



Rating  
**Buy**

Australasia  
Australia

M&M - Gold

Company  
**Dacian Gold**

Reuters  
DCN.AX

Bloomberg  
DCN AU

Exchange  
ASX

Ticker  
DCN

Date  
25 November 2016

## Forecast Change

Price at 25 Nov 2016	2.77
Price target - 12mth	3.60
52 week range (AUD)	3.95 - 0.73
ALL ORDINARIES	5,554

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## Mt. Morgan PFS lower risk, lower reward; Buy retained

### Higher capex, lower grades but the project remains attractive even at spot

DCN has released the Mt. Morgan Pre-Feasibility Study and 1.2Moz maiden reserve, with the key points being higher upfront capital and a Westralia u/g reserve grade of 4.6g/t, 20% below resource grade. The higher capital cost of A\$172m (+10% above scoping study numbers) is in line with our forecasts, but we had not considered A\$48m in upfront development costs; this investment should bring forward u/g production. The lower reserve grade is driven by more conservative dilution estimates, but this broader mining method should also mean lower mining costs. Our valuation has fallen by 40cps to \$3.60/sh, which includes dilution from an A\$150m raising at A\$2.50/sh; maintain Buy.

### Focus on capex and grade, but benefits to both in the long term

The Mt. Morgan PFS has restated capex at A\$172m (incl. 10% contingency), 10% higher than the A\$157m assumption from the Scoping Study, but in line with our previous forecasts. The A\$48m in mine establishment capital costs should open up more mining fronts earlier in the asset life which is a lower risk strategy, albeit at higher upfront cost. This outlay leads to stronger production in early periods and higher FY18 earnings. The Westralia maiden reserve of 1.2Moz at 4.6g/t is lower grade than we assumed, as the PFS assumptions factor in up to 20% dilution from mining. This bulkier mining approach should have a positive impact on mining costs, and as a result we reduce our mining costs from +30% to +10% of A\$70/t guidance. If DCN can control dilution there is upside to grade. We remain constructive on further exploration success at Westralia and assume two years life beyond the mining inventory.

### Catalysts from here: permitting, financing within months

DCN expects regulatory approvals (mine proposal and mine closure plans, native vegetation clearing, works approval and license) to be completed by the end of the year and commencement of plant construction from the beginning of 2017. We currently assume DCN sources financing solutions next quarter, with our base case assumption being A\$150m raised at A\$2.50/sh (a 10% discount to the current share price) and A\$100m sourced in debt funding; our previous assumption was A\$100m raised at A\$3.00/sh; this adjustment accounts for 20cps (8%) of our NPV decline.

### A\$3.60/sh PT (prev. \$4.00/sh); lower NPV on capex, grade, equity dilution; Buy

Our A\$3.60/sh PT is set broadly in line with our DCF valuation using a 10% nominal discount rate and LT assumptions of US\$1,300/oz and 0.75 AUDUSD. Our spot NPV is A\$2.75/sh, in line with the current share price. We now assume an A\$150m raising at A\$2.50/sh in our valuation. Downside risks incl. delays to project development, lower gold price and higher AUD (see Page 5).

### Key changes

Price target	4.00 to 3.60	↓	-10.0%
EBIT margin (FYE)	-15,004,000.0 to 16,404,000.0	↓	9.3%
Net profit (FYE)	-5.1 to -5.6	↓	9.7%

Source: Deutsche Bank

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-18.6	-20.7	250.0
ALL ORDINARIES	0.5	-1.8	5.3

Source: Deutsche Bank

### Forecasts And Ratios

Year End Jun 30	2016A	2017E	2018E	2019E	2020E
EPS (AUD)	-0.16	-0.03	0.14	0.56	0.49
OLD EPS (AUD)	-0.16	-0.03	0.01	0.61	0.76

Source: Deutsche Bank estimates, company data



Model updated: 25 November 2016

## Running the numbers

Australasia

Australia

M&amp;M - Gold

## Dacian Gold

Reuters: DCN.AX

Bloomberg: DCN AU

## Buy

Price (25 Nov 16) AUD 2.77

Target Price AUD 3.60

52 Week range AUD 0.73 - 3.95

Market Cap (m) AUDm 452

USDm 335

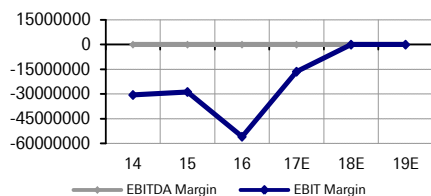
## Company Profile

Dacian Gold is a Western Australia-based gold exploration and development company. It owns 100% of the Mt. Morgans Gold Project, which is expected to come into production in 2018.

