

30 January 2018

## Doray Minerals Limited (DRM)

**BUY**

**Share Price: A\$0.25**

### Deflector delivers very strong DecQ

**Target Price:**

**A\$0.35**

DRM has reported a strong DecQ driven by impressive output and cost performance at Deflector. Gold production was up 56% QoQ at Deflector, with AISC reducing 23% QoQ to A\$1,185/oz as stoping ore delivered more high-grade tonnes and mill throughput exceeded nameplate by 16%. Both the mine & mill are now at steady-state, indicating this performance can continue & FY18 guidance is readily achievable. Potential production upside from Da Vinci is yet to be factored in. With sustainable production & costs now achieved, FY18 EV/EBITDA of 2.5x, significant exploration upside & value-adding opportunities still being considered at Andy Well, we maintain the BUY with a \$0.35/sh price target (from \$0.32/sh).

#### Deflector kept getting better throughout the quarter

- Better performance at Deflector started in Sep17 with improvements continuing through the DecQ as the operational turnaround progressed; month of Dec generated 5.9koz at AISC of A\$991/oz
- Deflector output of 16.7koz Au & 794t Cu (payable) at A\$1,185/oz AISC (Petra 14.2koz & 626t at A\$1247/oz)
- FY18 production guidance achievable; AISC guidance could be conservative, in our view
- Net debt reduced by \$4.6m to \$23.6m (SepQ \$28.2m)

#### Andy Well delivers another good result before C&M

- Andy Well placed on care & maintenance in early Nov; 4.4koz gold produced, above 2.5-3.5koz guidance
- Multiple options to realise value from Andy Well still being considered

#### Exploration can keep adding value for DRM

- Exploration continues to better define the Da Vinci discovery, located adjacent to Deflector
- Underground access to Da Vinci is underway, with ore expected to be intersected in coming months; this will facilitate cost effective underground drilling & help better understand the geology & potential mining conditions
- Da Vinci could offer the opportunity to blend small tonnages of high-grade ore to lift gold/copper output materially; 100ktpa at 8g/t (20% of mill feed) would lift gold output by 15% (plus copper credits)

#### Price target A\$0.35/sh (1xP/NPV<sub>10</sub>), BUY

- Our NPV is up 4% to \$0.35/sh due to improved production & cost estimates at Deflector, as well as revised commodity and FX forecasts

#### Company Data

Shares – ordinary (M)	357.1
Market capitalisation (\$M)	\$89.3m
12 month low/high (\$)	\$0.16 / \$0.47
Average monthly turnover (\$M)	\$7.4m
GICS Industry	Materials / Metals & Mining

#### Financial Summary (fully diluted/normalised)

Year end June	2017A	2018F	2019F	2020F	2021F
Revenue (\$M)	183	149	130	131	130
Costs (\$M)	-124	-102	-86	-86	-86
EBITDA (\$M)	59	47	44	45	44
NPAT (\$M)	-72	0	6	8	8
EPS (¢ps)	-20	0.1	1.8	2.1	2.2
EPS growth (%)		>100%	>100%	18%	1%
PER (x)	N.M	N.M	13.8	11.7	11.6
Cashflow (\$M)	59	41	41	40	40
CFPS (¢ps)	17	12	12	11	11
PCFPS (x)	2	2	2	2	2
Enterprise Value (\$M)	120	117	103	83	58
EV / EBITDA (x)	2.0	2.5	2.3	1.9	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.

