ARGONAUT
The Natural Choice in Resources

EQUITY RESEARCH
Corporate Advisers | Stockbroking & Research | Special Situations Financing
www.argonaut.com PERTH +61 8 9224 6888 HONG KONG +852 3557 4888

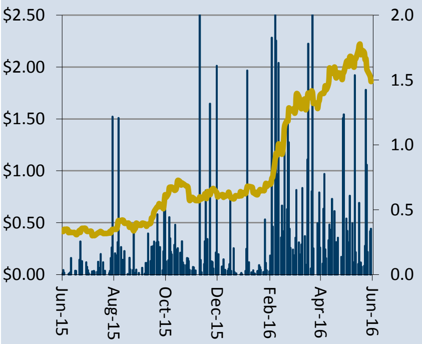
SPEC BUY

Current Price	$2.02
Target Price	$2.30

Ticker:			DCN
Sector:			Materials
Shares on Issue (m):			132.7
Market Cap ($m):			268.0
Net Cash est ($m):			11.1
Enterprise Value ($m):			256.9
52 wk High/Low:		$2.25	$0.38
12m Av Daily Vol (m):			0.26
Key Metrics			
	15A	16F	17F
P/E (x)	-33.5	-18.5	-34.0
EV/EBITDA (x)	-31.5	-15.9	-28.5
Financials:			
Revenue (A$m)	0.3	0.0	0.0
EBIT (A$m)	-8.4	-16.1	-9.0
NPAT (A$m)	-8.0	-14.5	-7.9
Net Assets (A$m)	10.2	17.6	147.5
Op CF (A$m)	-0.7	-2.2	-7.0
Per Share Data:			
EPS (cps)	-6.0	-10.9	-5.9
DPS (cps)	N/A	N/A	N/A
Div Yield	N/A	N/A	N/A
CFPS (cps)	-0.5	-1.7	-5.3

In A$ unless otherwise stated

Share Price Graph



Wednesday, 1 June 2016

Dacian Gold

More from Morgans

Analysts | Matthew Keane | Patrick Chang

Quick Read

Dacian Gold (DCN) announced further high grade gold intercepts from the Morgans Underground prospect, part of the Mt Morgans Project in Western Australia. Better intercepts included 4.3m at 22.4g/t and 12.0m at 5.7g/t. The Resource drill out has increased geological understanding identifying a number of stacked shallow northerly plunging mineralised surfaces. Condensed mineralisation along these trends bodes well for increased ounces per vertical metre (potentially 2,000-3,000oz pvm) and could facilitate larger scale underground stope mining. Morgans remains open along strike north and south. DCN will continue to supply high impact newsflow throughout CY16 from ongoing regional exploration, pending assay results from Westralia, Resource updates on all deposits and Maiden Reserves estimates leading into a Feasibility Study due late 2016. SPEC BUY maintained with a revised $2.30 target price (previously 1.88).

Event & Impact | Positive

Morgans mineralisation taking shape: After completing 35,000m drilling at the Morgans Underground, the understanding and orientation of mineralisation is taking shape. The deposit appears to follow three stacked shallow northerly plunging lenses (see Figure 1 over). Similar to Jupiter, the mineralisation appears to follow shallow dipping structures. This concept could potentially be applied for the entire 3km Westralia-Morgans mineralised trend to assist geological modelling and aid future extensional drilling. DCN sees opportunity to combine multiple interceptions along these surfaces to form 15-35m wide ~5g/t intervals facilitating larger scale / lower cost underground mining methods.

Jupiter potentially a 10+ year mine life: DCN recently announced thick gold intercepts below the Doublejay open pit at the Jupiter prospect including 133m at 2.4g/t and 187m at 1.0g/t. This confirms mineralisation at more than 140m below the scoping study open pit and could add in excess of 400koz to the current 1.6Moz Resource. Argonaut has conservatively modelled an additional two years mine life (~200koz production) to Jupiter, but sees potential for up to 10 years mine life (vs the Scoping Study schedule of 6.5 years).

Callisto drilling upcoming: A causeway is under construction to facilitate drilling on the salt lake to target the Callisto prospect. The causeway is expected to take 30 days to complete. Callisto is a geophysical lookalike of the nearby +8Moz Wallaby deposit which, if proven to be mineralised, would accrete significant value to DCN. Regional RAB/aircore drilling is also ongoing on at several highly prospective regional targets at Mt Morgans.

