

Analyst

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Authorisation

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DGO Gold Limited (DGO)

Deep value emerging

Recommendation

Buy (unchanged)

Price

\$2.63

Valuation

\$4.41 (previously \$4.47)

Risk

Speculative

GICS Sector

Materials

Expected Return

Capital growth	68%
Dividend yield	0%
Total expected return	68%

Company Data & Ratios

Enterprise value	\$223m
Market cap	\$220m
Issued capital	83m
Free float	64%
Avg. daily val. (52wk)	\$98,458
12 month price range	\$2.50-3.90

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	2.64	2.68	3.14
Absolute (%)	-0.4	-1.9	-16.2
Rel market (%)	-2.8	-3.4	-26.1

Absolute Price



SOURCE: IRESS

Market value discount presents buying opportunity

DGO's current market value disconnect compared with its ASX-listed investments provides an opportunity to gain exposure to a quality portfolio of brownfield gold exploration companies at well below current market prices and participate in potential exploration success across the company's wholly owned tenements. DGO, with a market capitalisation of \$220m, currently trades at a 19% discount to its listed investments (De Grey Mining - DEG, Buy, TP\$1.74/sh, Dacian Gold - DCN, not rated, and Yandal Resources - YRL, not rated), which have a current market value of \$271m. DGO's value discount has typically ranged from -20% to 0% since mid-2020.

Option on greenfield discovery upside

We see minimal value currently being recognised for DGO's greenfield exploration portfolio and therefore significant upside leverage to any potential discoveries. Forthcoming news flow from the company's active exploration campaigns at Pernatty, Yerrida, Bryah, Mallina, and through its investment in Yilgarn Exploration Ventures (DGO 40%), are potential value catalysts. Further valuation upside potential via DGO's DEG and YRL holdings is supported by a robust exploration outlook for both companies. We also believe that the strategic value of DGO's 14.5% holding in DEG is being overlooked by the market.

Investment thesis: Speculative Buy, Valuation \$4.41/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 DGO's value discount to its listed investments as an opportunity to gain exposure to a portfolio of quality brownfield gold exploration companies below market price. Our updated valuation of \$4.41/sh (previously \$4.47/sh) incorporates our DEG valuation of \$1.74/sh and an updated EV/Resource multiple of \$108/oz (previously \$105/oz) applied to our YRL 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)	(14)	(5)	(5)
NPAT (reported) (\$m)	(18)	(15)	(5)	(5)
NPAT (adjusted) (\$m)	(7)	(15)	(5)	(5)
EPS (adjusted) (cps)	(10.0)	(19.9)	(6.6)	(6.1)
EPS growth (%)	na	na	na	na
PER (x)	-26.4x	-13.2x	-39.7x	-43.3x
FCF Yield (%)	-22%	-13%	-6%	-6%
EV/EBITDA (x)	-12.8x	-15.8x	-41.2x	-41.2x
Dividend (cps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	-	-	-	-
ROE (%)	-23%	-16%	-5%	-5%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Deep value emerging

Market value discount presents buying opportunity

DGO's growing market value disconnect to its ASX-listed investments provides an opportunity to gain exposure to a portfolio of brownfield gold exploration companies at well below current market prices. DGO, with a market capitalisation of \$220m, currently trades at a 19% discount to its listed investments (De Grey Mining - DEG, Buy, TP\$1.74/sh, Dacian Gold - DCN, not rated, and Yandal Resources - YRL, not rated), which have a market value of \$271m. DGO's value discount has typically ranged from -20% to 0% since mid-2020.

The figure below highlights the difference in DGO's historical share price and implied value, given the share price of its ASX-listed investments.

Figure 1 - Historical DGO share price vs implied value of investments



SOURCE: IRESS AND BELL POTTER SECURITIES ESTIMATES

Option on greenfield discovery upside

We see minimal value ascribed to DGO's greenfield exploration portfolio at current market prices, as such, an investment in DGO provides leverage to any potential exploration success. The company's active exploration campaigns at Pernatty, Yerrida, Bryah, Mallina and through its investment in Yilgarn Exploration Ventures (YEV, DGO 40%) are opportunities for DGO to deliver material value upside. We assign a \$36m (\$0.41/sh) value for the company's prospective exploration assets, recognising management's expertise in defining potential discoveries analogous to world-class endowments. Examples of analogous endowments include: the Hemi deposit (Mallina prospect), the DeGrussa copper-gold mine (Yerrida and Bryah prospects) and the Zambian Copper Belt (Pernatty prospect).

News flow from these active exploration programs has the potential to be positive value catalysts.

- **Pernatty:** A 6,340m RC drilling program was completed during 1H FY22. All intersections over a 15km strike length of the targeted Transition Zone exceeded 0.1% CuEq. DGO awaits land access approvals to commence further drilling and seismic activity.

