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# DGO Gold Limited (DGO)

## DGO strategy further validated by De Grey's MGP scoping study

### Recommendation

**Buy** (unchanged)

Price

**\$2.93**

Valuation

**\$4.47** (previously \$4.67)

Risk

**Speculative**

### GICS Sector

Materials

### Expected Return

|                       |            |
|-----------------------|------------|
| Capital growth        | <b>53%</b> |
| Dividend yield        | <b>0%</b>  |
| Total expected return | <b>53%</b> |

### Company Data & Ratios

|                        |                    |
|------------------------|--------------------|
| Enterprise value       | <b>\$240m</b>      |
| Market cap             | <b>\$244m</b>      |
| Issued capital         | <b>83m</b>         |
| Free float             | <b>42%</b>         |
| Avg. daily val. (52wk) | <b>\$124,962</b>   |
| 12 month price range   | <b>\$2.49-3.90</b> |

### Price Performance

|                | (1m) | (3m) | (12m) |
|----------------|------|------|-------|
| Price (A\$)    | 2.95 | 3.14 | 3.36  |
| Absolute (%)   | -0.7 | -6.7 | -12.8 |
| Rel market (%) | -3.1 | -5.8 | -34.3 |

### Absolute Price



SOURCE: IRESS

### Mallina Gold Project Study delivers Tier 1 project metrics

De grey Mining's (DEG, Buy (Speculative), Val\$1.74ps) published scoping study demonstrated a significant and economic development case for its recently upgraded Mallina Gold Project Mineral Resource of 9.0Moz contained Au. Highlight metrics defined in the study include average LOM production of 427kozpa, at an AISC of \$1,224/oz, over a 10 year evaluation period. Total capital expenditure is expected to be \$893m, including \$58m in pre-stripping costs and contingencies. DEG have identified a number of immediate opportunities to be considered in upcoming studies that are likely to have favourable outcomes on project economics and return metrics.

### Near term greenfield exploration news flow expected

Results from a recently completed RC drilling program at DGO's Pernatty tenements, which targeted 10km of strike length at Moseley, are expected in late November 2021. At Yerrida, drilling is ongoing and follow-up drilling at Bryah is planned during the current quarter. These programs are extensions to prior successful drilling; we believe the upcoming assay results from recently completed drilling could provide some near term value catalysts beyond news flow from DGO's investments. DGO is well funded with cash of \$4.5m and available liquidity of \$19.5m at 30 September.

### Investment thesis: Speculative Buy, Valuation \$4.47/sh

DGO's dual strategy of combining ASX-listed investments with its own highly prospective tenement positions provides an attractive portfolio approach to Australian gold exploration investing. We see the outstanding scoping study results for DEG's Mallina Gold Project as a strong endorsement of DGO's ability to identify key "brownfield" investments that are capable of developing Tier 1 mining projects of scale and at a discovery cost lower than the industry average. Our updated valuation of \$4.47/sh incorporates our latest DEG valuation of \$1.74/sh and an updated EV/Resource multiple of \$105/oz (previously \$120/oz) applied to our Yandal Resources valuation. DGO has prospective operations and cash flows. Our Speculative risk rating recognises this higher level of risk and volatility of returns.

### Earnings Forecast

| Year ending 30 June   | 2021a  | 2022e  | 2023e  | 2024e  |
|-----------------------|--------|--------|--------|--------|
| Revenue (\$m)         | -      | -      | -      | -      |
| EBITDA (\$m)          | (17)   | (6)    | (6)    | (6)    |
| NPAT (reported) (\$m) | (18)   | (6)    | (6)    | (6)    |
| NPAT (adjusted) (\$m) | (7)    | (6)    | (6)    | (6)    |
| EPS (adjusted) (eps)  | (10.0) | (7.7)  | (7.1)  | (6.8)  |
| EPS growth (%)        | na     | na     | na     | na     |
| PER (x)               | -29.4x | -38.1x | -41.0x | -42.8x |
| FCF Yield (%)         | -20%   | -7%    | -5%    | -5%    |
| EV/EBITDA (x)         | -13.8x | -37.4x | -37.4x | -37.4x |
| Dividend (eps)        | -      | -      | -      | -      |
| Yield (%)             | 0%     | 0%     | 0%     | 0%     |
| Franking (%)          | -      | -      | -      | -      |
| ROE (%)               | -23%   | -6%    | -6%    | -5%    |

SOURCE: BELL POTTER SECURITIES ESTIMATES

# DEG: Mallina Gold Project scoping study

## Scoping study outlines attractive development case

De Grey Mining's (ASX:DEG, Buy (Speculative), Valuation\$1.74) scoping study evaluates a potential development for its wholly owned Mallina Gold Project (MGP), located southwest of Port Hedland, Western Australia. The study was based on the MGP Mineral Resource Estimate (MRE) of 9.0Moz contained Au (announced in June 2021) and assessed a potential development producing 427kozpa gold over a 10 year evaluation period at an AISC of \$1,224/oz. A 10Mtpa processing plant was proposed with LOM recovery rates estimated at 93%. Total capital expenditure is expected to be \$893m, including \$58m in pre-stripping costs and contingencies. DEG's Board has approved a pre-feasibility study (PFS), with results expected in 2H 2022.

