



## AUSTRALIA

DCN AU Outperform

Price (at 06:11, 12 May 2017 GMT) A\$1.64

Valuation A\$ 2.98

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

12-month target A\$ 3.00

12-month TSR % +82.9

Volatility Index Very High

GICS sector Materials

Market cap A\$m 240

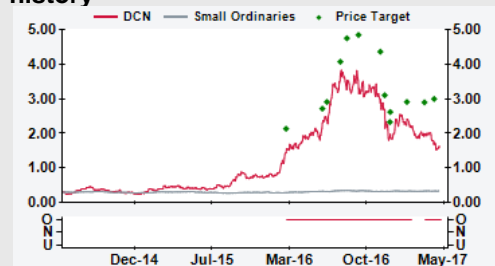
30-day avg turnover A\$m 1.3

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	-18.8	27.6	173.8
Reported profit	m	-21.8	-16.8	21.7	116.9
Adjusted profit	m	-21.8	-16.8	21.7	116.9
Gross cashflow	m	-2.4	-2.2	46.0	166.5
CFPS	¢	-2.0	-1.3	21.5	78.0
CFPS growth	%	-196.6	34.3	nmf	262.4
PGCFPS	x	nmf	nmf	7.6	2.1
PGCFPS rel	x	nmf	nmf	0.72	0.22
EPS adj	¢	-17.9	-10.6	10.2	54.8
EPS adj growth	%	-122.2	41.1	nmf	438.6
PER adj	x	nmf	nmf	16.1	3.0
PER rel	x	nmf	nmf	1.03	0.23
Total DPS	¢	0.0	0.0	0.0	0.0
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	-138.5	-19.0	11.3	51.5
ROE	%	-185.9	-22.7	14.7	53.3
EV/EBITDA	x	-59.6	-71.3	6.0	1.4
Net debt/equity	%	-72.8	-62.2	60.9	-12.3
P/BV	x	15.1	2.6	2.2	1.3

## DCN AU vs Small Ordinaries, &amp; 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, May 2017

(all figures in AUD unless noted)

## Analyst(s)

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15 May 2017

Macquarie Securities (Australia) Limited

## Dacian Gold

## Drilling highlights Mt Morgans upside

## Event

- DCN has reported high-grade drilling results from an infill and grade control drilling programme at the planned Beresford underground mine at its Mt Morgans development.

## Impact

- Drilling highlights strong grade at Beresford.** DCN has reported high-grade drilling results from a 24-hole infill and grade control drilling programme. Drilling targeted the top six levels (within 100m from surface) of the new Beresford underground mine at Mt Morgans. The drilling has returned some impressive results including: **16.5m at 10.9g/t Au, 4.4m at 11.2g/t Au, 3.0m at 10.7g/t Au**, 3.3m at 9.3g/t Au and 0.9m at 19.5g/t Au.
- High-grade outside existing reserve.** Drilling has also intersected significant mineralisation outside of the existing reserve. Drilling from the Contact and Lower Banded Iron Formations (BIF) have returned: **7.0m at 31.0g/t Au, 1.7m at 56.5g/t Au**, 1.9m at 46.8g/t Au and 2.9m at 9.4g/t Au. Again, these results have come from the upper levels of the planned underground mine and offer the potential for additional mining fronts and upside to the current mine plan. Mineralisation at Beresford occurs in four BIF units. The current round of drilling has confirmed that in some locations these BIFs come close together, which could offer the potential for bulk mining.
- Construction imminent, \$23m capex saving already realised.** DCN recently executed a Guaranteed Maximum Price of EPC contract for the construction of the Mt Morgans process plant securing a \$23.1m capex saving on its FS estimates for the project. The underground mining contract is also close to completion. Site construction activities are expected to ramp up in the June quarter and the project remains on track for first gold in 1HCY18.

## Earnings and target price revision

- No change.

