

DACIAN GOLD LIMITED (DCN)

INCREASING PRICE TARGET TO \$3.30

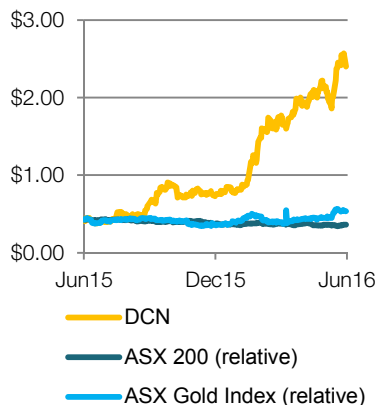
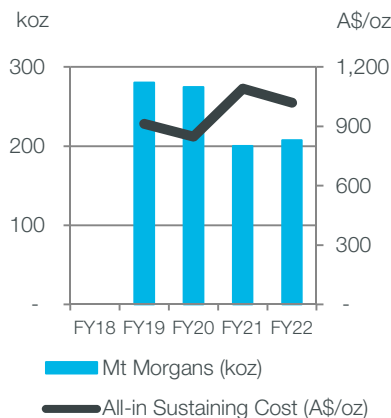
Analyst Steuart McIntyre
Email steuartmcintyre@boeq.com.au
Phone +61 2 8072 2909
Date 21 June 2016

We say
Price
Target
Strategic Target

BUY

2.45 3.30 5.50

Dacian remains our top pick of the ASX gold developers and due to the continued success of the infill drilling programme and the continued re-rating of gold equities, we upgrade our price target to \$3.30 (from \$2.50). We see potential for Cameron Well to add at least 300-400koz near term (and potentially as much as 1moz longer term) which could increase the mine life at Mt Morgans to 8-10 years. Drilling at Callisto is also due to begin shortly with initial results likely by the end of July.

DCN SHARE PRICE

FORECAST PRODUCTION & COSTS

COMPANY DATA & RATIOS

Enterprise value	\$340m
Diluted market cap*	\$357m
Diluted shares*	146m
Free float	100%
12 month price range	0.38-2.63
GICS sector	Materials
Management holds ~10% (fully diluted)	
*Diluted for 13.3m options	

IMPLIED RETURN

Implied all-in return	35%
-----------------------	-----

WE EXPECT MINE LIFE TO STRONG NEWSFLOW GROW TO 8-10 YEARS NEAR-TERM

In our view there are several areas where Dacian could find more ounces near-term. We believe the most prospective targets include Cameron Well, Jupiter extensions and Callisto. We also believe increasing the mine life towards 10 years would add *significant* appeal for institutional investors.

With A\$17m in cash at end March and 7 drill rigs on site, we expect strong news flow from DCN over the next 3-6 months:

- Westralia underground results in the next 2 weeks (a *key* catalyst in our view)
- Callisto drilling to begin in July with initial results by month end (success could be a game-changer for DCN)
- 3 resource upgrades in July (Jupiter, Westralia & Morgans)

INCREASE PRICE TARGET TO \$3.30

We increase our price target for Dacian to \$3.30 based on a reduced 20% discount to NPV (previously 40%). This upgrade is due to the strength of the infill drilling to date (confirming continuity) and the continued re-rating of gold equities. Our NPV is based on US\$1,250/oz gold and the A\$/US\$ forward curve. Dacian remains our Top Pick in the ASX gold space for 2016.

UPGRADING OUR PRICE TARGET TO \$3.30

We maintain our high conviction Buy on Dacian and upgrade our Price Target to \$3.30 (from \$2.50) based on:

- US\$1,250/oz gold and the A\$/US\$ forward curve (0.74 declining to 0.67 over 5 years)
- A 20% discount to NPV (previously 40%). We reduce our discount to NPV due to:
 - The success of infill drilling to date, providing greater confidence on resource continuity
 - The continued re-rating of global gold equities
 - 12-months ago most of DCN's producing peers were trading on ~1.0x NAV
 - Now, many ASX gold producers are trading at meaningful premiums to NAV, many of which are trading at 1.4-1.5x NAV

We also believe Dacian is highly likely to increase the mine life at Mt Morgans to 8-10 years (from the current ~7 years), which we believe would add *significant* appeal for institutional investors.

