

# Terramin Australia Ltd (TZN)

## Angas approved - finally

21 March 2007

### Opinion Data

<b>Recommendation</b>	<b>Spec Buy</b>
<b>Risk Rating</b>	<b>High</b>
<b>Current share price</b>	<b>\$1.80</b>
<b>12 month target price</b>	<b>\$2.45</b>
<b>Price range - high/low</b>	<b>\$2.50 - \$0.86</b>
<b>Market capitalisation</b>	<b>\$165m</b>

**TZN has finally received MARP approval from the South Australian Government for the Angas project. Angas, 60km from Adelaide, is expected to produce 185kt of zinc and 60kt of lead over a 6.5 year life.**

A more definitive timeframe can now be targeted. However, the delay has impacted our forecast earnings and valuation, since we assume commodity prices decline from their current high levels:

- The base-case NPV for Angas has reduced from \$105.7m (\$1.26/share) to \$87.6m (\$1.04/share).
- At current prices/FX, however, the project would be worth \$234.5m (\$2.79/share).
- CY'08F and CY'09F earnings have changed from \$53.5m (3.1x) and \$31.1m (5.2x) respectively to \$18.0m (9.2x) and \$34.8m (4.7x) respectively.

Angas is expected to provide early cashflow, with average production of 30,000tpa of zinc and 10,000tpa of lead from mid 2008. This underpins the bulk of the current TZN share price.

The jewel in the crown, however, is Tala Hamza in Algeria. Tala Hamza is capable of producing up to 185,000tpa of zinc and 48,000tpa of lead from 2010.

We value TZN at \$1.44/share, incorporating a risked 25% of the value for the Algerian project. At spot prices, TZN's value would be \$6.74/share.

Maintain Buy. Target price of \$2.45 unchanged.

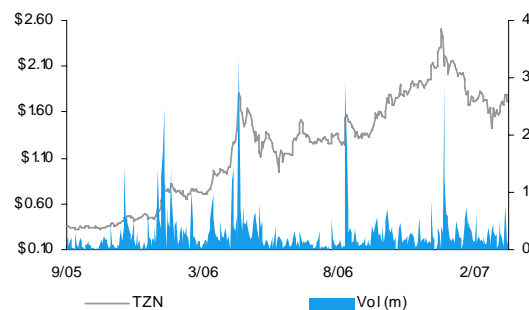
### Earnings Forecasts

Y/e Dec (\$m)	CY'06A	CY'07F	CY'08F	CY'09F
Revenue	0.0	0.0	53.7	108.9
EBITDA	(2.8)	(4.0)	34.4	69.6
EBIT	(2.8)	(4.0)	28.9	54.5
NPAT (reported)	(2.4)	(8.3)	18.0	34.8
NPAT (adjusted)	(2.4)	(8.3)	18.0	34.8
Adjusted EPS (cps)	(2.6)	(9.0)	19.6	37.9
EPS Growth (%)	-66%	->100	+>100	93%
DPS (c)	-	-	-	3.0
Dividend Yield (%)	0.0%	0.0%	0.0%	1.7%
PE adj. (x)	->50.0	(20.0)	9.2	4.7
EV / EBITDA (x)	(53.3)	(53.2)	6.9	2.6
EV / EBIT (x)	(51.9)	(53.2)	8.3	3.3
Gearing (%)	-12%	70%	65%	7%
EBIT Margin (%)	0.0%	-697.6%	54.5%	50.3%
Interest Cover (x)	(4.4)	(0.7)	4.9	10.2

### Earnings Adjustments

Y/e Dec (\$m)	CY'07F	CY'08F	CY'09F
Previous NPAT (\$m)	(3.1)	53.5	31.1
Change in NPAT (%)	-166.9%	-66.4%	-11.1%
Previous EPS (cps)	(3.4)	58.8	34.4
Change in EPS (%)	-165.3%	-66.7%	-10.2%

### TZN Share Price / Volume



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## ANGAS APPROVED – BUT DELAY HAS BEEN COSTLY

### MARP APPROVAL FOR ANGAS

**Approval granted.** TZN has received approval for the Mining and Rehabilitation Plan (MARP) for Angas, enabling it to proceed with development. Excavation work can get underway as soon as TZN receives notification of the bond amount from the Department of Primary Industries and Resources of South Australia (PIRSA).