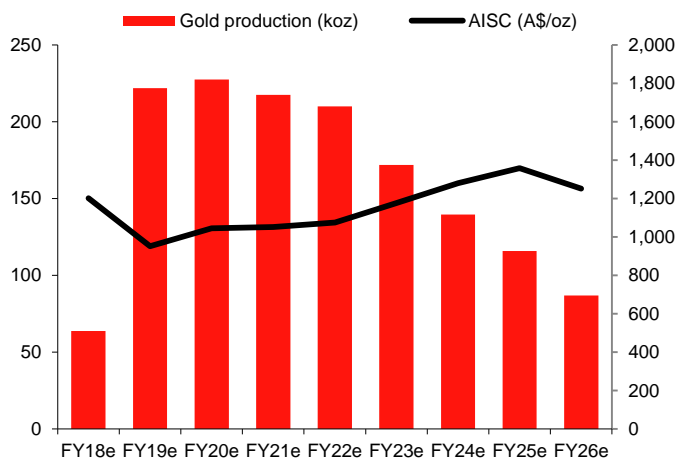
## Price catalyst

- 12-month price target: A\$3.00 based on a 1.0x NPV (Sum-of-the-parts) methodology.
- Catalyst: Today's results demonstrate some of the upside potential in the planned underground mines at Mt Morgans. Cameron Well has also delivered encouraging drill results recently and could develop into an additional open pit ore source. Translating exploration success to mine life extensions will be an ongoing catalyst for DCN.

## Action and recommendation

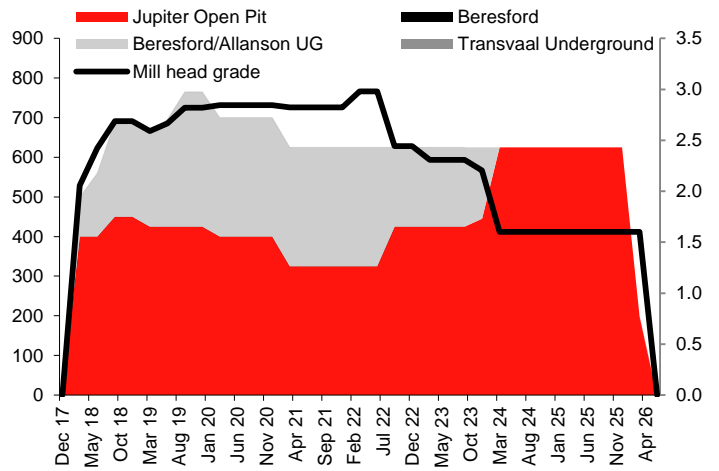
- Maintain Outperform.** Mt Morgans' underground mines will provide high-grade ore feed to complement the baseload feed from the Jupiter open pit. Grade from the recent drilling is impressive, the results support the current mine plan and also indicate that potential upside exists outside the reserve.

**Fig 1 Modelled Mt Morgans production**



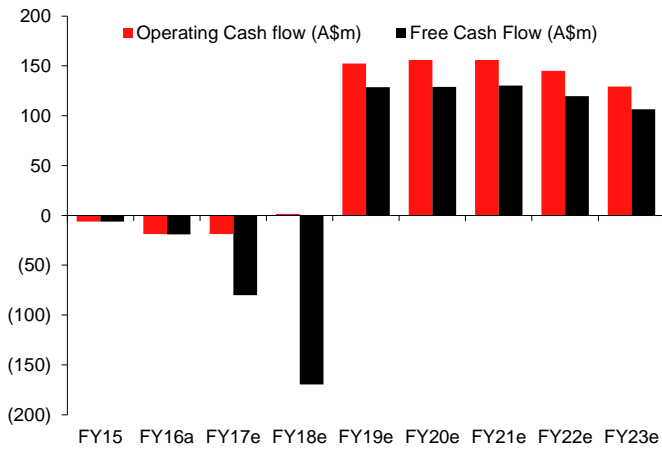
Source: DCN, Macquarie Research, May 2017

