

Australian Equity Research

1 June 2016

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SPECULATIVE BUY

unchanged

PRICE TARGET A\$2.55↑

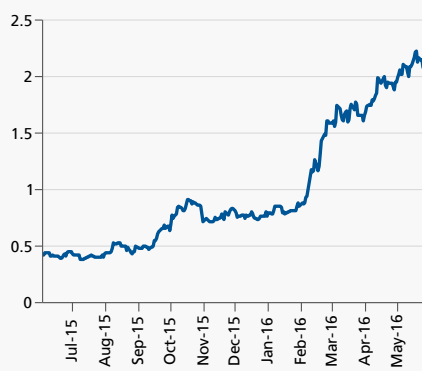
from A\$2.35

Price (1-Jun) A\$2.02

Ticker DCN-ASX

52-Week Range (A\$):	0.38 - 2.25
Avg Daily Vol (M) :	0.4
Market Cap (A\$M):	267
Shares Out. (M) :	132.3
Enterprise Value (A\$M):	250
Cash (A\$M):	17.07
Long-Term Debt (A\$M):	0.0
NAV /Shr (AUC):	2.53
NAV /Shr (5%) (A\$):	3.15
Major Shareholders:	Directors - 12%
	1832 Asset management- 7.1%

FYE Jun	2015A	2016E	2017E	2018E
Gold Production (000oz)	0	0	0	93
All in Sustaining Cost (Gold) (US \$ /oz)	-	-	0	890
EBITDA (A\$M)	(2.0)	(2.0)	(5.2)	64.7
Net Income (A\$M)	(1.2)	(0.9)	(3.8)	29.4↓
Previous	(1.2)	(0.9)	(3.8)	32.8
Free Cash Flow (A\$M)	(6.3)	(12.5)	(134.0)	(31.3)



Source: FactSet

Raising Target Price

Confidence continues to grow

The final set of results from the Morgans Underground drilling program have delivered numerous high grade intersections, compounding our view that the current Inferred resource will form an important part of the company's production profile. DCN is set to release a number of key resource and reserve updates over the next 3 months, which will underpin a DFS that is set for release in late 2016. Our price target has increased to A\$2.55/sh (previously A\$2.35/sh) and we maintain our SPEC BUY recommendation.

Highlights

Positive results build confidence in the Morgans Underground resource. The current Morgans Underground resource stands at 1.2Mt at 9.1g/t for 344koz (Inferred), with the September 2015 Scoping Study envisaging diluted mine grades from the orebody of ~6.8g/t to recover 254koz. Based on results from the in-fill program, we expect the metal content and grade tenor to largely convert from Inferred to Measured/Indicated categories in the resource update due next month. As a result, we are becoming increasingly comfortable in the potential for the Morgans Underground to provide additional upfront, high grade ore supply once the company is in production. We have left our production assumptions unchanged, but highlight the potential for production rates to reach +250koz (CG.est 199koz) in FY19 with access to additional high grade ore.

Bulk underground mining may now be an option at Morgans Underground. DCN has indicated that within the resource envelope, areas of sub-parallel mineralised surfaces (15-35m widths carrying ~5g/t) may be amenable to larger scale, bulk mining methods. We expect DCN to test the concept as part of the DFS optimizations, and highlight the potential positive impact increased underground mining rates could have on the current forecast production rates.

Plenty of newsflow over the next 3 months. Key catalysts in the near term include: 1) Results from the Westralia underground diamond drilling program (CG est. late June) 2) Jupiter open pit resource update (CG est. early July) 3) Morgans Underground resource update (CG est. mid July) and 4) Jupiter maiden reserve (CG est. late July). Further into the 2H 2016, we also expect to see resource and reserve updates for the Westralia and Morgans Underground orebodies which will underpin the release of a DFS later in 2016. Results from ongoing reconnaissance and greenfield exploration programs will also provide newsflow as it is completed.