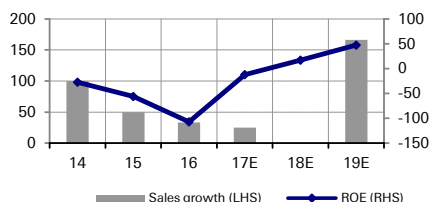
## Price Performance



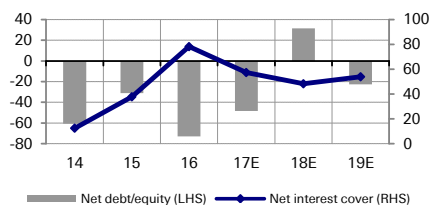
## Margin Trends



## Growth &amp; Profitability



## Solvency



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Fiscal year end 30-Jun

## Financial Summary

	2014	2015	2016	2017E	2018E	2019E
DB EPS (AUD)	-0.06	-0.08	-0.16	-0.03	0.14	0.56
Reported EPS (AUD)	-0.06	-0.08	-0.16	-0.03	0.14	0.56
DPS (AUD)	0.00	0.00	0.00	0.00	0.00	0.11
BVPS (AUD)	0.19	0.11	0.10	0.79	0.93	1.44

## Valuation Metrics

Price/Sales (x)	nm	nm	nm	nm	3.0	1.1
P/E (DB) (x)	nm	nm	nm	nm	20.1	4.9
P/E (Reported) (x)	nm	nm	nm	nm	20.1	4.9
P/BV (x)	1.9	4.0	29.2	3.5	3.0	1.9
FCF yield (%)	nm	nm	nm	nm	nm	25.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	4.1
EV/Sales	770,662.8	967,901.5	3,480,864.3	8,611,984.1	3.2	1.1
EV/EBITDA	-2.6	-3.5	-6.3	-52.5	8.4	2.3
EV/EBIT	-2.5	-3.4	-6.2	-52.5	12.1	2.8

## Income Statement (AUDm)

Sales	0	0	0	0	150	398
EBITDA	-6	-8	-22	-8	56	196
EBIT	-6	-9	-22	-8	39	158
Pre-tax profit	-6	-8	-22	-8	38	155
Net income	-6	-8	-22	-6	27	108

## Cash Flow (AUDm)

Cash flow from operations	-1	-1	-1	-4	45	150
Net Capex	0	0	-1	-65	-165	-11
Free cash flow	-1	-1	-2	-69	-120	139
Equity raised/(bought back)	0	0	24	145	0	0
Dividends paid	0	0	0	0	0	-10
Net inc/(dec) in borrowings	0	0	0	0	100	-25
Other investing/financing cash flows	1	0	0	0	0	0
Net cash flow	-4	-6	5	64	-30	94
Change in working capital	0	-7	4	0	0	0

## Balance Sheet (AUDm)

Cash and cash equivalents	11	5	10	74	44	138
Property, plant & equipment	1	0	1	66	213	186
Goodwill	0	0	0	0	0	0
Other assets	8	9	8	18	27	34
Total assets	20	14	19	158	285	358
Debt	0	1	0	0	100	75
Other liabilities	2	2	5	5	5	5
Total liabilities	2	3	5	5	105	80
Total shareholders' equity	18	10	13	153	179	278
Net debt	-11	-3	-10	-74	56	-63

## Key Company Metrics

Sales growth (%)	100.0	50.0	33.3	25.0	nm	166.1
DB EPS growth (%)	3.2	-43.2	-96.3	79.0	na	307.0
Payout ratio (%)	nm	nm	nm	nm	0.0	20.0
EBITDA Margin (%)	nm	nm	nm	nm	37.6	49.2
EBIT Margin (%)	-	-	-	-	26.0	39.7
ROE (%)	-27.2	-56.0	-107.0	-12.1	17.1	47.3
Net debt/equity (%)	-60.5	-31.1	-72.8	-48.4	31.3	-22.5
Net interest cover (x)	12.6	37.9	78.2	57.4	48.3	54.0