**Fig 2 Production by ore source**



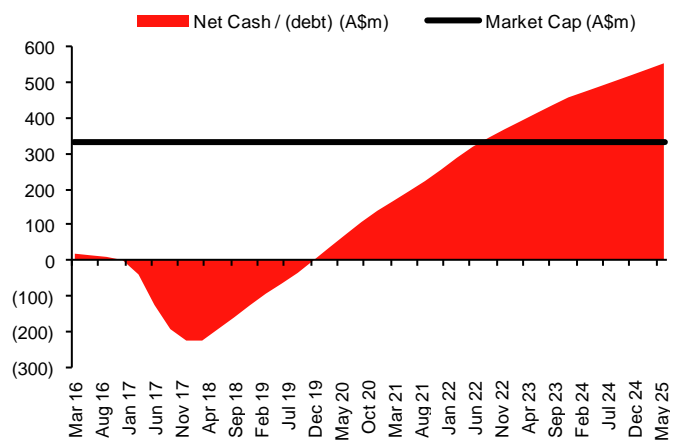
Source: DCN, Macquarie Research, May 2017

**Fig 3 Operating and free cash flow**



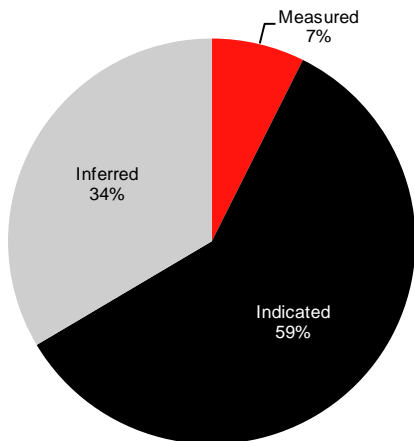
Source: DCN, Macquarie Research, May 2017

**Fig 4 Cumulative cash generation**



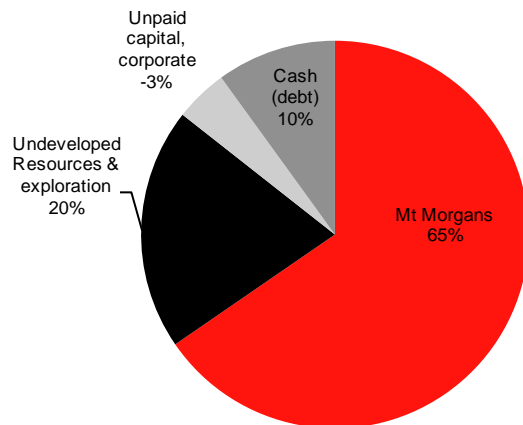
Source: DCN, Macquarie Research, May 2017