Recommendation

Argonaut maintains a SPEC BUY recommendation with a revised target price of $2.30 (from $1.88). Our price revision results from higher modelled ounces at Jupiter and lower dilution from equity funding due to a higher assumed equity raising price (increasing from $1.00/sh to $2.00/sh).

Dacian Gold Ltd

Equities Research

Analyst: Matthew Keane

Recommendation	**BUY**	**Sector**	**Metals & Mining**
Current Price	**$2.02**	**Issued Capital (m)**	**132.7**
Valuation	**$2.30**	**Market Cap (m)**	**$268.0**
		Date	**01-June-2016**

Profit & Loss (A$m) 31 December	2015A	2016F	2017E	2018E
Sales revenue	**0.3**	**0.0**	**0.0**	**231.7**
+Other income	0.0	0.0	0.0	0.0
-Operating costs	0.6	0.0	0.0	101.1
-Exploration and evaluation	7.2	13.0	5.0	4.0
-Corporate	0.2	2.5	4.0	5.0
-Other expenses	0.4	0.6	0.0	0.0
EBITDA	**-8.2**	**-16.1**	**-9.0**	**121.7**
-D&A	0.2	0.0	0.0	20.5
EBIT	**-8.4**	**-16.1**	**-9.0**	**101.1**
+ Interest Revenue	0.1	0.3	-3.0	-6.5
-Impairments	0.0	0.0	0.0	0.0
-Finance costs	0.0	-1.3	-4.2	0.0
Operating profit	**-8.3**	**-14.5**	**-7.9**	**94.7**
-Tax expense	-0.3	0.0	0.0	25.3
+Other	0.0	0.0	0.0	0.0
NPAT	-8.0	-14.5	-7.9	69.3
NPAT Adjusted	-8.0	-14.5	-7.9	69.3

Financial Summary	2015A	2016F	2017E	2018E
Reported earnings				
Net profit (A$m)	(8.0)	(14.5)	(7.9)	69.3
EPS (A$cps)	(6.0)	(10.9)	(5.9)	52.3
PER (x)	(33.5)	(18.5)	(34.0)	3.9
Normalised earnings				
Net profit (A$m)	(8.0)	(14.5)	(7.9)	69.3
EPS (A$cps)	(6.0)	(10.9)	(5.9)	52.3
EPS growth (%)	N/A	81.7	(45.7)	N/A
PER (x)	(16.6)	(9.1)	(16.8)	1.9
Cashflow				
Operating cashflow ($m)	(0.7)	(2.2)	(7.0)	93.9
GCFPS (A$cps)	(0.5)	(1.7)	(5.3)	70.8
PCF (x)	(406.8)	(119.2)	(38.1)	2.9
Dividend				
Dividend (A$cps)	N/A	N/A	N/A	N/A
Yield (%)	N/A	N/A	N/A	N/A

Cash Flow (A$m) 31 December	2015A	2016F	2017E	2018E
Operating Cashflow	**-0.7**	**-2.2**	**-7.0**	**93.9**
- Capitalised Items (excl. exploration)	0.1	2.5	120.0	80.3
- Exploration & Evaluation	5.5	13.0	5.0	4.0
+ Other	0.0	0.5	0.0	0.0
Free Cashflow	**-6.3**	**-17.2**	**-132.0**	**9.6**
+ Debt Drawdown (Repaid)	0.0	0.0	110.0	-20.0
+ Equity Raised	0.0	25.0	70.0	0.0
- Finance Costs	0.0	1.3	4.2	0.0
Net Change in Cash	-6.3	6.5	43.8	-10.4
Cash at End Period	**4.6**	**11.1**	**54.9**	**44.5**

Financial Ratios	2015A	2016F	2017E	2018E
Balance Sheet Ratios				
Total Debt / Equity (%)	0	0	75	31
Interest cover (x)	N/A	12.3	2.2	0
Acid test ratio (x)	3.5	4.2	20.0	16.2
Profitability Ratios				
Net profit margin (%)	N/A	-	-	29.9
Return on assets (%)	-93.3	-144.7	-4.3	30.0
Return on equity (%)	-78.0	-82.7	-5.3	24.2