**Progress already underway** The company has already undertaken preliminary activities, including dismantling the former quarry operation. Start-up should be immediate, given that the mine design is well advanced and TZN already had the mining contractor mobilised on site.

**Aug'08: likely first concentrate production** The likely timetable is now as follows:

- Apr'07: box-cut and tailing storage facility
- Jul'07: commence underground decline
- Oct'07: commence construction of processing plant
- Jan'08: stockpiling ore
- Jun/Jul'08: plant commissioning

Aug'08: first concentrate production

### Delay has been costly

**Production and earnings outlook refined** Under initial expectations we had thought that TZN would be in production by the end of 2007, but with continuing delays in gaining MARP approval this target date has looked unachievable for some time. With a measurable timetable now in place, we have been able to refine our production outlook and therefore our earnings and valuation expectations.

**Delayed production assumed to receive lower prices** While the life of mine production volumes and cost outlook has not altered, the major impact of the delay has been to stall production to a period when metal prices are in decline, under our commodity price assumptions.

We are assuming a zinc price of \$1.45/lb in 2008, \$1.03/lb in 2009, \$0.71/lb in 2010 and \$0.67/lb long-term.

**Delay reduces base NPV for Angas by \$18.1m, or \$0.22/share**

		Production and Earnings					
		Previous			Current		
		CY'07F	CY'08F	CY'09F	CY'07F	CY'08F	CY'09F
Production (000t)	Zn	1.5	32.4	31.5	0.0	12.6	34.55
	Zn Eq'	1.7	36.8	37.3	0.0	14.2	40.5
Price Rec'd (US\$/lb)		1.80	1.45	1.03	1.73	1.45	1.03
Cash costs (US\$/lb)		0.38	0.34	0.31	0.49	0.36	0.29
Total costs (US\$/lb)		0.59	0.53	0.48	0.55	0.55	0.47
NPAT (pre-Abs) (A\$m)		-3.1	53.5	31.3	-8.3	18.0	34.8
EPS (diluted) (cps)		-3.4	58.8	34.4	-9.0	19.6	37.9
PER (x)		Na	3.1	5.2	Na	9.2	4.7
EBITDA per Share (cps)		2.0	108.6	69.8	-4.4	37.5	75.9
Cash Flows - Operating Activities		-7.5	62.3	44.6	-8.3	18.5	44.9
Angas base NPV (A\$m)			\$105.7m			\$87.6m	
Angas base NPV A\$/share			\$1.26/share (Angas only)			\$1.04/share (Angas only)	

Source: Austock Securities forecasts

***TZN highly sensitive to metals pricing***

The delay in production clearly illustrates the sensitivity to metals pricing. This can be further demonstrated by looking at earnings and valuation under spot commodity price and FX assumptions.

Using current spot prices (FX 0.80, US\$1.46/lb Zn, US\$0.88/lb Pb), we would expect TZN to generate earnings of \$15.4m (10.6x) and \$50.9m (3.2x) in CY'08 and CY'09 respectively, while the Angas NPV would increase to \$234.5m (\$2.79/share).

## ALGERIA PROGRESSING WELL

***Tala Hamza continuing to show good potential.***

The Algerian project has meanwhile been progressing well, with assay results not only correlating well with historical information but also extending the mineralisation at depth, since many of the earlier drill-holes actually ended in mineralisation.

***Resource upgrade appears likely***

While the drilling program is aimed at verifying the current non-JORC resource (30mt at 6.9% Pb+Zn, including 11mt at 10.9% Zn and 3% Pb), it appears likely that this resource will actually be increased. A resource in excess of 50mt at the same grade seems achievable.

