

BUY

Current Price **\$2.83**
Target Price **\$3.10**

Ticker: **DCN**
Sector: **Materials**

Shares on Issue (m): **132.7**
Market Cap (\$m): **375.4**
Net Cash est (\$m): **12.0**
Enterprise Value (\$m): **363.4**

52 wk High/Low: **\$2.78** **\$0.38**
12m Av Daily Vol (m): **0.29**

Key Metrics

	15A	16F	17F
P/E (x)	-47.0	-25.9	-47.6
EV/EBITDA (x)	-44.5	-22.6	-40.4

Financials:

	0.3	0.0	0.0
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

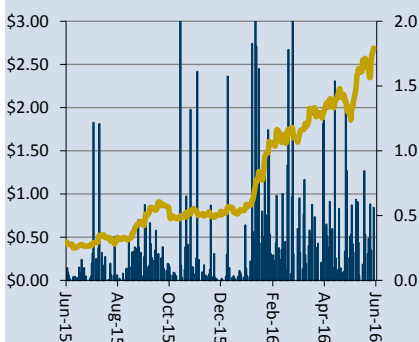
Op CF (A\$m) -0.7 -2.2 -7.0

Per Share Data:

	-6.0	-10.9	-5.9
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



Tuesday, 28 June 2016

Dacian Gold

Relentless momentum

Analyst | Matthew Keane

Quick Read

Dacian Gold (DCN) released assays from the 24 hole in-fill drilling program at the Westralia Underground deposit with high grade intercepts including 3.3m at 84g/t and 13.2m at 14g/t. Resource drill-out programs have now been completed for the Morgans and Westralia underground mines and the Jupiter open pit. It is anticipated that all three deposits will extend previously defined mineralisation and increase Resource confidence, whilst remaining open in several directions. DCN's share price has increase 260% year-to-date, however Argonaut believes momentum will continue driven by macro environment tailwinds supporting gold equities and ongoing high impact newsflow throughout H2 CY16. Argonaut increases its valuation to \$3.10 (previously \$2.30). Buy maintained.

Event & Impact | Positive

Exceptional intercepts at Westralia: DCN released assay results for the Westralia Resource drill out confirming the high grade tenor of the deposit. Better intercepts from the recent program included 3.3m at 84g/t from 212m and 13.2m at 14g/t from 275m (downhole). Importantly, a zone of near surface mineralisation has been defined 100m south and 60m below the base of the historic Westralia open pit. While it is unlikely to have sufficient ounces to warrant an open pit cut-back, it should provide an early source of high grade ore from the underground mine. Westralia now extends over a 500m strike and 600m down dip.

Higher ounces earlier: The near surface mineralisation at Westralia could be complementary to higher grade from the Morgans underground and boost production to 270-280koz pa in the early years of the project life (vs 200-210koz pa defined in the September Scoping Study). Argonaut currently models 240-250koz pa in years one and two having assumed some of the higher grade Morgans Underground ore is mined earlier than forecast in the Scoping Study.

Momentum to continue: Despite exceptional share price accretion year-to-date, up ~260%, we believe momentum will continue. From a macro perspective global currency and equity volatility following the British exit from the European Union should continue to support high gold prices. From a Company perspective, Resource updates on all three deposits due in July, Maiden Reserves, ongoing regional exploration and a feasibility study (due in the December Q) will maintain a steady stream of high impact newsflow.

Recommendation

Argonaut maintains a BUY recommendation with a revised valuation of \$3.10 (previously \$2.30). We have decreased our discount rate from 10% to 8% as we believe recent in-fill drilling greatly de-risks the project. Our valuation also assumes lower dilution from the equity component of project funding, by increasing our raising price from \$2.00/sh to 2.50/sh. If we apply the current spot gold price and AUD/USD exchange rate our valuation increases to \$3.30 valuation.

Dacian Gold Ltd

Equities Research

Analyst: Matthew Keane

Recommendation	BUY
Current Price	\$2.83
Valuation	\$3.10

Sector	Metals & Mining
Issued Capital (m)	132.7
Market Cap (m)	\$375.4
Date	28-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	95.8
-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	126.9
-D&A	0.2	0.0	0.0	19.3
EBIT	-8.4	-16.1	-9.0	107.6
+ Interest Revenue	0.1	0.3	-3.0	-6.4
-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	101.1
-Tax expense	-0.3	0.0	0.0	27.3
+Other	0.0	0.0	0.0	0.0
NPAT	-8.0	-14.5	-7.9	73.9
NPAT Adjusted	-8.0	-14.5	-7.9	73.9

Cash Flow (A\$m) 31 December	2015A	2016F	2017E	2018E
Operating Cashflow	-0.7	-2.2	-7.0	97.2
- 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	12.9
+ 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	-7.1
Cash at End Period	4.6	11.1	54.9	47.8

Balance Sheet (A\$m) 31 December	2015A	2016F	2017E	2018E
Cash and Cash Equivalents	4.6	11.1	54.9	47.8
Total assets	13.6	22.2	262.2	384.2
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	289.5

