

Australian Equity Research

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SPECULATIVE BUY

unchanged

PRICE TARGET A\$2.30↑

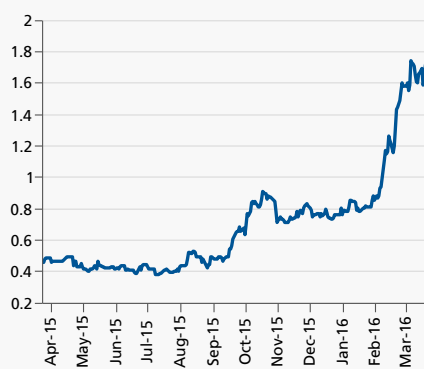
from A\$1.90

Price (22-Mar) A\$1.77

Ticker DCN-ASX

52-Week Range (A\$):	0.38 - 1.80
Avg Daily Vol (M) :	0.4
Market Cap (A\$M):	234
Shares Out. (M) :	132.3
Enterprise Value (A\$M):	213
Cash (A\$M):	20.77
Long-Term Debt (A\$):	0.0
NAV /Shr (AUC):	2.29
Major Shareholders:	Directors - 12% Brian Rodan - 8.7%

FYE Jun	2016E	2017E	2018E
Gold Production (000oz)	0	0	93
All in Sustaining Cost (Gold) (US \$ /oz)	-	0	829
EBITDA (A\$M)	(2.0)	(5.2)	69.4↓
Previous	(2.0)	(5.2)	72.7
Net Income (A\$M)	(0.9)	(3.8)↑	32.8↑
Previous	(0.9)	(4.0)	26.3
Free Cash Flow (A\$M)	(12.5)	(134.0)	(27.9)



Source: FactSet

Raising Target Price

The hits keep on coming

DCN has released an update on its Morgans Underground drilling program, returning more impressive results. We see the increasing confidence in the orebody as significant for DCN, and highlight the growing potential for it to provide additional upfront, high grade ore supply once the company is in production. While our modeled production profile remains unchanged, we have made some refinements to our capex and funding assumptions, resulting in our valuation for DCN increasing to A\$2.30/sh. We maintain a SPECULATIVE BUY recommendation.

Morgans Underground economic potential becoming clear. High grade results including 3.6m at 48g/t, 3m at 24.6g/t, 5.6m at 23.2g/t, 1.9m at 15.9g/t and numerous other +5g/t intersections continue to underpin the production potential of the Morgans Underground. A key objective of the current drilling program is to sufficiently classify the mineral resource contemplated in the Scoping Study into the Indicated resource category. While the current resource for the Morgans Underground stands at 1.2Mt at 9.1g/t for 344koz (Inferred), the Scoping Study envisaged diluted mine grades from the orebody of ~6.8g/t recovering 254koz late in the production profile. We see this as increasingly achievable with the Morgans Underground now defined over a strike distance of >700m, and a vertical depth of 400m. High grade mineralisation appears present over the entire strike length with localised lower grade domains more evident at depth. In our view, the demarcation of higher and lower grade domains within a broad zone of mineralisation may prove beneficial when optimising the ultimate mining schedule for Morgans Underground.

Expect the newsflow to keep coming. Only 6 holes remain to be drilled at Morgans Underground and with 24 holes awaiting assay, we should see an update on the completed program in the near term. Diamond drilling will then shift focus to the Westralia Underground (~2km along strike from Morgans) where a 62-hole in-fill program is planned. We also note that 66 holes are being assayed from the Jupiter open pit program which should be released soon and dovetail into a resource update in the JunQ'16.

Revised funding assumptions. With a considerable move in DCN's share price over the past 6 weeks, we have reviewed our previous 50:50 debt to equity financing assumptions. We now model the equity component at A\$90M at A\$1.30/sh (previously A\$80M at A\$1.00/sh) with the slight increase offset by lower dilution. The increased total funding assumption to A\$180M provides for more flexible working capital and exploration funding through the construction and ramp-up phase.