A third drill rig is in the process of being added to the drilling program and the updated resource should be completed by the middle of 2007.

***Angas at a discount, Algerian project for free.***

If one wanted to sit on the fence and assume that the valuation for Angas should be half-way between our base case NPV (\$1.04/share) and the NPV at spot (\$2.79/share), then Angas would be worth \$2.02/share.

In that case, the current share price is not only discounting Angas but is attributing no value at all to Tala Hamza, offering substantial upside should the project be delivered.

Earlier analysis had indicated a valuation range of between \$77m and over \$1bn for Tala Hamza.

## VALUATION

***Base NPV \$1.44/share***

We value TZN at a base \$1.44/share, incorporating a risked 25% of the value for the Algerian project.

At current spot prices and FX, the value of TZN would increase to \$6.74/share.

***Tala Hamza offers significant upside***

At current spot prices and FX, and incorporating 100% of the value of Tala Hamza, the NPV for TZN would increase to \$18.93/share.

***Target price \$2.45***

Maintain Buy. Target price of \$2.45.

## Terramin Australia Ltd

**NFPOS** 84 m **Price** \$ 1.80  
**Market Cap** \$165 m

**Date:** 21-Mar-07  
**Model Update** 21-Mar-07

### PROFIT & LOSS (A\$m)

Y/E 31 Dec	CY'06A	CY'07F	CY'08F	CY'09F	CY'10F
Sales Revenue	0.0	0.0	53.7	108.9	91.9
Other Revenue	0.9	0.5	0.8	0.6	3.5
Operating Costs	0.0	0.0	13.2	30.7	45.3
<b>Gross Operating Profit</b>	<b>0.9</b>	<b>0.5</b>	<b>41.3</b>	<b>78.8</b>	<b>50.1</b>
Depreciation	0.1	-	5.5	15.1	15.2
Exploration and Royalties	0.0	0.0	1.8	3.9	3.5
Corporate and Other	2.7	4.0	4.3	4.8	5.2
<b>EBIT</b>	<b>(2.8)</b>	<b>(4.0)</b>	<b>28.9</b>	<b>54.5</b>	<b>22.8</b>
Borrowing Costs	0.4	4.8	6.0	5.4	12.2
<b>Pre-Tax Profits</b>	<b>(2.4)</b>	<b>(8.3)</b>	<b>23.6</b>	<b>49.7</b>	<b>14.1</b>
Less Tax	-	-	5.6	14.9	4.2
Less Minorities	-	-	0.0	0.0	0.6
<b>NPAT (pre-Abs)</b>	<b>(2.4)</b>	<b>(8.3)</b>	<b>18.0</b>	<b>34.8</b>	<b>9.8</b>
Net Abnormals	-	-	-	-	-
<b>Reported Profit</b>	<b>(2.4)</b>	<b>(8.3)</b>	<b>18.0</b>	<b>34.8</b>	<b>9.2</b>

### BALANCE SHEET (A\$m)

Y/E 31 Dec	CY'06A	CY'07F	CY'08F	CY'09F	CY'10F
<b>Current Assets</b>					
Cash	9.6	15.3	11.0	66.3	10.1
Other	0.9	0.9	0.9	0.9	0.9
<b>Non-Current Assets</b>					
Investments	-	-	-	-	-
Other	-	-	5.0	10.0	30.0
Fixed Assets	19.5	75.9	118.3	207.3	361.6
<b>Current Liabilities</b>					
Borrowings	-	-	-	-	-
Creditors	3.8	3.8	3.8	3.8	3.8
Other	0.1	0.1	0.1	0.1	0.1
<b>Non-Current Liabilities</b>					
Borrowings (Incl Convertible no)	6.4	76.4	96.4	86.4	194.9
Other	0.9	0.9	0.9	0.9	0.9
<b>SHAREHOLDERS FUNDS</b>	<b>18.9</b>	<b>11.0</b>	<b>34.2</b>	<b>193.4</b>	<b>203.0</b>