Balance Sheet (A$m) 31 December	2015A	2016F	2017E	2018E
Cash and Cash Equivalents	4.6	11.1	54.9	44.5
Total assets	13.6	22.2	262.2	381.8
Current Debt	0.0	0.0	0.0	0.0
Non Current Debt	0.0	0.0	110.0	90.0
Total liabilities	3.4	4.7	114.7	94.7
Shareholders funds	10.2	17.6	147.5	287.1

Valuation Summary (10% Discount Rate)	A$m	A$/sh
Mt Morgans	356	2.13
Unmined Resources	29	0.17
Corporate Valuation	-37	-0.22
Forward Sales	0	0.00
Exploration Upside	25	0.15
Cash est.	11	0.07
Debt est.	0	0.00
NAV	**356**	**2.30**

Production and Assumptions	2015A	2016F	2017E	2018E
Assumptions				
Gold Price (US$/oz)	1,178	1,164	1,275	1,275
AUD/USD FX	0.78	0.72	0.70	0.70
Mt Morgans Production				
Gold Ounces (koz)	0.0	0.0	0.0	127.2
Costs				
C1 Costs (A$/oz)	0	0	0	740
All-in Sustaining Cost (A$/oz)	0	0	0	920

Directors	
Rohan Williams	Executive Chairman
Barry Patterson	Non-Executive Director
Robert Reynolds	Non-Executive Director
Ian Cochrane	Non-Executive Director

Mt Morgans Reserves & Resources (Attributable)	Mt	Au g/t	Au (koz)
Resources			
Mt Morgans	41.7	2.2	3,008
Reserves			
Mt Morgans	0.03	9.2	8

Substantial Shareholders	%
Bank of Nova Scocia	7.1%
CBA and related parties	6.2%
Brian Rodan	5.8%

More from Morgans

Morgans underground returned further high grade intercepts…

(DCN) announced further high grade gold intercepts from the Morgans Underground deposit, part of the Mt Morgans Project in Western Australia. Better intercepts included:

- 4.3m at 22.4g/t from 318m
- 4.3m at 17.5g/t from 421m
- 12.0m at 5.7g/t from 341m
- 5.1m at 7.4g/t from 379m

…including 12m @ 5.7g/t

Mogans looks to comprise a number of stacked mineralised surfaces…

With the 35,000m (34 diamond holes) Resource drill out complete and all assays received, the orientation and controls on the mineralisation are taking shape. The deposit appears to comprise a number of stacked shallow northerly plunging surfaces controlled by shallow dipping structures intercepting the Westralia BIF. While mineralisation at Morgans is largely concentrated on the footwall contact of the BIF, there are a number of intercepts on the hangingwall contact which could be incorporated into the mining inventory. Interestingly, some of the better hangingwall intercepts (noted in holes 16MMDD0105 and 16MMDD0125) are at the southern end of the deposit nearest to Westralia which predominantly hosts hangingwall mineralisation. Argonaut sees potential for the lowermost mineralised surface at Morgans to extend through a zone of sparse drilling to Westralia (see Figure 2).