WHAT COULD DACIAN BE WORTH IN PRODUCTION?

On the price assumptions outlined above, on our estimates:

- Our NPV for Dacian, once in production rises to \$3.70
- But given many of Dacian's ASX peers are trading on 1.4-1.5x NAV, **we see potential for Dacian to trade as high as \$5.20-5.50 once in production**
- This represents an implied return of over a 100%

- **At US\$1,300/oz gold, our NPV for Dacian in production rises to \$4.00, and we would see potential for the stock to trade as high as \$6.00**

DON'T FORGET ABOUT GOLD FIELDS...

Dacian's Mt Morgan's project sits only ~20km from Gold Fields Granny Smith 3.5mtpa processing plant... which is currently only at ~50% capacity. **We continue to believe there is a strong chance that Gold Fields bids for Dacian at some point**... for us, the primary question is *when*.

Since Dacian has to spend A\$157m building a new processing plant, Dacian's Mt Morgan's project is actually **worth ~A\$157m more to Gold Fields than it is to DCN** (or anyone else for that matter)...

Our best guesses as to when a bid might come include:

- (1) Shortly after Dacian releases its infill drilling results for the Westralia underground, due in the next ~2 weeks (de-risking the continuity of this important underground resource)
- (2) If the company has material exploration success at Callisto. Drilling due to commence in July with initial results by month end.
- (3) Post the release of the final feasibility study in Q4 CY16, before Dacian begins construction (probably the most likely in our view)

CALLISTO: POTENTIAL TO BE A GAME-CHANGER

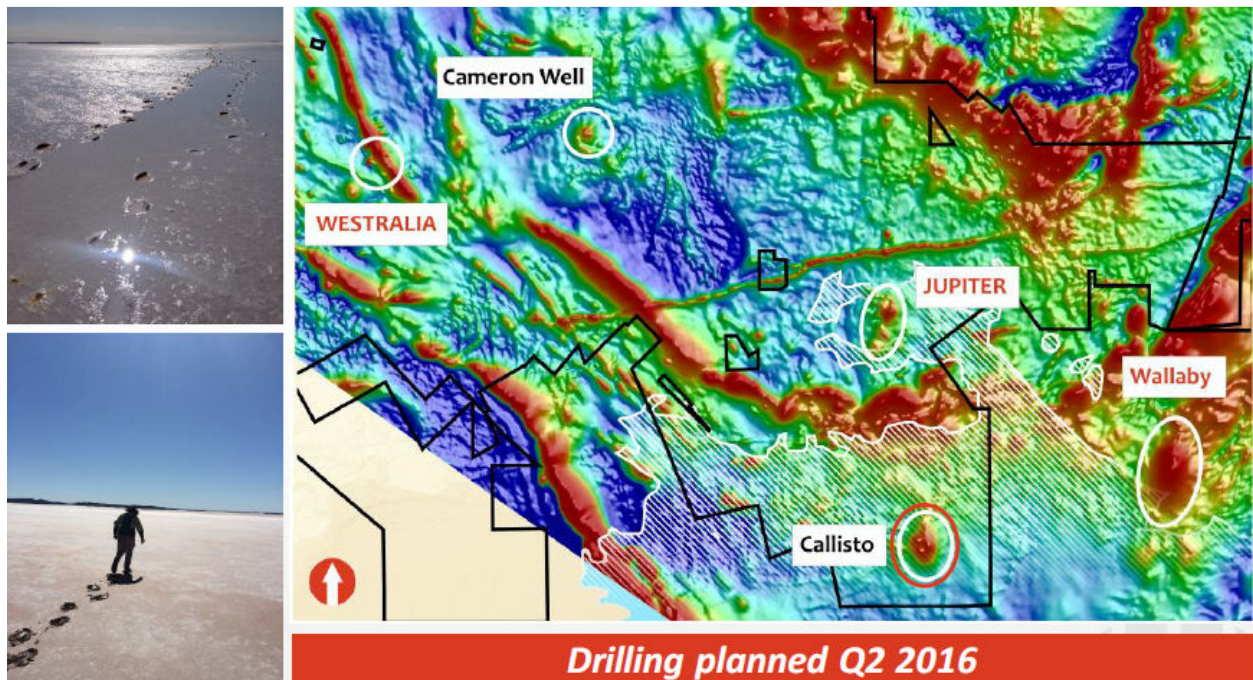
Callisto is a magnetic anomaly which sits 6-7km from the 8moz Wallaby gold deposit.

