

Terramin Australia (TZN)

Opinion Data

Recommendation	Buy
Risk Rating	High
Current share price	\$3.06
12 month target price	\$4.23
Price range - high/low	\$3.48 - \$1.20
Market capitalisation	\$309m

Company Background

Terramin Australia (TZN) is an Adelaide-based company that is advancing a portfolio of zinc and lead projects in Australia and Algeria, with a view to becoming a 200kt producer from the end of the decade.

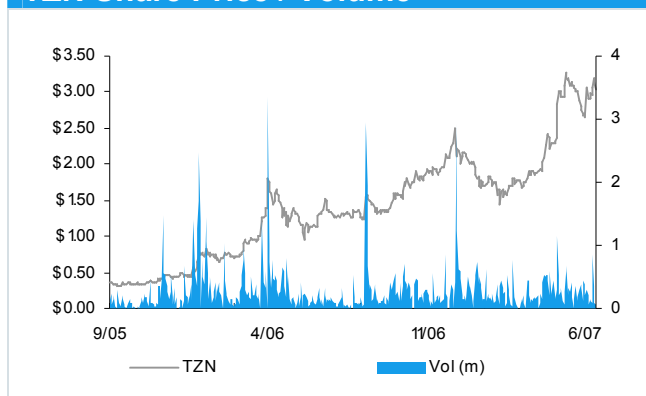
The Angas project, near Adelaide, is expected to provide the early cashflow, with average production of 30,000tpa of zinc and 10,000tpa of lead from late 2007.

The Menninie project, a JV with Zinifex (ZFX), 400km NW of Adelaide is currently being fast-tracked to resource status. ZFX (currently 49% partner) will be spending up to \$8m to move to a 70% position.

However, the jewel in the crown is well-advanced Oued Amizour zinc project in Algeria, containing the Tala Hamza deposit. The project is strategically located close to several major European smelters. With a forecast 2010 start-up date, the project could be producing up to 185,000tpa of zinc and 48,000tpa of lead.

Backed by a highly-experienced board and management team, we expect to see the company re-rated as it comes into production.

TZN Share Price / Volume



Highlights

TZN has secured \$77m debt funding for its South Australian zinc project, Angas, with a senior loan facility of \$67m arranged through Investec and BOS International, and a \$10m subordinated facility with Sempra Metals Investments. Project development is progressing well and is currently ahead of schedule.

The company released a maiden JORC compliant resource for its Algerian deposit. The new inferred resource is 55mt at 5.0% Zn and 1.2% Pb, based upon historical drilling conducted by the Algerian government's exploration arm ORGM and four diamond core holes drilled by TZN.

While this resource is a substantial increase on the previous 30mt non-JORC resource quoted for the deposit, we expect further upgrades, both in terms of size and grade as the drilling program progresses:

- TZN's drill holes have returned results significantly better than their twinned holes, due in part to better core recovery. The grade of the resource should improve with additional drilling.
- Many of the historical drill holes did not reach the base of mineralisation and the deposit remains open to the south.

TZN expects to raise the resource to Indicated status following completion of the current drill program in September.

Outlook / Investment View

Following recent adjustments to our commodity price assumptions, we have increased our base case NPV for TZN from \$2.13/share to \$2.49/share. This assumes long-term zinc at US\$0.72/lb and lead at US\$0.37/lb and a risked 50% valuation for the Algerian project.

Leverage to base metals pricing above our assumptions is substantial. At current spot prices and FX, we would value TZN at \$11.21/share, still assuming a risked 50% of the value for the Tala Hamza.

We have increased our target price to \$4.23/share, based on a combination of spot and base case values for the company.

TZN remains one of our key picks in the emerging resources sector. Maintain Buy.