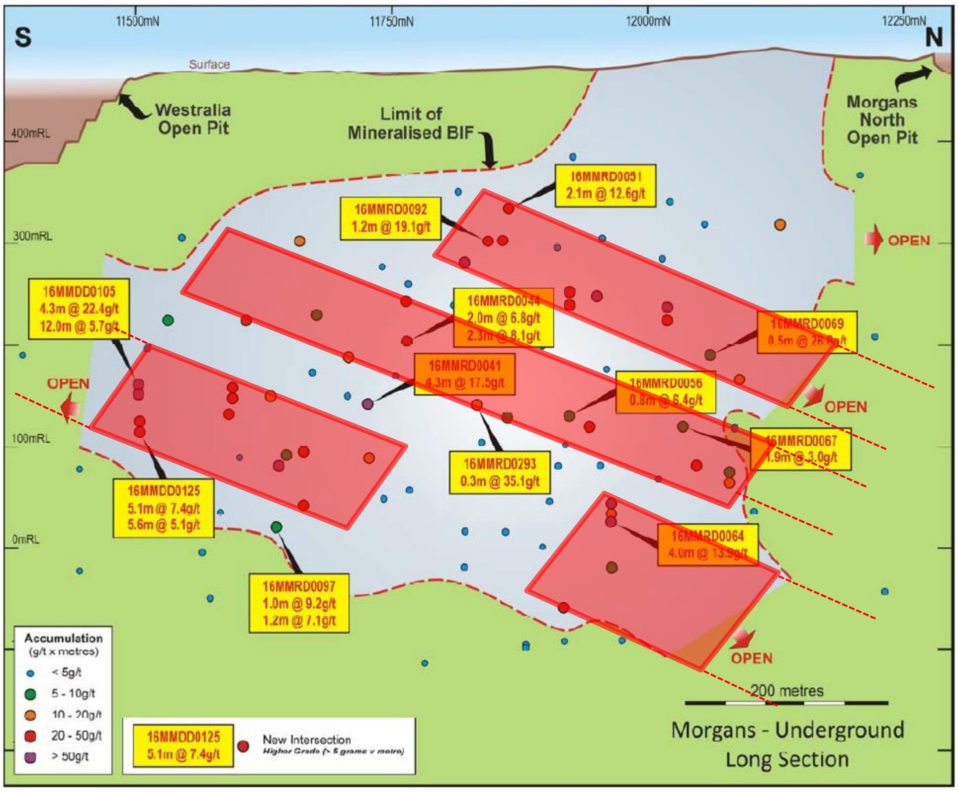
…and remains open along strike to the north and south

The 12,000m (26 diamond holes) Resource infill drill program at Westralia is also complete and first assays are due in June. Argonaut sees potential to add significant ounces both north of Morgans and between Westralia and Morgans. However, it is unlikely that further drilling will be undertaken ahead of the Feasibility Study, due late CY16.

Morgans mineralisation appears concentrated along low angle structures…

…intercepting the BIF host rock

Figure 1: Latest drilling from Morgans Underground with interpreted mineralisation trends

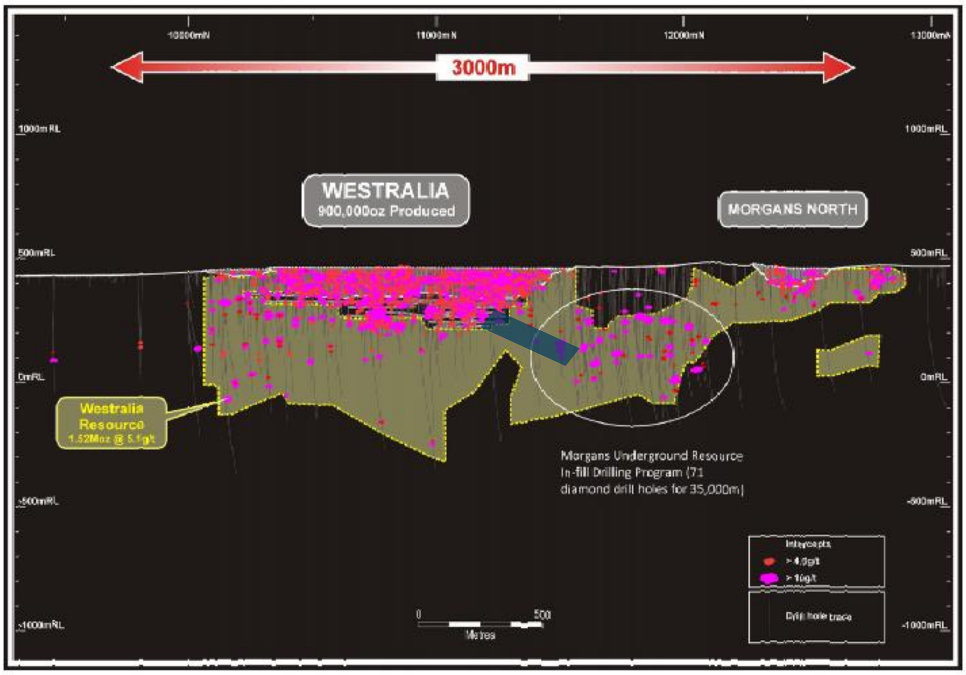


Source: DCN, edited by Argonaut

Argonaut sees potential for hangingwall mineralisation to the south to join up with Westralia…

Assays for Westralia drilling are due late June

Figure 2: Mineralised long-section of Westralia–Morgans with potential adjoining mineralisation highlighted in a shaded blue box (Argonaut interpretation)



Source: DCN, edited by Argonaut

Upside to the Scoping Study

Upside to the Scoping study includes…

Argonaut sees several tangible opportunities to increase the Mt Morgans Resource and improve the economics of the September 2015 Scoping Study.

