

Dacian Gold Ltd

(DCN \$3.50) Speculative Buy

EUROZ

Analyst	Date	Price Target
Jon Bishop	7 th July 2016	\$5.00/sh

Chasing the Ace: Upgrade to Valuation & Price Target

Investment case

DCN continues to be our preferred emerging gold producer. The recently completed 90,000m drill program points to significant resource growth and economies of scale if a single large open pit is justified. The potential for higher production in the early years as Morgans U/G is bought forward should improve the scoping study economics. The exploration upside is substantial with newly identified prospective syenite corridors. Looking at the peer group, CF and Earnings Multiples applied our project earnings would justify DCN trading at twice the current share price. Accounting for this and reduced assumed dilution, we have increased our valuation to \$3.50/sh and set a higher \$5.00/sh Price Target reflective of imminent newsflow that should significantly enhance implied project economics.

Key points

- DCN has increased in value by \$3/sh since we initiated coverage in April last year and now eyeballs the panacea of small cap broking: the 10-bagger;
- The Company is in the midst of a substantial drilling campaign that will enhance project resources and reserves in the near term which will boost project economics;
- Furthermore, an on-going exploration campaign will capture market attention with material drill targets being tested over the coming months;
- In an attempt to get ahead of the share price's upward trajectory, we have compared DCN to our gold producer universe under coverage to get a sense of the multiples the market will be prepared to pay as DCN enters production phase in FY'19:

Dacian Gold	Year End 30 June	
Share Price	3.50	A\$/sh
Price Target	5.00	A\$/sh
Valuation	3.47	A\$/sh
	(npv 10%)	

Shares on issue	132	m, diluted *
Market Capitalisation	461	A\$m
Enterprise Value	444	A\$m
Debt	0	A\$m
Cash	17	A\$m
Largest Shareholder	1837	Asst Mgmt
8.14%		

Production F/Cast	2016f	2017f	2018f
Attrib. Prod'n (koz)	0	0	13
Cash Cost (A\$/oz)	n/a	n/a	458
Total Cost (A\$/oz)	n/a	n/a	718

Assumptions	2016f	2017f	2018f
Gold US\$/oz	1183	1288	1325
AUDUSD	1.03	0.92	0.89

Key Financials	2016f	2017f	2018f
Revenue (A\$m)	1	5	28
EBITDA (A\$m)	-4	-4	14
NPAT (A\$m)	-2	-2	5
Cashflow (A\$m)	-4	-1	-110

