

Dacian Gold Ltd

(DCN \$1.56) Speculative Buy

EUROZ

Analyst Jon Bishop	Date March 2016	Price Target \$2.00/sh
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Comments

The Mount Morgans Feasibility Study (MMFS) should be catalyst rich with at least 80km of infill and exp'n drilling.

The results should build upon a Scoping Study that is highly encouraging for a material, standalone operation at DCN's Mount Morgans asset.

In less than 12mths, the Company has more than doubled resources at its Mount Morgan assets to 3.0moz@2.2g/t.

Resource growth at the high grade underground Westralia Project to 1.5moz @ 5.1g/t provides considerable scope to support a standalone development at Mount Morgans;

The Company is contemplating a 2.0mtpa development which would deliver circa 210kozpa @ <A\$1,000/oz AISC for +7yrs.

With \$24.4m in cash as at Dec 31, DCN is well placed to materially advance the MMFS with a substantial programme comprising 50,000m of mainly DD at Westralia and 30,000m of RC at Jupiter Prospect over the next 6mths.

Updated Resources for both the Jupiter open pit and Westralia U/G prospects are targeted for Jun Q.

In addition, large exp'n targets at Callisto and Cameron Well have the scope to materially grow the scale of Jupiter.

Independent metallurgical testwork programmes are expected to be complete by mid CY'16, whilst permitting and approvals should be submitted in the Sep Q.

A PFS is targeted for mid CY'16 with full Feasibility work finalised for Board consideration by CY'16 end.

We have revised upwards our valuation to 1.52/sh, reflecting lower dilution associated with the assumed A\$80m equity raised along side A\$100m in debt finance to bring a development into production.

Catalyst rich over medium term, complemented by proven Management and a market with a thirst for Australian domestic gold companies, we view that DCN will outperform thus we set a \$2/sh price target.

The Scoping Study looks 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 results for Gruyere.

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

Comparing DCN to GOR (following GOR's recent PFS), development of Mount Morgans looks compelling, particularly in light of the relative market capitalisations and implied EVs ascribed to each Company: We provide a comparative matrix on the adjoining page.

On the back of its virgin 5moz Gruyere discovery, GOR has been capitalised at +A\$350m. Allowing for between \$430-480m in development and working capital, the Company now commands an implied EV in excess of A\$700m.

On this basis and noting DCN's \$210m mkt cap (and implied -\$400m EV) the likely development contemplated at the Mount Morgan asset, compares highly favourably to the recent Gruyere PFS.

On account of higher av resource grade (2.9g/t vs 1.2g/t for Gruyere), a similar production base (-200kozpa) can be achieved at a lower AISC.

NPV (+33% vs GOR) and post-tax IRRs (>2.5x) therefore compare highly favourably for DCN's assets.

Furthermore, the DCN management team has form in terms of discovery, development, production and sale of gold assets with their Avoca Resources journey.

And we argue - to be further demonstrated by upcoming drilling resource generation work at both the Westralia and Jupiter Projects - that the Mount Morgans asset has similar exploration upside to GOR's tenure in the Yamana Belt. Therefore, playing DCN for possible corporate appeal has equal validity as per GOR.

Investment case

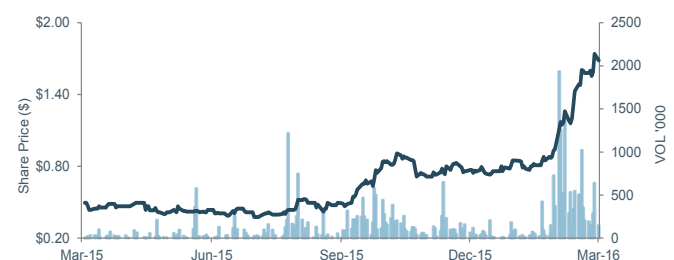
DCN should continue to outperform this year with recent drilling results encouraging not only for the quality of the underground and open cut resources but clearly provide grounds to anticipate expansion to total inventories in time. Management have proven to be good explorers and capturing the market's attention there-in in the past thus we feel that promotion through North American and Australasian markets will be rewarded this year as more drilling results come to hand. GOR provides a good yardstick at a \$350m mkt cap (vs DCN at \$210m) yet we foresee DCN's exploration potential, combined with proven management and its existing high grade 3moz resource located in a favourable mining jurisdiction, as reason to believe that DCN can eclipse GOR in time.