**Fig 5 Mt Morgans resources**



Source: DCN, Macquarie Research, May 2017

**Fig 6 DCV NPV breakdown**



Source: DCN, Macquarie Research, May 2017

Fig 7 DCN summary model

Dacian Gold									
ASX: DCN	Price: (A\$ps)	1.64		Year end: Jun		Rating: Outperform	Up/dn	TSR	
	Mkt cap: (A\$m)	330		Diluted shares (m)		201.4	Target: 3.00	83% 83%	
ASSUMPTIONS		FY16a	FY17e	FY18e	FY19e	FY20e	FY21e	FY22e	
Exchange Rate	A\$/US\$	0.73	0.76	0.74	0.74	0.74	0.75	0.75	
Spot Gold	(US\$/oz)	1,167	1,237	1,331	1,375	1,394	1,388	1,413	
RATIO ANALYSIS		FY16a	FY17e	FY18e	FY19e	FY20e	FY21e	FY22e	
Diluted share capital	m	118.2	213.6	213.6	213.6	213.6	213.6	213.6	
EPS (diluted and pre sig. items)	A¢	-18.5	-10.8	10.2	54.8	54.7	50.5	49.6	
P/E	x	-8.9x	-15.1x	16.1x	3.0x	3.0x	3.2x	3.3x	
CFPS	A¢	(15.8)	(8.6)	0.5	73.0	73.7	73.1	68.9	
P/CF	x	-10.4x	-19.1x	301.0x	2.2x	2.2x	2.2x	2.4x	
DPS	A¢	0.0	0.0	0.0	0.0	16.0	15.0	15.0	
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	9.8%	9.1%	9.1%	
Franking Level	%	0%	0%	0%	0%	100%	100%	100%	
Book value per share	x	0.11	0.63	0.75	1.30	1.79	2.13	2.50	
P/Book value	x	14.6x	2.6x	2.2x	1.3x	0.9x	0.8x	0.7x	
R.O.E. (pre sig items)	%	-165%	-12%	13%	42%	31%	24%	20%	
R.O.A. (pre sig items)	%	-120%	-11%	9%	47%	40%	31%	26%	
Interest Cover	x	78.2x	15.8x	4.7x	25.9x	nmf	-26.4x	-17.2x	
EBITDA per share	A\$ps	-0.19	-0.09	0.22	1.04	1.00	0.92	0.89	
EV/EBITDA	x	-14.5x	-13.3x	9.0x	1.3x	0.8x	0.4x	-0.1x	
Free cash flow yield	%	(6%)	(18%)	(56%)	40%	40%	39%	37%	
EARNINGS		FY16a	FY17e	FY18e	FY19e	FY20e	FY21e	FY22e	
Sales Revenue	A\$m	0	0	118	412	427	402	395	
Other Revenue	A\$m	0	0	0	0	0	0	0	
<b>Total Revenue</b>	<b>A\$m</b>	<b>0</b>	<b>0</b>	<b>118</b>	<b>412</b>	<b>427</b>	<b>402</b>	<b>395</b>	
Operating Costs	A\$m	0	0	(59)	(180)	(204)	(197)	(195)	
<b>Operational EBITDA</b>	<b>A\$m</b>	<b>0</b>	<b>0</b>	<b>59</b>	<b>232</b>	<b>223</b>	<b>206</b>	<b>200</b>	
Exploration Expense/Write-offs	A\$m	(19)	(14)	(4)	(2)	(1)	(1)	(1)	
Corporate & Other Costs	A\$m	(3)	(4)	(7)	(8)	(9)	(9)	(9)	
<b>EBITDA</b>	<b>A\$m</b>	<b>(22)</b>	<b>(19)</b>	<b>48</b>	<b>221</b>	<b>214</b>	<b>196</b>	<b>191</b>	
D&A	A\$m	(0)	(0)	(20)	(48)	(48)	(48)	(48)	
<b>EBIT</b>	<b>A\$m</b>	<b>(22)</b>	<b>(19)</b>	<b>28</b>	<b>174</b>	<b>166</b>	<b>148</b>	<b>143</b>	