Revised funding assumptions. On the back of DCN's impressive share price performance, we have reviewed our 50:50 debt to equity financing assumptions. While the quantum and ratio remain the same, we now model the equity component of A\$90M at A\$1.80/sh (previously A\$90M at A\$1.40/sh). Our total funding assumption of A\$180M remains unchanged which in our view provides adequate flexibility for working capital and exploration funding through the construction and ramp-up phase.

Valuation. Our A\$2.55/sh (previously A\$2.35/sh) price target has increased, resultant of lower modeled dilution as per our revised funding assumptions. Our price target is underpinned by an NPV10% for the Mt Morgans asset, net of corporate and other adjustments and diluted for assumed future financing.

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FINANCIAL SUMMARY

Dacian Gold Ltd

ASX:DCN

Analyst: Tim McCormack
Date: 1/06/2016
Year End: June

Rating:
Target Price:

SPEC BUY
\$2.55

Market Information

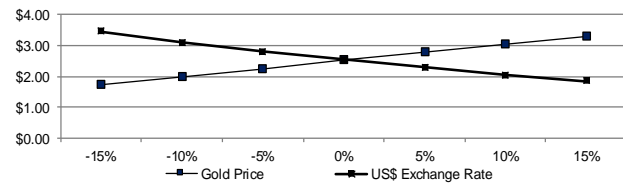
Share Price	A\$	2.02
Market Capitalisation	A\$m	267.3
12 Month Hi	A\$	2.25
12 Month Lo	A\$	0.38
Average daily turnover (3 month)	m	0.378
Issued Capital	m	132.33
ITM Options	m	4.00
Fully Diluted	m	136.33

Valuation diluted for funding

	A\$m	A\$/share
Mt Morgans NPV @ 10%	349.9	1.92
Exploration & Projects	35.0	0.19
Corporate	(29.1)	(0.16)
Forwards (inc spot deferred)	-	-
Cash & Bullion	17.1	0.09
Debt	-	-
Unpaid Capital	90.0	0.49
TOTAL NAV	462.9	2.53
Price:NAV		0.80x
NAV at Spot US\$1,216/oz, AUDUSD \$0.73		2.10
Target Price		2.55

Assumptions	2015a	2016e	2017e	2018e
Gold Price (US\$/oz)	1,226	1,173	1,298	1,308
AUD:USD	0.835	0.734	0.752	0.740
Gold Price (A\$/oz)	1,469	1,598	1,726	1,768

Valuation Sensitivity



Production Metrics	2015a	2016e	2017e	2018e
Mt Morgans				
Gold production (koz)	0	0	0	93.0
AISC (A\$/oz)	0	0	0	1,210

Resources & Reserves

Mt Morgans - Resources	Mt	Grade	Moz
Westralia	9.2	5.1	1.5
Jupiter	24.0	1.3	1.0
Jupiter - Heap Leach	9.0	0.0	0.1
Transvaal	3.6	2.8	0.3
Ramomie	0.4	4.0	0.1
Craic	0.2	7.5	0.0
King Street	0.5	2.0	0.0
Total resources	47.1	2.00	3.1
Mt Morgans - Reserves			
Craic	0.0	9.20	0.01
Transvaal	0.7	6.10	0.13
Total reserves	0.7	6.20	0.14

Directors & Management

Name	Position
Rohan Williams	Executive Chairman
Barry Patterson	Non-Executive Director
Rob Reynolds	NE Director
Dan Baldwin	Exploraiton Manager
James Howard	Project Manager

Substantial Shareholders

	Shares (m)	%
Directors	15.80	12.0%
1832 Asset Management	9.40	7.1%
Brian Rodan	7.70	5.8%

Company Description

Dacian Gold Ltd (DCN:ASX) is a gold mining company developing its 100%-owned Mt Morgans gold project in Western Australia. The project has the potential to be a +180kozpa operation and on the back of a successful feasibility study we expect the production to begin in 2018.

