



AUSTRALIA

DCN AU Outperform

Price (at 06:55, 19 Apr 2017 GMT) A\$1.84

Valuation A\$ 2.92

- DCF (WACC 5.0%, beta 1.8, ERP 5.0%, RFR 3.3%)

12-month target A\$ 2.90

12-month TSR % +57.6

Volatility Index Very High

GICS sector Materials

Market cap A\$m 269

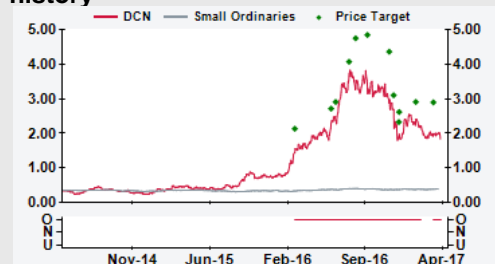
30-day avg turnover A\$m 1.2

Number shares on issue m 146.3

Investment fundamentals

Year end 30 Jun		2016A	2017E	2018E	2019E
Revenue	m	0.0	0.0	118.2	412.2
EBIT	m	-22.3	-19.2	27.6	173.8
Reported profit	m	-21.8	-17.2	21.2	117.0
Adjusted profit	m	-21.8	-17.2	21.2	117.0
Gross cashflow	m	-2.4	-2.1	45.5	166.5
CFPS	¢	-2.0	-1.3	21.3	78.0
CFPS growth	%	-196.6	36.3	nmf	266.2
PGCFPS	x	nmf	nmf	8.6	2.4
PGCFPS rel	x	nmf	nmf	0.85	0.26
EPS adj	¢	-17.9	-10.8	9.9	54.8
EPS adj growth	%	-122.2	40.0	nmf	450.7
PER adj	x	nmf	nmf	18.5	3.4
PER rel	x	nmf	nmf	1.20	0.26
Total DPS	¢	0.0	0.0	0.0	0.0
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	-138.5	-19.3	11.2	51.3
ROE	%	-185.9	-23.2	14.3	53.3
EV/EBITDA	x	-68.0	-82.7	6.8	1.6
Net debt/equity	%	-72.8	-50.4	60.7	-12.5
P/BV	x	16.9	2.9	2.4	1.4

DCN AU vs Small Ordinaries, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, April 2017
(all figures in AUD unless noted)

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19 April 2017

Macquarie Securities (Australia) Limited

Dacian Gold

Secures capex saving for Mt Morgans

Event

- DCN has executed an EPC contract for its Mt Morgans gold project securing a \$23.1m capex saving on its Feasibility Study estimates.

Impact

- Executes guaranteed price contract.** DCN has executed an engineering, procurement and construction (EPC) contract for its Mt Morgans gold project. The contract is for a Guaranteed Maximum Price of \$107.1m with any underrun to be shared between DCN and the contractor, GR Engineering.
- Secures \$23m capital saving.** Completing the contract on a fixed basis secures a \$23.1m capex saving on DCN's Feasibility Study estimates for the project. The company's FS estimated a total capex requirement of \$220m for the project, comprised of \$134m for the EPC provision of a 2.5Mtpa processing plant, \$38m for additional infrastructure and \$48m for mine establishment. The capital saving applies directly to the EPC contract and has reduced the total capex for the project to \$196.9m.
- Fully funded and on track for first gold in 1QCY18.** DCN recently successfully completed a \$110m capital raising. Combined with \$26m in cash and a \$150m debt facility, DCN is fully funded for the construction of Mt Morgans. The 2016 Feasibility Study for the Mt Morgans gold project outlined an initial 8-year operation mining a 1.2Moz reserve. Incorporating inferred resources contiguous with the reserve results in an 'expansion case' in which 1.7Moz of mining inventory is processed to produce 1.5Moz. The project remains on track for first gold in early 2018.

- GDXJ changes driving increased volatility.** Market Vectors Index Solutions (MVIS) has announced a change in the methodology for the Global Junior Gold Miners Index. The changes come into effect at the Q2 rebalance on 16 June 2017 and we believe it is likely that in the lead up we will see significant volatility in our ASX gold coverage universe. We believe DCN remains a likely inclusion in the GDXJ index in the future, although we suspect that market liquidity is likely to be the key limiting factor for ETF inclusion.

Earnings and target price revision

- No change.

Price catalyst

- 12-month price target: A\$2.90 based on a 1.0x NPV (Sum-of-the-parts) methodology.
- Catalyst: Commencing underground mining at Beresford will be a key milestone and confirmation of underground conditions will be a significant de-risking event. Exploration remains a key potential upside catalyst for DCN.

