Equity Research

Dacian Gold[7]

BUY

DCN-ASX

September 30, 2015

Last: **A$0.70**

▲ Target: **A$0.98**

Scoping study surpasses our expectations

A shorter more profitable operation

The study shows Mt Morgans is likely to be a substantial low cost and profitable project. The main value add is a shorter more profitable operation where cash flow is generated sooner resulting in an improved NPV.

Greater underground production requires larger process plant

Throughput has lifted to 200kozpa (GMPe 160kozpa) as the result of designing underground mining infrastructure to support greater output than we had initially modelled from the Westralia operation. A larger processing plant of 2.5mtpa is consequently designed (GMPe 1.7mtpa).

Scoping costs are lower than expected

Operating and capital cost assumptions are largely lower than we had anticipated partly due to economies of scale, existing infrastructure and the current low cost operating environment in Australia. The company assumes AISC of A$929/oz in the study. We have revised our assumed AISC down to A$950/oz. We believe now is a good time to be developing a gold project in Australia.

Upside exists with the project likely of interest to others

The study is based on existing resources (many inferred) rather than reserves and some risking should be assumed. But upside exists in what we view as impressive exploration tenure. We feel that mine life will be extended through additional discoveries. Given the proximity of underutilized third party plants in the area, we would expect a degree of takeover interest as the company advances the project further.

Maintain BUY rating but lift price target to A$0.98/sh

Our SOTP valuation based price target has increased 11c/sh to A$0.98/sh as a result of the increased production and nearer term cash flow. We have also modelled lower, but still conservative, operating and initial capital costs. We have lifted sustaining capital costs to reflect additional underground development. Our NAV risking has lowered slightly from 0.5x NAV to 0.55x NAV to reflect lowered technical risk on the back of this study. We assume debt of A$100m and equity of A$80m to fund the project. We also assume a near-term equity issue to raise A$15m at a 5% discount to fund the PFS/BFS.

Whats's changed	Old	New
Rating	BUY	n.c.
Target (A$)	$0.87	$0.98
Gold Production 2018E (koz)	15.68	73.79
Gold Production 2019E (koz)	127.75	225.70
Gold Production 2020E (koz)	158.57	239.80

Share Data	
Share o/s (mm, basic/f.d. itm)**	118.7
52-week high/low (A$)	0.69/0.25
Market cap (A$m)*	$83.06
EV (A$m)*	$80.46
Net debt (A$m)*	-$2.60
Projected return*	40%
NAV0%/share	$0.92
NAV8%/share	$0.98
P/NAV0%	0.76
P/NAV8%	0.72

Financial Data			
YE Jun. 30	FY18E	FY19E	FY20E
Gold production (k oz)	74	226	240
Cash costs (A$/oz)	$629	$944	$846
Capex (A$m)	$92	$19	$20
EBITDA (A$m)	$63	$114	$145
EPS	$0.21	$0.28	$0.39
CFPS	$0.26	$0.45	$0.57
P/E	0.0	2.5	1.8
P/CF	2.7	1.6	1.2
EV/EBITDA	1.3	0.7	0.6

*A$ unless otherwise noted. **Diluted after assumed equity raise

Current Chart   Previous Research

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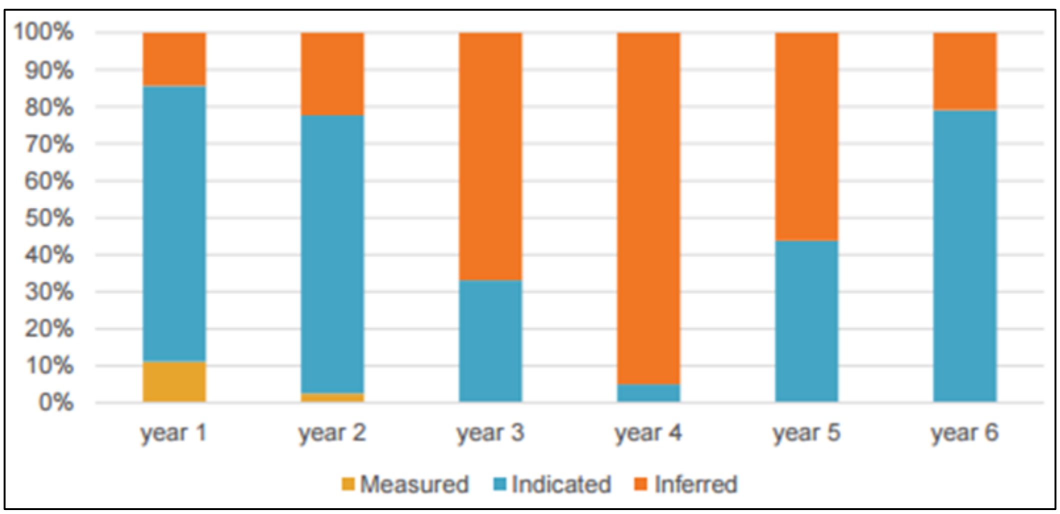
Details