Market Statistics

Year End 30 June

Share Price	\$1.56 A\$/sh	Directors	
Issued Capital		R Williams	Exec Chair
Fully paid Ord. Shares	132.4 m	R Reynolds	NE Dir
Opts @ var	10.2 m	B Patterson	NE Dir
Total Dil. FPOrd	134.4 m	I Cochrane	
Market Cap'n	\$200 m	Shareholders	
Enterprise Value	\$177 m	Brian Roden	10.2%
Debt	\$- m	Colonial	6.1%
Cash	\$23 m		
Hedging	nil		

Share Price Performance



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Asset Valuation	A\$m	A\$/sh
Mt Morgans project (risk adj 25%)	255	1.35
Hedging	-	-
Corporate	(20)	(0.10)
Exploration	20	0.11
Unpaid Capital	9	0.05
Debt	-	-
Cash	24	0.13
Total	289	1.52

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	457	709	728	
Avg Total Cost (A\$/oz) US\$/oz	n/a	n/a	717	858	896	
Avg All in Costs (A\$/oz)			878	890		
Avg Spot Price (US\$)	US\$/oz 1,158	1,238	1,300	1,300	1,300	
Avg Price Rec'd (A\$)	US\$/oz 1,594	1,695	1,757	1,699	1,667	
USD:AUD	US\$/oz 0.73	0.73	0.74	0.77	0.78	

Ratio Analysis (A\$m)	2016f	2017f	2018f	2019f	2020f
CF (A\$m)	(4)	(1)	(111)	174	177
CF / Sh (Ac/sh)	(2)	(38)	(43)	70	74
CF Ratio (x)	na	na	na	2.2	2.1
Earnings (A\$m)	(3)	(3)	6	148	145
EPS (Ac/sh)	(2)	(1)	3	78	77
EPS Growth (%)	na	na	na	2498%	-1%
Earnings Ratio (x)	na	na	51.9	2.0	2.0
E'prise Val. (A\$m)	186	249	336	213	84
EV : EBITDA (x)	na	na	19.1	0.9	0.9
EV : EBIT (x)	na	na	26.1	1.1	1.1
Net Debt / ND+Eq (%)	na	na	27%	na	na
Interest Cover (x)	na	na	na	35.1	na
EBIT Margin (%)	na	na	41%	48%	45%
ROE (%)	-10%	-2%	4%	49%	33%
ROA (%)	-17%	-2%	5%	60%	45%
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	23	342	348
Hedging Revenue	-	(0)	-	-	-
Interest Revenue	1	5	4	3	7
Other Revenue	-	-	-	-	-
TOTAL REVENUE	1	5	27	345	355
Operating Costs	0	0	6	143	152
Dep/Amort	0	0	3	30	35
W/O & Provisions	-	-	-	-	-
Corp O/H	4	4	4	4	4
EBITDA	(4)	(4)	13	195	192
EBIT	(4)	(4)	10	165	157
Interest Expense	-	4	8	7	2
NPBT	(3)	(3)	6	162	161
Tax	(1)	(1)	2	48	48
Minorities	-	-	-	-	-
NET PROFIT	(2)	(2)	4	113	113
Net Abnormal Gain/(Loss)	-	-	-	-	-
NET PROFIT After Abn'l	(2)	(2)	4	113	113

Cash Flow (A\$m)	2016f	2017f	2018f	2019f	2020f
Net Profit	(2)	(2)	4	113	113
+ Working Capital Adj.	-	-	-	-	-
+ Dep/Amort	0	0	3	30	35
+ Provisions	-	-	-	-	-
+ Tax Expense	(1)	(1)	2	48	48
- Tax Paid	(0)	(1)	1	39	39
- Deferred Revenue	-	-	-	-	-
Operating Cashflow	(3)	(2)	8	153	158
-Capex + Development	-	70	90	20	20
-Exploration	8	5	-	10	10
-Assets Purchased	-	-	-	-	-
+Asset Sales	-	-	-	-	-
+ Other	-	-	-	-	-
Investing Cashflow	(8)	(75)	(90)	(30)	(30)
+Equity Issues	25	100	-	-	-
+Loan D'down/Receivable	-	80	-	-	-
-Other	-1.25	0	0	0	0
-Loan Repayment	-	-	-	40	40
-Dividends	-	-	-	-	-
Financing Cashflow	24	180	-	(40)	(40)
Period Sur (Def)	13	103	(82)	83	88
Cash Balance	15	118	36	119	206

Balance Sheet (A\$m)	2016f	2017f	2018f	2019f	2020f
Assets					
Cash	15	118	36	119	206
Current Receivables	0	0	0	0	0
Other Current Assets	-	-	-	-	-
Non-Current Assets	9	79	165	155	140
Total Assets	24	196	201	274	346
Liabilities					
Borrowings	-	80	80	40	-
Current Accounts Payable	0	0	0	0	0
Other Liabilities	1	1	1	1	1
Total Liabilities	2	82	82	42	2
Net Assets	22	115	119	232	345

Reserves and Resources

	Reserves		Resources			
	mt	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
Total (koz)			136			3,080

EV per oz **64**

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