The anomaly sits 4km into a salt lake (shown in white below) making access very difficult. Which is probably why there have only been 3 holes drilled into this anomaly in the past ~30 years and the reason for the magnetic signature has never been identified.

The company believes the target magnetic rocks lie ~250m below the surface and could be associated with a syenite just like Wallaby.

The company is planning to drill test this underground target with 2 x 800m diamond scissor holes sometime [in early July with initial results likely by the end of the month.](#)

Could Callisto be a mineralised syenite like Jupiter and Wallaby?

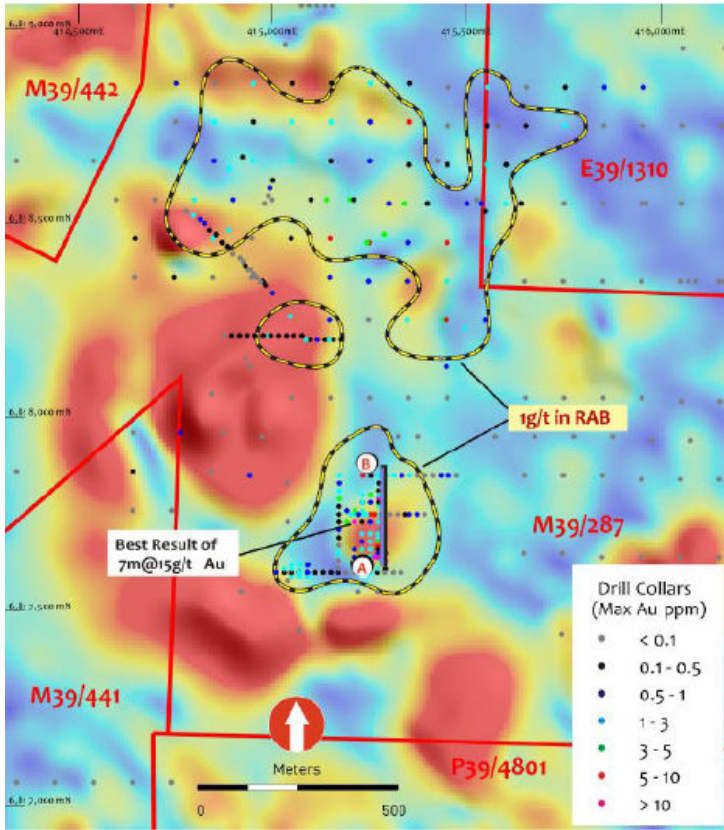


Source: Company

Our View: Given the Wallaby deposit is one of the best discoveries in this region in terms of both size and grade, exploration success at Callisto could be a game-changer for DCN.

CAMERON WELL: 300-400Koz AND UP TO 1MOZ?

Cameron Well is a donut-shaped magnetic anomaly which lies 8-9km from Jupiter. This prospect had some very promising historic drilling results from over 20 years ago (1992/1994).