Jupiter upside

…Resource upside from Jupiter…

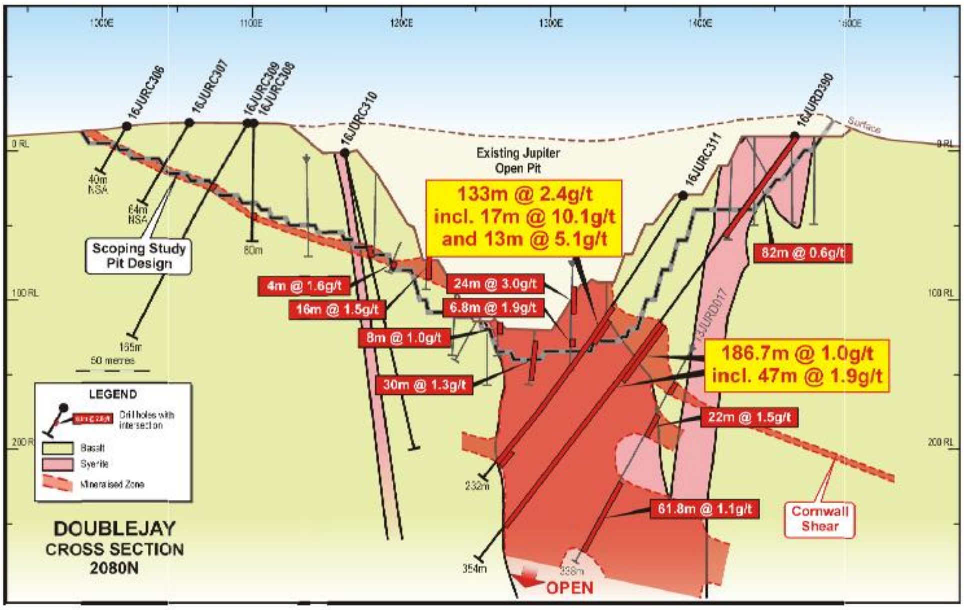
A successful infill drilling program at Jupiter confirmed largely continuous mineralisation between the planned Doublejay, Heffernans and Ganymede open pits and suggests all three pits may now combine into a single ~2km long open pit. In addition, recent broad intercepts below Doublejay, including 133m at 2.4g/t, show mineralisation continuing to at least 140m below the Scoping Study pit shell.

…with potential for +10 years mine life

We see potential for more than 400koz additional ounces and extension of the mine life beyond 10 years (currently ~6.5 year). Our model for Jupiter assumes ~800koz production over an 8.5 year open pit mine life. While deeper ore and a combined open pit will generate additional waste rock, the thick mineralisation at depth should off-set a material increase in the strip ratio (currently 6.5:1). We also believe that additional pre-production waste stripping can be alleviated by staged cut-backs through the mines life.

Recent intercepts below the Doublejay pit include 133m @ 2.4g/t

Figure 3: Cross section of Doublejay mineralisation and recent, long drill intercepts.



Source: DCN

Further upside to the projects comes from larger scale underground mining…

Potential for larger scale mining

DCN sees potential at Morgans to combine multiple mineralised interceptions to form 15-35m wide ~5g/t intervals. This could facilitate larger scale mining methods and decrease underground mining costs. While the average ounces per vertical meter will likely remain at ~1,000oz pvm, condensed mineralisation could yield zones up to 3,000oz pvm.

…improved recoveries from a gravity circuit…

Improved recovery

The 91% recovery applied in the Scoping Study was based upon processing records of the historic Morgans CIP/CIL treatment plant which processed Westralia and Jupiter ore. Argonaut understands this plant did not contain a gravity circuit despite the presence of coarse/visible gold. DCN is planning a gravity circuit in the new design which could retrieve up to 30-40% of metal boosting overall recovery and improving processing costs.