Terramin Australia Ltd
NFOS 93 m **Price** \$ 3.06
Market Cap \$309 m

Date: 11-Jul-07
Model Update 11-Jul-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	49.1	109.3	101.4
Other Revenue	0.9	0.5	1.4	1.0	4.6
Operating Costs	0.0	0.0	10.7	27.9	40.2
Gross Operating Profit	0.9	0.5	39.7	82.4	65.7
Depreciation	0.1	-	5.5	15.0	15.1
Exploration and Royalties	0.0	0.0	1.8	4.0	4.0
Corporate and Other	2.7	4.0	4.3	4.8	5.2
EBIT	(2.8)	(4.0)	26.8	57.6	36.9
Borrowing Costs	0.4	4.8	6.0	5.4	12.2
Pre-Tax Profits	(2.4)	(8.3)	22.1	53.2	29.3
Less Tax	-	-	5.3	16.0	8.8
Less Minorities	-	-	0.0	0.0	1.1
NPAT (pre-Abs)	(2.4)	(8.3)	16.8	37.2	20.5
Net Abnormals	-	-	-	-	-
Reported Profit	(2.4)	(8.3)	16.8	37.2	19.4

BALANCE SHEET (A\$m)

Y/E 31 Dec	CY'06A	CY'07F	CY'08F	CY'09F	CY'10F
Current Assets					
Cash	9.6	26.1	18.1	86.8	62.5
Other	0.9	0.9	0.9	0.9	0.9
Non-Current Assets					
Investments	-	-	-	-	-
Other	-	-	5.0	10.0	30.0
Fixed Assets	19.5	74.9	114.8	192.4	330.3
Current Liabilities					
Borrowings	-	-	-	-	-
Creditors	3.8	3.8	3.8	3.8	3.8
Other	0.1	0.1	0.1	0.1	0.1
Non-Current Liabilities					
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
SHAREHOLDERS FUNDS	18.9	20.9	37.7	199.0	224.0

CASHFLOW STATEMENT (A\$m)

Y/E 31 Dec	CY'06A	CY'07F	CY'08F	CY'09F	CY'10F
Cash Flows From Operating Activities					
Cash Flow from Operations	(1.7)	0.0	38.4	81.4	61.2
Net Interest	(0.2)	(4.3)	(4.7)	(4.4)	(7.6)
Tax	-	-	(5.3)	(16.0)	(8.8)
Other incl Corporate	-	(4.0)	(11.1)	(13.8)	(30.3)
Cash Flows From Investing Activities					
Acq. of Property, Plant and Equip	(9.8)	(54.4)	(44.3)	(91.7)	(151.9)
Exploration Expenditure	-	(1.0)	(1.0)	(1.0)	(1.0)
Other	-	-	-	-	-
Cash Flows From Financing Activities					
Net Change in Borrowings	-	70.0	20.0	(10.0)	108.5
Dividends Paid	-	-	-	(0.9)	(2.8)
Other	13.7	10.3	-	125.0	8.4
Net Increase in Cash Held	2.0	16.6	(8.0)	68.6	(24.3)
Cash At End of Year	9.6	26.1	18.1	86.8	62.5

PRICE ASSUMPTIONS

Y/E 31 Dec		CY'07F	CY'08F	CY'09F	CY'10F
Exchange Rate	A\$/US\$	0.83	0.82	0.80	0.77
Zinc	UScents/lb	158.6	145.0	115.0	87.5
Lead	UScents/lb	99.7	65.0	45.0	42.5
Copper	US\$/lb	3.21	3.00	2.25	1.75
Gold	US\$/oz	658.9	700.0	600.0	550.0
Silver	US\$/oz	13.2	14.0	12.0	11.0

BOARD

Kevin Moriarty - Executive Chairman	James Thomas Hazel - Director
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%	64%	66%	49%
EBIT Margin	%	0%	-698%	56%	53%	39%
NPAT Margin	%	271%	1650%	35%	34%	21%
ROE	%	-13%	-40%	45%	19%	9%
ROA	%	-9%	-4%	19%	20%	9%
NTA per share	\$	0.22	0.22	0.41	2.15	2.42
Eff Tax Rate	%	0%	0%	24%	30%	30%
Interest Cover	x	(4.4)	(0.7)	4.7	10.9	3.4
Net Gearing	%	-16.7%	241.1%	207.7%	-0.2%	59.1%
Net Debt /Net Debt plus Equity		-12.5%	51.7%	58.4%	-0.1%	31.6%