Source: Company

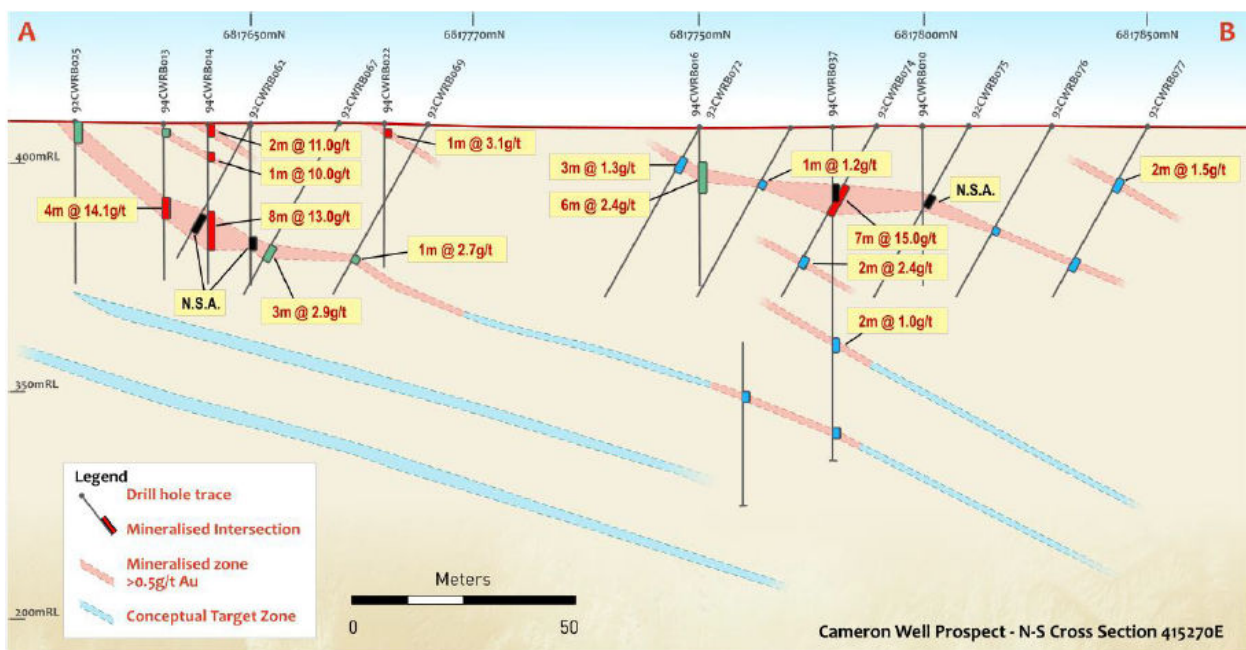
The top outlined area is 800m by 500m and has a number of promising gold hits.

Similarly, the smaller outline with the A-B section has had a number of promising RAB/aircore holes to depths of only 40m confirming:

- High-grade, near-surface gold mineralisation
- including 7m @ 15g/t, 8m @ 13g/t, etc
- Similar flat-lying gold structures Jupiter

We believe this prospect could host at least 300-400koz and potential as much as 1moz in time.

Cameron Well: Section A-B from the picture above



Source: Company

PRICE TARGET & RATING

We endorse Dacian's Scoping Study forecasts for Mt Morgans, but add a modest buffer to first gold production and a material 25% higher sustaining capex until higher confidence studies are completed.

After the success of the recent infill drilling programme and the continued re-rating of gold equities, we reduce the discount applied to NAV from 40% to 20%. We will continue to review this discount as DCN achieves its key de-risking milestones.

We increase our price target to \$3.30 (from \$2.50) for the reasons outlined on p2, based on a 20% discount to NAV at US\$1,250/oz gold. We maintain our High Conviction Buy.

STRATEGIC TARGET

To derive our \$5.50 Strategic Target we assume Dacian successfully makes the transition into production and trades at 1.5x NAV, in line with many of its ASX peers, as outlined on p2.

KEY RISKS

Dacian is exposed to all the normal risks associated with developing and operating mining projects, including permitting, funding and construction risk.

Given the early stage nature of the Mt Morgans project, other key risks for Dacian include metallurgical recoveries (albeit somewhat offset by the fact Mt Morgans is a brownfields operation), as well as a successful infill drilling program to confirm ore bodies are sufficiently continuous to support a viable mining operation. Many investors may also expect ongoing exploration success (and in our view that is likely) and thus Dacian also carries exploration risk.

Assuming the company makes the transition into production, the company's revenues will be derived from the sale of gold. Fluctuations in the gold price as well as the Australian dollar could impact the company's cash flow, profitability and share price.

Dacian's shares also carry an embedded Australian sovereign risk as the company's development projects are based in Western Australia.