Profit & Loss (A\$m)	2015a	2016e	2017e	2018e
Revenue	0.0	0.0	0.0	166.2
Operating Costs	0.0	0.0	0.0	-85.2
Royalties	0.0	0.0	0.0	-6.3
Corporate & O'heads	-2.0	-2.0	-5.2	-8.4
Exploration (Expensed)	0.0	0.0	0.0	-1.6
EBITDA	-2.0	-2.0	-5.2	64.7
Dep'n	0.0	0.0	0.0	-17.4
EBIT	-2.0	-2.0	-5.2	47.3
Net Interest	0.3	0.8	-0.2	-5.3
Tax	0.5	0.4	1.6	-12.6
NPAT	-1.2	-0.9	-3.8	29.4
Abnormals	0.0	0.0	0.0	0.0
NPAT (reported)	-1.2	-0.9	-3.8	29.4

Cash Flow (A\$m)	2015a	2016e	2017e	2018e
Cash Receipts	0.0	0.0	0.0	166.2
Cash paid to suppliers & emp	-2.3	-1.3	-5.2	-100.0
Tax Paid	0.0	0.0	1.3	-12.6
Net Interest	-0.1	0.8	-0.2	-5.3
Operating Cash Flow	-2.3	-0.5	-4.1	48.4
Exploration and Evaluation	-4.0	-6.0	-6.0	-6.0
Capex	0.0	0.0	-124.0	-73.7
Other	0.0	-6.0	0.0	0.0
Investing Cash Flow	-4.0	-12.0	-130.0	-79.7
Debt Drawdown (repayment)	0.0	0.0	90.0	-8.0
Share capital	0.0	25.0	90.0	0.0
Dividends	0.0	0.0	0.0	0.0
Financing Expenses	0.0	0.0	-5.0	0.0
Financing Cash Flow	0.0	25.0	175.0	-8.0
Opening Cash	10.9	4.6	17.1	58.0
Increase / (Decrease) in cash	-6.3	12.5	41.0	-39.3
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	4.6	17.1	58.0	18.8

Balance Sheet (A\$m)	2015a	2016e	2017e	2018e
Cash + S/Term Deposits	4.6	17.1	58.0	18.8
Other current assets	0.1	6.2	11.9	55.4
Current Assets	4.8	23.2	69.9	74.2
Property, Plant & Equip.	0.5	0.5	124.5	180.8
Exploration & Develop.	12.1	18.2	24.4	29.1
Other Non-current Assets	0.0	0.0	0.0	0.0
Payables	0.0	0.1	0.5	13.4
Short Term debt	0.0	0.0	8.0	22.0
Long Term Debt	0.0	0.0	82.0	60.0
Other Liabilities	0.6	1.0	1.2	32.1
Net Assets	16.8	40.9	127.2	156.6
Shareholders Funds	29.2	54.2	144.2	144.2
Reserves	0.5	0.5	0.5	0.5
Retained Earnings	-12.9	-13.8	-17.6	11.9
Total Equity	16.8	40.9	127.2	156.6

Ratios & Multiples	2015a	2016e	2017e	2018e
EBITDA Margin	nm	nm	nm	39%
EV/EBITDA	nm	nm	nm	6.7x
Op. Cashflow/Share	-\$0.02	\$0.00	-\$0.02	\$0.27
P/CF	-82.9x	-497.8x	-90.6x	7.6x
EPS	-\$0.01	-\$0.01	-\$0.02	\$0.16
EPS Growth	nm	nm	nm	-881%
PER	-158.6x	-272.5x	-98.0x	12.5x
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	0%	0%	0%	0%
ROE	-7%	-2%	-3%	19%
ROIC	-5%	-3%	-2%	17%
Debt/Equity	0%	0%	64%	38%
Net Interest Cover	-7.7x	nm	-0.8x	6.8x
Book Value/share	\$0.17	\$0.31	\$0.70	\$0.86
Price/Book Value	11.6x	6.5x	2.9x	2.4x

Source: DCN & Canaccord Genuity estimates

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Target Price / Valuation Methodology:

Dacian Gold Limited - DCN

We base our valuation on a DCF analysis (NPV10%) of the Mt Morgans gold project, net of corporate and other adjustments and diluted for assumed future financing.

