

Dacian Gold⁷

BUY

DCN-ASX

November 9, 2015

 Last: **A\$0.72**
 ▼ Target: **A\$0.95**

A\$25m funding to complete DFS & exploration

Fully underwritten placement and entitlement offer

Dacian has announced a A\$25 million equity raising comprising an institutional placement to raise approximately A\$10 million and an accelerated non-renounceable entitlement offer to raise approximately A\$15 million. The company will issue 36m shares at A\$0.69/share representing a 4.2% discount to last closing price. The funding is fully underwritten.

Dacian is now fully funded to complete a DFS at Mt Morgans

We expect the Definitive Feasibility Study on the 3.0 million ounce Mt Morgans Gold Project to be completed in 2016. At the same time DCN will be well positioned to continue exploration drilling program at the prospective project.

Increased funding on our assumptions

We had initially assumed a A\$15m equity funding this quarter and factored it into our valuation. However, with the recent share price improvement (and underwriting), the company is in a strong position to raise additional funding at minimal dilution to ensure DFS funding and additional exploration. This is a good result for DCN and we expect the additional funds to enable a larger reserve to be defined from a larger infill drilling programme. We also anticipate strong exploration news flow to maintain investor interest whilst the DFS progresses. Mt Morgans is a high quality development project and we are not surprised by DCN's decision to take additional funding. The additional equity issued will hopefully help increase the liquidity in this relatively illiquid and tightly held stock.

Maintain BUY rating but lower price target to A\$0.95/sh

Our SOTP valuation based price target has decreased 3c/sh to A\$0.95/sh as a result of the increased dilution through an additional A\$10m equity raise on our initial A\$15m assumption. Our assumed end of quarter cash position was in line with actuals. The A\$0.69 pricing was slightly higher than our original assumed raising price due to improved recent share price performance and this limited the dilution to our target price.

We do not assume any additional funding until a decision to construct the project in late 2016.

| Whats's changed | Old | New |
|-----------------------------|--------|--------|
| Rating | BUY | n.c. |
| Target (A\$) | \$0.98 | \$0.95 |
| Gold Production 2018E (koz) | 73.79 | 73.79 |
| Gold Production 2019E (koz) | 225.70 | 225.70 |
| Gold Production 2020E (koz) | 239.80 | 239.80 |

| Share Data | |
|----------------------------------|------------|
| Share o/s (mm, basic/f.d. itm)** | 132.4 |
| 52-week high/low (A\$) | 0.915/0.25 |
| Market cap (A\$m)* | \$95.30 |
| EV (A\$m)* | \$92.60 |
| Net debt (A\$m)* | -\$2.70 |
| Projected return* | 33% |
| NAV0%/share | \$0.92 |
| NAV8%/share | \$0.95 |
| P/NAV0% | 0.78 |
| P/NAV8% | 0.75 |

| Financial Data | FY18E | FY19E | FY20E |
|------------------------|--------|--------|--------|
| YE Jun. 30 | | | |
| 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 | \$0.20 | \$0.27 | \$0.38 |
| CFPS | \$0.25 | \$0.43 | \$0.55 |
| P/E | 0.0 | 2.7 | 1.9 |
| P/CF | 2.9 | 1.7 | 1.3 |
| EV/EBITDA | 1.5 | 0.8 | 0.6 |

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

 [Current Chart](#)
 [Previous Research](#)