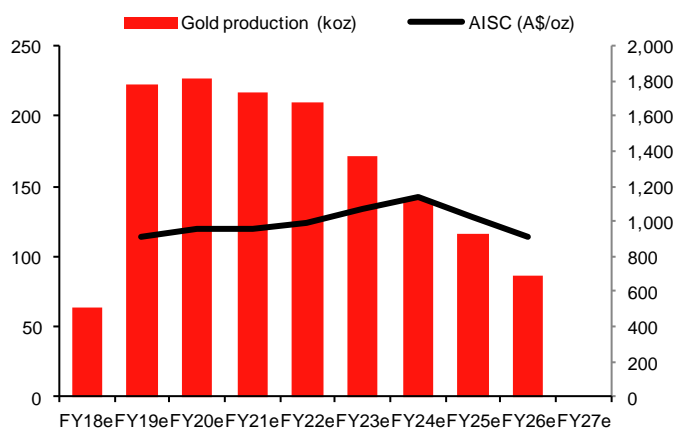
Action and recommendation

- Maintain Outperform.** Mt Morgans is a leading West Australian gold development play. The project is fully funded and on track for first gold in early 2018. Upside exists in both extensions to the planned underground and open pit positions, and in ongoing exploration.

Initial 8-year operation with expansion upside

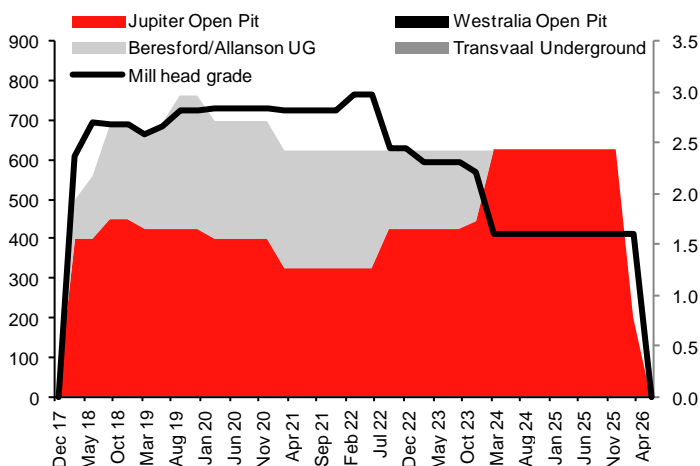
- The 2016 Feasibility Study for the Mt Morgans gold project outlined an initial 8-year operation mining a 1.2Moz reserve. Incorporating inferred resources contiguous with the reserve, results in an 'expansion case' in which 1.7Moz of mining inventory is processed to produce 1.5Moz of gold at an AISC of A\$970/oz to \$975/oz. DCN's expansion case is largely in line with our assumption of the Mt Morgans mining inventory and based on our assessment of the low risk nature of the Westralia underground inferred resources we continue to use this as our base case assumption.

Fig 1 Modelled Mt Morgans production



Source: DCN, Macquarie Research, April 2017

Fig 2 Modelled ore sources and grade



Source: DCN, Macquarie Research, April 2017

- The main ore sources for mining will be the Beresford and Allanson undergrounds (collectively the Westralia Underground) and the Jupiter open pit. As detailed in the reserve statements below, underground ore is substantially higher grade than open pit ore. DCN's proposed mine plan therefore aims to prioritise high-grade underground ore feed with open pit ore making up the balance.

Fig 3 Mt Morgans Gold Project

		Tonnes (Kt)	Grade (g/t)	Contained gold (koz)
Beresford UG	Proved	50	5.0	8
Beresford UG	Probable	2,383	4.2	323
Allanson UG	Proved	-	-	-
Allanson UG	Probable	882	5.7	162
Jupiter OP	Proved	867	1.3	48
Jupiter OP	Probable	13,884	1.3	595
Total Reserves	Proved	1,110	2.4	85
Total Reserves	Probable	17,475	2.0	1,115
Total Reserves	Total	18,585	2.0	1,200

Source: DCN, Macquarie Research, April 2017

- Underground mining will be via conventional Sub-level open stoping. Open pit mining will also be via conventional drill blast, load and haul methods. Ore will be processed in a 2.5Mtpa SAG mill and ball mill with gold recovery via a gravity circuit and CIL. Metallurgical test work carried out by DCN indicates an average gold recovery of 90.7% although we note that historical recovery in the same ore types averaged 91.7%.
- Operating costs, as estimated in the FS are expected to be competitive at A\$1,039/oz AISC. Costs are underpinned by low-cost underground production from the Allanson and Beresford mines averaging A\$837/oz.