## FINANCIALS HIGHLIGHT PROFITABLE OPERATIONS WITH ROBUST RETURNS

The study indicates that the proposed development could yield an NPV<sub>5%</sub> (post-tax) of \$1,976m, IRR of 49.4% and a payback period (post-tax) of 1.8 years. These attractive financial outcomes exemplify the profitability and return of a Tier 1 development (which we define as a gold mine that can produce +300kozpa for +10 years). The development is likely to be placed in the lowest quartile of Australian producing gold mines with respect to production costs.

Completion of the study was an important milestone for DEG as it defines a significant and economic gold mining operation for the updated MGP MRE (released on 23 June 2021), which incorporates the maiden Hemi Resource (6.8Moz contained Au). We see the study as a major de-risking catalyst for DEG, and a strong endorsement in DGO's ability to select key "brownfield" investments that are capable of developing Tier 1 mining projects of scale, and at a discovery cost lower than the industry average.

The table below outlines key parameters from the scoping study.

**Table 1 - Mallina Gold Project scoping study summary**

| Key assumptions                          | Outcome |
|--|---------|
| Evaluation period years                  | 10      |
| Gold price A\$/oz                        | 2,400   |
| <b>Operational metrics</b>               |         |
| Inventory applied (contained ounces) Moz | 4.6     |
| Strip ratio (Hemi) waste:ore             | 4.8:1   |
| LOM recovery %                           | 93      |
| Plant throughput Mtpa                    | 10      |
| Average annual LOM production kozpa      | 427     |
| LOM AISC \$/oz                           | 1,224   |
| Capital expenditure \$m                  | 893     |
| <b>Financials</b>                        |         |
| LOM free cash flow (post-tax) \$m        | 2,857   |
| NPV <sub>5%</sub> (post-tax) \$m         | 1,976   |
| IRR (post-tax) %                         | 49.4    |
| Payback period (post-tax) years          | 1.8     |

SOURCE: COMPANY ANNOUNCEMENT

## PROJECT COMPARISON: TOP 5 POTENTIAL IN AUSTRALIA BY SCALE AND COST

The study highlighted the MGP's potential to rank among Australia's top gold mining operations on production scale and operating cost. With respect to LOM average annual production, the MGP ranks behind Newmont's (NYSE:NEM, not rated) Boddington and

Tanami mines, Kirkland Lake's (ASX:KLA, not rated) Fosterville operation and Northern Star's (ASX:NST, not rated) Kalgoorlie Consolidated Gold Mines project. The MGP also compares favourably on a LOM AISC basis, positioned in the top quartile of comparable Australian peers. The MGP's capital intensity of A\$2,103/koz Au is also impressive, ranking 5<sup>th</sup> lowest among 16 developments globally. The range of these developments is A\$1,523-13,080/koz Au. DEG attributes the project's relatively low capital intensity to the proximity of established infrastructure. Existing nearby infrastructure include: highways; gas pipelines; power lines and power stations; Port Hedland Airport; and the town of Port Hedland, a major port and regional mining services centre.

#### **POTENTIAL UPSIDE TO BE CONSIDERED IN FUTURE STUDIES**

DEG noted a number of opportunities that could yield more favourable outcomes in future studies. These include:

- Inclusion of about 800koz Au (10% of Indicated and 90% of Inferred MGP Resource) relating to pit shell optimisation that was excluded from the study and may be included in the upcoming PFS. The inclusion is subject to further Resource definition drilling required to enable conversion of Inferred Resources into the higher confidence Indicated category.
- Further optimisation of processing plant throughput rates.
- Inclusion of mineralisation extensions at Diucon and Eagle that have been identified in recent drilling programs subsequent to the maiden Hemi MRE assay cut-off date (17 May 2021).
- Inclusion of additional Resources likely to be delineated from ongoing drilling campaigns at Hemi, Greater Hemi and regional prospects.

#### **Upcoming value catalysts**

Upcoming catalysts for DEG include:

- Receipt on assay results from ongoing drilling campaigns at the Hemi prospect, testing for and identifying extensions to gold mineralisation at Aquila, Brolga, Crow, Diucon, Eagle and Falcon
- Exploration results testing prospective intrusion and shear zone related regional targets, including the Withnell, Calvert, Gillies, Geemas and Charity Well prospects. These results could potentially yield further significant new discoveries of similar scale the Hemi prospect.
- News flow relating to project permitting, submission of key environmental applications, native title agreement and other key Government approvals.
- Other important developments at the MGP that may support further studies including metallurgy studies, Mineral Resource upgrades and a maiden Reserve.
- The release of a Pre-Feasibility Study (PFS) in 2H CY22; and
- Indications of any corporate activity. Successful and productive exploration programs conducted to date have delineated large scale gold systems across the MGP. The maiden scoping study demonstrated the attractiveness of a potential Tier 1 development and comparison among Australia's top gold mine operations, making DEG a compelling target for large, global, gold mining companies.

