

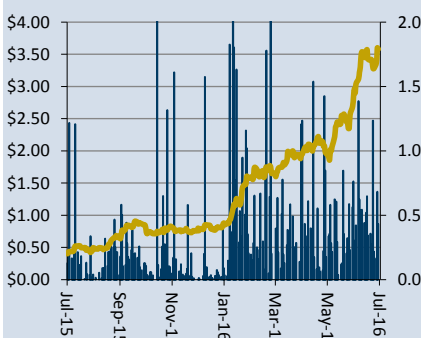
BUY

Current Price **\$3.64**
Target Price **\$4.00**

Ticker:	DCN		
Sector:	Materials		
Shares on Issue (m):	133.3		
Market Cap (\$m):	485.2		
Net Cash est (\$m):	9.6		
Enterprise Value (\$m):	475.6		
52 wk High/Low:	\$3.72	\$0.40	
12m Av Daily Vol (m):	0.32		
Key Metrics			
	15A	16F	17F
P/E (x)	-60.7	-30.3	-78.2
EV/EBITDA (x)	-58.3	-27.0	-59.5
Financials:			
Revenue (A\$m)	0.3	0.0	0.0
EBIT (A\$m)	-8.4	-17.6	-8.0
NPAT (A\$m)	-8.0	-16.0	-6.2
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	-12.0	-4.7
DPS (cps)	N/A	N/A	N/A
Div Yield	N/A	N/A	N/A
CFPS (cps)	-0.5	-1.7	-5.2

In A\$m unless otherwise stated

Share Price Graph



Thursday, 28 July 2016

Dacian Gold

Westralia reveals higher quality ounces

Analysts | Matthew Keane | James Wilson

Quick Read

Dacian Gold (DCN) released an updated resource for the Westralia deposit, part of the Mt Morgans Gold Project in Western Australia, with 8.6Mt at 5.8g/t for 1.6Moz. While the increase in total contained gold is incremental (7% or 101koz), Measured and Indicated Resources increased by 176% and the overall grade received an uplift of 0.7g/t to 5.8g/t. With the updated resources for both Westralia and Jupiter now complete, DCN can now commence detailed mine design and scheduling ahead of the Feasibility Study, due late 2016. Argonaut is predicting a significant increase to gold production in the early years of the project, driven by a larger contribution of higher grade underground ore. We forecast 240koz to 255koz in the first two years of the mine life compared to the Scoping Study estimate of 200-207koz. Argonaut maintains a BUY recommendation with a revised target price of \$4.00 (previously \$3.60).

Event & Impact | Positive

Westralia Resource update: DCN announced an updated Westralia resource with 8.6Mt at 5.8g/t for 1.6Moz contained gold. The Measured and Indicated component of the Resource make up 56% with 905koz. The Inferred Resource, concentrated under the Beresford Resource (formerly named the Westralia Underground), boasts 715koz at 6.5g/t. This offers significant mine life upside, however the conversion to a higher resource category will be longer dated as the drilled-out will most likely be undertaken from underground locations when the project is in production. In line with Argonaut's predictions, the resource updates for both Beresford and Allanson (formerly Morgans underground) yielded an incremental increase in contained ounces (101koz). However, the inventory to be included in upcoming Feasibility Study will be a higher grade and more condensed, potentially supporting higher volumes stopes (improving productivity and decreasing mining costs).

Callisto: Rig on its way: A special purpose drill rig is on route to drill the Callisto prospect on Lake Carey (salt lake). Argonaut anticipates the rig to commence drilling later this week. The initial program includes two scissor holes targeting a magnetic anomaly modelled between 250-800m below surface. This geophysical target is analogous to the syenite hosted +8Moz Wallaby deposit located ~8km northeast.

Recommendation

Argonaut maintains a BUY recommendation with a revised target price of \$4.00 (previously \$3.60). Argonaut's model assumes development capex of A\$177m incorporating ~A\$20m working capital. We have increased the equity component in our model to \$80m (previously \$70m with the remainder debt funded). Given recent share price accretion, we have increased our assumed raising price to \$3.50/sh (previously \$2.50/sh). Our model also incorporates higher grades and lower ore mined from Westralia, subsequent to the Resource update.