## DuPont Analysis

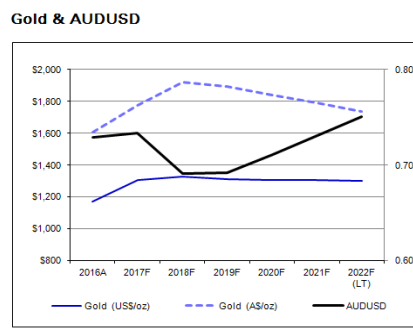
EBIT margin (%)	-	-	-	-	26.0	39.7
x Asset turnover (x)	0.0	0.0	0.0	0.0	0.6	1.2
x Financial cost ratio (x)	0.9	1.0	1.0	1.0	1.0	1.0
x Tax and other effects (x)	1.0	1.0	1.0	0.7	0.7	0.7
= ROA (post tax) (%)	-25.2	-48.9	-87.6	-10.8	11.3	33.0
x Financial leverage (x)	1.1	1.1	1.2	1.1	1.5	1.4
= ROE (%)	-27.2	-56.0	-107.0	-12.1	17.1	47.3
annual growth (%)	9.5	-105.6	-91.2	88.7	na	177.4
x NTA/share (avg) (x)	0.2	0.1	0.2	0.3	0.8	1.2
= Reported EPS	-0.06	-0.08	-0.16	-0.03	0.14	0.56
annual growth (%)	3.2	-43.2	-96.3	79.0	na	307.0

Source: Company data, Deutsche Bank estimates



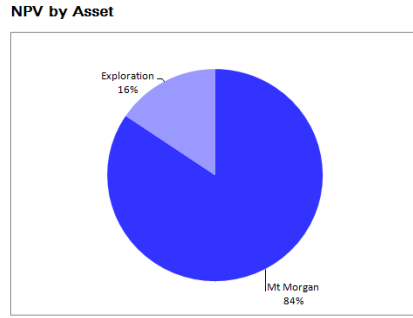
**DACIAN GOLD OPERATIONAL AND FINANCIAL SUMMARY DATA**

	2016A	2017F	2018F	2019F	2020F	2021F	2022F (LT)		DBe	Fwd Crv	Spot	
<b>ASSUMPTIONS</b>									A\$m	A\$ps	A\$ps	
Gold (US\$/oz)	1,168	1,302	1,325	1,309	1,307	1,304	1,300	<b>NPV (HJ17)</b>				
Gold (A\$/oz)	1,603	1,775	1,919	1,892	1,840	1,786	1,733	Mt Morgan	542	2.80	2.45	
AUDUSD	0.73	0.73	0.69	0.69	0.71	0.73	0.75	Hedging	-	0.00	0.00	
<b>Open Pit Mining</b>												
Waste mined (kt)	-	-	6,458	13,730	12,145	11,500	11,708	Corporate/Other	(28)	-0.14	-0.14	
Ore mined (kt)	-	-	875	1,860	1,650	1,560	1,580	Exploration	100	0.52	0.52	
Head grade (g/t)	-	-	1.22	1.40	1.36	1.15	1.36	<b>Gross Asset Value</b>	<b>614</b>	<b>3.17</b>	<b>2.83</b>	
<b>Underground Mining</b>												
Ore mined (kt)	-	-	1,249	2,859	2,808	2,675	2,695	Net cash/(debt)	74	0.38	0.38	
Head grade (g/t)	-	-	4.75	4.79	4.31	4.89	4.88	<b>Net Present Value</b>	<b>687</b>	<b>3.56</b>	<b>3.21</b>	
<b>Processing</b>												
Ore processed (kt)	-	-	1,143	2,500	2,500	2,500	2,500	<b>Discount rate (real)</b>	<b>9%</b>	<b>Shares</b>	<b>193M</b>	
Head grade (g/t)	-	-	2.24	2.58	2.57	2.71	2.99	<b>LT Gold Price</b>	<b>1,300</b>	<b>Spot Gold</b>	<b>1,175</b>	
Recovery (%)	-	-	91%	91%	91%	91%	91%	<b>LT Silver Price</b>	<b>20.0</b>	<b>Spot Silver</b>	<b>16.0</b>	
Production (koz)	-	-	78	210	207	209	219	<b>LT AUDUSD</b>	<b>0.75</b>	<b>Spot AUDUSD</b>	<b>0.74</b>	
Sales (koz)	-	-	78	210	207	209	219					
<b>Operating costs</b>												
UG mining (A\$/t)	-	-	77.0	77.0	77.0	77.0	77.0					
OP mining (A\$/t)	-	-	26.4	26.4	26.3	26.4	26.5					
Per tonne processed (A\$/t)	-	-	18.2	18.2	18.2	18.2	18.2					
Per tonne G&A (A\$/t)	-	-	2.9	2.9	2.9	2.9	2.9					
<b>Cash costs - net of metal credits (A\$/oz)</b>								-	971	849	862	825
<b>Cash costs - inc royalty net of metal credits (A\$/oz)</b>								-	1,019	896	943	868
<b>All-in sustaining costs (A\$/oz)</b>								-	1,152	1,001	1,050	969
<b>CAPEX</b>												
Sustaining (A\$m)	-	-	2	10	10	10	10					
Expansion (A\$m)	-	50	131	-	-	-	-					
<b>Total (A\$m)</b>	-	<b>50</b>	<b>133</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>					