# DCN: September 2021 quarter update

## Weaker quarter at Mt Morgans; guidance reiterated

Dacian Gold (ASX:DCN, not rated) delivered a weaker than expected September 2021 quarterly report, posting quarterly gold production of 15.8koz (down 38% qoq, BP est. 24koz), mined ore grade of 0.8g/t (down 14% qoq, BP est. 1.1g/t) and an AISC of \$2,362/oz (up 36% qoq, BP est. \$1,556/oz). Quarterly performance continues to be impacted by ongoing labour shortages in the Western Australia mining industry. Limited access to personnel resulted in a delayed start and slower ramp-up of development activities at the Westralia underground mine. DCN expect to commence stope production towards the end of the December 2021 quarter. Quarter-end cash and gold was \$33.2m, debt \$16.0m for net cash of \$17.2m.

## FY22 guidance reiterated: rising production profile ahead

DCN remains committed to its FY22 production guidance 100-110koz at AISC of \$1,550-1,700/oz. Development activities currently being progressed should result in rising quarterly production that is weighted towards 2HFY22. At Doublejay, pre-stripping activities should be completed before the June 2022 quarter, providing access to a shallow and productive gold zone that is expected to contribute 70% of Doublejay's FY22 production. High grade ore from the resumption of mining at Westralia (Beresford South and Allanson ore bodies targeted initially) should also boost gold production rates in 2HFY22.

Table 2 - Quarterly summary table

|  | Sep-20(a)   | Dec-20(a)   | Mar-21(a)  | Jun-21(a)   | Sep-21(a)   | QoQ(Δ%) | Sep-21(BPe) | vs BP(Δ%) |
|--|-------------|-------------|------------|-------------|-------------|---------|-------------|-----------|
| <b>Open pit &amp; processing metrics</b> |             |             |            |             |             |         |             |           |
| Total ore mined kt                       | 1,020       | 989         | 863        | 982         | 534         | -46%    | 730         | -27%      |
| Mined grade g/t                          | 1.2         | 1.1         | 0.8        | 0.9         | 0.8         | -14%    | 1.1         | -30%      |
| Contained gold mined koz                 | 38.1        | 34.4        | 23.5       | 29.2        | 13.2        | -55%    | 25.8        | -49%      |
| Gold produced koz                        | 32.8        | 27.2        | 21.4       | 25.6        | 15.8        | -38%    | 24.0        | -34%      |
| Gold sales koz                           | 34.0        | 25.2        | 24.5       | 24.5        | 18.3        | -25%    | 24.0        | -24%      |
| Average gold price received A\$/oz       | 2,142       | 2,417       | 2,197      | 2,177       | 2,277       | 5%      | 2,484       | -8%       |
| <b>Key cost metrics</b>                  |             |             |            |             |             |         |             |           |
| Cash costs \$/oz                         | 1,154       | 1,265       | 1,644      | 1,555       | 2,147       | 38%     | 1,336       | 61%       |
| AISC \$oz                                | 1,315       | 1,430       | 1,874      | 1,743       | 2,362       | 36%     | 1,556       | 52%       |
| <b>Capital expenditure</b>               |             |             |            |             |             |         |             |           |
| Development capital expenditure \$m      | 9.5         | 11.0        | 14.1       | 12.9        | 18.5        | 43%     | 15.0        | 23%       |
| Exploration expenditure \$m              | 5.5         | 4.3         | 4.9        | 6.4         | 5.1         | -20%    | 6.0         | -15%      |
| <b>Net cash/(debt) \$m</b>               | <b>-0.6</b> | <b>14.5</b> | <b>6.9</b> | <b>25.6</b> | <b>17.2</b> |         |             |           |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## Exploration drilling highlights mineralisation below mining pits

DCN also published results from a drilling campaign at the Jupiter mining complex within the Mt Morgans Gold Operations (MMGO). Drilling tested mineralisation below the currently mined Heffernans and Ganymede pits. The current Mineral Resource estimate for the complex is 14.6Mt, grading 1.3g/t for contained gold of 599koz.

At Heffernans, a featured intersection includes 102.9m @ 1.4g/t from 436.3m, including 14.7m at 7.2g/t from 467.9m, below the open pit.

Key intersections below the Ganymede open pit include: 44.5m @ 1.1g/t from 247.1m; including 18.3m @ 1.4g/t Au from 247.1m; and 22.2m @ 1.0g/t Au from 269.5m.

The drill results highlight the potential for Resource extensions at depth and within known gold systems at MGGO and are likely to support future Resource upgrades and extend the MGGO's mine life. The drilling results lie within the Heffernans Inferred Mineral Resource, which is likely to underpin Resource conversion into higher confidence categories.