Net Interest	A\$m	0	1	(6)	(7)	1	6	8	
<b>Profit Before Tax</b>	<b>A\$m</b>	<b>(22)</b>	<b>(18)</b>	<b>22</b>	<b>167</b>	<b>167</b>	<b>154</b>	<b>151</b>	
Tax Expense	A\$m	0	1	0	(50)	(50)	(46)	(45)	
Minorities	A\$m	0	0	0	0	0	0	0	
<b>Adjusted NPAT</b>	<b>A\$m</b>	<b>(22)</b>	<b>(17)</b>	<b>22</b>	<b>117</b>	<b>117</b>	<b>108</b>	<b>106</b>	
Significant Items (post tax)	A\$m	0	0	0	0	0	0	0	
<b>Reported NPAT</b>	<b>A\$m</b>	<b>(22)</b>	<b>(17)</b>	<b>22</b>	<b>117</b>	<b>117</b>	<b>108</b>	<b>106</b>	
CASHFLOW		FY16a	FY17e	FY18e	FY19e	FY20e	FY21e	FY22e	
<b>Net Profit</b>	<b>A\$m</b>	<b>(22)</b>	<b>(17)</b>	<b>22</b>	<b>117</b>	<b>117</b>	<b>108</b>	<b>106</b>	
Interest/Tax/D&A	A\$m	2	(0)	10	39	42	44	44	
Working Capital/other	A\$m	1	(1)	(31)	(0)	(2)	4	(3)	
<b>Net Operating Cashflow</b>	<b>A\$m</b>	<b>(19)</b>	<b>(18)</b>	<b>1</b>	<b>156</b>	<b>157</b>	<b>156</b>	<b>147</b>	
Capex	A\$m	(1)	(40)	(188)	(24)	(27)	(26)	(25)	
Investments	A\$m	0	0	0	0	0	0	0	
Sale of PPE and Other	A\$m	0	0	0	0	0	0	0	
<b>Free cash flow</b>	<b>A\$m</b>	<b>(19)</b>	<b>(59)</b>	<b>(186)</b>	<b>132</b>	<b>131</b>	<b>130</b>	<b>122</b>	
Dividends Paid	A\$m	0	0	0	0	(15)	(38)	(28)	
Debt	A\$m	(0)	41	100	(80)	(60)	0	0	
Equity Issuance	A\$m	24	132	4	0	2	4	0	
Other	A\$m	0	0	0	0	0	0	0	
<b>Net Financing Cashflow</b>	<b>A\$m</b>	<b>24</b>	<b>173</b>	<b>104</b>	<b>(80)</b>	<b>(73)</b>	<b>(34)</b>	<b>(28)</b>	
<b>Net change in cash</b>	<b>A\$m</b>	<b>5</b>	<b>114</b>	<b>(82)</b>	<b>52</b>	<b>57</b>	<b>96</b>	<b>94</b>	
BALANCE SHEET		FY16a	FY17e	FY18e	FY19e	FY20e	FY21e	FY22e	
Cash	A\$m	10	124	42	94	152	248	342	
PP&E & Mine Development	A\$m	1	42	210	186	165	143	121	
Exploration	A\$m	8	12	22	30	35	38	41	
<b>Total Assets</b>	<b>A\$m</b>	<b>19</b>	<b>179</b>	<b>309</b>	<b>366</b>	<b>411</b>	<b>480</b>	<b>560</b>	
Debt	A\$m	0	40	140	60	0	0	0	
<b>Total Liabilities</b>	<b>A\$m</b>	<b>5</b>	<b>44</b>	<b>148</b>	<b>88</b>	<b>29</b>	<b>25</b>	<b>27</b>	
<b>Total Net Assets / Equity</b>	<b>A\$m</b>	<b>13</b>	<b>135</b>	<b>161</b>	<b>278</b>	<b>382</b>	<b>455</b>	<b>534</b>	
Net Debt / (Cash)	A\$m	(10)	(84)	98	(34)	(152)	(248)	(342)	
Gearing (net debt/(nd + equity))	%	nmf	nmf	38%	nmf	nmf	nmf	nmf	
