

Dacian Gold Ltd

(DCN \$2.58) Speculative Buy

EUROZ

Analyst	Date	Price Target
Jon Bishop	16 th June 2016	\$3.00/sh

Upgrade to Valuation & Price Target

Investment case

DCN continues to be our preferred emerging gold producer. Today's release builds upon the insights gained from our site visit that highlighted the large scale and excellent optionality on both the open pit and underground resource. Furthermore, 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. We retain our Spec Buy recommendation with an increased \$3.00/sh Price Target reflective of imminent positive newsflow.

Key points

- We have recently upgraded our long term gold price assumptions to US\$1,350/oz (from US\$1,275/oz);
- This has had material uplift to our valuation; now \$2.67/sh (prev. \$2.46/sh);
- Strong newsflow continues with the Company releasing assays from holes designed to test wall rock competence (thus outside of known mineralisation):
 - 87.1m @ 1.7g/t (Heffernans);
 - 38.0m @ 1.5g/t (Heffernans);
 - 45.3m @ 1.5g/t (Doublejay);
 - 17.0m @ 1.5g/t (Heffernans);
- Recognising today's drilling results in addition to the recently completed 90,000m programme and impending news-flow, we have upgraded our Price Target to \$3.00/sh;
- In the near term, we anticipate:
 - Final assays from the balance of the underground drilling;
 - First assays from exploration drilling (Callisto - results from Aug; Jupiter regional and Cameron Well from July);
 - New upgraded resources at Westralia and Jupiter in the coming weeks;
 - Maiden reserve for Jupiter in August;
- We see these as key catalysts in that they will smooth out the production profile (substantiating LOM av. production closer to the peak output rate of +250kozpa forecast for yrs 3&4 under the scoping study) and potentially extend mine life;
- This will clearly enhance project economics and the investment proposition;
- Our \$3.00/sh Price Target has been sense checked by scenario building whereby we bring forward the inferred underground resources into the production schedule to deliver over 200kozpa in years 1 and 2.
- This underwrites \$2.90/sh valuation before making any further assumptions regarding extension to LOM via inc. to resources at Jupiter and Westralia.

Dacian Gold Ltd	Year End 30 June	
Share Price	2.58	A\$/sh
Price Target	3.00	A\$/sh
Valuation	2.67	A\$/sh (npv 10%)
Shares on issue	132	m, diluted *
Market Capitalisation	338	A\$m
Enterprise Value	315	A\$m
Debt	0	A\$m
Cash	23	A\$m
Largest Shareholder	Brian Rodan 5.83%	

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	-108
CFPS (Ac)	-2	-37	-42
P/CFPS (x)	na	na	na
EPS (Ac)	-2	-1	3
EPS growth (%)	na	na	na
PER (x)	na	na	81.4
EV:EBITDA (x)	na	na	29.9
EV:EBIT (x)	na	na	40.1
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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Analysis

There should be plenty of news flow over the remainder of CY'16.

DCN has recently completed 90,000m drill program since Dec'15 – an impressive effort and, the results to date, suggest resources will grow and the potential for a single open pit over 1.8km appears good.

DCN is targeting a Jupiter resource upgrade by June and a maiden reserve by Aug/Sept'16. Similarly we expect the Westralia U/G incorporating the Morgans U/G to have an updated resource late 2nd Q/early 3rd Q CY'16.

The Feasibility Study remains on track to be completed by end of CY'16. Whilst often the transition from scoping study to FS leads to lowering of NPV as optimistic assumptions used in the scoping are truth tested, we believe the reverse could be the case for DCN.

The scoping study revealed peak production in Yrs 3 and 4 of ~280koz as the inferred Morgan U/G inventory was required to be back ended due to ASIC requirements. The FS will look at the optimal schedule and may well result in production of +250koz in the early years.

The exploration upside is very good and the recognition of the controlling structure on the mineralisation is important as is the detailed magnetic survey which has potential to identify other mineralised syenite in the new corridors.