# YRL: Focus on Gordons Gold Project

## More hits at Gordons Gold Project

Exploratory drilling at the Gordons Gold Project, located in the Kalgoorlie-Boulder region of Western Australia, has been focused at the Star of Gordon and Malone prospects, with one AC, two RC and one diamond drill rigs active during the quarter.

Highlight intercepts from drilling at Star of Gordon include:

- 10m @ 8.4g/t Au from 43m including 1m @ 52.5g/t Au (YRLRC630); and
- 12m @ 1.1g/t Au from 44m including 4m @ 3.0g/t Au (YRLRC632).

The high-grade intercept in hole YRLRC630 revealed down dip extension to mineralisation intercepted in two shallower holes previously drilled. Three 180m vertical RC holes were drilled as follow-up holes to test the mineralisation zone at depth. Results for these holes are pending.

Published results from recent drilling at the Malone prospect, targeting the prospective Malone felsic-mafic contact include:

- 3m @ 8.2g/t Au from 130m including 1m @ 22.0g/t Au (YRLRC579); and
- 5m @ 3.6g/t Au from 47m including 1m @ 12.3g/t Au (YRLRC584).

Assay results from additional RC holes conducted during the quarter, testing mineralisation extension at depth and along strike are pending

A shallow 4,500m RC campaign is underway to improve the confidence of a planned Mineral Estimate planned to be completed in the March 2022 quarter. Infill drilling will target known areas of mineralisation within the project.

## Further results from Sims Find drilling

Published assay results from RC drilling at the Sims Find prospect, located within the Barwidgee Gold project in Western Australia's Goldfield province, featured the following intercepts:

- 6m @ 9.0g/t Au from 172m including 1m @ 40.0g/t Au and 1m @ 10.9g/t Au;
  - 2m @ 1.5g/t Au from 182m; and
  - 2m @ 2.21g/t Au from 293m including 1m @ 4.28g/t Au (YRLRC1011).
- 2m @ 1.07g/t Au from 22m including 1m @ 1.98g/t Au; and
  - 2m @ 2.86g/t Au from 207m including 1m @ 5.59g/t Au (YRLRC1013).

The holes were spaced 400m apart along the north-west Sims Find strike, testing mineralisation extensions at depth.

A detailed magnetic survey is a planned at the prospect, subject to receipt of required approvals. The survey will target a 7km x 74km area, covering potential strike extension of known mineralisation at Sims Find and the margins of a prospective granite intrusion 1km south of the prospect.

## Assays pending from Mt McClure RC drilling campaign

YRL completed an 18-hole high impact RC program at its Mt McClure Gold Project, situated about 65km south from its Barwidgee and Ironstone Well projects, testing depths below historically mined gold pits of between 207-400m. These holes were drilled as follow-up to significant results from a RC drilling campaign conducted in the March 2021 quarter. All assays from the recently completed RC program are pending.

# Valuation methodology & assumptions

The table below outlines our sum of the parts valuation and a current market value based on the share price of DGO's brownfield investments, with same value allowances for greenfield projects and corporate costs.

In this note, our updated DGO valuation incorporates:

- Our upgraded De Grey Mining valuation of \$1.74/sh.
- An updated Dacian Gold DCF valuation, which incorporates the company's September 2021 quarterly report.
- Our latest calculated EV/Resource for ASX-listed gold explorers of \$105/oz applied to our Yandal Resources valuation.
- Updated DGO's quarterly net cash position.
- Adjusted outstanding diluted shares.

| Table 3 - DGO sum of the parts valuation |                       |                  |                           |                  |
|--|-----------------------|------------------|---------------------------|------------------|
| Sum of the parts valuation               | Bell Potter valuation |                  | Current market valuation* |                  |
|  | A\$m                  | A\$/sh           | A\$m                      | A\$/sh           |
| DEG investment                           | \$354m                | \$3.97/sh        | \$235m                    | \$2.64/sh        |
| DCN investment                           | \$15m                 | \$0.16/sh        | \$12m                     | \$0.13/sh        |
| YRL investment                           | \$9m                  | \$0.11/sh        | \$9m                      | \$0.10/sh        |
| <b>Value of brownfield investments</b>   | <b>\$378m</b>         | <b>\$4.24/sh</b> | <b>\$256m</b>             | <b>\$2.87/sh</b> |
| Greenfield exploration tenements         | \$39m                 | \$0.43/sh        | \$39m                     | \$0.43/sh        |
| Corporate & admin                        | -\$31m                | -\$0.35/sh       | -\$31m                    | -\$0.35/sh       |
| <b>Enterprise value</b>                  | <b>\$386m</b>         | <b>\$4.33/sh</b> | <b>\$263m</b>             | <b>\$2.95/sh</b> |
| Net debt / (cash) + cash from options    | -\$13m                | -\$0.14/sh       | -\$13m                    | -\$0.14/sh       |
| <b>Equity value of core investments</b>  | <b>\$399m</b>         | <b>\$4.47/sh</b> | <b>\$276m</b>             | <b>\$3.09/sh</b> |