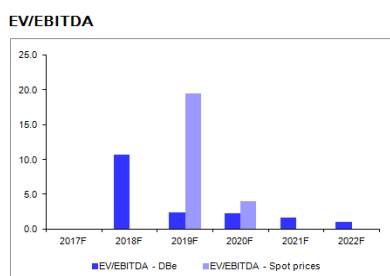
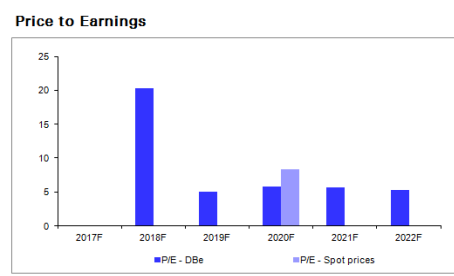
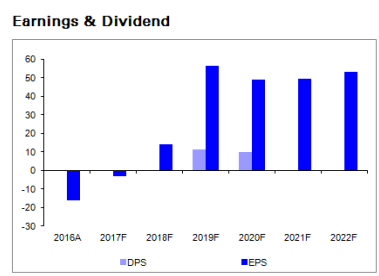
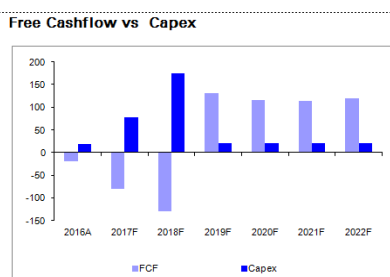
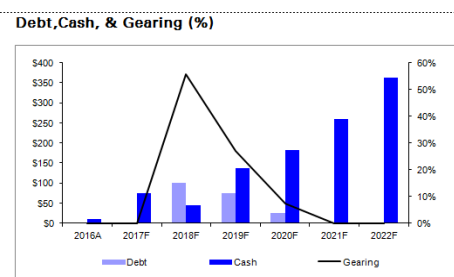
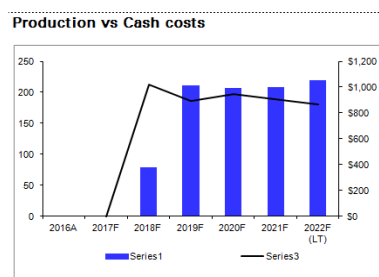
	2016A	2017F	2018F	2019F	2020F	2021F	2022F (LT)
<b>Operating costs</b>							
UG mining (A\$/t)	-	-	77.0	77.0	77.0	77.0	77.0
OP mining (A\$/t)	-	-	26.4	26.4	26.3	26.4	26.5
Per tonne processed (A\$/t)	-	-	18.2	18.2	18.2	18.2	18.2
Per tonne G&A (A\$/t)	-	-	2.9	2.9	2.9	2.9	2.9
<b>Cash costs - net of metal credits (A\$/oz)</b>							
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<b>All-in sustaining costs (A\$/oz)</b>							
<b>CAPEX</b>							
Sustaining (A\$m)	-	-	2	10	10	10	10
Expansion (A\$m)	-	50	131	-	-	-	-
<b>Total (A\$m)</b>	-	<b>50</b>	<b>133</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>

<b>FINANCIAL METRICS</b>							
Revenue (A\$m)	0	0	150	398	380	373	381
EBITDA (A\$m)	-22	-8	56	196	172	170	178
EBIT (A\$m)	-22	-8	39	158	134	132	140
NPAT (A\$m)	-22	-6	27	108	94	95	103
Cashflow from operations (A\$m)	-1	-4	45	150	136	137	144
Cashflow from investing (A\$m)	-18	-77	-175	-21	-20	-20	-20
Free Cash flow (A\$m)	-19	-81	-130	129	116	118	125
FCF Yield (%)	-6%	-18%	-24%	24%	21%	22%	23%
Dividend (A¢/sh)	0.0	0.0	0.0	11.2	9.8	9.9	10.6
Dividend Yield (%)	0%	0%	0%	4%	3%	4%	4%



	Resources			Reserves			Assumption		
	Mt	(g/t)	Koz	Mt	(g/t)	Koz	Mt	(g/t)	Koz
King Street	0.5	2.0	33				14.8	1.4	650
Jupiter	29.6	1.3	1,257				8.2	4.8	1,264
Jupiter LG Stockpile	3.5	0.5	58				0.5	3.9	66
Westralia	6.4	5.6	1,162				23.5	2.6	1,980
Creic	0.2	7.5	46	0.0	0.0	0			
Transvaal	1.3	5.2	210						
Ramomie	0.4	4.0	57						
<b>Total</b>	<b>44.8</b>	<b>2.3</b>	<b>3,316</b>	<b>18.6</b>	<b>2.0</b>	<b>1,200</b>	<b>23.5</b>	<b>2.6</b>	<b>1,980</b>