Fig 4 Mt Morgans Gold Project key study parameters

	FS case	Expansion case	Macq assumption
Throughput (Mtpa)	2.5	2.5	2.5
Mine life (yrs)	8	9	9
UG ore mined (koz)	492	938	929
OP ore mined (koz)	643	643	661
Gold recovery (%)	90.7	90.7	91.0
Gold production (koz)	1,029	1,434	1,442
AISC (A\$/oz)	1,039	970-975	1,047
Capex (A\$m)	220	223	223

Source: Company data, Macquarie Research, April 2017

- DCN has executed an engineering, procurement and construction (EPC) contract for its Mt Morgans gold project. The contract is for a Guaranteed Maximum Price of \$107.1m with an underrun to be shared between DCN and the contractor, GR Engineering. Under the EPC contract, DCN will provide support services including accommodation and fuel at a cost of \$5.2m.
- Completing the contract on a fixed basis secures a \$23.1m capex saving on DCN's Feasibility Study estimates for the project. The company's FS estimated a total capex requirement of \$220m for the project, comprised of \$134m for the EPC provision of a 2.5Mtpa processing plant, \$38m for additional infrastructure and \$48m for mine establishment. The capital saving applies directly to the EPC contract and has reduced the total capex for the project to \$196.9m.

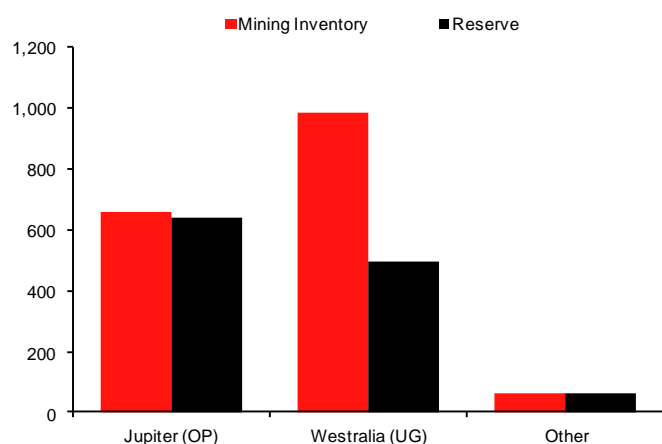
Fig 5 Mt Morgans Gold Project key capex items

Item	A\$m	A\$m
Process plant	134.0	107.1
EPC support costs	-	5.2
Other infrastructure	38.0	36.6
Mine establishment capex	48.0	48.0
FS Total	220.0	196.9
Expansion	3.0	3.0
Expansion case	223.0	199.9

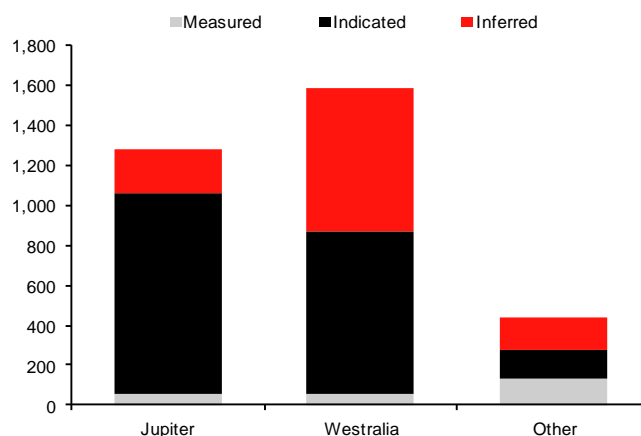
Source: Company data, Macquarie Research, April 2017

Expansion case is our base case

- Under the 'expansion case' LoM production could be lifted to 1.7Moz for a modest \$3m increase in capex to expand the TSF. Annual production increases to an average of 197koz over the first 7 years of operation and extends the overall project life to 9 years.