SOURCE: BELL POTTER SECURITIES ESTIMATES  
\*EQUITY VALUATIONS BASED ON MARKET CLOSE 10/11/2021

## BROWNFIELD ASSET VALUATIONS

- **De Grey Mining (DEG):** We apply our in-house valuation informed by a risk-adjusted NPV of a notional production scenario at the Mallina Gold Project (MGP) and an allowance for further exploration success. Our notional production scenario estimates are based on the October 2021 scoping study on the MGP.
- **Dacian Gold (DCN):** A DCF model of the Mt Morgan Gold Operation (MGGO) underpins our DCN valuation, with operational assumptions in line with the company's five year mine plan. We have factored some upside exploration due to the targeted exploration program at DCN's MGGO and the recently acquired Redcliffe project.
- **Yandal Resources (YRL):** We apply an industry average EV/Resource multiple to YRL's defined Flushing Meadows Resource (268koz) and to an assumed upside Resource addition scenario to recognise recent exploration programs across the company's tenements, particularly the Gordons Gold Project.

## GREENFIELD PORTFOLIO VALUATION APPROACH & CORPORATE COSTS

A compiled list of 13 ASX-listed mineral exploration companies (mostly gold focussed), forms the basis of our valuation for DGO's portfolio of exploration assets. We apply a premium (33%) to the average enterprise value of this list to recognise the expertise of DGO's management team with respect to identifying prospective tenements and applying exploration techniques in delineating mineralisation.

Corporate costs of \$31m is the present value of \$3m in annual corporate and administrative expenses discounted at a 10% rate (real).

## **Value catalysts & near-term news flow**

### **Brownfield exploration:**

- Positive news flow from DEG, DCN and YRL including:
  1. DEG: Published assay results from drilling at Hemi and across the wider MGP; further Mineral Resource upgrades and release of a pre-feasibility study, refining project parameters defined in the October 2021 scoping study (expected in 2H CY22).
  2. DCN: Quarterly production reports; and progress reports on a ~300,000m drilling campaign at the MGGO and Redcliffe tenements, targeting new discoveries, resource definition and expansion of existing mineral deposits.
  3. YRL: Progress reports relating to ongoing drilling campaign at the Gordon Gold project; drilling at the Ironstone Well and Barwidgee projects; and a deep 4,000m RC and diamond drilling program Mt McClure.
- Further investments in existing brownfield companies, subject to management's discretion and when opportunities arise (typically placements); and
- Potential investments in new brownfield opportunities.



# Summary: DGO Gold Limited (DGO)

## Company description

DGO is a gold and copper focussed exploration and investment company. It has a dual strategy of investing in ASX-listed explorers and developers (brownfield strategy) and progressing its own tenements through exploration and appraisal (greenfield strategy). Both strategies are focussed on identifying assets that have the potential to be large-scale, long life mining projects, regarded as “Tier 1” by the industry. DGO’s brownfield strategy seeks to generate shareholder value through the significant premium the ASX-listed market attributes to gold Resources compared with their discovery costs. DGO’s greenfield exploration seeks Tier 1 discoveries analogous to world class copper and gold assets.

## Investment thesis: Speculative Buy, Valuation \$4.47/sh

DGO’s dual strategy of combining ASX-listed investments with its own highly prospective tenement positions provides an attractive portfolio approach to Australian gold exploration investing. We see the outstanding scoping study results for DEG’s Mallina Gold Project as a strong endorsement of DGO’s ability to identify key “brownfield” investments that are capable of developing Tier 1 mining projects of scale and at a discovery cost lower than the industry average. Our updated valuation of \$4.47/sh incorporates our latest DEG valuation of \$1.74/sh and an updated EV/Resource multiple of \$105/oz (previously \$120/oz) applied to our Yandal Resources valuation. DGO has prospective operations and cash flows. Our Speculative risk rating recognises this higher level of risk and volatility of returns.

## Investment risks

Risks include, but are not limited to:

- **Commodity price and exchange rate fluctuations.** The future earnings and valuations of exploration, development and operating resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Infrastructure access.** Bulk commodity producers are particularly reliant upon access to transport infrastructure. Access to infrastructure is often subject to contractual agreements, permits, and capacity allocations. Agreements are typically long-term in nature (+10 years). Infrastructure can be subject to outages as a result of weather events or the actions of third party providers.
- **Operating and capital cost fluctuations.** Markets for exploration, development and mining inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour markets.
- **Resource growth and mine life extensions.** Future earnings forecasts and valuations may rely upon resource and reserve growth to extend mine lives.
- **Sovereign risks.** Mining companies’ assets can be located in countries other than Australia and are subject to the sovereign risks of that country.
- **Regulatory changes risks.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies.
- **Environmental risks.** Resources companies are exposed to risks associated with environmental degradation as a result of their exploration and mining processes. Fossil fuel producers (coal) may be particularly exposed to the environmental risks of end markets including the electricity generation and steel production industries.