Dacian Gold announced a Scoping Study and its decision to proceed to a feasibility study on its Mt Morgans Gold project. The study assumes a standalone operation near Laverton in Western Australia. Highlights from the study include:

- Detailed Scoping Study finds Mt Morgans will be a significant and profitable WA gold project
- Forecast estimated annual production of 220,000oz (years 1-5) with LOM AISC of A$929/oz and C1 cash cost of A$812/oz
- Site infrastructure capital of A$157m
- Stand-alone 2.5Mtpa plant servicing major mining complex comprising 4 open pits and 3 underground mines
- Initial seven-year life producing 1.2Moz at 2.5g/t including underground production of 818,000oz at 5.4g/t
- Extensive infrastructure in place, including gas pipeline, haul roads and camp
- DFS and Ore Reserve scheduled for completion end of CY2016; first production 2018
- Significant scope to grow inventory and mine life through exploration
- Drilling at the highly promising Callisto target (a Wallaby deposit look-a-like) to start next month

Figure 1. Mt Morgans



Source: DCN.

Our view

Today's study indicates Mt Morgans is a sizeable and profitable development project. The main outcome of the study is more rapid production over a shorter mine life than our previously modelled assumptions. As a result, we update some of our modelled assumptions and update our valuation of the company accordingly.

The study assumes a lower cost, larger (but shorter mine life) and more profitable project than we had assumed previously. The following table compares the key technical parameters in this study with our previous assumptions and our revised assumptions having taken this study into account.

Figure 2. Mt Morgans scoping study compared to original and revised assumptions

Assumption	Scoping Study	Our original Assumption	Our revised Assumption
Gold Price (A$/oz)	-	1,530	1,530
LOM AISC (A$/oz)	929	1,063	950
Mining Cost (A$/t)	3.33	3.70	3.50
Processing Cost (A$/t)	18.00	26.00	20.00
G&A Cost (A$/t)	2.00	5.00	2.00
Sustaining Capex (A$m pa)	16.0	6.0	16.0
Initial Capex (A$m)	157	140	180
Mine life (years)	7.0	8.5	7.0
Annual production (Kozpa)	200	160	200
LOM Head grade (g/t Au)* (excl: LG stockpiles)	3.1	3.2	3.1
Life of mine production (koz)	1,200	1,250	1,200
Average annual throughput (ore Mtpa)	2.5	1.7	2.5
Recovery (%)	91	90	90
Strip ratio (w:o)	6.5:1	6.0:1	6.5:1
A$/US$	-	0.75	0.75
Start date	1HCY18	1HCY18	1HCY18
Debt funding assumed (A$m)	n.a	85	100
Equity funding assumed (A$m)	n.a	60	80

*Source: GMP research. *Excludes low grade stockpiles. 2.45g/t Au with LG stockpiles*

The main value add from the study is a significantly larger plant with 2.5mtpa capacity compared to our original 1.7mtpa assumption. The life or mine production ounces and head grade are in line with our original expectations but those ounces that are produced are now monetized sooner through greater production output in the early years of the project so that cash flow is generated sooner. Improved cash flow early in the LOM results in an improved NPV for the project.