MODEL SUMMARY – FINANCIALS & VALUATION

Stock Details					Enterprise Value	\$340m
Recommendation:	BUY				Diluted MCap	\$357m
Target	\$3.30	Share Price	\$2.45		Diluted Shares	146m
NAV	\$3.32	52 Week High	\$2.63		Free Float	100%
Implied Return	35%	52 Week Low	\$0.38		Avg Daily Value	\$0.40m

Macro Assumptions	FY15	FY16E	FY17E	FY18E	FY19E
Exchange Rate (A\$/US\$)	0.84	0.71	0.69	0.68	0.68
Gold Price (US\$/oz)	1,224	1,162	1,250	1,250	1,250
Gold Price Realised (A\$/oz)	1,464	1,637	1,812	1,830	1,843

Profit & Loss (A\$m)	FY15	FY16E	FY17E	FY18E	FY19E
Revenue	-	-	-	-	516
Operating Costs	-	-	-	-	(222)
Operating Profit	-	-	-	-	294
Corporate & Other	(1)	(2)	(2)	(2)	(4)
Exploration Expense	(7)	(9)	(5)	(4)	(2)
EBITDA	(8)	(11)	(7)	(6)	288
D&A	(0)	(0)	(0)	(0)	(49)
EBIT	(9)	(11)	(7)	(6)	239
Net Interest Expense	0	0	0	0	(5)
Pre-Tax Profit	(8)	(10)	(7)	(6)	235
Tax Expense	0	0	-	-	(70)
Underlying Profit	(8)	(10)	(7)	(6)	164
Significant Items (post tax)	-	-	-	-	-
Reported Profit	(8)	(10)	(7)	(6)	164

Cash Flow (A\$m)	FY15	FY16E	FY17E	FY18E	FY19E
Operating Cashflow	(1)	(1)	(2)	(2)	290
Tax	-	-	-	-	-
Net Interest	0	0	0	0	(5)
Net Operating Cash Flow	(1)	(1)	(2)	(2)	285
Exploration	(6)	(8)	(6)	(4)	(2)
Capex	(0)	(3)	(1)	(160)	(28)
Acquisitions / Disposals	-	-	-	-	-
Other	(0)	-	-	-	-
Net Investing Cash Flow	(6)	(11)	(7)	(164)	(30)
Equity Issue	-	24	85	5	1
Borrowing / Repayments	(0)	(0)	-	85	(85)
Dividends	-	-	-	-	-
Other	(0)	-	-	-	-
Net Financing Cash Flow	(0)	24	85	90	(84)
Change in Cash Position	(6)	12	77	(76)	171
FX Adjustments	-	-	-	-	-
Cash Balance	5	16	93	17	188

Balance Sheet (A\$m)	FY15	FY16E	FY17E	FY18E	FY19E
Cash	5	16	93	17	188
Other Current Assets	0	0	0	0	0
PP&E	0	3	4	164	142
Exploration & Development	8	9	9	10	10
Other Non Current Assets	0	0	0	0	0
Total Assets	14	29	107	191	341
Debt	0	0	0	85	0
Other Liabilities	3	5	5	5	75
Net Assets	10	24	102	101	266

Ratio Analysis		FY15	FY16E	FY17E	FY18E	FY19E
Diluted Shares	m	96	146	184	190	191
EPS - Diluted	Ac	(8.4)	(7.5)	(4.4)	(3.1)	86.1
P/E	x	n.m.	n.m.	n.m.	n.m.	2.8x
CFPS - Diluted	Ac	(0.7)	(0.5)	(1.0)	(1.1)	149.7
P/CF	x	n.m.	n.m.	n.m.	n.m.	1.6x
FCF - Diluted	Ac	(1.0)	(2.6)	(1.7)	(85.3)	137.3
P/FCF	x	n.m.	n.m.	n.m.	n.m.	1.8x
Dividends	Ac	-	-	-	-	-
Dividend yield	%	-	-	-	-	-
Payout Ratio	%	-	-	-	-	-
Franking	%	-	-	-	-	-
Enterprise Value	A\$m	352	340	264	425	168
EV/EBITDA	x	(42.1x)	(32.3x)	(38.5x)	(70.8x)	0.6x
ROE	%	(78%)	(43%)	(7%)	(6%)	62%
ROA	%	(59%)	(36%)	(6%)	(3%)	48%