## Analysis

Doray Minerals (DRM)											
<b>P&amp;L (A\$M)</b>						<b>Analyst: Brett McKay &amp; Matthew Schembri</b>					
Revenues	FY17A	FY18F	FY19F	FY20F	FY21F	Rating	BUY				
Operating Costs	-104	-102	-86	-86	-86	Target Price (A\$)	0.35	TSR	38%		
Other	-20	0	0	0	0	Price (A\$)	0.25	Price (US\$)	0.20		
<b>EBITDA</b>	<b>59</b>	<b>47</b>	<b>44</b>	<b>45</b>	<b>44</b>	NPV (A\$)	0.35	NPV (US\$)	0.28		
D&A	-54	-43	-32	-32	-32	Shares (M)	357				
EBIT	5	4	12	12	11	Mcap (A\$M)	89	Mcap (US\$M)	72		
Net Interest	-3	-3	-3	-2	0	EV (A\$M)	120	EV (US\$M)	98		
Taxes	-4	0	-3	-3	-3	Year End	June	Discount Rate	10%		
Adjustments	-69.5	0	0	0	0						
Net Profit	-72	0	6	8	8						
EPS (¢)	-20	0	2	2	2						
DPS (¢)	0	0	0	0	0						
<b>Cash Flows (A\$M)</b>						<b>Assumptions</b>					
Receipts	FY17A	FY18F	FY19F	FY20F	FY21F	Gold (US\$/oz)	FY17A	FY18F	FY19F	FY20F	FY21F
Payments	-130	-102	-86	-86	-86	Gold (A\$/oz)	1,257	1,299	1,288	1,263	1,250
Net Interest	-4	-3	-3	-2	0	Silver (US\$/oz)	1667	1666	1705	1683	1667
Taxes	0	0	0	-3	-3	Copper (US\$/lb)	18	18	20	20	20
Other	0	-2	0	0	0	AUD/USD	2.44	2.99	3.00	3.00	3.00
<b>Operating Cash Flows</b>	<b>59</b>	<b>41</b>	<b>41</b>	<b>40</b>	<b>40</b>						
Capex	-50	-30	-22	-15	-10	<b>Key Ratios</b>					
Disposals	0	0	0	0	0	PE (x)	FY17A	FY18F	FY19F	FY20F	FY21F
Exploration	-17	-8	-5	-5	-5	EV/EBITDA (x)	N.M	N.M	13.8	11.7	11.6
Other	0	0	0	0	0	EPS Growth (%)	<-100	<-100	>100	17.9	0.7
<b>Investing Cash Flows</b>	<b>-67</b>	<b>-38</b>	<b>-27</b>	<b>-20</b>	<b>-15</b>	ROE (%)	-53.9	0.2	4.5	4.9	4.7
<i>Free cash flow</i>		3	14	20	25	Net Debt to Equity (%)	23.5	20.6	9.4	-4.0	-19.2
Change in Borrowings	-31	-12	-14	-10	-15	Net Debt to EBITDA (x)	0.5	0.6	0.3	-0.1	-0.7
Dividends	0	0	0	0	0	Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Equity	24	0	0	0	0	FCF Yield (%)	-9.2	3.9	16.1	21.9	28.0
Other	0	0	0	0	0						
<b>Financing Cash Flows</b>	<b>-6</b>	<b>-12</b>	<b>-14</b>	<b>-10</b>	<b>-15</b>						
<b>Balance Sheet (A\$M)</b>						<b>Production &amp; Costs</b>					
Cash	FY17A	FY18F	FY19F	FY20F	FY21F						
Receivables	20	12	13	22	32	<b>Gold Production (oz)</b>					
Inventories	4	7	7	7	6	Andy Well	FY17A	FY18F	FY19F	FY20F	FY21F
Other	14	12	10	10	10	Deflector	52,923	15,039	0	0	0
<b>Current Assets</b>	<b>40</b>	<b>32</b>	<b>30</b>	<b>39</b>	<b>49</b>	<b>Group Gold Production (oz)</b>	46,905	61,306	62,568	62,568	62,568
Receivables	0	0	0	0	0	Deflector Copper (kt)	99,828	76,345	62,568	62,568	62,568
Investments	0	0	0	0	0	<b>Eqv. Gold Production (oz)</b>	4,599	3,152	2,984	2,984	2,984
Property, Plant and Equipment	136	123	113	96	74	<b>By-Product Gold AISC (US\$/oz)</b>					
Intangibles/exploration	52	59	64	73	78	Andy Well	FY17A	FY18F	FY19F	FY20F	FY21F
Other	0	0	0	0	0	Deflector	1,146	842	0	0	0
<b>Non Current Assets</b>	<b>188</b>	<b>183</b>	<b>177</b>	<b>169</b>	<b>152</b>	AISC (US\$/oz)	0	855	807	776	776
<b>Total Assets</b>	<b>228</b>	<b>214</b>	<b>207</b>	<b>208</b>	<b>201</b>	<b>AISC (A\$/oz)</b>	998	852	807	776	776
Borrowings	12	0	0	0	0	Resources (Contained Au, Moz)	1,324	1,093	1,069	1,035	1,034
Payables	18	15	13	13	13	Reserves (Contained Au, Moz)	0.5				
Provisions	6	6	6	6	6	<b>EBITDA (A\$M)</b>					
Other	0	0	0	0	0	Andy Well	FY17A	FY18F	FY19F	FY20F	FY21F
<b>Current Liabilities</b>	<b>35</b>	<b>21</b>	<b>19</b>	<b>19</b>	<b>19</b>	Deflector	34	10	0	0	0
Payables						Corporate & Other	68	47	52	51	50
Borrowings	40	40	26	16	1	<b>NPV (+1yr)</b>					
Provisions	19	19	19	19	19	A\$m				Per Share	
Other	0	0	0	0	0	Andy Well	0			\$0.00	
<b>Non Current Liabilities</b>	<b>59</b>	<b>59</b>	<b>45</b>	<b>35</b>	<b>20</b>	Deflector	129			\$0.36	
<b>Total Liabilities</b>	<b>95</b>	<b>80</b>	<b>64</b>	<b>54</b>	<b>39</b>	Exploration	40			\$0.11	
Payables						Corporate and other	-17			-\$0.05	
Borrowings	40	40	26	16	1	Hedging	-2			\$0.00	
Provisions	19	19	19	19	19	Net cash (debt)	-28			-\$0.08	
Other	0	0	0	0	0	<b>Total</b>	123			<b>\$0.35</b>	
<b>Total Equity</b>	<b>133</b>	<b>134</b>	<b>143</b>	<b>154</b>	<b>162</b>						