- **Yerrida:** DGO completed 3,743m of diamond and 6,488m of RC drilling during 1H FY22. Assay data is being assessed to inform new targets for drilling during 2H FY22.
- **Bryah:** Interpretation of assay results from a drilling program completed in 2H FY21 has identified 3 zones of potential VHMS mineralisation north west of the Judges' Find gold nugget field that coincides with an airborne electromagnetic anomaly. The company expanded its footprint in the Bryah basin, acquiring further tenements at the southern boundary of its acreage.
- **Mallina:** All native claims for drilling at the prospect have been cleared. The drilling program will commence in 2H FY22 subject to weather conditions and rig availability.
- **YEV:** An RC drilling program was completed at Balugundi, 20km east of Kalgoorlie. Results from the program were encouraging; a larger follow-up program is planned to commence in the June 2022 quarter.

Listed investments provide strong value foundation

DGO's ASX-listed investments provide a strong value foundation and leverage to these companies' exploration and development success.

- **DEG:** Ongoing Resource definition and extensional drilling at Hemi has been highly successful in 2022 to date. Drilling should enable the upgrade of Hemi Resources from Inferred into the higher confidence Indicated category to be included in the Production Target and Ore Reserve for the upcoming Pre-Feasibility Study (expected in 1H FY23). We also believe that the strategic value of DGO's 14.5% holding in DEG is being overlooked by the market.
- **DCN:** A maiden Ore Reserve for the Hub and GTS open pits were published in February 2022. The update adds 490,000t @ 3.2g/t for 51,000oz of contained gold. Mining of these deposits is on track to commence in mid-2022. DCN has also published positive results from extensional drilling below the Jupiter Mining Complex at its Mt Morgans Gold Operation (MMGO). Results from a Resource definition drilling campaign could support an increased gold inventory at MMGO and extend life of mine.
- **YRL:** Published results from ongoing drilling at the Malone Gold Project has been encouraging, with a focus on the Malone, Gordans Dam and Star of Gordon prospects. An initial Mineral Resource Estimate on the Gordans Dam deposit is being organised and is expected to be published in 2H FY22.

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 published valuation for De Grey Mining of \$1.74/sh;
- An updated Dacian Gold DCF valuation, incorporating operating and financial results from the company's December 2021 quarterly report and 1H FY22 interim financial results;
- Our latest calculated EV/Resource valuation for ASX-listed gold explorers of \$108/oz applied to our Yandal Resources valuation; and
- DGO's last reported quarterly financial position.

Table 1 - 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	\$247m	\$2.77/sh
DCN investment	\$19m	\$0.21/sh	\$18m	\$0.20/sh
YRL investment	\$10m	\$0.11/sh	\$6m	\$0.07/sh
Value of brownfield investments	\$383m	\$4.30/sh	\$271m	\$3.04/sh
Greenfield exploration tenements	\$36m	\$0.41/sh	\$36m	\$0.41/sh
Corporate & admin	-\$31m	-\$0.35/sh	-\$31m	-\$0.35/sh
Enterprise value	\$388m	\$4.36/sh	\$276m	\$3.10/sh
Net debt / (cash) + cash from options	-\$5m	-\$0.06/sh	-\$5m	-\$0.06/sh
Equity value of core investments	\$394m	\$4.41/sh	\$282m	\$3.16/sh

SOURCE: BELL POTTER SECURITIES ESTIMATES
*EQUITY VALUATIONS BASED ON MARKET CLOSE 25/03/2022

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 in consideration of an active drilling campaign at the MGGO and the 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 16 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 calculated from 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 updates for an existing 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 at the Gordon Gold project; Ironstone Well and Barwidgee projects and at Mt McClure.
- Further investments in existing brownfield companies, subject to management's discretion and when opportunities arise; 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 \$4.41/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 DGO’s value discount to its listed investments as an opportunity to gain exposure to a portfolio of brownfield gold exploration companies below market price. Our updated valuation of \$4.41/sh (previously \$4.47/sh) incorporates our DEG valuation of \$1.74/sh and an updated EV/Resource multiple of \$108/oz (previously \$105/oz) applied to our YRL 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 2 - Financial summary