Net Debt / (Cash)		(5)	(16)	(93)	68	(188)
Gearing (ND/(ND+E))	%	n.m.	n.m.	n.m.	40%	(243%)
Gearing (ND/E)	%	n.m.	n.m.	n.m.	67%	(71%)

	P&P Reserves			M&I Resources			Inferred
	mt	g/t	moz	mt	g/t	moz	moz
Westralia	-	-	-	2.2	4.7	0.33	1.19
Jupiter	-	-	-	13.1	1.4	0.60	0.48
Transvaal	-	-	-	0.8	5.5	0.14	0.07
Other	-	-	-	3.7	0.8	0.10	0.14
Sub Total	-	-	-	19.7	1.8	1.17	1.88
Total							3.0

Earnings Sensitivity		FY19E	FY20E	FY19E	FY20E
		A\$m	A\$m	%	%
Gold Price	US\$/oz +10%	25	27	28%	25%
Exchange Rate	A\$/US\$ -10%	28	30	31%	28%

Valuation	Discount	Stake	A\$m	A\$/sh
Mt Morgans (un-risked)		100%	544	3.73
Mt Morgans (risk-adjusted)	20%	100%	435	2.99
Exploration			45	0.31
Corporate & Other			(25)	(0.17)
Debt			-	-
Cash			17.0	0.12
Option Strikes			11.1	0.08
Risk adjusted NAV			483	3.32

Source: IRESS, Company data, Blue Ocean estimates

MODEL SUMMARY – INPUTS & FREE CASH FLOW

Operational Summary		FY18E	FY19E	FY20E	FY21E	FY22E
Mt Morgans - Mining						
<u>Open Pit Ore</u>						
Percent from Open Pits	%	-	65%	45%	66%	74%
Open Pit Mill Feed	kt	-	2,321	1,033	2,115	2,460
Open Pit Head Grade	g/t	-	1.5	1.0	1.3	1.4
<u>Underground Ore</u>						
Percent from Underground	%	-	35%	55%	34%	26%
Underground Mill Feed	kt	-	1,229	1,260	1,079	867
Underground Head Grade	g/t	-	5.9	6.0	4.4	4.6
Mt Morgans - Processing						
Mill Throughput	mt	-	2.5	2.5	2.3	2.5
Head Grade	g/t	-	3.8	3.8	3.0	2.8
Recovery	%	-	91%	91%	91%	92%
Gold Production	koz	-	280	275	200	208
All-in Sustaining Cost	A\$/oz	-	912	848	1,091	1,019

Macro Assumptions		FY18E	FY19E	FY20E	FY21E	FY22E
Exchange Rate	A\$/US\$	0.68	0.68	0.67	0.67	0.67
Gold Price	US\$/oz	1,250	1,250	1,250	1,250	1,250
Gold Price Realised	A\$/oz	1,830	1,843	1,857	1,865	1,866

FCF Contribution	A\$m	FY18E	FY19E	FY20E	FY21E	FY22E
------------------	------	-------	-------	-------	-------	-------

Mt Morgans	A\$m	FY18E	FY19E	FY20E	FY21E	FY22E
Revenue	-	516	510	373	387	
Operating Costs	-	222	192	194	189	
Sustaining Capex	-	28	35	19	16	
Sustaining Exploration	-	2	2	2	2	
Corp Overheads	2	4	4	4	4	
All-in Sustaining Margin	(2)	261	277	155	176	

Group		FY18E	FY19E	FY20E	FY21E	FY22E
Gold Production	koz	-	280	275	200	208
All-in Sustaining Cost	A\$/oz	-	912	848	1,091	1,019
All-in Sustaining Cost	US\$/oz	-	619	571	731	682

Operations	A\$m	FY18E	FY19E	FY20E	FY21E	FY22E
Revenue	-	516	510	373	387	
All-in Sustaining Cost	2	256	233	218	212	
All-in Sustaining Margin	(2)	261	277	155	176	
Growth Capex	160	-	-	-	-	
Growth Exploration	4	-	-	-	-	
All-in Margin	(166)	261	277	155	176	