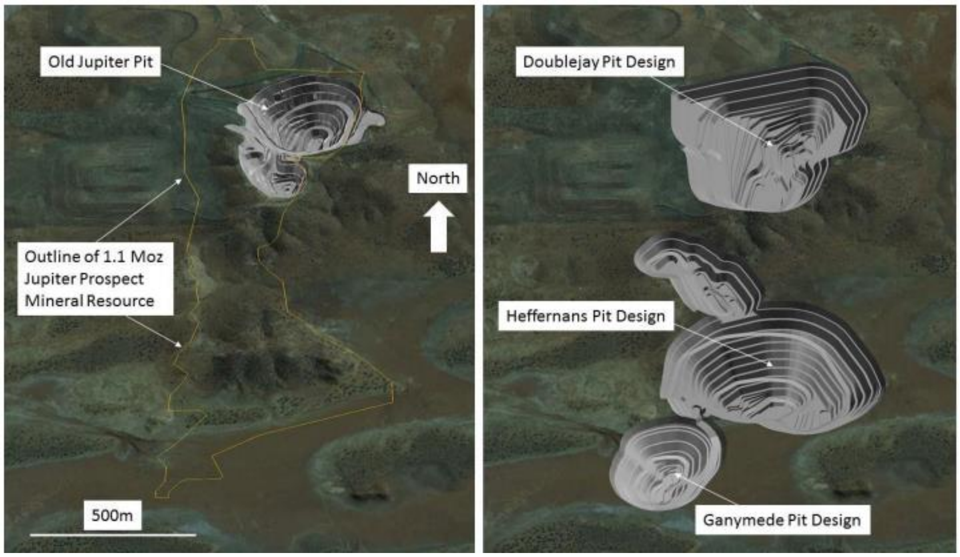
The study assumes a combined underground operation from Westralia and open cut operation from Jupiter as previously modelled.

Jupiter

The plant is designed to be positioned at Jupiter as previously modelled. Strip ratios are higher than expected but this is somewhat mitigated through the processing of low grade ore that will be stockpiled and processed in the last year of production (this was not assumed in our original model). At Jupiter there were few surprises from the mine plan, although the recent results from

Ganymede have resulted in a small pit being designed (25koz) at this project. As originally assumed the company will complete a large open pit on Heffernans (259koz) and a cut-back beneath the existing Jupiter pits at DoubleJay (133koz).

Figure 3. Jupiter mine design

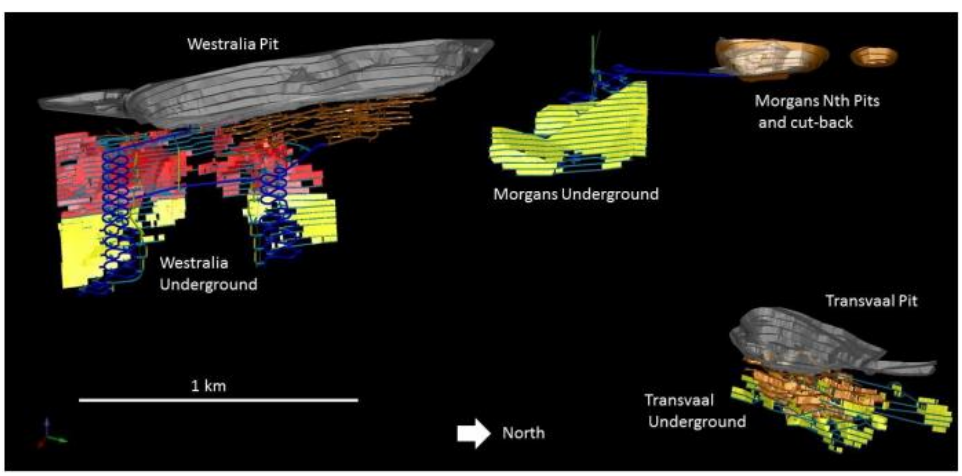


Source: DCN

Westralia

The main reason for the increased production rate at Mt Morgans comes on the back of the company's plans at the Westralia underground operation. Our original assumption assumed just one underground portal at Westralia and one at Morgans North. The results of the study indicate a greater production rate can be achieved utilizing two portals at the Westralia underground (491koz) to underpin the operation.

Figure 4. Westralia mine design



Source: DCN

Additional production will result from a cutback on the Morgans North pit (10koz) followed by an underground operation on the high grade (6.83g/t Au) footwall BIF discovery at Morgans(254koz). Underground feed will also be complemented by a small operation at the pre-existing Transvaal underground (74koz).

