

15 May 2018

Doray Minerals Limited (DRM)

BUY

Share Price: A\$0.34

Deflector site visit suggests more upside to come

Target Price:

A\$0.40

The Deflector operation is outperforming, with gold/copper production and costs tracking in-line or ahead of FY18 guidance & exceeding life-of-mine forecasts. The underground mine is fully developed and delivering significantly more ounces per vertical metre (OVM), whilst the processing plant is operating 25% above nameplate and may go higher. Despite now delivering at the c.75kozpa rate (compared to 60kozpa LOM rate), further upside is possible as exploration success delivers more tonnes at better grade; a 7% increase to grade would lift NPV by 25%. Even on our base-case FY19 estimates, the stock is cheap at 2.3x EV/EBITDA. Maintaining the BUY with a \$0.40/sh target (previously \$0.39/sh).

A solid base now established at Deflector

- After ramping-up during FY18, production is now at 75kozpa annualised rate at <A\$1,000/oz AISC
- Mine development continues to open up the orebody, with more zones of mineralisation than anticipated; in-mine discoveries such as Link Splay and Da Vinci add significant OVM & reduce the rate of vertical advance
- Processing plant is operating at c.600ktpa (25% above nameplate) and could potentially lift another ~10%
- Revised resource & mine plan due 1H FY19; will include Da Vinci, Link Splay & some of the Contact Lodes
- Resource upside as copper mineralisation (with higher SG) is more accurately included in coming updates
- Mill feed currently supplemented by stockpiles; replacing this with higher grade feed is a key objective
- NPV lifts 25% if we assume 620ktpa at 4.9g/t is achieved over the remaining mine life (compared to 560ktpa at 4.7g/t delivered in the MarQ)

Strong balance sheet allows refocus on exploration

- Significant recent exploration success within and immediately adjacent to Deflector
- Improved funding position is allowing more exploration
- Link Splay, Da Vinci and Contact Lodes likely to deliver near-term upside, with near-mine and regional targets now being assessed for testing during FY19
- Deflector now defined >1km in strike & open at depth

Target price of A\$0.40/sh (1xP/NPV₁₀), BUY

- Minor changes to production & cost forecasts, however we are yet to include upside from Da Vinci etc
- Our NPV assumes 74kozpa for 5yrs at Deflector using US\$1,250/oz AU, US\$3/lb Cu & 0.75 AUDUSD
- Spot NPV of A\$0.44/sh

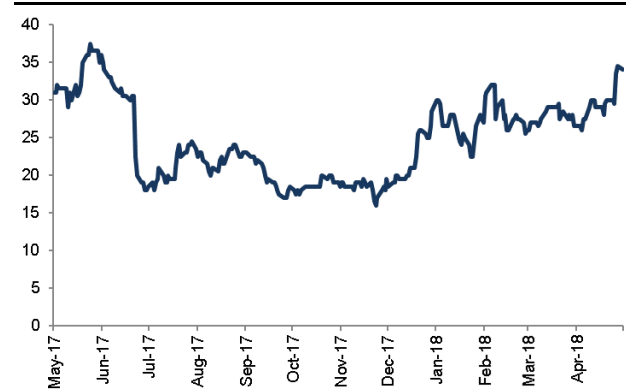
Company Data

Shares – ordinary (M)	446.7
Market capitalisation (\$M)	\$151.9M
12 month low/high (\$)	\$0.16 /\$0.39
Average monthly turnover (\$M)	\$10.4M
GICS Industry	Materials/Metals & Mining

Financial Summary (fully diluted/normalised)

Year end June	2017A	2018F	2019F	2020F	2021F
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 (%)		>100%	>100%	21%	7%
PER (x)	N.M	N.M	8.3	6.8	6.4
Cashflow (\$M)	59	44	54	46	44
CFPS (¢ps)	17	10	12	10	10
PCFPS (x)	2	3	3	3	3
Enterprise Value (\$M)	183	151	127	100	71
EV / EBITDA (x)	3.1	3.3	2.3	1.8	1.3
Payout ratio (%)	0	0	0	0	0
Dividends (¢ps)	0	0	0	0	0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0	0	0	0	0

DRM – performance over one year (A¢/sh)



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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