Corporate	A\$m	FY18E	FY19E	FY20E	FY21E	FY22E
Cash Tax	-	-	40	62	47	
Other Items	-	-	-	-	-	
FCF pre Debt Service	(166)	261	237	92	129	
Net Interest	(0)	5	(5)	(8)	(10)	
Debt Drawdown / (Repayment)	85	(85)	-	-	-	
FCF post Debt Service	(81)	171	242	101	139	

New Equity/Dividends	A\$m	FY17E	FY18E	FY20E	FY21E	FY22E
Proceeds from Shares/Options	5	1	2	4	-	
Dividends Paid	-	-	22	33	26	
Change in Cash	(76)	171	222	72	113	
Cash Balance	17	188	410	482	596	

Source: IRESS, Company data, Blue Ocean estimates

CONTACTS

ANALYST

Steuart McIntyre

Senior Resource Analyst

P +61 2 8072 2909

E steartmcintyre@boeq.com.au

AUTHORITY

David O'Halloran

Executive Director

P +61 2 8072 2904

E doh@boeq.com.au

Rex Adams

Executive Director

P +61 2 8072 2905

E rexadams@boeq.com.au

Gregg Taylor

Senior Industrials Analyst

P +612 8072 2919

E greggtaylor@boeq.com.au

Philip Pepe

Senior Industrials Analyst

P +61 2 8072 2921

E philpepe@boeq.com.au

Stuart Turner

Senior Industrials Analyst

P +61 2 8072 2923

E stuartturner@boeq.com.au

Neon Shariful

Investment Analyst

P +61 2 8072 2910

E neonshariful@boeq.com.au

Emily Mohan

Research Associate

P +612 8072 2907

E emilymohan@boeq.com.au

Adam Stratton

Institutional Dealing

P +61 2 8072 2913

E adamstratton@boeq.com.au

Scott Calcraft

Institutional Dealing

P +61 2 8072 2920

E scottcalcraft@boeq.com.au

Doc Cromme

Institutional Dealing

P +61 2 8072 2925

E doccromme@boeq.com.au

Nic van Vliet

Institutional Dealing

P +61 2 8072 2929

E nvv@boeq.com.au

Josie Nicol

Dealing Associate

P +61 2 8072 2931

E josienicol@boeq.com.au

Tim Potts

Institutional/HNW Dealing

P +61 2 8072 2906

E timpotts@boeq.com.au

HEAD OFFICE

Blue Ocean Equities Pty. Ltd.

AFSL No. 412765

ABN 53 151186935

P +61 2 8072 2988

E info@boeq.com.au

W blueoceanequities.com.au

Level 29, 88 Phillip Street

Sydney NSW 2000

Australia

DISCLAIMER

This document is a private communication to clients and is not intended for public circulation or for the use of any third party, without the prior approval of Blue Ocean Equities Pty Limited. This is general investment advice for Institutional and Sophisticated Investors only and does not constitute personal advice to any person. Because this document has been prepared without consideration of any specific client's financial situation, particular needs and investment objectives you should consult your own investment adviser before any investment decision is made on the basis of this document.

While this document is based on information from sources which are considered reliable, Blue Ocean Equities Pty Limited has not verified independently the information contained in the document and Blue Ocean Equities Limited and its directors, employees and consultants do not represent, warrant or guarantee, expressly or by implication, that the information contained in this document is complete or accurate. Nor does Blue Ocean Equities Limited accept any responsibility for updating any advice, views opinions, or recommendations contained in this document or for correcting any error or omission which may become apparent after the document has been issued.

Except insofar as liability under any statute cannot be excluded. Blue Ocean Equities Pty Limited and its directors, employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this document or any other person.

DISCLOSURE

Blue Ocean Equities Pty Limited, its employees, consultants and its associates within the meaning of Chapter 7 of the Corporations Law may receive commissions, underwriting and management fees from transactions involving securities referred to in this document, and may from time to time hold interests in the securities referred to in this document.

Blue Ocean Equities Pty Limited and associates hold no shares in Dacian at the date of this report and this position may change at any time without notice.