Fig 6 Assumed mining inventory vs reserves

Source: DCN, Macquarie Research, April 2017

Fig 7 Mt Morgans resources by category

Source: DCN, Macquarie Research, April 2017

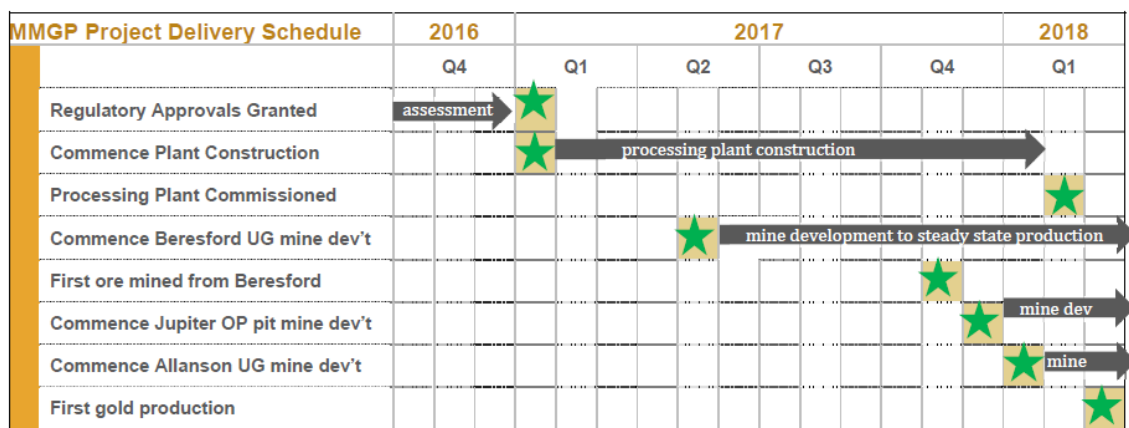
Cameron Well could provide further open pit life

- DCN’s latest round of drilling results from Cameron Well continue to expand the deposit and we believe has the potential to become the second open pit ore source at Mt Morgans. The size of the Cameron Well target continues to grow and on completion of an infill drilling program we expect DCN to launch an RC drilling program that should enable an initial resource to be estimated at Cameron Well.
- Recent exploration results at Jupiter have also been encouraging with the East Heffernans and South Cornwall deposits demonstrating open pit potential. Our development scenario for Mt Morgans only incorporates the Jupiter open pit reserve and we believe the potential for additional open pit material from either Cameron Well or around Jupiter is high.

Project on track for first gold in early 2018

- Thanks to its brownfield location the Mt Morgans project did not experience any significant permitting hurdles and all requisite permits are now in place. There is no registered Native Title claim over the area and no Native Title agreement exists.

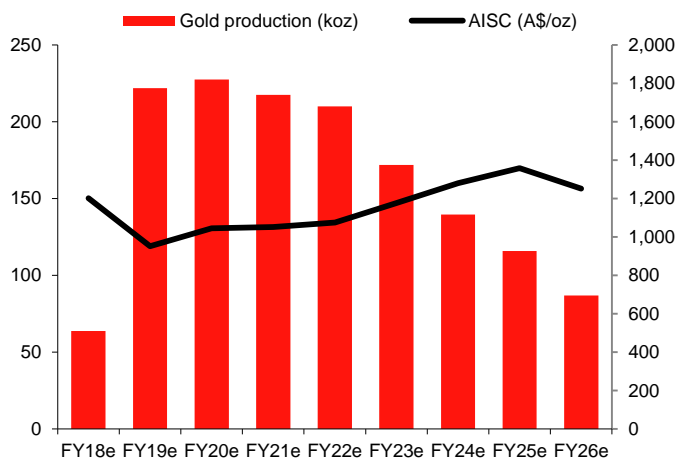
Fig 8 Mt Morgans development time line



Source: DCN, Macquarie Research, April 2017

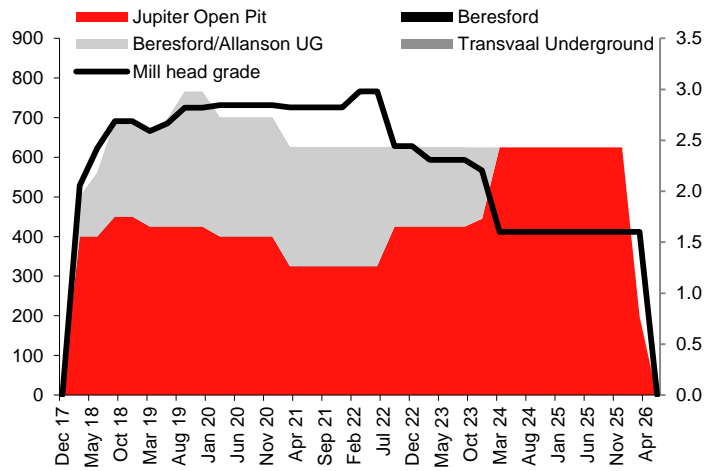
- Mt Morgans is a conventional West Australian gold project in every regard. The construction is being managed by GR Engineering, a leading EPC contractor and constructor of gold projects. Contracts have already been signed for major capital items and, dewatering and installation of early infrastructure has commenced.
- Commencing underground mining at Beresford will be a key milestone. Confirmation of underground conditions will be a significant de-risking event but we do not foresee any impediments to DCN achieving its goal of first gold in late 1QCY18.