Standard CIL processing

As expected the operation will utilize a simple CIL operation. Given that all the planned mining centres have previous production history, a fair degree of confidence can be assumed in continued metallurgical recoveries in excess of 90%. However, detailed metallurgy is planned as part of the PFS and until this test work is completed we will continue to model 90% recoveries at the operation.

Costs are largely lower than assumed

Operating costs came in significantly lower than we previously modelled. The lower mining costs represent the lower cost operating environment in Australia currently. The processing costs and G&A costs were lower partly due to economies of scale from a larger plant, an estimated 30% cost reduction assumed from tapping into gas power, benefits from existing infrastructure and the low cost Australian operating environment.

However, initial capital expenditure (A$157m) is much lower than we would expect for the increased plant size. Again this likely reflects the low cost operating environment, existing infrastructure and lower raw materials costs. But we have chosen to apply some conservatism to this number in our revised model (A$180m). Management remains comfortable with this number, but we feel conservatism is prudent.

Sustaining capital expenditure is substantially higher over the life of the underground operation in the study to reflect the increased infrastructure and extraction options over our original assumption.

Our revised assumptions

As a result of the scoping study we have revised our assumptions for the Mt Morgans operation to incorporate the mining schedule used in the study. We have revised down our opex and initial capital costs, but maintained some conservatism against the study. Our FX and gold price assumptions remain unchanged.

Assumed timetable and exploration upside

The assumed timetable remains in-line with expectations for initial mining in early CY18. The increased plant size has resulted in our lifting assumed debt funding to A$100m and equity funding to A$80m. We assume considerable exploration upside potential at the project and look forward to results from upcoming exploration at Jupiter and Callisto.

Upcoming news flow

- Likely equity funding for PFS/BFS– 2QFY16
- Exploration results – ongoing
- Infill drilling and PFS – mid CY16

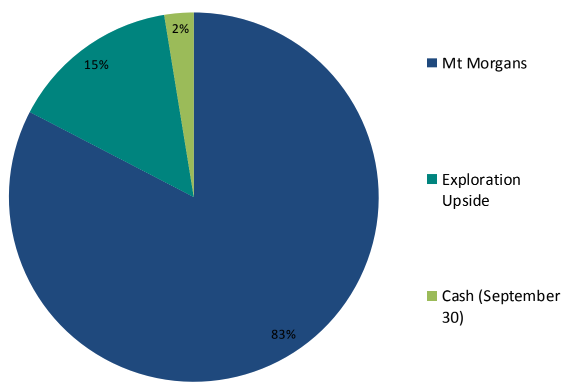
Ticker	DCN-AU
Recommendation	**BUY**
Target Share price (A$)	0.98
Current Share price (A$)	0.70
Implied Return (%)	40%
P/NAV (x)	0.71

Financial Yr. End	30 June
Shares on issue (m)	118.7
Market Cap (A$)	83.1
Enterprise Value (A$)	80.5
Cash September 30 (A$)	2.6
Debt(A$)	0.0

Valuation

Asset	Discount rate	NAV "X" Factor	NAV Target (A$)	Target Price (A$)
Mt Morgans	8%	0.55 X	$83.7	$0.71
Exploration Upside	n.a.	p/nav	$15.0	$0.13
Cash (September 30)	n.a.	p/nav	$2.6	$0.02
Assumed equity raise	n.a.	p/nav	$15.0	$0.13
Total NAV			**$116.3**	**$0.98**

Valuation Split (%)



Reserve and Resources Statement (100% of Project)

Status	Tonnes (Mt)	Grade Au (g/t)	Contained Au (koz)	EV / oz
Total Reserves	0.0	9.20	8.3	$10,029
M&I only	22.6	1.58	1,272.0	$63
Total Resource	41.7	2.20	3,008.0	$27
Production	16.0	2.55	1,310.1	$61

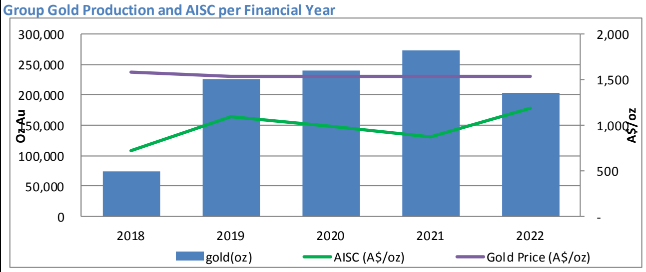
Production Profile (0zAu)