Gearing (net debt/equity)	%	(73%)	(62%)	61%	(12%)	(40%)	(54%)	(64%)	
ATTRIBUTABLE MINE OUTPUT		FY16a	FY17e	FY18e	FY19e	FY20e	FY21e	FY22e	
<b>Gold production (equ)</b>									
Mt Morgans	(koz)	0.0	0.0	63.6	221.8	227.3	217.3	209.9	
<b>Total</b>	<b>(koz)</b>	<b>0.0</b>	<b>0.0</b>	<b>63.6</b>	<b>221.8</b>	<b>227.3</b>	<b>217.3</b>	<b>209.9</b>	
<b>Cash costs</b>									
C1 Cash cost - Mt Morgans	(A\$/oz)	0	0	886	767	851	859	882	
<b>AISC - Mt Morgans</b>	<b>(A\$/oz)</b>	<b>0</b>	<b>0</b>	<b>1,200</b>	<b>952</b>	<b>1,044</b>	<b>1,050</b>	<b>1,074</b>	
EV/Production	(A\$/oz)	nm	nm	nm	1,424	874	471	39	
OPERATIONAL OUTLOOK									
MINING INVENTORY									
<b>Mining Inventory</b>									
<b>Deposit</b>							Mt	g/t	koz
Jupiter Open Pit							14.8	1.36	643
Beresford							4.5	4.67	682
Allanson							1.6	5.01	256
Transvaal Underground							0.5	4.13	69
<b>Total Mining Inventory</b>							<b>21.4</b>	<b>2.40</b>	<b>1,650</b>
RESERVES AND RESOURCES (ATTRIBUTABLE)									
<b>Reserves</b>									
<b>Project</b>							Mt	g/t	koz
Jupiter							14.8	1.4	643
Beresford							2.4	4.2	331
Allanson							0.9	5.7	162
Transvaal							0.5	3.8	64
<b>Total reserves</b>							<b>18.6</b>	<b>2.0</b>	<b>1,200</b>
<b>Resources</b>									
<b>Project</b>							Mt	g/t	koz
King Street							0.5	1.93	33
Jupiter							30.2	1.29	1,257
Jupiter UG							0.5	2.12	34
Jupiter Low Grade Stockpiles							3.5	0.52	58
Westralia							8.7	5.79	1,620
Craic							0.2	7.57	46
Transvaal							1.3	5.21	210
Ramornie							0.4	4.01	57
<b>Total Resources</b>							<b>45.4</b>	<b>2.27</b>	<b>3,315</b>
	EV/Reserve (A\$/oz)	205							74
EQUITY DCF VALUATION									
		Macquarie forecasts		Spot prices					
<b>Projects</b>		<b>A\$m</b>	<b>A\$ps</b>	<b>A\$m</b>	<b>A\$ps</b>				
Mt Morgans		446	2.09	388	1.82				
Undeveloped Resources & exploration		138	0.65	136	0.64				
Unpaid capital		10	0.05	10	0.05				
Forwards		0	0.00	0	0.00				
Corporate		(40)	(0.19)	(40)	(0.19)				
Cash		124	0.58	108	0.51				
Debt		(40)	(0.19)	(40)	(0.19)				
<b>Net Equity Value (@ 5% WACC)</b>		<b>638</b>	<b>2.98</b>	<b>562</b>	<b>2.63</b>				
<b>Price Target (1.0x NAV)</b>			<b>3.00</b>						
<b>P/NAV</b>			<b>0.55x</b>						

