

8 June 2018

Doray Minerals Limited (DRM) BUY Share Price: \$0.31

Building confidence in the upside at Deflector Target Price: A\$0.40

DRM has released results from grade control drilling in the Link Lode at Deflector. Whilst narrow, this structure is very high grade and now shown to be continuous over 250m of strike, 300m down dip and remaining open. This is one of three recent high grade discoveries made by DRM within the Deflector mine footprint, with the new lodes contributing to significantly more ounces per vertical metre than expected. This should translate into an improved grade profile with production potentially lifting from the current 75kozpa rate toward 90-100kozpa over the coming year; this scenario could add 20¢/sh to our valuation. With a more focused exploration program likely in FY19, we expect Deflector will grow & mine life will build. Maintain BUY, A\$0.40/sh PT (unchanged).

High gold & copper grades returned from Link Lode

- Link Lode is one of 3 new lodes recently discovered within the Deflector mine & not currently in the resource or mine plan; Da Vinci & Contact #3 are the other two
- Link Lode sits in a 'data shadow' between the Western & Central Lodes and was initially intersected in the decline which was positioned between the two lodes
- Grade control drilling only recently initiated; results include 0.6m at 299g/t & 3.3% Cu, 0.6m at 219g/t Au & 10.5% Cu, 0.8m at 188g/t Au & 3.1% Cu (Figure 1)
- Ore driving from multiple headings, including Link Lode (Figure 2), contributed 52kt at 6.1g/t Au in MarQ; this grade is diluted, with stoping likely to produce much higher grades, which bodes well for future mining. For reference, MarQ stoped ore had a grade of 4.4g/t

Updated resource & mine plan in coming months

- Annual resource/reserve update due Q1 FY19; will underpin 75kozpa rate for around 3-4yrs, in our view
- Da Vinci exploration drive now complete with drilling underway; we expected these results will be included in a subsequent resource/reserve update which may drive a full mine reoptimisation and potential uplift in annual gold output toward 100kozpa
- Assuming 100kozpa is achieved in FY20 for a four year period, our NPV would lift by 50% to A\$0.60/sh

Exploration in FY19 to focus on building mine life

- Exploration will be in focus in FY19, with in- and near-mine exploration being the priority, with work programs also along the Deflector corridor and regionally
- We are confident mine life will be extended at Deflector, which remains open at depth

Price target of A\$0.40/sh (1xP/NPV₁₀)

Company Data

Shares – ordinary (M)	446.7
Market capitalisation (\$M)	138.5
12 month low/high (\$)	0.16/ 0.38
Average monthly turnover (\$M)	9.8
Index	All Ords
GICS Industry	Metals & Mining

Financial Summary (fully diluted/normalised)

Year end June	FY17A	FY18F	FY19F	FY20F	FY21F
Revenue (\$M)	183	158	155	156	153
Costs (\$M)	-124	-112	-100	-100	-100
EBITDA (\$M)	59	46	55	55	53
NPAT (\$M)	-72	2	18	22	24
EPS (¢ps)	-20	0.0	4.1	5.0	5.3
EPS growth (%)	N/A	>100%	>100%	21%	7%
PER (x)	N.M	N.M	7.5	6.2	5.8
Free Cashflow (\$M)	59	44	54	46	44
FCFPS (¢ps)	17	10	12	10	10
PFCFPS (x)	2	3	3	3	3
Enterprise Value (\$M)	170	138	113	87	57
EV / EBITDA (x)	2.9	3.0	2.1	1.6	1.1
Payout ratio (%)	0	0	0	0	0
Dividends (¢ps)	0	0	0	0	0
Yield (%)	0	0	0	0	0
Franking (%)	0	0	0	0	0

DRM – performance over one year



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This report must be read with the disclosure and disclaimer on the final page of this document. Petra Capital Pty Ltd acted as bookrunner and Lead Manager for DRM's placement of \$25m at A\$0.28/share on 22 February 2018, for which a fee was received

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Analysis

Doray Minerals (DRM)