Date	25/03/22					Bell Potter Securities							
Price	A\$/sh	2.63				Joseph House (jhouse@bellpotter.com.au, +61 3 9235 1624)							
Target price	A\$/sh	4.41											
PROFIT AND LOSS						FINANCIAL RATIOS							
Year ending 30 June	Unit	2020a	2021a	2022e	2023e	2024e	Year ending 30 June	Unit	2020a	2021a	2022e	2023e	2024e
Revenue	\$m	-	-	-	-	-	VALUATION						
Net gains / (losses) on financial asset FV	\$m	3	(6)	(10)	-	-	Net debt / (cash)	\$m	(12)	(7)	1	(5)	(5)
Expenses	\$m	(3)	(11)	(4)	(5)	(5)	Net debt / Equity	%	-15%	-6%	1%	-3%	-3%
EBITDA	\$m	0	(17)	(14)	(5)	(5)	Net debt / Net debt + Equity	%	-18%	-6%	1%	-3%	-3%
Depreciation & amortisation	\$m	(0)	(0)	(0)	-	-	Net debt / EBITDA	x	-38.6x	0.4x	-0.1x	0.9x	0.9x
EBIT	\$m	0	(18)	(15)	(5)	(5)	EBITDA / net int expense	x	1.4x	-733.2x	-134.7x	-126.9x	2025.4x
Net interest expense	\$m	(0)	(0)	(0)	(0)	0	PROFITABILITY RATIOS						
Profit before tax	\$m	(0)	(18)	(15)	(5)	(5)	EBITDA margin	%	0%	0%	0%	0%	0%
Tax expense	\$m	-	-	-	-	-	EBIT margin	%	0%	0%	0%	0%	0%
NPAT (reported)	\$m	(0)	(18)	(15)	(5)	(5)	Return on assets	%	0%	-23%	-15%	-5%	-4%
Adjustments	\$m	-	11	-	-	-	Return on equity	%	0%	-23%	-16%	-5%	-5%
NPAT (adjusted)	\$m	(0)	(7)	(15)	(5)	(5)	RESOURCES AND RESERVES						
CASH FLOW STATEMENT						Brownfield investments							
Year ending 30 June	Unit	2020a	2021a	2022e	2023e	2024e	Measured & Indicated			Total			
OPERATING CASH FLOW							Mt	Au g/t	Au koz	Mt	Au g/t	Au koz	
Receipts from customers	\$m	-	-	-	-	-	De Grey Mining (DEG)	85	1.4	3,900	230	1.2	9,000
Payments to suppliers and employees	\$m	(1)	(3)	(1)	-	-	Dacian Gold (DCN)	25	1.6	1,271	44	1.7	2,465
Tax paid	\$m	-	-	-	-	-	Yandal Resources (YRL)	2	1.3	9	7	1.1	268
Net interest	\$m	(0)	0	(0)	(0)	0	DGO Gold indirect ownership	14	1.4	669	38	1.3	1,523
Other	\$m	(0)	(0)	(3)	(5)	(5)	ASSUMPTIONS - PRICES (NOMINAL)						
Operating cash flow	\$m	(1)	(3)	(4)	(5)	(5)	Year ending 30 June	Units	2022e	2023e	2024e	2025e	2026e
INVESTING CASH FLOW													
Exploration expenditure	\$m	(3)	(6)	(11)	(8)	(8)	Copper price	US\$/lb	430	403	390	404	414
Investment in associates	\$m	(11)	(26)	(1)	-	-	Gold price	US\$/oz	1,823	1,850	1,900	1,968	2,017
Disposal of assets	\$m	-	1	-	-	-	FX	A\$/US\$	0.73	0.73	0.73	0.74	0.74
Other	\$m	0	(7)	(10)	-	-	SUM OF THE PARTS VALUATION						
Investing cash flow	\$m	(14)	(38)	(22)	(8)	(8)	Shares on issue	m	83	Used for valuation purposes			
FINANCING CASH FLOW													
Debt proceeds/(repayments)	\$m	-	-	3	(3)	-	Options & rights	m	6	Unlisted options & performance rights			
Dividends paid	\$m	-	-	-	-	-	Diluted shares	m	89				
Proceeds from share issues (net)	\$m	22	37	18	19	13	Valuation discount rate - 10%			Bell Potter valuation	Current market valuation*		
Other	\$m	(0)	(0)	(0)	-	-	A\$m	A\$/sh	A\$m	A\$/sh			
Financing cash flow	\$m	22	37	21	16	13	354	3.97	247	2.77			
Change in cash	\$m	7	(4)	(5)	3	(0)	19	0.21	18	0.20			
Free cash flow	\$m	(16)	(41)	(26)	(13)	(13)	10	0.11	6	0.07			
BALANCE SHEET													
Year ending 30 June	Unit	2020a	2021a	2022e	2023e	2024e	Value of brownfield investments						
ASSETS													
Cash	\$m	12	7	2	5	5	Greenfield exploration tenements	36	0.41	36	0.41		
Receivables	\$m	0	1	1	1	1	Corporate & admin	(31)	(0.35)	(31)	(0.35)		
Inventories	\$m	-	-	-	-	-	Enterprise value	388	4.36	276	3.10		
Exploration assets	\$m	5	11	22	30	37	Net debt / (cash) + cash from options	(5)	(0.06)	(5)	(0.06)		
Other assets	\$m	40	81	81	81	81	Equity value of core investments	394	4.41	282	3.16		
Total assets	\$m	57	99	106	116	124	Share price premium / (discount) to market valuation	-17%					
LIABILITIES													
Creditors	\$m	1	1	1	1	1	Expected TSR (Bell Potter valuation)	68%					
Borrowings	\$m	-	-	-	-	-	* Equity valuations based on market close (25/03/22)						
Provisions	\$m	0	0	0	0	0							
Other liabilities	\$m	0	0	3	0	0							
Total liabilities	\$m	1	1	5	2	2							
NET ASSETS	\$m	56	98	101	115	122							
Share capital	\$m	77	122	140	159	172							
Reserves	\$m	5	9	9	9	9							
Accumulated losses	\$m	(26)	(33)	(48)	(54)	(59)							
Non-controlling interest	\$m	-	-	-	-	-							
SHAREHOLDER EQUITY	\$m	56	98	101	115	122							
Weighted average shares	m	38	70	78	82	89							

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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