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	2015A	2016F	2017E	2018E
Gold Ounces (koz)	0.0	0.0	0.0	127.2
Costs				
C1 Costs (A\$/oz)	0	0	0	699
All-in Sustaining Cost (A\$/oz)	0	0	0	879

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

Financial Summary	2015A	2016F	2017E	2018E
Reported earnings				
Net profit (A\$m)	(8.0)	(14.5)	(7.9)	73.9
EPS (A\$cps)	(6.0)	(10.9)	(5.9)	55.7
PER (x)	(47.0)	(25.9)	(47.6)	5.1
Normalised earnings				
Net profit (A\$m)	(8.0)	(14.5)	(7.9)	73.9
EPS (A\$cps)	(6.0)	(10.9)	(5.9)	55.7
EPS growth (%)	N/A	81.7	(45.7)	N/A
PER (x)	(16.6)	(9.1)	(16.8)	1.8
Cashflow				
Operating cashflow (\$m)	(0.7)	(2.2)	(7.0)	97.2
GCFPS (A\$cps)	(0.5)	(1.7)	(5.3)	73.3
PCF (x)	(569.9)	(167.0)	(53.3)	3.9
Dividend				
Dividend (A\$cps)	N/A	N/A	N/A	N/A
Yield (%)	N/A	N/A	N/A	N/A

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	17.4
Profitability Ratios				
Net profit margin (%)	N/A	-	-	31.9
Return on assets (%)	-93.3	-144.7	-4.3	32.0
Return on equity (%)	-78.0	-82.7	-5.3	25.5

Valuation Summary (10% Discount Rate)	A\$m	A\$/sh
Mt Morgans	432	2.70
Unmined Resources	43	0.27
Corporate Valuation	-39	-0.25
Forward Sales	0	0.00
Exploration Upside	50	0.31
Cash est.	12	0.07
Debt est.	0	0.00
NAV	455	3.10

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

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

Valuation

Argonaut increases its valuation from \$2.30 to \$3.10...

Argonaut maintains a BUY recommendation with a revised valuation of \$3.10 (previously \$2.30). We have decreased our discount rate from 10% to 8% as we believe recent in-fill drilling has significantly de-risked the project. Our valuation also assumes lower dilution from the equity component of project financing, by increasing our assumed raising price from \$2.00/sh to 2.50/sh. Argonaut's model assumes capex of A\$177m incorporating ~A\$20m working capital and applies 60:40 debt to equity funding.

...however, applying spot gold and FX we derive a \$3.30 valuation

At current spot gold prices and AUD/USD exchange rates we derive a \$3.30 valuation. Argonaut's gold price forecasts are currently under review following the British exit of the EU. Whilst not finalised, our outlook for the next two to three years is expected to increase with a view that market volatility will support gold as a defensive investment. Tabled below is our valuation at varying gold prices and AUD/USD FX.

Table 1: DCN valuation matrix at varying gold prices and AUD/USD FX

		Gold Price (US\$/oz)				
		1,250	1,300	1,350	1,400	1,500
AUD/USD	0.60	4.60	4.97	5.34	5.71	6.45
	0.65	3.89	4.23	4.57	4.91	5.59
	0.70	3.28	3.59	3.91	4.23	4.86
	0.75	2.75	3.04	3.34	3.64	4.23

Source: Argonaut

Exceptional results from Westralia

Westralia returned multiple high grade intercepts...

Dacian Gold (DCN) released assays from the 24 hole in-fill drilling program at the Westralia Underground deposit delivering high grade intercepts including (all downhole widths):

- 3.3m at 84g/t from 212m
- 13.2m at 14g/t from 275m
- 4.8m at 26g/t from 424m
- 3.7m at 18g/t from 323m

...and remains open in multiple directions

Mining scenario taking shape

Significant intercepts have been recorded in all three subparallel BIF units across the 3,000m mineralised strike. At Westralia the key mining horizon will be in the hangingwall and footwall BIFs. In zones of wider mineralisation and/or where the BIS units converge, there may be potential to employ large volume stoping techniques. Similar opportunities have also been noted at Morgans Underground. Under a mining scenario, we believe smaller zones of footwall mineralisation at Westralia and hangingwall mineralisation at Morgans could be mined via drives and small headings off the main declines.

Mineralisation appears to be controlled by low angle faults...

...and we see potential for these structures to extend mineralisation...

...both below Westralia...

...between Westralia and Morgans...

...and north of Morgans

Shallow mineralisation proximal to Westralia open pit and high grade Morgans ore...

...have potential to increase production to 270-280koz pa in year one and two

Mineralisation remains open

The latest results at Westralia confirm the high grade tenor of Westralia underground and the deposit remains open in multiple directions at depth and along strike both north and south. Mineralisation appears to be condensed in zones where low angle faults (similar to those at Jupiter) cross-cut the steeply dipping BIF units.