Brett McKay

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Analysis

Doray Minerals (DRM)					
P&L (A\$M)					
Revenues	FY17A	FY18F	FY19F	FY20F	FY21F
Operating Costs					
Other					
EBITDA	59	46	55	55	53
D&A	-54	-37	-28	-24	-20
EBIT	5	9	27	31	33
Net Interest	-3	-3	-1	0	1
Taxes	-4	-4	-8	-10	-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)					
Receipts	193	158	155	156	153
Payments	-130	-111	-100	-100	-100
Net Interest	-4	-3	-1	0	1
Taxes	0	0	0	-9	-10
Other	0	0	0	0	0
Operating Cash Flows	59	44	54	46	44
Capex	-50	-25	-20	-15	-10
Disposals	0	0	0	0	0
Exploration	-17	-11	-10	-5	-5
Other	0	0	0	0	0
Investing Cash Flows	-67	-36	-30	-20	-15
<i>Free cash flow</i>		8	24	26	29
Change in Borrowings	-31	-32	-14	-6	0
Dividends	0	0	0	0	0
Equity	24	24	0	0	0
Other	0	0	0	0	0
Financing Cash Flows	-6	-8	-14	-6	0
Balance Sheet (A\$M)					
Cash	20	21	31	51	81
Receivables	4	8	8	8	8
Inventories	14	13	12	12	12
Other	2	0	0	0	0
Current Assets	40	42	52	72	101
Receivables	0	0	0	0	0
Investments	0	0	0	0	0
Property, Plant and Equipment	136	121	113	104	94
Intangibles/exploration	52	61	71	86	91
Other	0	0	0	0	0
Non Current Assets	188	182	184	190	185
Total Assets	228	224	236	262	286
Borrowings	12	0	0	0	0
Payables	18	16	16	16	15
Provisions	6	5	5	5	5
Other	0	0	0	0	0
Current Liabilities	35	21	21	21	21
Payables					
Borrowings	40	20	6	0	0
Provisions	19	20	20	20	20
Other	0	0	0	0	0
Non Current Liabilities	59	40	26	20	20
Total Liabilities	95	61	47	41	40
Total Equity	133	163	189	221	246
Analyst: Brett McKay & Matthew Schembri					
Rating	BUY				
Target Price (A\$)	0.40	TSR	17%		
Price (A\$)	0.34	Price (US\$)	0.26		
NPV (A\$)	0.40	NPV (US\$)	0.30		
Shares (M)	447				
Mcap (A\$M)	152	Mcap (US\$M)	114		
EV (A\$M)	183	EV (US\$M)	138		
Year End	June	Discount Rate	10%		
Assumptions					
Gold (US\$/oz)	FY17A	FY18F	FY19F	FY20F	FY21F
Gold (A\$/oz)	1,257	1,304	1,305	1,275	1,250
Silver (US\$/oz)	1667	1674	1728	1700	1667
Copper (US\$/lb)	18	18	20	20	20
AUD/USD	2.44	3.03	3.00	3.00	3.00
	0.75	0.78	0.76	0.75	0.75
Key Ratios					
PE (x)	FY17A	FY18F	FY19F	FY20F	FY21F
EV/EBITDA (x)	N.M	N.M	8.3	6.8	6.4
EPS Growth (%)	3.1	3.3	2.3	1.8	1.3
ROE (%)	<-100	<-100	>100	20.6	7.3
Net Debt to Equity (%)	-53.9	1.3	9.7	10.0	9.7
Net Debt to EBITDA (x)	23.5	-0.6	-13.4	-23.3	-33.0
Dividend Yield (%)	0.5	0.0	-0.5	-0.9	-1.5
FCF Yield (%)	0.0	0.0	0.0	0.0	0.0
	-6.8	5.3	16.0	17.3	19.4
Production & Costs					
Gold Production (oz)	FY17A	FY18F	FY19F	FY20F	FY21F
Andy Well	52,923	15,039	0	0	0
Deflector	46,905	63,552	73,889	73,889	73,889
Group Gold Production (oz)	99,828	78,591	73,889	73,889	73,889
Deflector Copper (kt)	4,599	3,428	3,532	3,532	3,532
Eqv. Gold Production (oz)	119,887	96,185	91,786	92,214	92,573
By-Product Gold AISC (US\$/oz)	FY17A	FY18F	FY19F	FY20F	FY21F
Andy Well	1,146	842	0	0	0
Deflector	0	832	762	755	754
AISC (US\$/oz)	998	834	762	755	754
AISC (A\$/oz)	1,324	1,072	1,010	1,007	1,006
Resources (Contained Au, Moz)	1.4				
Reserves (Contained Au, Moz)	0.5				
EBITDA (A\$M)					
Andy Well	FY17A	FY18F	FY19F	FY20F	FY21F
Deflector	34	10	0	0	0
Corporate & Other	68	53	63	61	59
	-12	-11	-8	-6	-6
NPV (+1yr)					
	A\$m			Per Share	
Andy Well	0			\$0.00	
Deflector	146			\$0.33	
Exploration	40			\$0.09	
Corporate and other	-17			-\$0.04	
Hedging	-2			\$0.00	
Net cash (debt)	12			\$0.03	
Total	178			\$0.40	

Source: Petra Capital

Figure 1: Summary of changes

		FY18e			FY19e			FY20e		
		New	Old	% var	New	Old	% var	New	Old	% var
Revenue	A\$m	158	156	1%	155	154	1%	156	154	1%
EBITDA	A\$m	46	44	4%	55	54	2%	55	54	2%
EBIT	A\$m	9	7	23%	27	21	28%	31	21	46%
NPAT	A\$m	2.1	1.0	118%	18	14	33%	22	15	50%
EPS	Ac/sh	0.0	-0.2	109%	4.1	3.1	33%	5.0	3.3	50%
DPS	Ac/sh	0.00	0.00	na	0.00	0.00	na	0.00	0.00	na
NPV/sh	A\$/sh	0.40	0.39	1%						
Price target	A\$/sh	0.40	0.39	1%						
Deflector										
Gold	koz	63.6	62.6	2%	73.9	73.2	1%	73.9	73.2	1%
Copper	kt	3.3	3.3	0%	3.4	3.4	0%	3.4	3.4	0%
AISC	A\$/oz	1,173	1,185	-1%	1,010	1,018	-1%	1,007	1,015	-1%
Andy Well										
Gold	koz	15.0	15.0	0%	0.0	0.0	na	0.0	0.0	na
AISC	A\$/oz	1,077	1077	0%	0	0	na	0	0	na
Group										
Gold	koz	78.6	77.6	1%	73.9	73.2	1%	73.9	73.2	1%
Copper	kt	3.4	3.4	0%	3.5	3.5	0%	3.5	3.5	0%
AISC	A\$/oz	1,072	1,081	-1%	1,010	1,018	-1%	1,007	1,015	-1%

Source: Company reports, Petra Capital

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