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Dacian Gold Limited

Precious Metals - Developer/Explorer

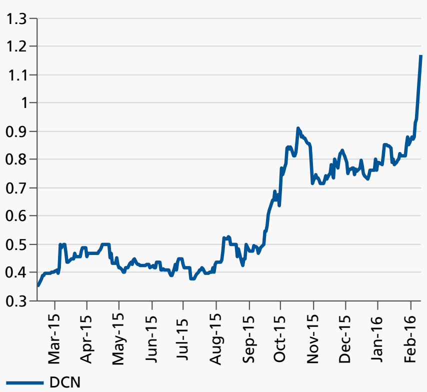
Australian Equity Research
11 February 2016

SPECULATIVE BUY
unchanged

PRICE TARGET	A$1.55↑
from A$1.25	
Price (11-Feb)	A$1.17
Ticker	DCN-ASX

52-Week Range (A$):	0.34 - 1.21
Avg Daily Vol (M) :	0.3
Market Cap (A$M):	154
Shares Out. (M) :	132.3
Enterprise Value (A$M):	130
Cash (A$M):	24.41
Long-Term Debt (A$):	0.0
NAV /Shr (AUc):	1.56
Major Shareholders:	Brian Rodan - 17.6%
	Directors - 12%

FYE Jun	2016E	2017E	2018E
Gold Production (000oz)	0	0	93
All in Sustaining Cost (Gold) (US $ /oz)	-	-	819
EBITDA (A$M)	(2.0)	(5.2)	60.2
Net Income (A$M)	(0.9)	(4.0)	26.3
Free Cash Flow (A$M)	(12.5)	(134.2)	(13.3)



Source: FactSet

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Raising Target Price

Drilling continues to deliver the goods

Dacian Gold (DCN:ASX) has delivered a second comprehensive exploration update for the week, this time from the Morgans Underground, part of its Westralia project. Results of the diamond drilling program look to support the existing grade tenor of the Inferred resource, and have also identified multiple new mineralised horizons. These results come on the back of an impressive update on its Jupiter open pit exploration program, and together continue to improve the confidence levels across the landholding. DCN remains on track to deliver multiple resource upgrades (both in size and confidence levels) over the next 6-8 months, which will underpin the completion of a DFS and a development decision in late 2016. Our valuation for DCN has increased to A$1.55/sh and we maintain a SPEC BUY recommendation.

Highlights

Results improve confidence in the Morgans Underground. Results from the first 17 diamond holes of the Morgans Underground drill program provided numerous high-grade intercepts that support the validity of the current 1.2Mt at 9.1g/t for 344koz resource (Inferred). Highlighted intersections include: 6.2m at 20.1g/t, 4.5m at 13.4g/t, 2.9m at 16.1g/t, 2.6m at 11.9g/t and 3.1m at 5.9g/t. An additional 13 diamond holes have been completed with assays pending and a further 37 holes are planned to be drilled in the coming months. A total of 129 drill holes are planned for the entire Westralia Underground prospect in 2016, and with its 50x50m drill spacing, we remain confident DCN can deliver ~750koz of resources in the Indicated category on completion.

Success at Morgans Underground could improve early cashflow. In the October 2015 Scoping Study, production from the Morgans Underground was scheduled for late in the mine life, given its sparse drilling and Inferred resource category. However, with ongoing drill success, we see good potential for the high grade orebody to come on line earlier, which could see production increase considerably through years 1-3 to +250kozpa. At this stage we have made no changes to our modeled production profile, which averages ~200kozpa for 6 years at an AISC of A$980/oz.

Multiple resource updates in the next 6-8 months. We expect to see a resource upgrade for the Jupiter open pits in the JunQ'16. Initially, we viewed increasing the confidence level of the 1.1Moz resource (60% Indicated) as the key outcome, but also flag the potential for an upgrade in resource size given the impressive results released this week. A resource update on the Westralia prospect is expected in the SepQ'16 on conclusion of the 50,000m diamond drilling program. Together the updates could underpin a maiden reserve of ~1.3Moz, which is in line with the recovered ounces we have modeled over a six-year mine life.