### CASHFLOW STATEMENT (A\$m)

Y/E 31 Dec	CY'06A	CY'07F	CY'08F	CY'09F	CY'10F
<b>Cash Flows From Operating Activities</b>					
Cash Flow from Operations	(1.7)	0.0	40.5	78.3	46.6
Net Interest	(0.2)	(4.3)	(5.2)	(4.8)	(8.7)
Tax	-	-	(5.6)	(14.9)	(4.2)
Other incl Corporate	-	(4.0)	(11.1)	(13.7)	(29.3)
<b>Cash Flows From Investing Activities</b>					
Acq. of Property, Plant and Equip	(9.8)	(55.4)	(47.0)	(103.0)	(168.5)
Exploration Expenditure	-	(1.0)	(1.0)	(1.0)	(1.0)
Other	-	-	-	-	-
<b>Cash Flows From Financing Activities</b>					
Net Change in Borrowings	-	70.0	20.0	(10.0)	108.5
Dividends Paid	-	-	-	(0.9)	(1.8)
Other	13.7	0.4	5.2	125.3	2.2
<b>Net Increase in Cash Held</b>	<b>2.0</b>	<b>5.7</b>	<b>(4.3)</b>	<b>55.3</b>	<b>(56.2)</b>
Cash At End of Year	9.6	15.3	11.0	66.3	10.1

### PRICE ASSUMPTIONS

Y/E 31 Dec		CY'07F	CY'08F	CY'09F	CY'10F
Exchange Rate	A\$/US\$	0.78	0.75	0.72	0.69
Zinc	UScents/lb	180.0	145.0	102.5	71.0
Lead	UScents/lb	60.0	37.5	35.0	32.0
Copper	US\$/lb	2.75	2.15	1.40	1.18
Gold	US\$/oz	625.0	550.0	500.0	475.0
Silver	US\$/oz	12.5	11.0	10.0	9.5

### BOARD

Kevin Moriarty - Executive Chairman  
David Paterson - Director  
Steve Bonnett - Director  
Michael Kennedy - Director

### KEY RATIOS

Y/E 31 Dec	CY'06A	CY'07F	CY'08F	CY'09F	CY'10F	
EBITDA Margin	%	0%	0%	63%	64%	40%
EBIT Margin	%	0%	-698%	54%	50%	28%
NPAT Margin	%	271%	1650%	34%	32%	11%
ROE	%	-13%	-75%	53%	18%	5%
ROA	%	-9%	-4%	21%	19%	6%
NTA per share	\$	0.22	0.13	0.40	2.19	2.28
Eff Tax Rate	%	0%	0%	24%	30%	30%
Interest Cover	x	(4.4)	(0.7)	4.9	10.2	2.2
Net Gearing	%	-16.7%	557.5%	250.0%	10.4%	91.0%
Net Debt / Net Debt plus Equity	%	-12.5%	70.0%	65.4%	7.2%	46.4%

### VALUATION PARAMETERS

Y/E 31 Dec	CY'06A	CY'07F	CY'08F	CY'09F	CY'10F	
EPS	c	(2.6)	(9.0)	19.6	37.9	10.1
P/E	x	->50.0	(20.0)	9.2	4.7	17.9
Enterprise Value	\$m	147.9	213.1	238.5	179.0	344.8
EV / Sales	x	(84.8)	-	5.9	2.3	7.4
EV / EBITDA	x	(53.3)	(53.3)	6.9	2.6	9.1
EV / EBIT	x	(51.9)	(53.3)	8.3	3.3	15.1
Price / NTA	x	8.0	13.9	4.5	0.8	0.8
DPS	c	-	-	-	3.0	1.0
Dividend Yield	%	0.0%	0.0%	0.0%	1.7%	0.6%
Franking	%	0%	0%	0%	0%	0%
CFPS	\$	(0.0)	(0.1)	0.2	0.5	0.1
P / CFPS	x	(77.4)	(18.4)	8.2	3.4	34.2