Risks to achieving Target Price / Valuation:

Dacian Gold Limited - DCN

Funding risk

As a pre-production Company with no material income, DCN is reliant on equity and debt markets to fund feasibility studies and development of the Mt Morgans project. We can make no assurances that accessing these markets will be done without further dilution to shareholders.

Exploration risks

Exploration is subject to a number of risks and can require a high rate of capital expenditure. Risks can also be associated with conversion of inferred resources and lack of accuracy in the interpretation of geochemical, geophysical, drilling and other data. No assurances can be given that exploration will delineate further minable reserves.

Operating risks

Once in production, the Company will be subject to risks such as plant/equipment breakdowns, metallurgical (some pyrrhotite at Westralia), seismic activity and other technical issues. An increase in operating costs could reduce the profitability and free cash generation from the operating assets considerably and negatively impact valuation. Further, the actual characteristics of an ore deposit may differ significantly from initial interpretations which can also materially impact forecast gold production from original expectations.

Commodity price and currency fluctuations

The Company is directly exposed to commodity price and currency fluctuations. Commodity price fluctuations are driven by many macro-economic forces including inflationary pressures, interest rates and supply and demand of commodities. These factors could reduce the profitability, costing and prospective outlook for the business.

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Global Stock Ratings (as of 06/01/16)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	521	59.14%	34.36%
Hold	275	31.21%	17.82%
Sell	27	3.06%	3.70%
Speculative Buy	58	6.58%	65.52%
	881*	100.0%	

*Total includes stocks that are Under Review

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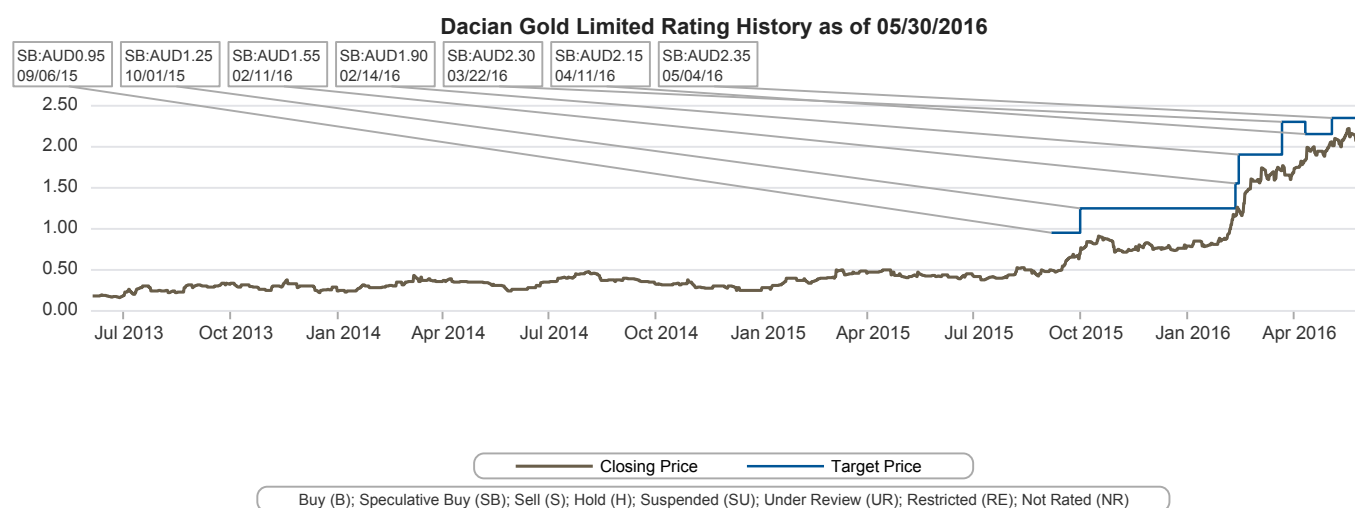
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