Argonaut sees strong potential for further mineralisation below the currently defined Westralia mineralised envelope and between the Westralia and Morgans deposits. Both of these zones remain sparsely drilled. While mineralisation at Morgans is largely concentrated on the footwall BIF, there are a number of intercepts on the hangingwall BIF. Interestingly, some of the better hangingwall intercepts are at the southern end of the deposit nearest to Westralia which could support contiguous mineralisation between the two deposits.

Figure 1: Long section of the Westralia and Morgans underground deposits. Potential low angle structures controlling mineralisation are delineated in white. Zones for potential larger volume stopping are shaded blue. (Argonaut interpretation).



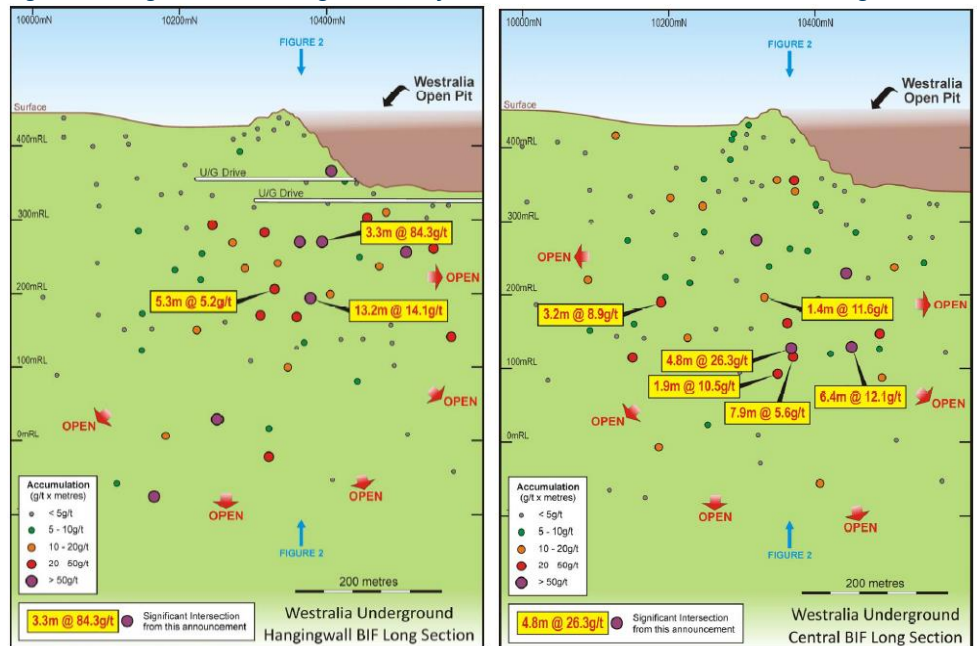
Source: DCN, edited by Argonaut

Higher production in the early mine life

The recent drilling at Westralia Underground has defined a significant near surface mineralised zone 100m south and 60m below the base of the historic Westralia open pit (see Figure 2 over). DCN will assess the viability of open pit mining via a cutback to the Westralia pit, but it is likely that high strip ratios will make underground mining a more favourable option. Importantly, this zone presents an opportunity to deliver high grade ounces earlier in the mine’s life. In addition, increased Resource confidence will likely result in higher grader ore from the Morgans underground. (Note that higher grade Morgans ore was scheduled in years three and four in the scoping study due to low Resource confidence). The combination of these two ore sources could lift production in years one and two to 270-280kozpa (vs 200-210koz pa in the scoping study and Argonaut’s forecast of 240-250koz pa).

Near surface, high grade mineralisation proximal to Westralia Open pit

Figure 2: Long sections through near surface mineralisation at Westralia Underground



Source: DCN

Unstoppable momentum

DCN's share price is up ~260% year-to-date...

Despite exceptional share price accretion year-to-date (up ~260%), we believe momentum will continue. The macro environment remains supportive for physical gold and gold equities following the British exit from the European Union. The full effects of this event are yet to be realised, and as prescribed in Article 50 (the formal legal process supporting the EU), the exiting process could take up to two years. Ongoing equity market and currency volatility should support the gold price. In addition, Chinese purchasing remains strong with net gold imports increasing 80% month-on-month to 3.6Moz in May.

...but macro tailwinds supporting the gold price...

Company specific, high impact newsflow will continue throughout CY16 with Resource updates for the Jupiter, Morgans and Westralia deposits due in July, a maiden Reserve for Jupiter due in August, ongoing regional exploration and the Mt Morgans Feasibility Study scheduled for release in the December Q.

...and high impact ongoing newsflow, should support ongoing momentum

Results from the ongoing 600-hole air-core and RC program at Cameron Well and along the Jupiter Corridor will be released from July. Drilling of the 8Moz Wallaby lookalike Callisto prospect is set to commence in early July. DCN has hired a specialised salt-lake drill rig to undertake the task. If this large magnetic anomaly is proven to be a syenite intrusion hosting gold mineralisation, it will be a game changer for DCN.

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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.

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