…and higher grades earlier in the mine life from Morgans underground

Higher grades earlier

The 1.2Mt @ 6.83g/t Morgans Underground mining inventory applied to the Scoping Study was based on nine drill holes which supported an Inferred Resource. Due to the lower Resource confidence level, the higher grade Morgans ore was scheduled in years 3 and 4 of the project. Based on a successful infill drilling program which will lift the grade and confidence level, Morgans should be bought forward in the mine plan. Argonaut believes the mine can deliver 7g/t lifting the mine head grade to ~5-6g/t and boosting production in the first two years to ~240kzpa (from ~200koz). This will significantly improve project NPV and reduce payback to <15 months.

Blazing a trail to Callisto

A causeway to drill Callisto is underway…

…with potential drilling next month

A causeway is under construction on Lake Carey (salt lake) to facilitate drilling of the Callisto prospect. The causeway is expected to take 30 days to complete and should support a truck mounted drill rig. Callisto is a geophysical lookalike to the nearby +8Moz Wallaby deposit (operated by Goldfields, GFI:SJ) and has a stronger magnetic signature than Jupiter (both syenite hosted). The prospect has previously been drilling, but attempts were too shallow and away from the interpreted target. Delineation of mineralisation at Callisto would be a game changer for DCN.

Strong newsflow through CY16

DCN will have strong newsflow through CY16…

…including Resource updates…

…and Feasibility Study…

…and ongoing regional exploration

DCN will continue to supply high impact newsflow throughout CY16. Key items and expected dates are listed below:

- Assay results from the Westralia underground Resource drill out – from late June
- Updated Resource on the Jupiter Prospect – early July
- Updated Resource on Morgans Underground – mid to late July
- Maiden Reserve for Jupiter – August
- Callisto prospect drilling – potentially August
- Feasibility Study – late CY16

In addition, DCN is undertaking a 600 hole reconnaissance RAB/aircore drilling program over the syenite corridor. This is a zone containing geophysical targets with similar signatures to the syenite hosted deposits such as Jupiter and Wallaby. Key target include northwest and southwest trending anomalies south of Jupiter and Cameron Well to the northwest.

Corporate appeal

Despite recent share price accretion, we believe DCN has high corporate appeal…

…and estimate that Goldfields could pay up to $2.60/sh

DCN maintains high corporate appeal given its potential to produce >200koz pa, low sovereign risk jurisdiction and proximity to underutilised mills (Sunrise Dam and Granny Smiths). Argonaut considers Goldfields as the most likely acquirer of Mt Morgans/DCN. GFI operates the Granny Smith mill and Wallaby mine. Given the mills proximity (~15km from Jupiter), the quantum of its spare capacity (~2Mtpa) and metallurgical synergies (both syenite hosted deposits), we believe Mt Morgans is a good fit for GFI. Granny Smith is one of GFI's lowest cost mine and the company is investing heavily in Resource extension. Australian focussed exploration expenditure was $91m in 2015 with $86m budgeted for 2016, largely around the Granny Smith mill and Wallaby mine. Argonaut estimates that GFI could pay up to $2.60/sh for DCN and still achieve the nominal 15% IRR hurdle rate adopted by most mining companies to approve investment.

RESEARCH:

Ian Christie | Director, Industrial Research
+61 8 9224 6872 ichristie@argonaut.com

Patrick Chang | Analyst, Metals & Mining Research
+61 8 9224 6835 pchang@argonaut.com

Matthew Keane | Analyst, Metals & Mining Research
+61 8 9224 6869 mkeane@argonaut.com

Helen Lau | Analyst, Metals & Mining Research
+852 3557 4804 hlau@argonaut.com

INSTITUTIONAL SALES - PERTH:

Chris Wippl | Executive Director, Head of Sales & Research
+61 8 9224 6875 cwippl@argonaut.com

John Santul | Consultant, Sales & Research
+61 8 9224 6859 jsantul@argonaut.com

Damian Rooney | Senior Institutional Dealer
+61 8 9224 6862 drooney@argonaut.com

Ben Willoughby | Institutional Dealer
+61 8 9224 6876 bwilloughby@argonaut.com

INSTITUTIONAL SALES – HONG KONG:

Travis Smithson | Managing Director - Asia
+852 9832 0852 tsmithson@argonaut.com

CORPORATE AND PRIVATE CLIENT SALES:

Glen Colgan | Executive Director, Desk Manager
+61 8 9224 6874 gcolgan@argonaut.com