VALUATION PARAMETERS

Y/E 31 Dec	CY'06A	CY'07F	CY'08F	CY'09F	CY'10F	
EPS	c	(2.6)	(8.2)	16.7	36.9	19.2
P/E	x	->50.0	(37.3)	18.3	8.3	15.9
Enterprise Value	\$m	253.7	334.2	362.2	283.5	416.3
EV / Sales	x	(145.4)	-	9.4	3.5	6.8
EV / EBITDA	x	(91.4)	(83.5)	11.2	3.9	8.0
EV / EBIT	x	(89.1)	(83.5)	13.5	4.9	11.3
Price / NTA	x	13.6	13.6	7.5	1.4	1.3
DPS	c	-	-	-	3.0	2.0
Dividend Yield	%	0.0%	0.0%	0.0%	1.0%	0.7%
Franking	%	0%	0%	0%	0%	0%
CFPS	\$	(0.0)	(0.1)	0.2	0.5	0.2
P / CFPS	x	(144.7)	(34.3)	16.4	6.0	19.6

DCF VALUATION & SENSITIVITY

	NPV A\$m	RESERVES & RESOURCES
ANGAS	98.8	Zn Ore Mine Life
OUED AMIZOUR (discounted)	115.4	Angas (Mt) (Years)
MENNINIE	3.4	Austock Estimate 2.4 6.2
Exploration	21.8	Total Reserves 2.2 5.7
Corporate	(14.2)	Total Resources 3.0 7.6
Hedge Book	-	Oued Amizour
Net Cash, Options	25.8	Austock Estimate 28.0 10.8
TOTAL NPV (A\$m)	251.05	Total Reserves - -
NPV per Share (A\$)	2.49	Total Resources 55.0 13.8

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
Total Zn	000t	0.0	0.0	12.6	34.5	41.0
Angas	100%	0.0	0.0	14.9	41.4	37.2
Oued Amizour	100%	0.0	0.0	0.0	0.0	13.1
Menninnie	100%	0.0	0.0	0.0	0.0	0.0
Total Zn -Equiv'	000t	0.0	0.0	14.9	41.4	50.2
Price Received (US\$/lb)	1.47	1.49	1.45	1.15	0.86	
Cash costs (US\$/lb)	0.25	0.40	0.32	0.29	0.34	
Total costs (US\$/lb)	0.25	0.46	0.53	0.49	0.50	

EBIT CONTRIBUTIONS

Y/E 31 Dec	CY'06A	CY'07F	CY'08F	CY'09F	CY'10F
EBIT Contribution					
Angas	0.0	0.0	30.2	60.2	30.2
Oued Amizour	0.0	0.0	0.0	0.0	8.5
Menninnie	0.0	0.0	0.0	0.0	0.0
Corporate and Other	(2.8)	(4.0)	(3.4)	(2.5)	(1.9)
Total	(2.8)	(4.0)	26.8	57.6	36.9

Directory

Equities Research Team

Melbourne

Ryan Whitelegg	613 8601 2045	Director, Head of Research
Craig Stranger	613 8601 2010	Deputy Head, Emerging Companies
Heath Andrews	613 8601 2644	Analyst
Jason Brown	613 8601 2071	Infrastructure Analyst
John Burgess	613 8601 2051	Consumer Services
Andrew Chambers	613 8601 2605	Infrastructure Analyst
Andrew Cleeland	613 8601 2065	Data Analyst
Jon Fernie	613 8601 2618	Assistant Analyst
David Grossman	613 8601 2616	Assistant Analyst
Thomas Hodson	613 8601 2628	Property Analyst
Warren Jeffries	613 8601 2073	Emerging Companies
Paul Jenz	613 8601 2068	Agribusiness & Science
Scott Pullan	613 8601 2640	Assistant Analyst
Chris Wiltshire	613 8601 2680	Assistant Analyst