Fig 9 Modelled Mt Morgans production



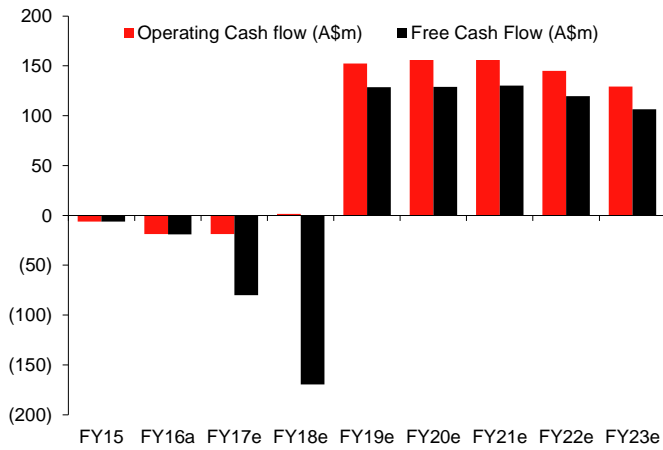
Source: DCN, Macquarie Research, April 2017

Fig 10 Production by ore source



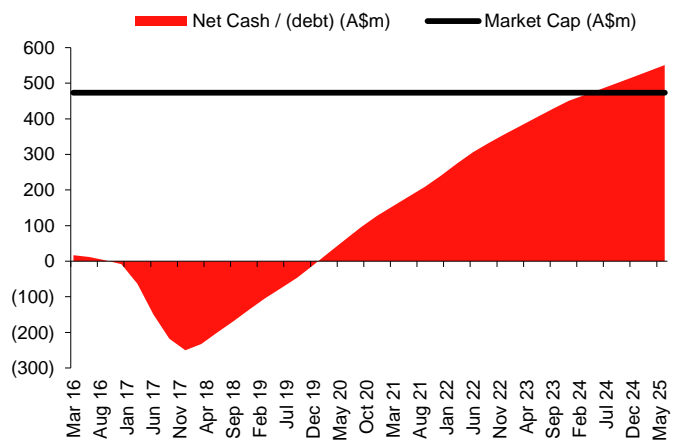
Source: DCN, Macquarie Research, April 2017

Fig 11 Operating and free cash flow



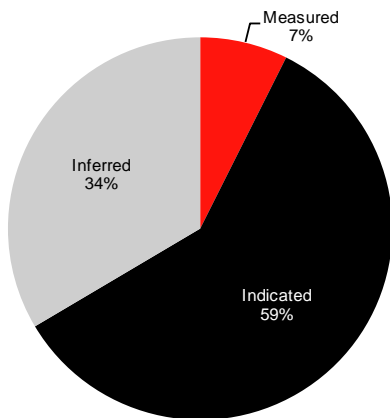
Source: DCN, Macquarie Research, April 2017

Fig 12 Cumulative cash generation



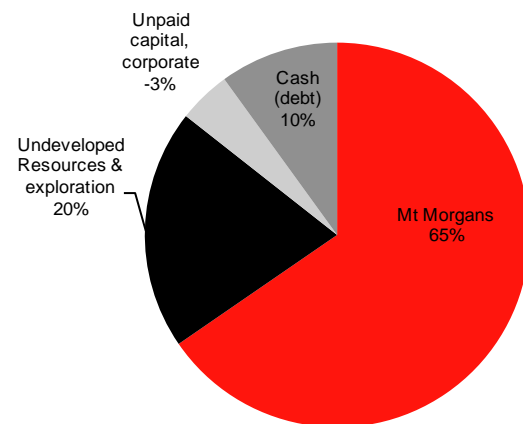
Source: DCN, Macquarie Research, April 2017