- **Operating and development risks.** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single operation company. Development assets can be subject to approvals timelines or weather events, causing delays to commissioning and commercial production.
- **Occupational health and safety risks.** Mining companies are particularly exposed to OH&S risks given the physical nature and human resource intensity of operating assets.
- **Funding and capital management risks.** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments, and managing debt repayments.
- **Merger/acquisition risks.** Risks associated with value transferred during merger and acquisition activity.
- **COVID-19 risks:** Mining companies' rely on freedom of movement of workforces, functioning transport routes, reliable logistics services including road, rail, aviation and ports in order to maintain operations and get their products to market. They also rely on liquid, functioning markets to sell their products. Measures being put in place to combat the COVID-19 pandemic are posing risks to these conditions.

Table 4 - Financial summary

| Date   | 10/11/21   |   |               |                                  |               |  |
|--|------------|---|---------------|----------------------------------|---------------|--|
| Price  | A\$/sh     | 2.93                                    |               |                                  |               |  |
| Target price   | A\$/sh     | 4.47                                    |               |                                  |               |  |
| <b>PROFIT AND LOSS</b>                               |            |   |               |                                  |               | <b>Bell Potter Securities</b>                            |
|  |            |   |               |                                  |               | Joseph House (jhouse@bellpotter.com.au, +61 3 9235 1624) |
| Year ending 30 June                                  | Unit       | 2020a                                   | 2021a         | 2022e                            | 2023e         | 2024e  |
| Revenue  | \$m        | -                                       | -             | -                                | -             | -  |
| Net gains / (losses) on financial asset FV           | \$m        | 3                                       | (6)           | -                                | -             | -  |
| Expenses   | \$m        | (3)                                     | (11)          | (6)                              | (6)           | (6)  |
| <b>EBITDA</b>  | <b>\$m</b> | <b>0</b>                                | <b>(17)</b>   | <b>(6)</b>                       | <b>(6)</b>    | <b>(6)</b>   |
| Depreciation & amortisation                          | \$m        | (0)                                     | (0)           | -                                | -             | -  |
| <b>EBIT</b>  | <b>\$m</b> | <b>0</b>                                | <b>(18)</b>   | <b>(6)</b>                       | <b>(6)</b>    | <b>(6)</b>   |
| Net interest expense                                 | \$m        | (0)                                     | (0)           | 0                                | 0             | 0  |
| Profit before tax                                    | \$m        | (0)                                     | (18)          | (6)                              | (6)           | (6)  |
| Tax expense  | \$m        | -                                       | -             | -                                | -             | -  |
| <b>NPAT (reported)</b>                               | <b>\$m</b> | <b>(0)</b>                              | <b>(18)</b>   | <b>(6)</b>                       | <b>(6)</b>    | <b>(6)</b>   |
| Significant items                                    | \$m        | -                                       | 11            | -                                | -             | -  |
| <b>NPAT (adjusted)</b>                               | <b>\$m</b> | <b>(0)</b>                              | <b>(7)</b>    | <b>(6)</b>                       | <b>(6)</b>    | <b>(6)</b>   |
| <b>CASH FLOW STATEMENT</b>                           |            |   |               |                                  |               |  |
| Year ending 30 June                                  | Unit       | 2020a                                   | 2021a         | 2022e                            | 2023e         | 2024e  |
| <b>OPERATING CASH FLOW</b>                           |            |   |               |                                  |               |  |
| Receipts from customers                              | \$m        | -                                       | -             | -                                | -             | -  |
| Payments to suppliers and employees                  | \$m        | (1)                                     | (3)           | -                                | -             | -  |
| Tax paid   | \$m        | -                                       | -             | -                                | -             | -  |
| Net interest   | \$m        | (0)                                     | 0             | 0                                | 0             | 0  |
| Other  | \$m        | (0)                                     | (0)           | (6)                              | (6)           | (6)  |
| <b>Operating cash flow</b>                           | <b>\$m</b> | <b>(1)</b>                              | <b>(3)</b>    | <b>(6)</b>                       | <b>(6)</b>    | <b>(6)</b>   |
| <b>INVESTING CASH FLOW</b>                           |            |   |               |                                  |               |  |
| Exploration expenditure                              | \$m        | (3)                                     | (6)           | (8)                              | (8)           | (8)  |
| Investment in associates                             | \$m        | (11)                                    | (26)          | (3)                              | -             | -  |
| Disposal of assets                                   | \$m        | -                                       | 1             | -                                | -             | -  |
| Other  | \$m        | 0                                       | (7)           | -                                | -             | -  |
| <b>Investing cash flow</b>                           | <b>\$m</b> | <b>(14)</b>                             | <b>(38)</b>   | <b>(11)</b>                      | <b>(8)</b>    | <b>(8)</b>   |
| <b>FINANCING CASH FLOW</b>                           |            |   |               |                                  |               |  |