Kevin Johnson | Executive Director, Corporate Stockbroking
+61 8 9224 6880 kjohnson@argonaut.com

James McGlew | Executive Director, Corporate Stockbroking
+61 8 9224 6866 jmcglew@argonaut.com

Ian Dorrington | Director, Corporate Stockbroking
+61 8 9224 6865 IDorrington@argonaut.com

Geoff Barnesby-Johnson | Senior Dealer, Corporate Stockbroking
+61 8 9224 6854 bj@argonaut.com

Rob Healy | Dealer, Private Clients
+61 8 9224 6873, rhealy@argonaut.com

Tony Locantro | Dealer, Private Clients
+61 8 9224 6851, tlecantro@argonaut.com

Cameron Prunster |Dealer, Private Clients
+61 8 9224 6853 cprunster@argonaut.com

James Massey |Dealer, Private Clients
+61 8 9224 6849 jmassey@argonaut.com

Chris Hill | Dealer, Private Clients
+61 8 9224 6830, chill@argonaut.com

Important disclosure
Argonaut acted as Joint Lead Manager to the Placement to raise $25M in November 2015 and received fees commensurate with this service.
Argonaut currently holds or controls 115,634 DCN shares.

Information Disclosure
Each research analyst of this material certifies that the views expressed in this research material accurately reflect the analyst's personal views about the subject securities and listed corporations. None of the listed corporations reviewed or any third party has provided or agreed to provide any compensation or other benefits in connection with this material to any of the analyst(s).

General Disclosure and Disclaimer
This research has been prepared by Argonaut Securities Pty Limited (ABN 72 108 330 650) ("ASPL") or by Argonaut Securities (Asia) Limited ("ASAL") for the use of the clients of ASPL, ASAL and other related bodies corporate (the "Argonaut Group") and must not be copied, either in whole or in part, or distributed to any other person. If you are not the intended recipient you must not use or disclose the information in this report in any way. ASPL is a holder of an Australian Financial Services License No. 274099 and is a Market Participant of the Australian Stock Exchange Limited. ASAL has a licence (AXO 052) to Deal and Advise in Securities and Advise on Corporate Finance in Hong Kong with its activities regulated by the Securities and Futures Ordinance ("SFO") administered by the Securities and Futures Commission ("SFC") of Hong Kong.

Nothing in this report should be construed as personal financial product advice for the purposes of Section 766B of the Corporations Act 2001 (Cth). This report does not consider any of your objectives, financial situation or needs. The report may contain general financial product advice and you should therefore consider the appropriateness of the advice having regard to your situation. We recommend you obtain financial, legal and taxation advice before making any financial investment decision.

This research is based on information obtained from sources believed to be reliable and ASPL and ASAL have made every effort to ensure the information in this report is accurate, but we do not make any representation or warranty that it is accurate, reliable, complete or up to date. The Argonaut Group accepts no obligation to correct or update the information or the opinions in it. Opinions expressed are subject to change without notice and accurately reflect the analyst(s)' personal views at the time of writing. No member of the Argonaut Group or its respective employees, agents or consultants accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research.

Nothing in this research shall be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from engaging in any transaction. The Argonaut Group and/or its associates, including ASPL, ASAL, officers or employees may have interests in the financial products or a relationship with the issuer of the financial products referred to in this report by acting in various roles including as investment banker, underwriter or dealer, holder of principal positions, broker, director or adviser. Further, they may buy or sell those securities as principal or agent, and as such may effect transactions which are not consistent with the recommendations (if any) in this research. The Argonaut Group and/or its associates, including ASPL and ASAL, may receive fees, brokerage or commissions for acting in those capacities and the reader should assume that this is the case.

There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment.

The analyst(s) principally responsible for the preparation of this research may receive compensation based on ASPL's and / or ASAL's overall revenues.

Hong Kong Distribution Disclosure
This material is being distributed in Hong Kong by Argonaut Securities (Asia) Limited which is licensed (AXO 052) and regulated by the Hong Kong Securities and Futures Commission. Further information on any of the securities mentioned in this material may be obtained on request, and for this purpose, persons in the Hong Kong office should be contacted at Argonaut Securities (Asia) Limited of Unit 701, 7/F, Henley Building, 5 Queen's Road Central, Hong Kong, telephone (852) 3557 48000.

Copyright