Fig 13 Mt Morgans resources



Source: DCN, Macquarie Research, April 2017

Fig 14 DCV NPV breakdown



Source: DCN, Macquarie Research, April 2017

Fig 15 DCN summary model

Dacian Gold										
ASX: DCN	Price: (A\$ps)	1.84		Year end: Jun		Rating: Outperform		Up/dn	TSR	
	Mkt cap: (A\$m)	371		Diluted shares (m)		201.4		58%	58%	
Target: 2.90										
ASSUMPTIONS		FY16a	FY17e	FY18e	FY19e	FY20e	FY21e	FY22e	ATTRIBUTABLE MINE OUTPUT	
Exchange Rate	A\$/US\$	0.73	0.76	0.74	0.74	0.74	0.75	0.75	FY16a FY17e FY18e FY19e FY20e FY21e FY22e	
Spot Gold	(US\$/oz)	1,167	1,237	1,331	1,375	1,394	1,388	1,413	Gold production (equ)	
									Mt Morgans (koz)	
									Total (koz)	
									Cash costs	
									C1 Cash cost - Mt Morgans (A\$/oz)	
									AISC - Mt Morgans (A\$/oz)	
									EV/Production (A\$/oz)	
									OPERATIONAL OUTLOOK	
EARNINGS		FY16a	FY17e	FY18e	FY19e	FY20e	FY21e	FY22e	MINING INVENTORY	
Sales Revenue	A\$m	0	0	118	412	427	402	395	Mining Inventory	
Other Revenue	A\$m	0	0	0	0	0	0	0	Deposit	
Total Revenue	A\$m	0	0	118	412	427	402	395	Mt g/t koz	
Operating Costs	A\$m	0	0	(59)	(180)	(204)	(197)	(195)	Jupiter Open Pit	
Operational EBITDA	A\$m	0	0	59	232	223	206	200	Beresford	
Exploration Expense/Write-offs	A\$m	(19)	(15)	(4)	(2)	(1)	(1)	(1)	Allanson	
Corporate & Other Costs	A\$m	(3)	(4)	(7)	(8)	(9)	(9)	(9)	Transvaal Underground	
EBITDA	A\$m	(22)	(19)	48	221	214	196	191	Total Mining Inventory	
D&A	A\$m	(0)	(0)	(20)	(48)	(48)	(48)	(48)	21.4 2.40 1,650	
EBIT	A\$m	(22)	(19)	28	174	166	148	143	RESERVES AND RESOURCES (ATTRIBUTABLE)	
Net Interest	A\$m	0	1	(6)	(7)	1	6	8	Reserves	
Profit Before Tax	A\$m	(22)	(18)	21	167	167	154	151	Project	
Tax Expense	A\$m	0	1	0	(50)	(50)	(46)	(45)	Jupiter	
Minorities	A\$m	0	0	0	0	0	0	0	Beresford	
Adjusted NPAT	A\$m	(22)	(17)	21	117	117	108	106	Allanson	
Significant Items (post tax)	A\$m	0	0	0	0	0	0	0	Transvaal	
Reported NPAT	A\$m	(22)	(17)	21	117	117	108	106	Total reserves	
									18.6 2.0 1,200	
CASHFLOW		FY16a	FY17e	FY18e	FY19e	FY20e	FY21e	FY22e	Resources	
Net Profit	A\$m	(22)	(17)	21	117	117	108	106	Project	
Interest/Tax/D&A	A\$m	2	(1)	10	39	42	44	44	King Street	
Working Capital/other	A\$m	1	1	(31)	(0)	(2)	4	(3)	Jupiter	
Net Operating Cashflow	A\$m	(19)	(18)	1	156	157	156	147	Jupiter UG	
Capex	A\$m	(1)	(56)	(171)	(24)	(27)	(26)	(25)	Jupiter Low Grade Stockpiles	
Investments	A\$m	0	0	0	0	0	0	0	Westralia	
Sale of PPE and Other	A\$m	0	0	0	0	0	0	0	Craig	
Free cash flow	A\$m	(19)	(74)	(170)	132	131	130	122	Total Resources	
Dividends Paid	A\$m	0	0	0	0	(15)	(38)	(28)	45.4 2.27 3,315	
Debt	A\$m	(0)	40	100	(80)	(60)	0	0	EV/Reserve (A\$/oz) 252	
Equity Issuance	A\$m	24	133	4	0	2	4	0	EV/Resource (A\$/oz) 91	
Other	A\$m	0	0	0	0	0	0	0	Macquarie forecasts	
Net Financing Cashflow	A\$m	24	173	104	(80)	(73)	(34)	(28)	Spot prices	
Net change in cash	A\$m	5	99	(66)	52	57	96	94	A\$m A\$ps A\$m A\$ps	
									Mt Morgans 448 2.10 420 1.97	
									Undeveloped Resources & exploration 138 0.65 139 0.65	
									Unpaid capital 10 0.05 10 0.05	
									Forwards 0 0.00 0 0.00	
									Corporate (40) (0.19) (40) (0.19)	
									Cash 108 0.51 108 0.51	
									Debt (40) (0.19) (40) (0.19)	
									Net Equity Value (@ 5% WACC)	
									624 2.92 597 2.80	
									Price Target (1.0x NAV)	
									2.90	
									P/NAV	
									0.63x	
BALANCE SHEET		FY16a	FY17e	FY18e	FY19e	FY20e	FY21e	FY22e	EQUITY DCF VALUATION	
Cash	A\$m	10	108	42	95	152	248	343	Projects	
PP&E & Mine Development	A\$m	1	58	209	185	165	143	121	A\$m A\$ps A\$m A\$ps	
Exploration	A\$m	8	14	23	31	36	39	43	Mt Morgans 448 2.10 420 1.97	
Total Assets	A\$m	19	181	310	367	412	482	562	Undeveloped Resources & exploration 138 0.65 139 0.65	
Debt	A\$m	0	40	140	60	0	0	0	Unpaid capital 10 0.05 10 0.05	
Total Liabilities	A\$m	5	45	150	89	30	26	28	Forwards 0 0.00 0 0.00	
Total Net Assets / Equity	A\$m	13	135	161	278	382	455	534	Corporate (40) (0.19) (40) (0.19)	
Net Debt / (Cash)	A\$m	(10)	(68)	98	(35)	(152)	(248)	(343)	Cash 108 0.51 108 0.51	
Gearing (net debt/(nd + equity))	%	nmf	nmf	38%	nmf	nmf	nmf	nmf	Debt (40) (0.19) (40) (0.19)	
Gearing (net debt/equity)	%	(73%)	(50%)	61%	(13%)	(40%)	(55%)	(64%)	Net Equity Value (@ 5% WACC)	
									624 2.92 597 2.80	
									Price Target (1.0x NAV)	
									2.90	
									P/NAV	
									0.63x	

