2	-2	4
Cashflow (A\$m)	-4	-1	-109

CFPS (Ac)	-2	-54	-62
P/CFPS (x)	na	na	na

EPS (Ac)	-2	-2	4
EPS growth (%)	na	na	na
PER (x)	na	na	21.5

EV:EBITDA (x)	na	na	9.1
EV:EBIT (x)	na	na	12.7

DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%

ND:Net Debt+Equity (%)	na	na	27%
Interest Cover (x)	na	na	na

#### Share Price Chart



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## Dacian Gold Ltd

### (DCN \$0.79) Speculative Buy

We highlight that 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 to be sourced in FY'17.

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.

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

#### **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.

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.

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## Dacian Gold Ltd

## (DCN \$0.79) Speculative Buy

Market Statistics Year End 30 June

Share Price	\$0.79	A\$/sh	Directors	
Issued Capital			R Williams	Ex Chr'n
Fully paid Ordinary Shares	131.8	m*	R Reynolds	NE Dir
Opts var AV \$0.80/Sh	10.2	m	B Patterson	NE Dir
<b>Total</b>	<b>133.8</b>	<b>m*</b>		
<b>Shareholders</b>				
Market Capitalisation	\$104	m	Brian Roden	17.6%
Enterprise Value	\$81	m	Dir & Mgmt	12.0%
Debt	\$-	m		
Cash	\$23	m		
Hedging	Nil			

Asset Valuation	A\$m	A\$/sh
Mt Morgans project (risk adj 75%)	122	0.91
Hedging	-	-
Corporate	(20)	(0.15)
Exploration	20	0.15
Unpaid Capital	2	0.02
Debt	-	-
Cash*	23	0.17
<b>Total</b>	<b>147</b>	<b>1.05</b>

\*assumes \$25m raising in FY'16

F/Cast Production (A\$m)	2016f	2017f	2018f	2019f	2020f	
Mount Morgans	koz	0	0	13	201	209
Avg Cash Cost (A\$/oz)	US\$/oz	n/a	n/a	455	707	727
Avg Total Cost (A\$/oz)	US\$/oz	n/a	n/a	715	857	895
Avg All in Costs (A\$/oz)				876	890	
Avg Spot Price (US\$)	US\$/oz	1,150	1,225	1,263	1,275	1,275
Avg 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)	(109)	158	170
CF / Sh (Ac/sh)	(2)	(54)	(62)	92	100
CF Ratio (x)	na	na	na	0.9	0.8
Earnings (A\$m)	(3)	(3)	5	133	138
EPS (Ac/sh)	(2)	(2)	4	100	105
EPS Growth (%)	na	na	na	2617%	5%
Earnings Ratio (x)	na	na	21.5	0.8	0.8
E'prise Val. (A\$m)	89	66	148	35	(86)
EV : EBITDA (x)	na	na	9.1	0.4	0.4
EV : EBIT (x)	na	na	12.7	0.5	0.5
Net Debt / ND+Eq (%)	na	na	27%	na	na
Interest Cover (x)	na	na	na	30.8	na
EBIT Margin (%)	na	na	39%	46%	44%
ROE (%)	-10%	-2%	3%	47%	33%
ROA (%)	-17%	-2%	4%	58%	46%
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	1	5	4	3	6
Other Revenue	-	-	-	-	-
<b>TOTAL REVENUE</b>	<b>1</b>	<b>5</b>	<b>26</b>	<b>331</b>	<b>348</b>
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	(3)	(3)	5	149	154
Tax	(1)	(1)	2	45	46
Minorities	-	-	-	-	-
<b>NET PROFIT</b>	<b>(2)</b>	<b>(2)</b>	<b>4</b>	<b>104</b>	<b>108</b>
Net Abnormal Gain/(Loss)	-	-	-	-	-
<b>NET PROFIT After Abn'l</b>	<b>(2)</b>	<b>(2)</b>	<b>4</b>	<b>104</b>	<b>108</b>

Cash Flow (A\$m)	2016f	2017f	2018f	2019f	2020f
Net Profit	(2)	(2)	4	104	108
+ Working Capital Adj.	-	-	-	-	-
+ Dep/Amort	0	0	3	30	35
+ Provisions	-	-	-	-	-
+ Tax Expense	(1)	(1)	2	45	46
- Tax Paid	(0)	(1)	1	36	37
- Deferred Revenue	-	-	-	-	-
<b>Operating Cashflow</b>	<b>(3)</b>	<b>(2)</b>	<b>7</b>	<b>143</b>	<b>152</b>
-Capex + Development	-	70	90	20	20
-Exploration	8	5	-	10	10
-Assets Purchased	-	-	-	-	-
+Asset Sales	-	-	-	-	-
+ Other	-	-	-	-	-
<b>Investing Cashflow</b>	<b>(8)</b>	<b>(75)</b>	<b>(90)</b>	<b>(30)</b>	<b>(30)</b>
+Equity Issues	25	100	-	-	-
+Loan D'down/Receivable	-	80	-	-	-
-Other (share buy back)	-1.25	0	0	0	0
-Loan Repayment	-	-	-	40	40
-Dividends	-	-	-	-	-
<b>Financing Cashflow</b>	<b>24</b>	<b>180</b>	<b>-</b>	<b>(40)</b>	<b>(40)</b>
<b>Period Sur (Def)</b>	<b>13</b>	<b>103</b>	<b>(83)</b>	<b>73</b>	<b>82</b>
<b>Cash Balance</b>	<b>15</b>	<b>118</b>	<b>35</b>	<b>108</b>	<b>190</b>

Balance Sheet (A\$m)	2016f	2017f	2018f	2019f	2020f
<b>Assets</b>					
Cash	15	118	35	108	190
Current Receivables	0	0	0	0	0
Other Current Assets	-	-	-	-	-
Non-Current Assets	9	79	165	155	140
<b>Total Assets</b>	<b>24</b>	<b>196</b>	<b>200</b>	<b>263</b>	<b>331</b>
<b>Liabilities</b>					
Borrowings	-	80	80	40	-
Current Accounts Payable	0	0	0	0	0
Other Liabilities	1	1	1	1	1
<b>Total Liabilities</b>	<b>2</b>	<b>82</b>	<b>82</b>	<b>42</b>	<b>2</b>
<b>Net Assets</b>	<b>22</b>	<b>115</b>	<b>119</b>	<b>222</b>	<b>329</b>

## Reserves and Resources

	Reserves		Resources		
	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
<b>Total (koz)</b>		<b>136</b>			<b>3,080</b>
<b>EV per oz</b>					<b>29</b>

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