Dacian Gold Ltd

Equities Research

Analyst: Matthew Keane

Recommendation	BUY
Current Price	\$3.64
Valuation	\$4.00

Sector	Metals & Mining
Issued Capital (m)	133.3
Market Cap (m)	\$485.2
Date	28-July-2016

Profit & Loss (A\$m) 31 December	2015A	2016F	2017E	2018E
Sales revenue	0.3	0.0	0.0	243.8
+Other income	0.0	0.0	0.0	0.0
-Operating costs	0.6	0.0	0.0	86.1
-Exploration and evaluation	7.2	14.5	4.0	4.0
-Corporate	0.2	2.5	4.0	5.0
-Other expenses	0.4	0.6	0.0	0.0
EBITDA	-8.2	-17.6	-8.0	148.8
-D&A	0.2	0.0	0.0	19.3
EBIT	-8.4	-17.6	-8.0	129.4
+ Interest Revenue	0.1	0.3	-3.0	-6.2
-Impairments	0.0	0.0	0.0	0.0
-Finance costs	0.0	-1.3	-4.8	0.0
Operating profit	-8.3	-16.0	-6.2	123.2
-Tax expense	-0.3	0.0	0.0	33.8
+Other	0.0	0.0	0.0	0.0
NPAT	-8.0	-16.0	-6.2	89.4
NPAT Adjusted	-8.0	-16.0	-6.2	89.4

Cash Flow (A\$m) 31 December	2015A	2016F	2017E	2018E
Operating Cashflow	-0.7	-2.2	-7.0	112.7
- Capitalised Items (excl. exploration)	0.1	2.5	120.0	80.3
- Exploration & Evaluation	5.5	14.5	4.0	4.0
+ Other	0.0	0.5	0.0	0.0
Free Cashflow	-6.3	-18.7	-130.9	28.4
+ Debt Drawdown (Repaid)	0.0	0.0	110.0	-20.0
+ Equity Raised	0.0	25.0	80.2	0.0
- Finance Costs	0.0	1.3	4.8	0.0
Net Change in Cash	-6.3	5.0	54.5	8.4
Cash at End Period	4.6	9.6	64.1	72.5

Balance Sheet (A\$m) 31 December	2015A	2016F	2017E	2018E
Cash and Cash Equivalents	4.6	9.6	64.1	72.5
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	1,350	1,338
AUD/USD FX	0.78	0.73	0.70	0.70

Mt Morgans Production				
Gold Ounces (koz)	0.0	0.0	0.0	128.8

Costs

Financial Summary	2015A	2016F	2017E	2018E
Reported earnings				
Net profit (A\$m)	(8.0)	(16.0)	(6.2)	89.4
EPS (A\$cps)	(6.0)	(12.0)	(4.7)	67.1
PER (x)	(60.7)	(30.3)	(78.2)	5.4
Normalised earnings				
Net profit (A\$m)	(8.0)	(16.0)	(6.2)	89.4
EPS (A\$cps)	(6.0)	(12.0)	(4.7)	67.1
EPS growth (%)	N/A	100.5	(61.3)	N/A
PER (x)	(16.7)	(8.3)	(21.5)	1.5
Cashflow				
Operating cashflow (\$m)	(0.7)	(2.2)	(7.0)	112.7
GCFPS (A\$cps)	(0.5)	(1.7)	(5.2)	84.6
PCF (x)	(736.6)	(215.9)	(69.8)	4.3
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	13.5	1.7	0
Acid test ratio (x)	3.5	3.6	23.3	26.3
Profitability Ratios				
Net profit margin (%)	N/A	-	-	36.7
Return on assets (%)	-93.3	-139.4	-4.0	41.5
Return on equity (%)	-78.0	-91.2	-4.2	30.9

Valuation Summary (10% Discount Rate)	A\$m	A\$/sh
Mt Morgans	533	3.41
Unmined Resources	47	0.30
Corporate Valuation	-39	-0.25
Forward Sales	0	0.00
Exploration Upside	75	0.48
Cash est.	10	0.06
Debt est.	0	0.00
NAV	578	4.00

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

Westralia Resource update

Westralia Resource now stands at 8.6Mt at 5.8g/t for 1.6Moz gold...

DCN announced an updated Westralia resource with 8.6Mt at 5.8g/t for 1.6Moz contained gold. The Measured and Indicated component of the Resource make up 56% with 905koz. The Inferred Resource boasts a higher grade of 715koz at 6.5g/t, providing future upside. The announcement corresponded with name changes to the Westralia and Morgans underground mines to Beresford and Allanson respectively. The total Mt Morgans Resource (incorporating the Jupiter deposit) now stands at 44.7Mt at 2.3g/t for 3.3Moz contained Gold.

...with 56% in the Measured and Indicated categories

Table 1: Updated Westralia Resource (top) vs previous September 2015 estimate (bottom)

Type	Measured			Indicated			Inferred			Total		
	Tonnage Mt	Au g/t	Au Ounces	Tonnage Mt	Au g/t	Au Ounces	Tonnage Mt	Au g/t	Au Ounces	Tonnage Mt	Au g/t	Au Ounces
Oxide	0.02	6.6	3,000	0.01	4.6	1,000				0.02	6.0	4,000
Transitional	0.02	3.7	3,000	0.2	3.6	18,000	0.2	4.8	24,000	0.3	4.2	45,000
Fresh	0.4	5.0	60,000	4.6	5.5	821,000	3.3	6.5	691,000	8.3	5.9	1,572,000
Total	0.4	5.0	65,000	4.8	5.5	840,000	3.4	6.5	715,000	8.6	5.8	1,621,000