Valuation. Our A$1.55/sh (previously A$1.25/sh) price target has increased, resultant of lower modeled dilution in our 50:50 debt to equity project financing assumption (equity now assumed is A$80M at A$1.00/sh, previously A$80M at A$0.60/sh). Our price target is underpinned by an NPV10% for the Mt Morgans asset, net of corporate and other adjustments.

For important information, please see the Important Disclosures beginning on page 3 of this document.

FINANCIAL SUMMARY

Dacian Gold Ltd **ASX:DCN**

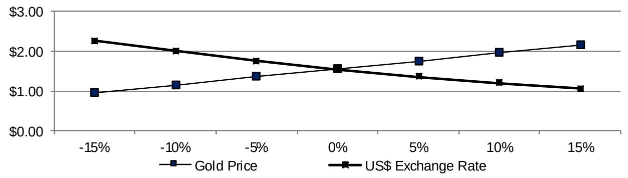
Analyst:	Tim McCormack	Rating:	**SPEC BUY**
Date:	11/02/2016	Target Price:	**$1.55**
Year End:	June		

Market Information		
Share Price	A$	1.17
Market Capitalisation	A$m	154.2
12 Month Hi	A$	1.21
12 Month Lo	A$	0.34
Average daily turnover (3 month)	m	0.267
Issued Capital	m	132.33
ITM Options	m	4.00
Fully Diluted	m	136.33

Valuation diluted for funding		**A$m**	**A$/share**
Mt Morgans	NPV @ 10%	**328.1**	**1.55**
Exploration & Projects		**8.0**	**0.04**
Corporate		**(28.8)**	**(0.14)**
Forwards (inc spot deferred)		-	-
Cash & Bullion		**24.4**	**0.11**
Debt		-	-
Unpaid Capital		-	-
TOTAL NAV		**331.7**	**1.56**
Price:NAV			**0.75x**
NAV at Spot US$1,218/oz, AUDUSD $0.70			**1.50**
Target Price			**1.55**

Assumptions	**2015a**	**2016e**	**2017e**	**2018e**
Gold Price (US$/oz)	1,226	1,148	1,170	1,180
AUD:USD	0.835	0.725	0.716	0.703
Gold Price (A$/oz)	1,469	1,582	1,633	1,677

Valuation Sensitivity



Production Metrics	**2015a**	**2016e**	**2017e**	**2018e**
Mt Morgans				
Gold production (koz)	0	0	0	93.0
AISC (A$/oz)	0	0	0	1,171

Resources & Reserves	**Mt**	**Grade**	**Moz**
Mt Morgans - Resources			
Westralia	9.2	5.1	1.5
Jupiter	24.0	1.3	1.0
Jupiter - Heap Leach	9.0	0.0	0.1
Transvaal	3.6	2.8	0.3
Ramomie	0.4	4.0	0.1
Craic	0.2	7.5	0.0
King Street	0.5	2.0	0.0
Total resources	**47.1**	**2.00**	**3.1**
Mt Morgans - Reserves			
Craic	0.0	9.20	0.01
Transvaal	0.7	6.10	0.13
Total reserves	**0.7**	**6.20**	**0.14**

Directors & Management	
Name	**Position**
Rohan Williams	*Executive Chairman*
Barry Patterson	*Non-Executive Director*
Rob Reynolds	*NE Director*
Dan Baldwin	*Exploraiton Manager*
James Howard	*Project Manager*

Substantial Shareholders	**Shares (m)**	**%**
Brian Rodan	16.90	17.6%
Vitesse Pty Ltd	5.10	5.3%
Barry Patterson	4.10	4.3%

Company Description

Dacian Gold Ltd (DCN:ASX) is a gold mining company developing its 100%-owned Mt Morgans gold project in Western Australia. The project has the potential to be a +180kozpa operation and on the back of a successful feasibility study we expect the production to begin in 2018.