	2017F	2018F	2019F
<b>EPS sensitivity to 10% move</b>			
Gold	0%	38%	25%
AUDUSD	0%	-35%	-23%



Source: Deutsche bank, company data



## Summary of changes

Figure 1: Summary of changes to our financial and operating assumptions following the Mt. Morgan PFS

		FY17			FY18			FY19		
		New	Old	% var	New	Old	% var	New	Old	% var
Revenue	A\$m	0	0	na	150	50	199%	398	435	-9%
EBITDA	A\$m	-8	-8	-9%	56	9	554%	196	185	6%
EBIT	A\$m	-8	-8	-9%	39	3	>100%	158	150	6%
NPAT (Reported)	A\$m	-6	-5	-10%	27	1	>100%	108	102	6%
EPS	A\$/sh	-0.03	-0.03	5%	0.14	0.01	>100%	0.56	0.61	-8%
DPS	cps	0.0	0.0	na	0.0	0.0	n/a	11.2	12.2	-8%
<b>NPV</b>	<b>A\$/sh</b>	<b>3.56</b>	<b>3.97</b>	<b>-10%</b>						
<b>Price target</b>	<b>A\$/sh</b>	<b>3.60</b>	<b>4.00</b>	<b>-10%</b>						
<b>Mt Morgans</b>										
Gold	koz	0	0	na	78	26	199%	210	230	-9%
Cash costs (C1)	A\$/oz	0	0	na	971	1019	-5%	849	982	-14%

Source: Deutsche Bank



# Investment Thesis

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## Outlook

Dacian Gold was floated on the ASX in 2012 with a primary focus on the Mt Morgan Project. Since listing the company has expanded the resource base from 0.8Moz to 3.3Moz. In September 2015 the company released a Scoping Study for the project outlining a 2.5Mtpa CIL process plant being fed by 2 mining areas, Westralia and Jupiter, producing 220kozpa. DCN has released the PFS for Mt. Morgan and is progressing with project finance. DCN is trading below our DCF derived valuation; we therefore rate the stock a Buy.

## Valuation

Our 12 month price target is set at 1.0x LOM NPV consistent with the other mid tier gold producers in our Australia coverage list. Our long-term forecasts for DCF valuation determinations are; gold US\$1,300/oz, AUDUSD 0.75 and a 10% nominal WACC which is in line with our coverage.

## Risks

DCN's production profile is leveraged to i) delivery of the Mount Morgan project, ii) successful resource definition and conversion into economic ounces and iii) AUD gold price which can influence returns on marginal ounces in the mine plan. Key down side risks include i) delays in project delivery and permitting, ii) lower AUD gold price, iii) project cost overruns and delays to project and iii) lack of exploration success finding additional ounces to extend mine life.



# Appendix 1

## Important Disclosures

\*Other information available upon request

### Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Dacian Gold	DCN.AX	2.80 (AUD) 24 Nov 16	NA

\*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr>.

For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/Disclosure.eqsr?ricCode=DCN.AX>

## Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Mathew Hocking

### Historical recommendations and target price: Dacian Gold (DCN.AX)

(as of 11/24/2016)



#### Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

#### Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*New Recommendation Structure as of September 9,2002

\*\*Analyst is no longer at Deutsche Bank

1. 18/10/2016: Upgrade to Buy, Target Price Change AUD4.00  
Mathew Hocking



### Equity rating key

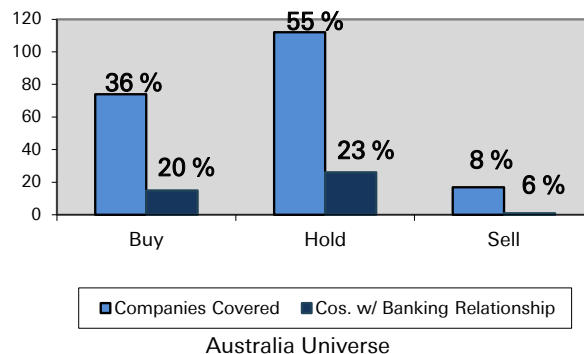
**Buy:** Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield ) , we recommend that investors buy the stock.

**Sell:** Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

**Hold:** We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

### Equity rating dispersion and banking relationships





## Additional Information

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