Valuation. Our A\$2.30/sh (previously A\$1.90/sh) price target has increased, resultant of lower modeled dilution as per our revised funding assumptions. Our price target is underpinned by an NPV_{10%} for the Mt Morgans asset, net of corporate and other adjustments and diluted for assumed future financing.

FINANCIAL SUMMARY

Dacian Gold Ltd

ASX:DCN

Analyst: Tim McCormack
Date: 22/03/2016
Year End: June

Rating:
Target Price:

SPEC BUY
\$2.30

Market Information

Share Price	A\$	1.77
Market Capitalisation	A\$m	234.2
12 Month Hi	A\$	1.80
12 Month Lo	A\$	0.38
Average daily turnover (3 month)	m	0.367
Issued Capital	m	132.33
ITM Options	m	4.00
Fully Diluted	m	136.33

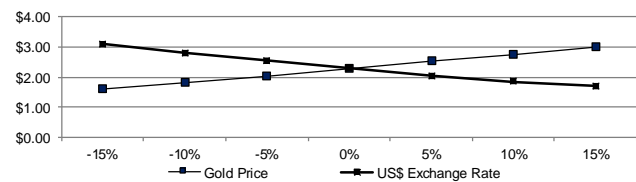
Valuation diluted for funding

	A\$m	A\$/share
Mt Morgans NPV @ 10%	372.0	1.85
Exploration & Projects	8.0	0.04
Corporate	(29.1)	(0.14)
Forwards (inc spot deferred)	-	-
Cash & Bullion	20.8	0.10
Debt	-	-
Unpaid Capital	90.0	0.45
TOTAL NAV	461.7	2.29
Price:NAV		0.77x
NAV at Spot US\$1,245/oz, AUDUSD \$0.76		1.65
Target Price		2.30

Assumptions

	2015a	2016e	2017e	2018e
Gold Price (US\$/oz)	1,226	1,181	1,250	1,255
AUD:USD	0.835	0.718	0.701	0.688
Gold Price (A\$/oz)	1,469	1,645	1,783	1,823

Valuation Sensitivity



Production Metrics

	2015a	2016e	2017e	2018e
Mt Morgans				
Gold production (koz)	0	0	0	93.0
AISC (A\$/oz)	0	0	0	1,212

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	Exploration Manager
James Howard	Project Manager

Substantial Shareholders

	Shares (m)	%
Directors	15.80	12.0%
Brian Rodan	11.50	8.7%

Source: DCN & Canaccord Genuity estimates

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	171.2
Operating Costs	0.0	0.0	0.0	-85.2
Royalties	0.0	0.0	0.0	-6.5
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	69.4
Dep'n	0.0	0.0	0.0	-17.4
EBIT	-2.0	-2.0	-5.2	52.0
Net Interest	0.3	0.8	-0.2	-5.2
Tax	0.5	0.4	1.6	-14.0
NPAT	-1.2	-0.9	-3.8	32.8
Abnormals	0.0	0.0	0.0	0.0
NPAT (reported)	-1.2	-0.9	-3.8	32.8

Cash Flow (A\$m)	2015a	2016e	2017e	2018e
Cash Receipts	0.0	0.0	0.0	171.2
Cash paid to suppliers & emp	-2.3	-1.3	-5.2	-100.1
Tax Paid	0.0	0.0	1.3	-14.0
Net Interest	-0.1	0.8	-0.2	-5.2
Operating Cash Flow	-2.3	-0.5	-4.1	51.7
Exploration and Evaluation	-4.0	-6.0	-6.0	-6.0
Capex	0.0	0.0	-124.0	-73.7
Other	0.0	-6.0	0.0	0.0
Investing Cash Flow	-4.0	-12.0	-130.0	-79.7
Debt Drawdown (repayment)	0.0	0.0	90.0	-8.0
Share capital	0.0	25.0	90.0	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	175.0	-8.0
Opening Cash	10.9	4.6	17.1	58.0
Increase / (Decrease) in cash	-6.3	12.5	41.0	-35.9
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	4.6	17.1	58.0	22.1