Operation	FY2018	FY2019	FY2020	FY2021
Mt Morgan	73,786	225,698	239,804	273,442
Total	**73,786**	**225,698**	**239,804**	**273,442**

Cash Cost (US$)

AUD / oz	FY2018	FY2019	FY2020	FY2021
Gold Price	$1,586	$1,533	$1,533	$1,533
C1 Cash costs*	$629	$944	$846	$722
C3 Prod. Cost *	$835	$1,158	$1,050	$923
AISC*	$724	$1,093	$990	$875

Group Gold Production and AISC per Financial Year



Profit & Loss (A$m)

A$M	FY2018	FY2019	FY2020	FY2021
Revenue	$117.0	$346.1	$367.7	$419.3
Cost of Sales	$46.4	$213.0	$203.0	$197.5
Gross Profit	**$70.7**	**$133.1**	**$164.7**	**$221.7**
EBITDA	$62.5	$113.9	$145.0	$200.8
Profit before tax	$51.2	$76.2	$107.4	$158.5
Tax Payable	(-$10.5)	(-$21.8)	(-$31.4)	(-$47.6)
Profit after tax	**$40.7**	**$54.4**	**$76.0**	**$111.0**

Balance Sheet

Assets	FY2018	FY2019	FY2020	FY2021
Cash & Liquid assets*	$62.2	$106.3	$171.7	$270.5
PPE & Exp. & Dev.	$178.8	$161.5	$144.8	$129.7
Total Current Assets	$62.3	$106.3	$171.7	$270.6
Total Assets	**$241.1**	**$267.8**	**$316.5**	**$400.4**
Liabilities				
Senior Debt	$93.8	$68.8	$43.8	$18.8
Total Current Liabilities	$94.1	$69.1	$44.1	$19.1
Total Liabilities	**$95.4**	**$70.4**	**$45.4**	**$20.4**

Ratios and Key Financial Data

	FY2018	FY2019	FY2020	FY2021
EPS (AUDc)	20.3c	27.1c	37.9c	55.4c
CFPS (A$)	25.3c	43.7c	55.1c	75.6c
FCFPS (A$)	NM	22.0c	32.6c	49.4c
P/E ratio (x)	NM	2.6	1.8	1.3
P/FCF (x)	NM	3.18 X	2.15 X	1.4 X
EV/EBITDA (x)	1.29 X	0.71 X	0.55 X	0.4 X
Current ratio (x)	0.7	1.5	3.9	14.2
Shares on Issue (M)	200.3	200.3	200.3	200.3

Cashflow Generation

	FY2018	FY2019	FY2020	FY2021
Operating cashflow	$50.7	$87.6	$110.4	$151.4
Equity Placement	$5.0	$0.0	$0.0	$0.0
Debt Funding	$70.0	$0.0	$0.0	$0.0
Capital Expenditure	$91.8	$18.5	$20.0	$27.5
Free cashflow	$27.6	$44.1	$65.4	$98.9

Directors & Management

Exec. Chairman	Rohan Williams
Non Exec. Director	Barry Paterson
Non Exec. Director	Rob Reynolds
Exploration Manager	Dan Baldwin
Project Manager	James Howard

Major Shareholders

*Expensing and capitalising of cash costs will vary and consequently differ from management guidance

Gold Price and Discount Rate Matrix

		Gold price (US$)						
NAV		$ 900	$ 1,000	$ 1,150	$ 1,200	$ 1,250	$ 1,300	$ 1,500
Discount Rate	20%	0.12	0.33	0.66	0.76	0.87	0.98	1.39
	15%	0.11	0.38	0.77	0.91	1.04	1.17	1.68
	12%	0.11	0.41	0.86	1.01	1.17	1.32	1.89
	10%	0.11	0.44	0.93	1.10	1.26	1.43	2.06
	8%	0.11	0.47	1.01	1.19	1.37	1.55	2.25
	5%	0.11	0.52	1.15	1.36	1.57	1.78	2.58
	0%	0.10	0.64	1.45	1.72	1.99	2.26	3.28

Source: Company data, GMP estimates

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