CFPS (Ac)	-2	-41	-47
P/CFPS (x)	na	na	na

EPS (Ac)	-2	-1	4
EPS growth (%)	na	na	na
PER (x)	na	na	93.8

EV:EBITDA (x)	na	na	34.7
EV:EBIT (x)	na	na	46.2

DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%

ND:Net Debt+Equity (%)	na	na	27%
Interest Cover (x)	na	na	na

Share Price Chart



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	BDR	EVN	IGO	MML	MLX	NST	RRL	RSG	SAR	TRY	Peer Av	DCN	DCN SP potential
Share Price	0.53	3	3.8	0.78	1.57	5.82	4	1.55	1.66	0.63		3.50	COMMENTS
Mcap	559	4405	1980	162	753	3494	2000	1161	1329	215		467	at full production
NPV	0.42	1.28	4.36	1.03	1.43	2.34	2.45	1.00	0.88	0.83		2.67	not allowing for resource upgrade
PT	0.42	1.65	4.50	1.00	1.35	3.90	3.50	1.00	1.10	0.80		3.00	not allowing for change to prod profile
% (Price/NPV)	126%	234%	87%	76%	110%	249%	163%	155%	189%	76%		131%	
EPS'18	0.05	0.24	0.80	0.28	0.24	0.44	0.36	0.05	0.16	0.14		0.04	COMMENTS
EPS'19	0.06	0.16	0.70	0.22	0.17	0.48	0.32	0.08	0.19	0.02		0.91	allowing for 40m new shares to fund development
EPS'20	0.06	0.15	0.64	0.27	0.16	0.46	0.30	0.09	0.22	0.10		0.92	
PE'18	10.00	12.73	4.77	2.81	6.56	13.37	11.00	30.79	10.07	4.52	10.66	87.50	
PE'19	9.12	18.69	5.46	3.56	9.17	12.05	12.36	19.80	8.84	26.35	12.54	3.85	\$11.41
PE'20	9.24	20.31	5.90	2.90	10.07	12.73	13.14	18.08	7.51	6.57	10.64	3.80	\$9.79
CF'18	81.36	660.31	523.15	60.57	128.97	480.88	256.99	-25.63	199.02	97.21		-108.00	COMMENTS
CF'19	101.36	596.43	495.27	57.58	123.07	434.75	235.17	53.71	199.84	106.93		186.00	netting off \$180m in dev and working cap
CF'20	108.93	514.00	455.25	61.18	97.87	363.63	228.07	111.58	224.32	41.81		193.00	
P:CF'18	6.87	6.67	3.78	2.68	5.84	7.27	7.78	na	6.68	2.21	5.53	na	
P:CF'19	5.52	7.39	4.00	2.81	6.12	8.04	8.50	21.62	6.65	2.01	7.27	2.51	\$7.19
P:CF'20	5.13	8.57	4.35	2.65	7.70	9.61	8.77	10.40	5.93	5.14	6.82	2.42	\$6.98

Source: EZL forecasts from Company data

- As can be seen from the table, cash generation is richly rewarded, particularly in a strong gold price environment;
- Allowing for 40m new shares and \$100m in debt to fund development and working cap, the peer multiples support some eye-watering potential share prices;
- This is without accounting for exploration success and improvements to project scale and life;
- We have reduced our assumed dilution to fund development (on account of the current share price): Our valuation increases to \$3.47/sh;
- We set a \$5.00/sh Price Target reflective of imminent newsflow that should significantly enhance implied project economics and the metrics that DCN's peer group suggest are in the offing as the Mt Morgans project gets into production.
- In the near term, we anticipate:
 1. First assays from exploration drilling (Callisto – results from Aug; Jupiter regional and Cameron Well from July);
 2. New upgraded resources at Westralia and Jupiter in the coming weeks;
 3. Maiden reserve for Jupiter in August;

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Market Statistics		Year End 30 June			
Share Price	\$3.50	A\$/sh	Directors		
Issued Capital			R Williams	Ex Chr'n	
Fully paid Ord.	132.4	m	R Reynolds	NE Dir	
Opts @ var	10.2	m	B Patterson	NE Dir	
Total	134.4	m	I Cochrane	NE Dir	
Market Capitalisation	\$461	m	Shareholders		
Enterprise Value	\$444	m	1832 Asset Mgmt	8.2%	
Debt	\$-	m	Colonial	6.1%	
Cash	\$17	m			
Hedging	Nil				

Asset Valuation	A\$m	A\$/sh
Mt Morgans @ 80%	548	3.14
Hedging	-	-
Corporate	(20)	(0.11)
Exploration	50	0.29
Unpaid Capital*	9	0.05
Debt	-	-
Cash	17	0.10
Total	605	3.47

F/Cast Production (A\$m)	2016f	2017f	2018f	2019f	2020f	
Mount Morgans	koz	0	0	13	201	209
Avg Cash Cost (A\$/oz)	US\$/oz	n/a	n/a	458	710	729
Avg Total Cost (A\$/oz)	US\$/oz	n/a	n/a	718	860	897
Avg All in Costs (A\$/oz)				879	892	
Avg Spot Price (US\$)	US\$/oz	1,158	1,238	1,325	1,350	1,350
Avg Price Rec'd (A\$)	US\$/oz	1,594	1,695	1,791	1,765	1,731
USD:AUD	US\$/oz	0.73	0.73	0.74	0.77	0.78