Source: DCN, Macquarie Research, May 2017

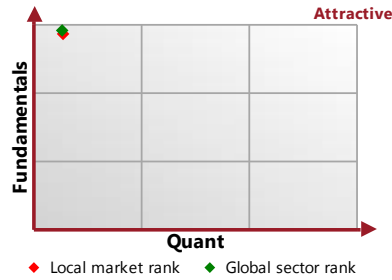
## Macquarie Quant View

The quant model currently holds a strong negative view on Dacian Gold. The strongest style exposure is Earnings Momentum, indicating this stock has received earnings upgrades and is well liked by sell side analysts. The weakest style exposure is Profitability, indicating this stock is not efficiently converting investments to earnings; proxied by ratios like ROE or ROA.

**1427/1560**

Global rank in Materials

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

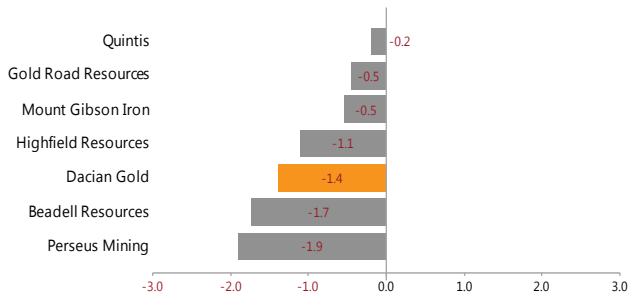


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

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

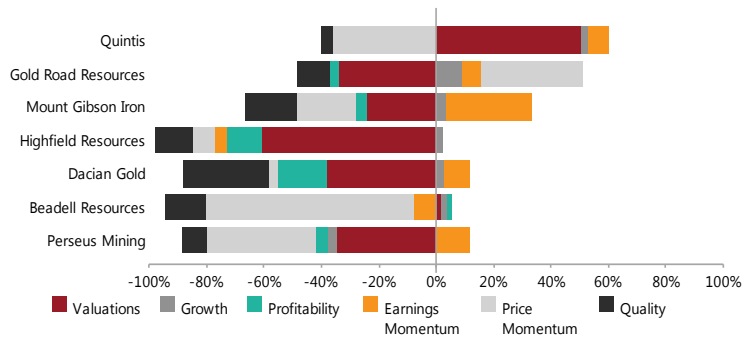
## Macquarie Alpha Model ranking

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



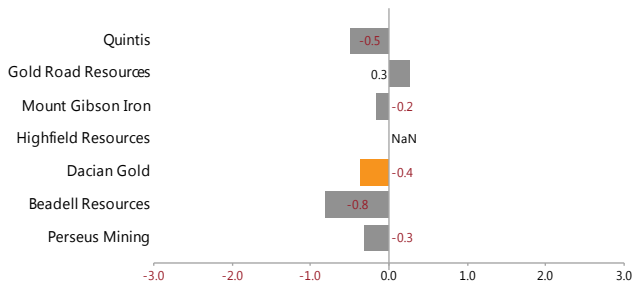
## Factors driving the Alpha Model

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



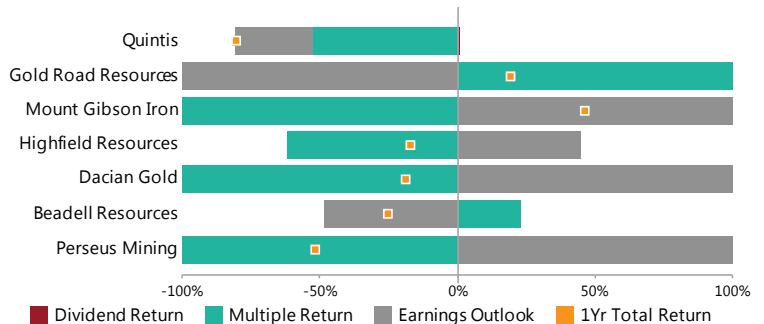
## Macquarie Earnings Sentiment Indicator

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.



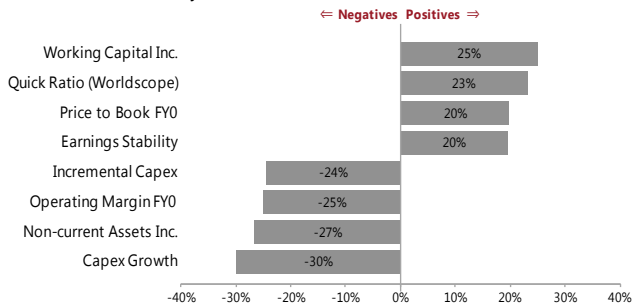
## Drivers of Stock Return

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



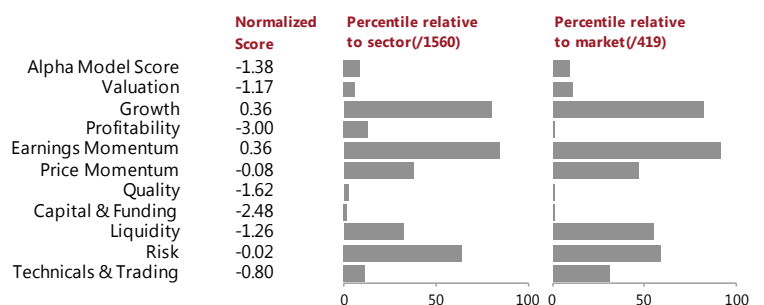
## What drove this Company in the last 5 years

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 ([cpg@macquarie.com](mailto:cpg@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, May 2017

**12-month target price methodology**

DCN AU: A\$3.00 based on a 1.0x NPV (Sum-of-the-parts) methodology

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Date	Stock Code (BBG code)	Recommendation	Target Price
27-Apr-2017	DCN AU	Outperform	A\$3.00
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

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