Our valuation of \$2.67/sh is based on the scoping study production scenario. We note in peak production years, operating CF of ~\$200m is possible putting in on a CFM of <2x. This compares with current domestic gold producers which trade on 4-6x CFM.

We set a higher \$3.00/sh Price Target due to impending positive newsflow and recognising corresponding upside risk to our valuation.

We rate DCN as the best emerging gold producer. It offers scale, margin, a first class mgt team and real exploration upside.

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Market Statistics		Year End 30 June			
Share Price	\$2.58 A\$/sh	Directors			
Issued Capital		R Williams		Ex Chr'n	
Fully paid Ord. Shares	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 \$338 m		Shareholders			
Enterprise Value	\$321 m	Brian Roden		5.8%	
Debt	\$-	Colonial		6.1%	
Cash	\$17 m				
Hedging	Nil				

Asset Valuation	A\$m	A\$/sh
Mt Morgans @ 80%	456	2.41
Hedging	-	-
Corporate	(20)	(0.10)
Exploration	50	0.26
Unpaid Capital*	9	0.05
Debt	-	-
Cash	17	0.07
Total	513	2.67

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	730
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	1,183	1,288	1,325	1,350	1,350
Avg Price Rec'd (A\$)	US\$/oz	1,628	1,717	1,755	1,765	1,742
USD:AUD	US\$/oz	0.73	0.75	0.76	0.77	0.78

Ratio Analysis (A\$m)	2016f	2017f	2018f	2019f	2020f
CF (A\$m)	(4)	(1)	(108)	186	193
CF / Sh (Ac/sh)	(2)	(37)	(42)	74	79
CF Ratio (x)	na	na	na	3.5	3.3
Earnings (A\$m)	(3)	(3)	6	160	160
EPS (Ac/sh)	(2)	(1)	3	83	84
EPS Growth (%)	na	na	na	2518%	2%
Earnings Ratio (x)	na	na	81.4	3.1	3.1
E'prise Val. (A\$m)	323	449	536	404	261
EV : EBITDA (x)	na	na	29.9	1.5	1.5
EV : EBIT (x)	na	na	40.1	1.8	1.8
Net Debt / ND+Eq (%)	na	na	27%	na	na
Interest Cover (x)	na	na	na	38.7	na
EBIT Margin (%)	na	na	43%	50%	47%
ROE (%)	-10%	-2%	4%	50%	34%
ROA (%)	-17%	-2%	5%	63%	47%
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	364
Hedging Revenue	(0)	-	-	-	-
Interest Revenue	1	5	4	3	7
Other Revenue	-	-	-	-	-
TOTAL REVENUE	1	5	28	358	371
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	207
EBIT	(4)	(4)	10	178	172
Interest Expense	-	4	8	7	2
NPBT	(3)	(3)	7	174	177
Tax	(1)	(1)	2	52	53
Minorities	-	-	-	-	-
NET PROFIT	(2)	(2)	5	122	124
Net Abnormal Gain/(Loss)	-	-	-	-	-
NET PROFIT After Abn'l	(2)	(2)	5	122	124

Cash Flow (A\$m)	2016f	2017f	2018f	2019f	2020f
Net Profit	(2)	(2)	5	122	124
+ Working Capital Adj.	-	-	-	-	-
+ Dep/Amort	0	0	3	30	35
+ Provisions	-	-	-	-	-
+ Tax Expense	(1)	(1)	2	52	53
- Tax Paid	(0)	(1)	2	42	43
- Deferred Revenue	-	-	-	-	-
Operating Cashflow	(3)	(2)	8	163	170
-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	(82)	93	100
Cash Balance	15	118	36	129	229

Balance Sheet (A\$m)	2016f	2017f	2018f	2019f	2020f
Assets					
Cash	15	118	36	129	229
Current Receivables	0	0	0	0	0
Other Current Assets	-	-	-	-	-
Non-Current Assets	9	79	165	155	140
Total Assets	24	196	201	284	369
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	242	367

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						113

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