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Doray Minerals on the comeback trail

PUBLISHED: 30 Mar 2011

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Doray Minerals was one of the most successful initial public offerings in 2010, raising \$4.6 million through the issue of 23 million shares at 20¢ per share that February. Based on the issue price its market capitalisation on the day of listing was \$9.5 million.

By November 2010, Doray's share price had reached a record high of \$1.73, and in December the company raised \$21 million via a placement and a share purchase plan at \$1.30 per share. As Doray had achieved some outstanding exploration results from its tenements in the Murchison region of Western Australia, it was not surprising to see that the placement was oversubscribed.

As at December 31, 2010, Doray's shares were trading at \$1.39, representing a market capitalisation of \$272 million relative to the company's expanded capital base. But despite the fact that Doray has returned some promising exploration results from its operations in the Murchison region of Western Australia, the company appears to have slipped off the radar.

In mid-March its share price hit a six-month low of 72¢, and while it has regained some forward momentum in the last two weeks it could be argued that Doray is undervalued. Towards the end of 2010, Shaw Stockbroking noted that the region being explored by Doray was "amongst the upper echelon of the 472 gold deposits that were currently in operation at that time".

The broker noted that Doray was undervalued on enterprise value per production ounce metrics, working on the assumption that a 100,000 ounce per annum operation with capital expenditure of \$50 million could be established at its Andy Well project. Shaw Stockbroking placed a "buy" recommendation on the stock with a 12-month target price of \$2.07.

Since then the news has only been positive. In February Doray announced that a maiden high-grade Joint Ore Reserves Committee-compliant gold resource of 174,000 ounces had been established. Its management highlighted at the time that the resource, which remained open at depth and down plunge, was among the highest-grade gold resources in Australia.

On Tuesday Doray announced that it had delineated further high-grade mineralisation including 21.8 grams per tonne at a depth of approximately 58 metres. The company's managing director, Alan Kelly, said: "The latest results confirm the potential to immediately and significantly increase the size of the Andy Well resource."

This would be a potential share price catalyst, and it may account for the company's strong share price performance today. But bearing in mind the fact that Doray appears to be recovering from an oversold position (more than 50 per cent below November levels), there could be more upside to come and it may be worth investigating for those who are looking for value in a hot sector.

The Australian Financial Review

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