Source: DCN, Macquarie Research, April 2017

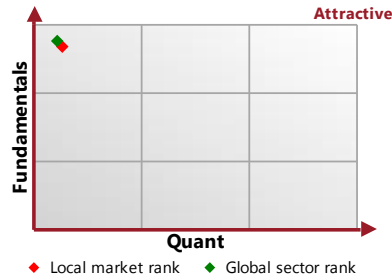
Macquarie Quant View

The quant model currently holds a strong negative view on Dacian Gold. The strongest style exposure is Growth, indicating this stock has good historic and/or forecast growth. Growth metrics focus on both top and bottom line items. The weakest style exposure is Profitability, indicating this stock is not efficiently converting investments to earnings; proxied by ratios like ROE or ROA.

1444/1553

Global rank in Materials

% of BUY recommendations 88% (7/8)
Number of Price Target downgrades 0
Number of Price Target upgrades 2

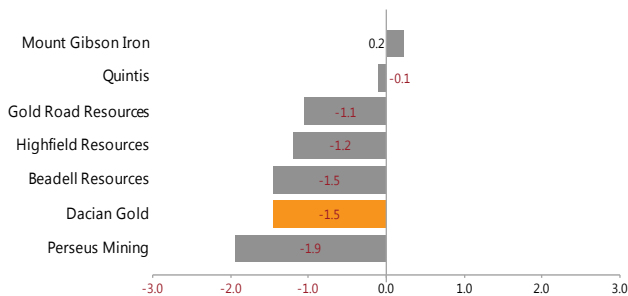


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (Australia & NZ) and Global sector (Materials)

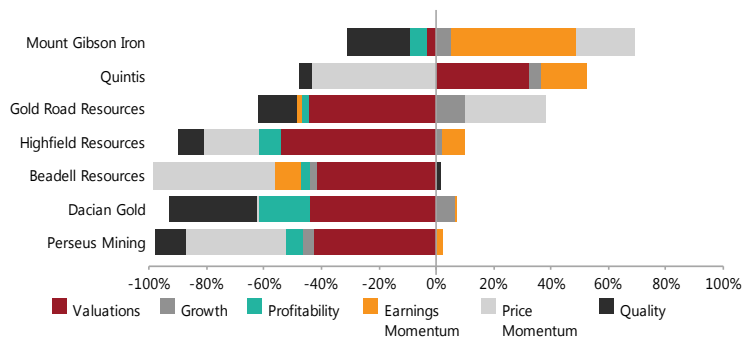
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



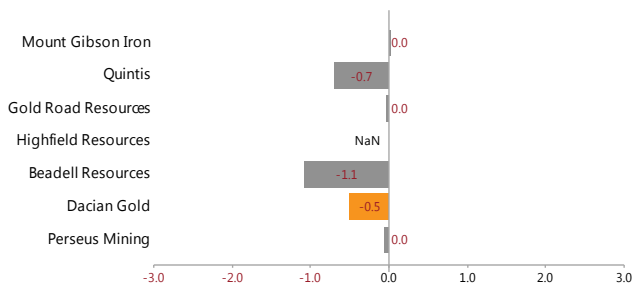
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