P&L (A\$M)						Analyst: Brett McKay & Matthew Schembri					
	FY17A	FY18F	FY19F	FY20F	FY21F						
Revenues	183	158	155	156	153	Rating	BUY				
Operating Costs	-104	-110	-100	-100	-100	Target Price (A\$)	0.40	TSR	29%		
Other	-20	-2	0	0	0	Price (A\$)	0.31	Price (US\$)	0.24		
EBITDA	59	46	55	55	53	NPV (A\$)	0.40	NPV (US\$)	0.31		
D&A	-54	-37	-28	-24	-20	Shares (M)	447				
EBIT	5	9	27	31	33	Mcap (A\$M)	138	Mcap (US\$M)	106		
Net Interest	-3	-3	-1	0	1	EV (A\$M)	170	EV (US\$M)	130		
Taxes	-4	-4	-8	-10	-10	Year End	June	Discount Rate	10%		
Adjustments	-69.5	0	0	0	0						
Net Profit	-72	2	18	22	24						
EPS (¢)	-20	0	4	5	5						
DPS (¢)	0	0	0	0	0						
Cash Flows (A\$M)						Assumptions					
	FY17A	FY18F	FY19F	FY20F	FY21F		FY17A	FY18F	FY19F	FY20F	FY21F
Receipts	193	158	155	156	153	Gold (US\$/oz)	1,257	1,304	1,305	1,275	1,250
Payments	-130	-111	-100	-100	-100	Gold (A\$/oz)	1667	1674	1728	1700	1667
Net Interest	-4	-3	-1	0	1	Silver (US\$/oz)	18	18	20	20	20
Taxes	0	0	0	-9	-10	Copper (US\$/lb)	2.44	3.03	3.00	3.00	3.00
Other	0	0	0	0	0	AUD/USD	0.75	0.78	0.76	0.75	0.75
Operating Cash Flows	59	44	54	46	44	Key Ratios					
Capex	-50	-25	-20	-15	-10	PE (x)	N.M	N.M	7.5	6.2	5.8
Disposals	0	0	0	0	0	EV/EBITDA (x)	2.9	3.0	2.1	1.6	1.1
Exploration	-17	-11	-10	-5	-5	EPS Growth (%)	<-100	<-100	>100	20.6	7.3
Other	0	0	0	0	0	ROE (%)	-53.9	1.3	9.7	10.0	9.7
Investing Cash Flows	-67	-36	-30	-20	-15	Net Debt to Equity (%)	23.5	-0.6	-13.4	-23.3	-33.0
<i>Free cash flow</i>	<i>8</i>	<i>24</i>	<i>24</i>	<i>26</i>	<i>29</i>	Net Debt to EBITDA (x)	0.5	0.0	-0.5	-0.9	-1.5
Change in Borrowings	-31	-32	-14	-6	0	Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Dividends	0	0	0	0	0	FCF Yield (%)	-7.4	5.8	17.5	19.0	21.3
Equity	24	24	0	0	0						
Other	0	0	0	0	0						
Financing Cash Flows	-6	-8	-14	-6	0	Production & Costs					
Balance Sheet (A\$M)						FY17A	FY18F	FY19F	FY20F	FY21F	
	FY17A	FY18F	FY19F	FY20F	FY21F	Gold Production (oz)					
Cash	20	21	31	51	81	Andy Well	52,923	15,039	0	0	0
Receivables	4	8	8	8	8	Deflector	46,905	63,552	73,889	73,889	73,889
Inventories	14	13	12	12	12	Group Gold Production (oz)	99,828	78,591	73,889	73,889	73,889
Other	2	0	0	0	0	Deflector Copper (Kt)	4,599	3,428	3,532	3,532	3,532
Current Assets	40	42	52	72	101	Eqv. Gold Production (oz)	119,887	96,185	91,786	92,214	92,573
Receivables	0	0	0	0	0	By-Product Gold AISC (US\$/oz)					
Investments	0	0	0	0	0	Andy Well	1,146	842	0	0	0
Property, Plant and Equipment	136	121	113	104	94	Deflector	0	832	762	755	754
Intangibles/exploration	52	61	71	86	91	AISC (US\$/oz)	998	834	762	755	754
Other	0	0	0	0	0	AISC (A\$/oz)	1,324	1,072	1,010	1,007	1,006
Non Current Assets	188	182	184	190	185	Resources (Contained Au, Moz)	1.4				
Total Assets	228	224	236	262	286	Reserves (Contained Au, Moz)	0.5				
Borrowings	12	0	0	0	0	EBITDA (A\$M)					
Payables	18	16	16	16	15	Andy Well	34	10	0	0	0
Provisions	6	5	5	5	5	Deflector	68	53	63	61	59
Other	0	0	0	0	0	Corporate & Other	-12	-11	-8	-6	-6
Current Liabilities	35	21	21	21	21	NPV (+1yr)				A\$m	Per Share
Payables						Andy Well			0	\$0.00	
Borrowings	40	20	6	0	0	Deflector			146	\$0.33	
Provisions	19	20	20	20	20	Exploration			40	\$0.09	
Other	0	0	0	0	0	Corporate and other			-17	-\$0.04	
Non Current Liabilities	59	40	26	20	20	Hedging			-2	\$0.00	
Total Liabilities	95	61	47	41	40	Net cash (debt)			12	\$0.03	
Total Equity	133	163	189	221	246	Total			178	\$0.40	

Source: Petra Capital

Figure 1: List of results from Link Lode

- DFGC0081 - 0.6m @ 299g/t Au and 3.3% Cu (true width approximately 0.6m) from 77.9mdh
- DFGC0017 - 0.6m @ 219g/t Au and 10.5% Cu (true width approximately 0.6m) from 35.9mdh
- DFGC0056 - 0.8m @ 188g/t Au and 3.1% Cu (true width approximately 0.8m) from 69.1mdh
- DFGC0132 - 4.7m @ 126g/t Au and 3.6% Cu (true width approximately 1.9m) from 95.3mdh
- DFGC0031 - 0.9m @ 121g/t Au and 0.6% Cu (true width approximately 0.9m) from 120.7mdh
- DFGC0074 - 0.6m @ 107g/t Au and 1.7% Cu (true width approximately 0.6m) from 59.1mdh
- DFGC0055 - 1.0m @ 98.4g/t Au and 3.4% Cu (true width approximately 0.9m) from 75.6mdh
- DFGC0039 - 1.2m @ 94.9g/t Au and 2.2% Cu (true width approximately 1.0m) from 17.8mdh
- DFGC0091 - 0.3m @ 89.4g/t Au and 0.3% Cu (true width approximately 0.3m) from 66.3mdh
- DFGC0038 - 0.8m @ 75.3g/t Au and 5.2% Cu (true width approximately 0.8m) from 14.2mdh
- DFGC0046 - 0.3m @ 71.6g/t Au and 2.1% Cu (true width approximately 0.2m) from 15.2mdh

Source: Company reports

Figure 2: Link Lode as exposed in an ore drive



Source: Company reports

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