Ratio Analysis (A\$m)	2016f	2017f	2018f	2019f	2020f
CF (A\$m)	(4)	(1)	(110)	187	190
CF / Sh (Ac/sh)	(2)	(41)	(47)	82	86
CF Ratio (x)	na	na	na	4.3	4.1
Earnings (A\$m)	(3)	(3)	7	160	157
EPS (Ac/sh)	(2)	(1)	4	92	91
EPS Growth (%)	na	na	na	2354%	0%
Earnings Ratio (x)	na	na	93.8	3.8	3.8
E'prise Val. (A\$m)	446	563	650	517	374
EV : EBITDA (x)	na	na	34.7	2.1	2.2
EV : EBIT (x)	na	na	46.2	2.5	2.6
Net Debt / ND+Eq (%)	na	na	27%	na	na
Interest Cover (x)	na	na	na	39.3	na
EBIT Margin (%)	na	na	43%	50%	47%
ROE (%)	-10%	-2%	4%	50%	34%
ROA (%)	-17%	-2%	5%	63%	46%
Div. (Ac/sh)	-	-	-	-	-
Div. payout ratio (x)	-	-	-	-	-
Div. Yield (%)	0%	0%	0%	0%	0%
Div. Franking (%)	0%	0%	0%	0%	0%

Profit and Loss (A\$m)	2016f	2017f	2018f	2019f	2020f
Gold Revenue	0	0	24	355	361
Hedging Revenue	-	(0)	-	-	-
Interest Revenue	1	5	4	3	7
Other Revenue	-	-	-	-	-
TOTAL REVENUE	1	5	28	358	369
Operating Costs	0	0	6	143	152
Dep/Amort	0	0	3	30	35
W/O & Provisions	-	-	-	-	-
Corp O/H	4	4	4	4	4
EBITDA	(4)	(4)	14	208	205
EBIT	(4)	(4)	10	178	170
Interest Expense	-	4	8	7	2
NPBT	(3)	(3)	7	175	175
Tax	(1)	(1)	2	52	53
Minorities	-	-	-	-	-
NET PROFIT	(2)	(2)	5	122	123
Net Abnormal Gain/(Loss)	-	-	-	-	-
NET PROFIT After Abn'l	(2)	(2)	5	122	123

Cash Flow (A\$m)	2016f	2017f	2018f	2019f	2020f
Net Profit	(2)	(2)	5	122	123
+ Working Capital Adj.	-	-	-	-	-
+ Dep/Amort	0	0	3	30	35
+ Provisions	-	-	-	-	-
+ Tax Expense	(1)	(1)	2	52	53
- Tax Paid	(0)	(1)	2	42	42
- Deferred Revenue	-	-	-	-	-
Operating Cashflow	(3)	(2)	9	163	168
-Capex + Development	-	70	90	20	20
-Exploration	8	5	-	10	10
-Assets Purchased	-	-	-	-	-
+Asset Sales	-	-	-	-	-
+ Other	-	-	-	-	-
Investing Cashflow	(8)	(75)	(90)	(30)	(30)
+Equity Issues	25	100	-	-	-
+Loan D'down/Receivable	-	80	-	-	-
-Other	-1.25	0	0	0	0
-Loan Repayment	-	-	-	40	40
-Dividends	-	-	-	-	-
Financing Cashflow	24	180	-	(40)	(40)
Period Sur (Def)	13	103	(81)	93	98
Cash Balance	15	118	36	129	227

Balance Sheet (A\$m)	2016f	2017f	2018f	2019f	2020f
Assets					
Cash	15	118	36	129	227
Current Receivables	0	0	0	0	0
Other Current Assets	-	-	-	-	-
Non-Current Assets	9	79	165	155	140
Total Assets	24	196	202	284	367
Liabilities					
Borrowings	-	80	80	40	-
Current Accounts Payable	0	0	0	0	0
Other Liabilities	1	1	1	1	1
Total Liabilities	2	82	82	42	2
Net Assets	22	115	120	243	366

Reserves and Resources

	Reserves mt	Reserves g/t	koz	Resources mt	Resources g/t	koz
Westralia		6.2	136	9.2	5.1	1,500
Jupiter				28.9	1.6	1,468
Jupiter heap-leach				9.0	0.4	112
Total (koz)			136			3,080
EV per oz						160

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