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| Ticker DCN-AU Recommendation BUY Target Share price (A\$) 0.95 Current Share price (A\$) 0.72 Implied Return (%) 33% P/NAV (x) 0.75 | | Financial Yr. End 30 June Shares on issue (m) 132.4 Market Cap (A\$) 95.3 Enterprise Value (A\$) 92.6 Cash September 30 (A\$) 2.7 Debt(A\$) 0.0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|--|--------------------|--------------------|---|-------------------------------------|------------------|------------------|------------------|--|--|-------------------|--|--|--|--|--|--|--|-----|--|--------|----------|----------|----------|----------|----------|----------|--|---------------|-----|------|------|------|------|------|------|------|--|-----|------|------|------|------|------|------|------|--|-----|------|------|------|------|------|------|------|--|-----|------|------|------|------|------|------|------|--|----|------|------|------|------|------|------|------|--|----|------|------|------|------|------|------|------|--|----|------|------|------|------|------|------|------|--|
| Valuation | | | | | Profit & Loss (A\$m) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Asset | Discount rate | NAV "X" Factor | NAV Target (A\$) | Target Price (A\$) | A\$M | FY2018 | FY2019 | FY2020 | FY2021 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Mt Morgans | 8% | 0.55 X | \$83.7 | \$0.63 | Revenue | \$117.0 | \$346.1 | \$367.7 | \$419.3 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Exploration Upside | n.a. | p/nav | \$15.0 | \$0.11 | Cost of Sales | \$46.4 | \$213.0 | \$203.0 | \$197.5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cash (September 30) | n.a. | p/nav | \$2.7 | \$0.02 | Gross Profit | \$70.7 | \$133.1 | \$164.7 | \$221.7 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Assumed equity raise | n.a. | p/nav | \$25.0 | \$0.19 | EBITDA | \$62.5 | \$113.9 | \$145.0 | \$200.8 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total NAV | | | \$126.4 | \$0.95 | 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 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Valuation Split (%) | | | | | Balance Sheet | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | Assets 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 EPS (AUDc) 20.2c 26.9c 37.6c 55.0c CFPS (A\$) 25.1c 43.4c 54.7c 75.0c FCFPS (A\$) NM 21.8c 32.4c 49.0c P/E ratio (x) NM 2.7 1.9 1.3 P/FCF (x) NM 3.30 X 2.22 X 1.5 X EV/EBITDA (x) 1.48 X 0.81 X 0.64 X 0.5 X Current ratio (x) 0.7 1.5 3.9 14.2 Shares on Issue (M) 201.8 201.8 201.8 201.8 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Reserve and Resources Statement (100% of Project) | | | | | Cashflow Generation | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Status | Tonnes (Mt) | Grade Au (g/t) | Contained Au (koz) | EV / oz | Operating cashflow | \$50.7 | \$87.6 | \$110.4 | \$151.4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Reserves | 0.0 | 9.20 | 8.3 | \$11,506 | Equity Placement | \$5.0 | \$0.0 | \$0.0 | \$0.0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| M&I only | 22.6 | 1.58 | 1,272.0 | \$73 | Debt Funding | \$70.0 | \$0.0 | \$0.0 | \$0.0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Resource | 41.7 | 2.20 | 3,008.0 | \$31 | Capital Expenditure | \$91.8 | \$18.5 | \$20.0 | \$27.5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Production | 16.0 | 2.55 | 1,310.1 | \$71 | Free cashflow | \$27.6 | \$44.1 | \$65.4 | \$98.9 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Production Profile (OzAu) | | | | | Directors & Management | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Operation | FY2018 | FY2019 | FY2020 | FY2021 | Exec. Chairman | Rohan Williams | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Mt Morgan | 73,786 | 225,698 | 239,804 | 273,442 | Non Exec. Director | Barry Paterson | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | 73,786 | 225,698 | 239,804 | 273,442 | Non Exec. Director | Rob Reynolds | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cash Cost (US\$) | | | | | Major Shareholders | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| AUD / oz | FY2018 | FY2019 | FY2020 | FY2021 | Exploration Manager | Dan Baldwin | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Gold Price | \$1,586 | \$1,533 | \$1,533 | \$1,533 | Project Manager | James Howard | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| C1 Cash costs* | \$629 | \$944 | \$846 | \$722 | *Expensing and capitalising of cash costs will vary and consequently differ from management guidance | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| C3 Prod. Cost * | \$835 | \$1,158 | \$1,050 | \$923 | Gold Price and Discount Rate Matrix | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| AISC* | \$724 | \$1,093 | \$990 | \$875 | <table border="1"> <thead> <tr> <th colspan="2"></th> <th colspan="8">Gold price (US\$)</th> </tr> <tr> <th colspan="2">NAV</th> <th>\$ 900</th> <th>\$ 1,000</th> <th>\$ 1,150</th> <th>\$ 1,200</th> <th>\$ 1,250</th> <th>\$ 1,300</th> <th>\$ 1,500</th> <th></th> </tr> </thead> <tbody> <tr> <th rowspan="8">Discount Rate</th> <th>20%</th> <td>0.16</td> <td>0.35</td> <td>0.64</td> <td>0.74</td> <td>0.83</td> <td>0.93</td> <td>1.30</td> <td></td> </tr> <tr> <th>15%</th> <td>0.15</td> <td>0.39</td> <td>0.75</td> <td>0.86</td> <td>0.98</td> <td>1.10</td> <td>1.56</td> <td></td> </tr> <tr> <th>12%</th> <td>0.15</td> <td>0.42</td> <td>0.82</td> <td>0.96</td> <td>1.09</td> <td>1.23</td> <td>1.75</td> <td></td> </tr> <tr> <th>10%</th> <td>0.15</td> <td>0.44</td> <td>0.89</td> <td>1.03</td> <td>1.18</td> <td>1.33</td> <td>1.90</td> <td></td> </tr> <tr> <th>8%</th> <td>0.14</td> <td>0.47</td> <td>0.95</td> <td>1.12</td> <td>1.28</td> <td>1.44</td> <td>2.06</td> <td></td> </tr> <tr> <th>5%</th> <td>0.14</td> <td>0.51</td> <td>1.08</td> <td>1.26</td> <td>1.45</td> <td>1.64</td> <td>2.36</td> <td></td> </tr> <tr> <th>0%</th> <td>0.13</td> <td>0.61</td> <td>1.34</td> <td>1.58</td> <td>1.82</td> <td>2.06</td> <td>2.99</td> <td></td> </tr> </tbody> </table> | | | | | | | Gold price (US\$) | | | | | | | | NAV | | \$ 900 | \$ 1,000 | \$ 1,150 | \$ 1,200 | \$ 1,250 | \$ 1,300 | \$ 1,500 | | Discount Rate | 20% | 0.16 | 0.35 | 0.64 | 0.74 | 0.83 | 0.93 | 1.30 | | 15% | 0.15 | 0.39 | 0.75 | 0.86 | 0.98 | 1.10 | 1.56 | | 12% | 0.15 | 0.42 | 0.82 | 0.96 | 1.09 | 1.23 | 1.75 | | 10% | 0.15 | 0.44 | 0.89 | 1.03 | 1.18 | 1.33 | 1.90 | | 8% | 0.14 | 0.47 | 0.95 | 1.12 | 1.28 | 1.44 | 2.06 | | 5% | 0.14 | 0.51 | 1.08 | 1.26 | 1.45 | 1.64 | 2.36 | | 0% | 0.13 | 0.61 | 1.34 | 1.58 | 1.82 | 2.06 | 2.99 | |
| | | Gold price (US\$) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| NAV | | \$ 900 | \$ 1,000 | \$ 1,150 | \$ 1,200 | \$ 1,250 | \$ 1,300 | \$ 1,500 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Discount Rate | 20% | 0.16 | 0.35 | 0.64 | 0.74 | 0.83 | 0.93 | 1.30 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 15% | 0.15 | 0.39 | 0.75 | 0.86 | 0.98 | 1.10 | 1.56 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 12% | 0.15 | 0.42 | 0.82 | 0.96 | 1.09 | 1.23 | 1.75 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 10% | 0.15 | 0.44 | 0.89 | 1.03 | 1.18 | 1.33 | 1.90 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 8% | 0.14 | 0.47 | 0.95 | 1.12 | 1.28 | 1.44 | 2.06 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 5% | 0.14 | 0.51 | 1.08 | 1.26 | 1.45 | 1.64 | 2.36 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 0% | 0.13 | 0.61 | 1.34 | 1.58 | 1.82 | 2.06 | 2.99 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Group Gold Production and AISC per Financial Year | | | | | Source: Company data, GMP estimates | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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