Profit & Loss (A$m)	**2015a**	**2016e**	**2017e**	**2018e**
Revenue	0.0	0.0	0.0	158.2
Operating Costs	0.0	0.0	0.0	-81.9
Royalties	0.0	0.0	0.0	-6.0
Corporate & O'heads	-2.0	-2.0	-5.2	-8.4
Exploration (Expensed)	0.0	0.0	0.0	-1.6
EBITDA	**-2.0**	**-2.0**	**-5.2**	**60.2**
Dep'n	0.0	0.0	0.0	-17.4
EBIT	**-2.0**	**-2.0**	**-5.2**	**42.8**
Net Interest	0.3	0.8	-0.4	-5.3
Tax	0.5	0.4	1.7	-11.3
NPAT	**-1.2**	**-0.9**	**-3.9**	**26.3**
Abnormals	0.0	0.0	0.0	0.0
NPAT (reported)	**-1.2**	**-0.9**	**-3.9**	**26.3**

Cash Flow (A$m)	**2015a**	**2016e**	**2017e**	**2018e**
Cash Receipts	0.0	0.0	0.0	158.2
Cash paid to suppliers & emp	-2.3	-1.3	-5.2	-96.4
Tax Paid	0.0	0.0	1.4	-11.3
Net Interest	-0.1	0.8	-0.4	-5.3
Operating Cash Flow	**-2.3**	**-0.5**	**-4.2**	**45.3**
Exploration and Evaluation	-4.0	-6.0	-6.0	-6.0
Capex	0.0	0.0	-124.0	-52.6
Other	0.0	-6.0	0.0	0.0
Investing Cash Flow	**-4.0**	**-12.0**	**-130.0**	**-58.6**
Debt Drawdown (repayment)	0.0	0.0	80.0	-8.0
Share capital	0.0	25.0	80.0	0.0
Dividends	0.0	0.0	0.0	0.0
Financing Expenses	0.0	0.0	-5.0	0.0
Financing Cash Flow	**0.0**	**25.0**	**155.0**	**-8.0**
Opening Cash	10.9	4.6	17.1	37.9
Increase / (Decrease) in cash	-6.3	12.5	20.8	-21.3
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	**4.6**	**17.1**	**37.9**	**16.6**

Balance Sheet (A$m)	**2015a**	**2016e**	**2017e**	**2018e**
Cash + S/Term Deposits	4.6	17.1	37.9	16.6
Other current assets	0.1	6.2	11.7	52.5
Current Assets	**4.8**	**23.2**	**49.5**	**69.0**
Property, Plant & Equip.	0.5	0.5	124.5	159.7
Exploration & Develop.	12.1	18.2	24.4	29.1
Other Non-current Assets	0.0	0.0	0.0	0.0
Payables	0.0	0.1	0.4	12.7
Short Term debt	0.0	0.0	8.0	22.0
Long Term Debt	0.0	0.0	72.0	50.0
Other Liabilities	0.6	1.0	1.1	29.9
Net Assets	**16.8**	**40.9**	**117.0**	**143.3**
Shareholders Funds	29.2	54.2	134.2	134.2
Reserves	0.5	0.5	0.5	0.5
Retained Earnings	-12.9	-13.8	-17.7	8.6
Total Equity	**16.8**	**40.9**	**117.0**	**143.3**

Ratios & Multiples	**2015a**	**2016e**	**2017e**	**2018e**
EBITDA Margin	nm	nm	nm	38%
EV/EBITDA	nm	nm	nm	5.0x
Op. Cashflow/Share	-$0.02	$0.00	-$0.02	$0.21
P/CF	-47.8x	-286.4x	-58.5x	5.5x
EPS	-$0.01	-$0.01	-$0.02	$0.12
EPS Growth	nm	nm	nm	-770%
PER	-91.5x	-157.1x	-63.1x	9.4x
Dividend Per Share	$0.00	$0.00	$0.00	$0.00
Dividend Yield	0%	0%	0%	0%
ROE	-7%	-2%	-3%	18%
ROIC	-5%	-3%	-2%	17%
Debt/Equity	0%	0%	62%	35%
Net Interest Cover	-7.7x	nm	-1.0x	7.0x
Book Value/share	$0.17	$0.31	$0.55	$0.67
Price/Book Value	6.7x	3.8x	2.1x	1.7x

Source: DCN & Canaccord Genuity estimates

Appendix: Important Disclosures

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Target Price / Valuation Methodology:

Dacian Gold Limited - DCN

We base our valuation on a DCF analysis (NPV10%) of the Mt Morgans gold project.