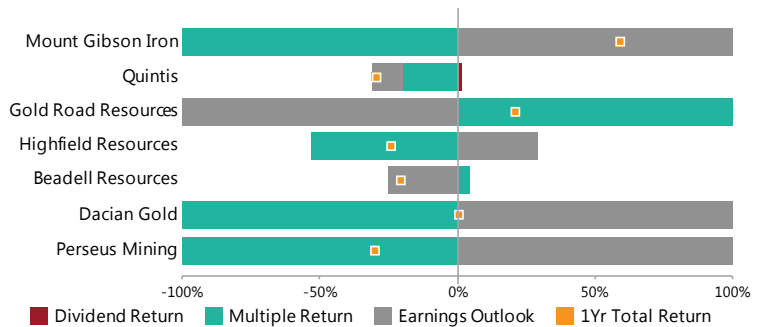
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



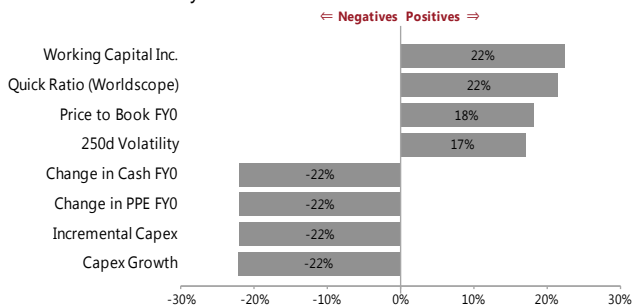
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



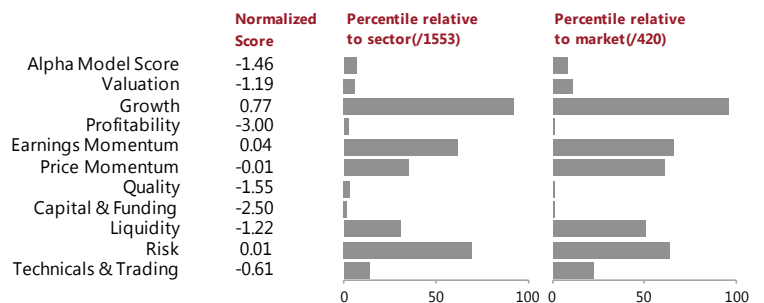
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpq@macquarie.com)

Important disclosures:**Recommendation definitions****Macquarie - Australia/New Zealand**

Outperform – return >3% in excess of benchmark return
 Neutral – return within 3% of benchmark return
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie – South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
 Neutral (Hold) – return within 5% of Russell 3000 index return
 Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
 * Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / epowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 March 2017

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	47.26%	55.50%	38.46%	45.47%	59.09%	48.21%	(for global coverage by Macquarie, 8.20% of stocks followed are investment banking clients)
Neutral	38.01%	29.31%	42.86%	48.77%	37.88%	36.79%	(for global coverage by Macquarie, 8.25% of stocks followed are investment banking clients)
Underperform	14.73%	15.19%	18.68%	5.76%	3.03%	15.00%	(for global coverage by Macquarie, 8.00% of stocks followed are investment banking clients)

DCN AU vs Small Ordinaries, & rec history

(all figures in AUD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, April 2017

12-month target price methodology

DCN AU: A\$2.90 based on a 1.0x NPV (Sum-of-the-parts) methodology

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Date	Stock Code (BBG code)	Recommendation	Target Price
30-Mar-2017	DCN AU	Outperform	A\$2.90
07-Feb-2017	DCN AU	Outperform	A\$2.91
21-Dec-2016	DCN AU	Outperform	A\$2.62
20-Dec-2016	DCN AU	Outperform	A\$2.33
05-Dec-2016	DCN AU	Outperform	A\$3.11
22-Nov-2016	DCN AU	Outperform	A\$4.37
20-Sep-2016	DCN AU	Outperform	A\$4.86
17-Aug-2016	DCN AU	Outperform	A\$4.76
29-Jul-2016	DCN AU	Outperform	A\$4.08
20-Jun-2016	DCN AU	Outperform	A\$2.91
07-Jun-2016	DCN AU	Outperform	A\$2.72
23-Feb-2016	DCN AU	Outperform	A\$2.14

Target price risk disclosures:

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