### DCF VALUATION & SENSITIVITY

	NPV A\$m	RESERVES & RESOURCES		
ANGAS	87.6		Zn Ore	Mne Life
OUED AMIZOUR	31.2	Angas	(M)	(Years)
MENNINIE	3.4	Austock Estimate	2.4	6.2
Corporate	(14.2)	Total Reserves	2.2	5.7
Hedge Book	-	Total Resources	3.0	7.6
Net Cash, Options	11.5	Oued Amizour		
<b>TOTAL NPV (A\$m)</b>	<b>131.7</b>	Austock Estimate	28.0	10.8
NPV per Share (A\$)	1.44	Total Reserves	-	-
(fully diluted)		Total Resources	30.0	8.3

### ATTRIBUTABLE PRODUCTION PROFILE

Y/E 31 Dec	CY'06A	CY'07F	CY'08F	CY'09F	CY'10F	
Angas	100%	0.0	0.0	12.6	34.5	29.3
Oued Amizour	100%	0.0	0.0	0.0	0.0	11.7
Menninnie	100%	0.0	0.0	0.0	0.0	0.0
<b>Total Zn</b>	<b>000t</b>	<b>0.0</b>	<b>0.0</b>	<b>12.6</b>	<b>34.5</b>	<b>41.0</b>
Angas	100%	0.0	0.0	14.2	40.5	36.9
Oued Amizour	100%	0.0	0.0	0.0	0.0	13.0
Menninnie	100%	0.0	0.0	0.0	0.0	0.0
<b>Total Zn -Equiv'</b>	<b>000t</b>	<b>0.0</b>	<b>0.0</b>	<b>14.2</b>	<b>40.5</b>	<b>49.9</b>
Price Received (US\$/lb)	1.47	1.73	1.45	1.03	0.70	
Cash costs (US\$/lb)	0.25	0.49	0.36	0.29	0.34	
<b>Total costs (US\$/lb)</b>	<b>0.25</b>	<b>0.55</b>	<b>0.55</b>	<b>0.47</b>	<b>0.49</b>	

### EBIT CONTRIBUTIONS

Y/E 31 Dec	CY'06A	CY'07F	CY'08F	CY'09F	CY'10F
<b>EBIT Contribution</b>					
Angas	0.0	0.0	32.2	56.9	19.7
Oued Amizour	0.0	0.0	0.0	0.0	4.7
Menninnie	0.0	0.0	0.0	0.0	0.0
Corporate and Other	(2.8)	(4.0)	(3.3)	(2.4)	(1.6)
<b>Total</b>	<b>(2.8)</b>	<b>(4.0)</b>	<b>28.9</b>	<b>54.5</b>	<b>22.8</b>

## Directory

### Equities Research Team

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Jeremy Kirkwood	613 8601 2638	Consultant
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### Recommendation Criteria

#### Investment View

Austock Securities Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Strong Buy	Buy	Hold	Lighten	Sell
25% +	25% - 10%	10% - (5%)	(5%) - (15%)	(15%)+

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

#### Risk Rating

Austock Securities Limited has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

#### Disclosure of Economic Interests

The views expressed in this research report accurately reflect the personal views of Hunter Hillcoat and Tim Gerrard about the subject issuer and its securities. No part of the analyst's compensation was, is or will be directly or indirectly related to any recommendation or view expressed in this report.

In addition, Hunter Hillcoat and Tim Gerrard certifies that none of the following persons holds an economic interest in the securities covered in this report or other securities issued by the subject issuer which may influence the report:

- the author of this report;
- a member of the immediate family of the author of this report ;
- Austock Securities Limited;
- an associate of Austock Securities Limited within the meaning of the Corporations Act.

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