

The Sydney Contrarian Financial Analysis

Stock Valuation Report

Doray Minerals Limited (ASX: DRM)

Ignores Potential Merger with Silver Lake Resources – To Be Analysed Separately

Date	10/12/2018
Classification	Junior Gold Miner
Current Price	\$0.330
No. Issued Stocks (m)	446.7
Net Cash + Bullion (\$ m)	\$7.90
Last Dividend Payment (\$ p.a.)	\$0.00
Market Capitalisation (\$ m)	\$147.41
Enterprise Value (\$ m)	\$139.51

Ranking	Fairly Valued
Price Range	\$0.17-\$0.38
Annual Production Guidance (oz p.a.)	80 000-85 000
All-In Sustaining Cost Guidance (\$/oz)	\$1 050-1 150
EV/AISC-Adjusted Production Guidance (\$/oz)	\$1,860.00
EV/AISC-Adjusted Production Range (\$/oz)	\$1 000-2 000
Resources (oz)	1,122,000
Reserves (oz)	250,000

Summary

Doray Minerals is a junior gold mining company that has generated high grade underground gold and copper in the past. Having fallen from grace in 2017 as a result of operational complications in their Andy Well mine, they are now appearing to turn the corner with their Deflector mine delivering lower cost gold as well as copper. The Deflector mine has allowed the company to become cash flow positive once more, and the management's 1-5-1 plan (100koz p.a., 5 year mine life and \$1 000/oz AISC) looks to be on the right track. The company has repaid over \$30m of debt since the end of the 2017 financial year and is now in a modest net cash position. Going forward, the company has the potential to deliver higher production levels and replenish their reserves given a successful exploration program in the Da Vinci deposit.

As the gold to oil ratio looks favourable given the falling crude oil price, Doray Minerals will be able to capitalise on lower cost and they may see their 1-5-1 plan succeed. With high grades in their Deflector mine and a potential divestment of their Gwaneeda project, the company may have more cash reserves to expand their existing properties faster and bring forward free cash flows.

The current price of Doray Minerals suggest that they may be at fair value. However, should the production level exceed guidance, gold grades improve and AISC fall further, they may deserve a valuation premium over its peers.

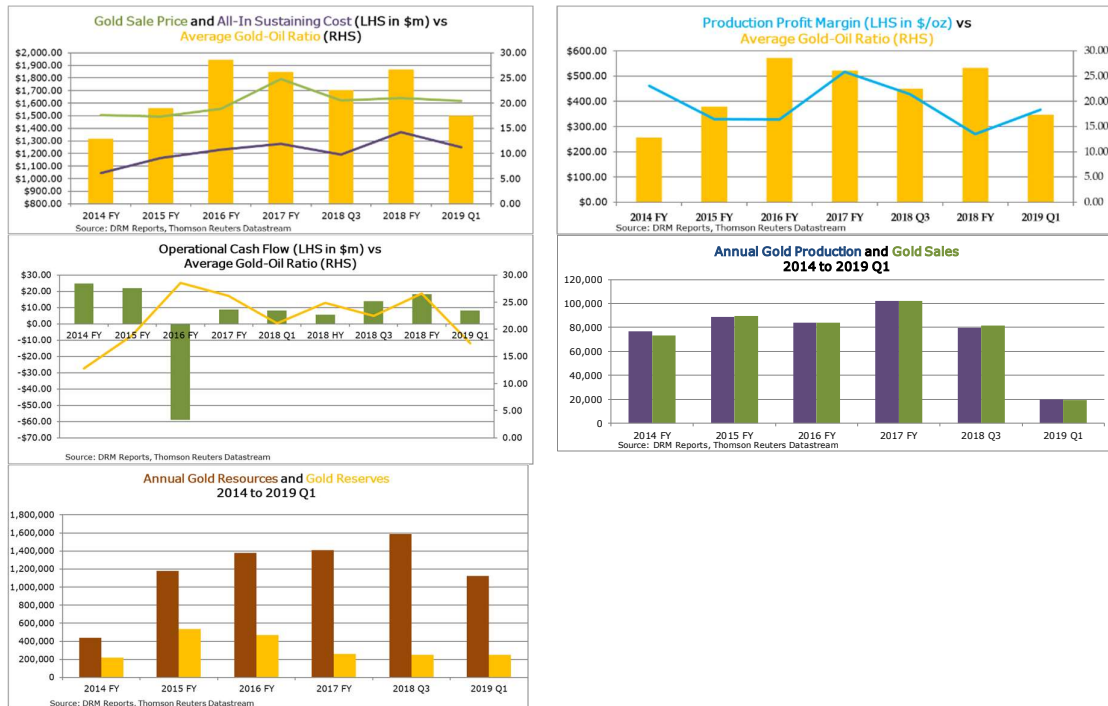


Prevailing Environment

2018 has been an increasingly challenging year for gold mining companies as the gold price fell from US\$1 350 in January/February to US\$1 180 in August/September. At the same time, crude oil price increased from US\$60 to US\$75 per barrel and only began to drop in early October to US\$52 as at December. As a result, many gold mining companies faced narrower profit margins and cash flow generation. However, for companies with Australian operations, a weakening Australian dollar slightly offset this pressure through hedging gold sales.

As gold recovered in the past two months and coinciding with sharply falling oil price, the gold mining companies will face tailwinds in their operations. The gold to oil ratio, a useful measure that is correlated with AISC and operating cash flow generation, has risen from 16 to 24 in the past two months. This trend has previously been observed in late 2014 and 2015, resulting in gold mining stocks staging a broad rally.

Operational and Financial Performance Charts



SWOT Analysis

<p>Strengths</p> <ul style="list-style-type: none"> • The mines deliver good gold grades historically and copper credits has helped reduce AISC. • History of positive operating cashflows since the 2018 first half year signalling a turnaround in its fortunes. 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Past demons resulting from the Andy Well operations still linger, leading to lack of investor faith. • Selling of the Andy Well and potentially Gwaneeda mine projects reduces its resources and reserves base.
<p>Opportunities</p> <ul style="list-style-type: none"> • The Deflector mine exploration results have been encouraging and further developments could pave a path to higher production and lower costs. • Doray may be attractive to other mining companies for collaborations and even a merger (refer to merger arrangements with Silver Lake Resources). 	<p>Threats</p> <ul style="list-style-type: none"> • Delays in further development and expansion of its Deflector mine will lead to potential running down of its reserves and resources.

Peer Comparison