Risks to achieving Target Price / Valuation:

Dacian Gold Limited - DCN

Funding risk

As a pre-production Company with no material income, DCN is reliant on equity and debt markets to fund feasibility studies and development of the Mt Morgans project. We can make no assurances that accessing these markets will be done without further dilution to shareholders.

Exploration risks

Exploration is subject to a number of risks and can require a high rate of capital expenditure. Risks can also be associated with conversion of inferred resources and lack of accuracy in the interpretation of geochemical, geophysical, drilling and other data. No assurances can be given that exploration will delineate further minable reserves.

Operating risks

Once in production, the Company will be subject to risks such as plant/equipment breakdowns, metallurgical (some pyrrhotite at Westralia), seismic activity and other technical issues. An increase in operating costs could reduce the profitability and free cash generation from the operating assets considerably and negatively impact valuation. Further, the actual characteristics of an ore deposit may differ significantly from initial interpretations which can also materially impact forecast gold production from original expectations.

Commodity price and currency fluctuations

The Company is directly exposed to commodity price and currency fluctuations. Commodity price fluctuations are driven by many macro-economic forces including inflationary pressures, interest rates and supply and demand of commodities. These factors could reduce the profitability, costing and prospective outlook for the business.

Distribution of Ratings:

Global Stock Ratings (as of 02/11/16)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	585	62.57%	30.94%
Hold	263	28.13%	12.55%
Sell	27	2.89%	3.70%
Speculative Buy	60	6.42%	61.67%
	935*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

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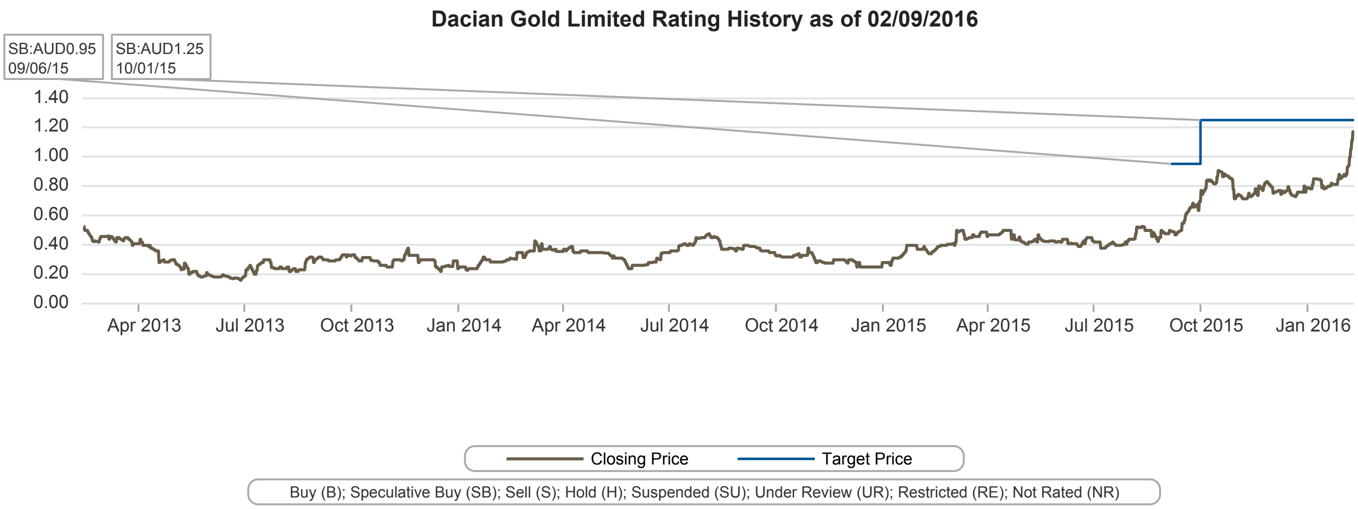

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