| Debt proceeds/(repayments)                           | \$m        | -                                       | -             | -                                | -             | -  |
| Dividends paid                                       | \$m        | -                                       | -             | -                                | -             | -  |
| Proceeds from share issues (net)                     | \$m        | 22                                      | 37            | 18                               | 10            | 14   |
| Other  | \$m        | (0)                                     | (0)           | -                                | -             | -  |
| <b>Financing cash flow</b>                           | <b>\$m</b> | <b>22</b>                               | <b>37</b>     | <b>18</b>                        | <b>10</b>     | <b>14</b>  |
| <b>Change in cash</b>                                | <b>\$m</b> | <b>7</b>                                | <b>(4)</b>    | <b>1</b>                         | <b>(4)</b>    | <b>0</b>   |
| Free cash flow                                       | \$m        | (16)                                    | (41)          | (17)                             | (14)          | (14)   |
| <b>BALANCE SHEET</b>                                 |            |   |               |                                  |               |  |
| Year ending 30 June                                  | Unit       | 2020a                                   | 2021a         | 2022e                            | 2023e         | 2024e  |
| <b>ASSETS</b>  |            |   |               |                                  |               |  |
| Cash   | \$m        | 12                                      | 7             | 8                                | 4             | 4  |
| Receivables  | \$m        | 0                                       | 1             | 1                                | 1             | 1  |
| Inventories  | \$m        | -                                       | -             | -                                | -             | -  |
| Exploration assets                                   | \$m        | 5                                       | 11            | 19                               | 26            | 34   |
| Other assets   | \$m        | 40                                      | 81            | 84                               | 84            | 84   |
| <b>Total assets</b>                                  | <b>\$m</b> | <b>57</b>                               | <b>99</b>     | <b>111</b>                       | <b>114</b>    | <b>122</b>   |
| <b>LIABILITIES</b>                                   |            |   |               |                                  |               |  |
| Creditors  | \$m        | 1                                       | 1             | 1                                | 1             | 1  |
| Borrowings   | \$m        | -                                       | -             | -                                | -             | -  |
| Provisions   | \$m        | 0                                       | 0             | 0                                | 0             | 0  |
| Other liabilities                                    | \$m        | 0                                       | 0             | 0                                | 0             | 0  |
| <b>Total liabilities</b>                             | <b>\$m</b> | <b>1</b>                                | <b>1</b>      | <b>2</b>                         | <b>2</b>      | <b>2</b>   |
| <b>NET ASSETS</b>                                    | <b>\$m</b> | <b>56</b>                               | <b>98</b>     | <b>110</b>                       | <b>113</b>    | <b>121</b>   |
| Share capital  | \$m        | 77                                      | 122           | 140                              | 150           | 164  |
| Reserves   | \$m        | 5                                       | 9             | 9                                | 9             | 9  |
| Accumulated losses                                   | \$m        | (26)                                    | (33)          | (39)                             | (45)          | (52)   |
| Non-controlling interest                             | \$m        | -                                       | -             | -                                | -             | -  |
| <b>SHAREHOLDER EQUITY</b>                            | <b>\$m</b> | <b>56</b>                               | <b>98</b>     | <b>110</b>                       | <b>113</b>    | <b>121</b>   |
| Weighted average shares                              | m          | 38                                      | 70            | 81                               | 88            | 93   |
| <b>FINANCIAL RATIOS</b>                              |            |   |               |                                  |               |  |
| Year ending 30 June                                  | Unit       | 2020a                                   | 2021a         | 2022e                            | 2023e         | 2024e  |
| <b>VALUATION</b>                                     |            |   |               |                                  |               |  |
| EPS  | Ac/sh      | (0.2)                                   | (10.0)        | (7.7)                            | (7.1)         | (6.8)  |
| EPS growth (Acps)                                    | %          | na                                      | na            | na                               | na            | na   |
| PER  | x          | -1254.1x                                | -29.4x        | -38.1x                           | -41.0x        | -42.8x   |
| DPS  | Ac/sh      | -                                       | -             | -                                | -             | -  |
| Franking   | %          | 0%                                      | 0%            | 0%                               | 0%            | 0%   |
| Yield  | %          | 0%                                      | 0%            | 0%                               | 0%            | 0%   |
| FCF/share  | Ac/sh      | (41.6)                                  | (58.9)        | (21.0)                           | (15.8)        | (15.1)   |
| FCF yield  | %          | -14%                                    | -20%          | -7%                              | -5%           | -5%  |
| EV/EBITDA  | x          | 801.6x                                  | -13.8x        | -37.4x                           | -37.4x        | -37.4x   |
| <b>LIQUIDITY &amp; LEVERAGE</b>                      |            |   |               |                                  |               |  |
| Net debt / (cash)                                    | \$m        | (12)                                    | (7)           | (8)                              | (4)           | (4)  |