Balance Sheet (A\$m)	2015a	2016e	2017e	2018e
Cash + S/Term Deposits	4.6	17.1	58.0	22.1
Other current assets	0.1	6.2	11.9	57.0
Current Assets	4.8	23.2	69.9	79.2
Property, Plant & Equip.	0.5	0.5	124.5	180.8
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	0.5	13.8
Short Term debt	0.0	0.0	8.0	22.0
Long Term Debt	0.0	0.0	82.0	60.0
Other Liabilities	0.6	1.0	1.2	33.3
Net Assets	16.8	40.9	127.2	159.9
Shareholders Funds	29.2	54.2	144.2	144.2
Reserves	0.5	0.5	0.5	0.5
Retained Earnings	-12.9	-13.8	-17.6	15.2
Total Equity	16.8	40.9	127.2	159.9

Ratios & Multiples	2015a	2016e	2017e	2018e
EBITDA Margin	nm	nm	nm	41%
EV/EBITDA	nm	nm	nm	6.0x
Op. Cashflow/Share	-\$0.02	\$0.00	-\$0.02	\$0.26
P/CF	-72.7x	-435.2x	-87.6x	6.9x
EPS	-\$0.01	-\$0.01	-\$0.02	\$0.16
EPS Growth	nm	nm	nm	-970%
PER	-138.9x	-238.7x	-94.7x	10.9x
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	0%	0%	0%	0%
ROE	-7%	-2%	-3%	20%
ROIC	-5%	-3%	-2%	19%
Debt/Equity	0%	0%	64%	38%
Net Interest Cover	-7.7x	nm	-0.8x	7.5x
Book Value/share	\$0.17	\$0.31	\$0.63	\$0.79
Price/Book Value	10.1x	5.7x	2.8x	2.2x

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, net of corporate and other adjustments and diluted for assumed future financing.

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 03/22/16)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	563	61.06%	31.08%
Hold	268	29.07%	14.93%
Sell	28	3.04%	3.57%
Speculative Buy	63	6.83%	61.90%
	922*	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.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

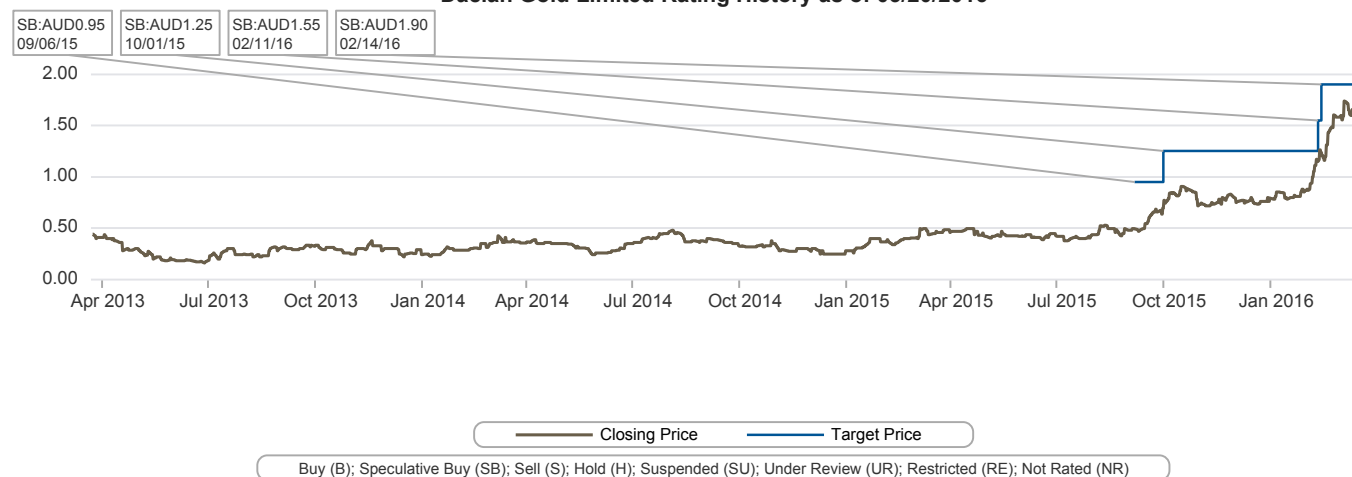
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