Source: Petra Capital

**Figure 1: Quarterly production summary**

		Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	QoQ	Petra	% var
<b>Deflector</b>									
Gold	oz	15,389	11,455	11,233	10,684	<b>16,703</b>	56%	<b>14,246</b>	17%
Copper	kt	1,404	1,438	874	768	<b>794</b>	3%	<b>626</b>	27%
AISC	US\$/oz	na	na	1,171	1,541	<b>1,185</b>	-23%	<b>1,247</b>	-5%
<b>Andy Well</b>									
Gold	oz	14,390	13,042	10,548	10,637	<b>4,397</b>	-59%	<b>2,547</b>	73%
AISC	US\$/oz	1,588	1,498	1,563	1,201	<b>na</b>	na	<b>1,252</b>	na
<b>Group</b>									
Gold	oz	29,779	24,497	21,781	21,321	<b>21,100</b>	-1%	<b>16,793</b>	26%
Copper	kt	1,404	1,438	874	768	<b>794</b>	3%	<b>626</b>	27%
AISC	US\$/oz	1,588	1,498	1,361	1,371	<b>na</b>	na	<b>na</b>	na

Source: Company data, Petra Capital

**Figure 2: Summary of changes**

		FY18e			FY19e			FY20e		
		New	Old	% var	New	Old	% var	New	Old	% var
Revenue	A\$m	149	142	5%	130	128	2%	131	130	1%
EBITDA	A\$m	47	46	3%	44	41	7%	45	43	4%
EBIT	A\$m	4	0	758%	12	6	101%	12	8	63%
NPAT	A\$m	0.3	-1.9	118%	6	2	181%	8	4	80%
EPS	Ac/sh	0.09	-0.52	118%	1.81	0.64	181%	2.14	1.19	80%
DPS	Ac/sh	0.00	0.00	na	0.00	0.00	na	0.00	0.00	na
<b>NPV/sh</b>	<b>A\$/sh</b>	<b>0.35</b>	<b>0.33</b>	<b>4%</b>						
<b>Price target</b>	<b>A\$/sh</b>	<b>0.35</b>	<b>0.33</b>	<b>4%</b>						
<b>Deflector</b>										
Gold	koz	61.3	60.3	2%	62.6	62.6	0%	62.6	62.6	0%
Copper	kt	3.0	2.6	14%	2.9	2.9	0%	2.9	2.9	0%
AISC	A\$/oz	1,201	1258	-5%	1,069	1137	-6%	1,035	1062	-3%
<b>Andy Well</b>										
Gold	koz	15.0	13.2	14%	0.0	0.0	na	0.0	0.0	na
AISC	A\$/oz	1,077	1212	-11%	0	0	na	0	0	na
<b>Group</b>										
Gold	koz	76.3	73.5	4%	62.6	62.6	0%	62.6	62.6	0%
Copper	kt	3.2	2.8	14%	3.0	3.0	0%	3.0	3.0	0%
AISC	A\$/oz	1,093	1170	-7%	1,069	1137	-6%	1,035	1062	-3%

Source: Company reports, Petra Capital

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