| Net debt / Equity                                    | %          | -15%                                    | -6%           | -6%                              | -2%           | -2%  |
| Net debt / Net debt + Equity                         | %          | -18%                                    | -6%           | -6%                              | -3%           | -2%  |
| Net debt / EBITDA                                    | x          | -38.6x                                  | 0.4x          | 1.3x                             | 0.6x          | 0.6x   |
| EBITDA / net int expense                             | x          | 1.4x                                    | -733.2x       | 39.4x                            | 52.8x         | 106.3x   |
| <b>PROFITABILITY RATIOS</b>                          |            |   |               |                                  |               |  |
| EBITDA margin  | %          | 0%                                      | 0%            | 0%                               | 0%            | 0%   |
| EBIT margin  | %          | 0%                                      | 0%            | 0%                               | 0%            | 0%   |
| Return on assets                                     | %          | 0%                                      | -23%          | -6%                              | -6%           | -5%  |
| Return on equity                                     | %          | 0%                                      | -23%          | -6%                              | -6%           | -5%  |
| <b>RESOURCES AND RESERVES</b>                        |            |   |               |                                  |               |  |
| <b>Brownfield investments</b>                        |            | <b>Measured &amp; Indicated:</b>        |               |                                  | <b>Total</b>  |  |
|  | <b>Mt</b>  | <b>Au g/t</b>                           | <b>Au koz</b> | <b>Mt</b>                        | <b>Au g/t</b> | <b>Au koz</b>  |
| De Grey Mining (DEG)                                 | 85         | 1.4                                     | 3,900         | 230                              | 1.2           | 9,000  |
| Dacian Gold (DCN)                                    | 25         | 1.6                                     | 1,271         | 44                               | 1.7           | 2,465  |
| Yandal Resources (YRL)                               | 2          | 1.3                                     | 9             | 7                                | 1.1           | 268  |
| <b>DGO Gold indirect ownership</b>                   | <b>15</b>  | <b>1.4</b>                              | <b>718</b>    | <b>41</b>                        | <b>1.3</b>    | <b>1,638</b>   |
| <b>ASSUMPTIONS - PRICES (NOMINAL)</b>                |            |   |               |                                  |               |  |
| Year ending 30 June                                  | Units      | 2022e                                   | 2023e         | 2024e                            | 2025e         | 2026e  |
| Copper price   | US\$/lb    | 430                                     | 403           | 390                              | 404           | 414  |
| Gold price   | US\$/oz    | 1,823                                   | 1,850         | 1,900                            | 1,968         | 2,017  |
| FX   | AS:\$US    | 0.73                                    | 0.73          | 0.73                             | 0.74          | 0.74   |
| <b>SUM OF THE PARTS VALUATION</b>                    |            |   |               |                                  |               |  |
| Shares on issue                                      | m          | 83 Used for valuation purposes          |               |                                  |               |  |
| Options & rights                                     | m          | 6 Unlisted options & performance rights |               |                                  |               |  |
| <b>Diluted shares</b>                                | <b>m</b>   | <b>89</b>                               |               |                                  |               |  |
| <b>Valuation discount rate - 10%</b>                 |            |   |               |                                  |               |  |
|  |            | <b>Bell Potter valuation</b>            |               | <b>Current market valuation*</b> |               |  |
|  |            | <b>A\$m</b>                             | <b>A\$/sh</b> | <b>A\$m</b>                      | <b>A\$/sh</b> |  |
| DEG investment                                       |            | 354                                     | 3.97          | 235                              | 2.64          |  |
| DCN investment                                       |            | 15                                      | 0.16          | 12                               | 0.13          |  |
| YRL investment                                       |            | 9                                       | 0.11          | 9                                | 0.10          |  |
| <b>Value of brownfield investments</b>               |            | <b>378</b>                              | <b>4.24</b>   | <b>256</b>                       | <b>2.87</b>   |  |
| Greenfield exploration tenements                     |            | 39                                      | 0.43          | 39                               | 0.43          |  |
| Corporate & admin                                    |            | (31)                                    | (0.35)        | (31)                             | (0.35)        |  |
| <b>Enterprise value</b>                              |            | <b>386</b>                              | <b>4.33</b>   | <b>263</b>                       | <b>2.95</b>   |  |
| Net debt / (cash) + cash from options                |            | (13)                                    | (0.14)        | (13)                             | (0.14)        |  |
| <b>Equity value of core investments</b>              |            | <b>399</b>                              | <b>4.47</b>   | <b>276</b>                       | <b>3.09</b>   |  |
| Share price premium / (discount) to market valuation |            | -5%                                     |               |                                  |               |  |
| Expected TSR (Bell Potter valuation)                 |            | 53%                                     |               |                                  |               |  |
| * Equity valuations based on market close (10/11/21) |            |   |               |                                  |               |  |

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

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