Type	Measured			Indicated			Inferred			Total		
	Tonnes Mt	Au g/t	Au Ounces	Tonnes Mt	Au g/t	Au Ounces	Tonnes Mt	Au g/t	Au Ounces	Tonnes Mt	Au g/t	Au Ounces
Oxide				0.05	3.8	6,400	0.002	3.4	200	0.05	3.8	6,600
Transitional				0.08	3.5	9,000	0.07	2.6	5,400	0.15	3.1	14,400
Fresh	0.2	4.6	35,000	1.8	4.7	277,600	7.0	5.3	1,186,000	9.1	5.1	1,498,600
Total	0.2	4.6	35,000	2.0	4.7	293,000	7.1	5.2	1,191,600	9.3	5.1	1,519,600

Source: DCN

Figure 1: Resource distribution by category.

Measured and indicated Resources are highlighted in blue and green adjacent...



Source: DCN

...and the deposit remains open at depth and along strike

Cut-off flexibility

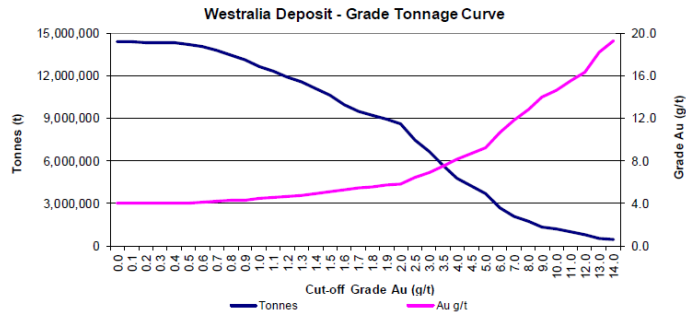
At a higher cut-off, the Resource shows a significant grade increase...

As noted in Figure 2 below, the Westralia Resource has high flexibility to a range of grade cut-off. For example, increasing the cut-off to 3g/t yields a significantly higher grade and large volume reduction with only a small reduction in contained ounces. (i.e. 6.6Mt at 6.9g/t for 1.5Moz contained gold). In general, grade tends to increase with depth (down to 720m below surface). Under a mining scenario, higher grades at depth could off-set the incremental increase in mining costs associated with longer haul distances.

...with little loss of contained ounces

Figure 2: Grade tonnage curve for the Westralia Resource

Westralia at 3g/t cut-off:
6.6Mt at 6.9g/t for 1.5Moz



Source: DCN

Sweet spots within the Resource

Mineralisation is condensed where low angle faults crosscut the BIF hot unit

Within the Westralia Resource, in both the Beresford and Allanson deposits, there appears to be lenses or cigar shaped zones of concentrated mineralisation. These are interpreted to be where low angle faults intersect the BIF host unit. These zones may support higher volume stopes, improving extraction efficiency and decreasing underground mining costs. DCN has also identified a 400m vertical block below the base of the historic Westralia pit containing 1.2Moz gold with an endowment of >3,000 ounces per vertical metre.

Shallow mineralisation outside the Resource

Recent RC drilling along the footwall BIF identified several new zones of shallow mineralisation

A shallow wide spaced RC drilling program (50-100m spacing) incorporated 69 holes was drilled along the Westralia deposit with a focus on the poorly tested footwall BIF. Several zones of new mineralisation were discovered. The first of these was above the Westralia underground mine between 50-100m into the footwall BIF with intercepts including:

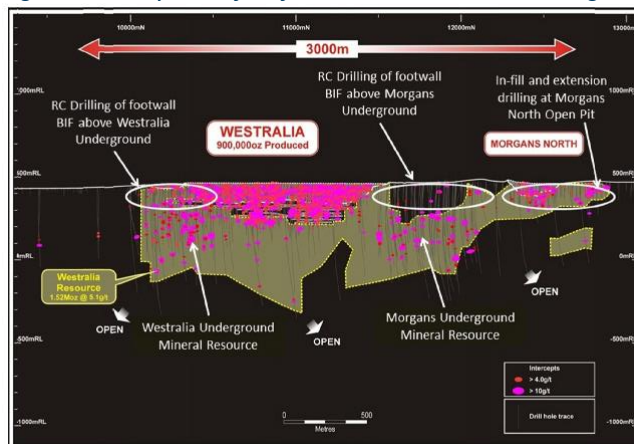
- 6m @ 8.3 g/t gold from 82m and
- 17m @ 2.2 g/t Au from 63m

A second zone shows extension to the Morgans North open pit with intercepts including:

- 10m @ 11.6 g/t Au from 5m
- 34m @ 3.7 g/t Au from 139m
- 21m @ 2.6 g/t Au from 20m

These zones offer upside potential outside the currently defined resource.

Figure 3: Newly identified footwall mineralisation along the Westralia trend



Source: 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

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