Sydney

John Buonaccorsi	612 9233 9612	Diversified Financial Services Analyst
Tim Gerrard	612 9233 9603	Resources
Hunter Hillcoat	612 9233 9604	Resources
Colin McLelland	612 9233 9635	Assistant Resources Analyst
Rohan Sundram	612 9233 9638	Assistant Analyst

Brisbane

Amanda Miller	617 3361 3310	Human Services Analyst
---------------	---------------	------------------------

Institutional Sales

Melbourne

Greg Burns	613 8601 2626	Head of Institutional Sales
Lawry Bugeja	613 8601 2635	Institutional Research Sales
Peter Hollick	613 8601 2011	Institutional Research Sales
Sandy Milne	613 8601 2081	Institutional Research Sales
Enzo Salvatore	613 8601 2014	Institutional Research Sales
Tony Smith	613 8601 2041	Institutional Research Sales
Michael Tinsley	613 8601 2050	Seats Operator
Chris Walker	613 8601 2038	Institutional Research Sales
Peter Ward	613 8601 2099	Institutional Research Sales
Simon Watkin	613 8601 2642	Institutional Research Sales
Robert Wood	613 8601 2031	Institutional Sales Trading

Sydney

Leo Borovilas	612 9233 9606	Institutional Sales Trading
Chris Chia	612 9233 9605	Head of Asian Sales
Roderick Clarkson	612 9233 9608	Institutional Research Sales
Dave Gulson	612 9233 9637	Institutional Sales Trading
Tim Parry	612 9233 9646	Asian Sales
Graeme Philipson	612 9233 9610	Seats Operator
Stephen Smith	612 9233 9629	Institutional Sales Trading
Gavin Todd	612 9233 9639	Institutional Research Sales
James Wilson	612 9233 9607	Institutional Research Sales

London

Todd Hadden	+44 20 7201 2188	Australian Research Sales
Greg Peacock	+44 20 7201 2188	Australian Research Sales

Retail Sales

Melbourne

Craig Sharpe	613 8601 2023	Head of Retail Sales
Peter Atkinson	613 8601 2652	Client Advisor
John Axsentieff	613 8601 2042	Senior Client Advisor
Marshall Biggins	613 8601 2047	Options Strategist
Elizabeth Bing	613 8601 2018	Client Advisor
Alan Crute	613 8601 2621	Senior Client Advisor
Peter Cuthbertson	613 8601 2096	Client Advisor
Nick Fitzsimmons	613 8601 2029	Client Advisor
Kate Hanrahan	613 8601 2058	Client Advisor
Michael Heffernan	613 8601 2053	Senior Client Advisor
Krish Iyra	613 8601 2649	Client Advisor
Peter King	613 8601 2002	Client Advisor
Mark Leslie	613 8601 2076	Client Advisor
Peter Mason	613 8601 2015	Client Advisor
Andrew McWilliam	613 8601 2048	Operator
Simon Taylor	613 8601 2069	Client Advisor
Fook Seng Thong	613 8601 2021	Client Advisor
Patrick Trindade	613 8601 2669	Client Advisor
James Yelland	613 8601 2094	Client Advisor
Anthony Zaita	613 8601 2084	Client Advisor

Sydney

Alan Birkenleigh	612 9233 9625	Head of Retail Sales
Ryan Batros	612 9233 9648	Client Advisor
David Dwyer	612 9233 9643	Client Advisor - Options
Josh Graham	612 9233 9645	Client Advisor - Options
Adam Schlipalius	612 9233 9616	Client Advisor
Ian Schlipalius	612 9233 9621	Senior Client Advisor
Mark Schwarz	612 9233 9642	Client Advisor - Options
Oliver Ward	612 9233 9622	Client Advisor
James Whelan	612 9233 9601	Client Advisor
Brisbane		
Chris Claridge	617 3361 3301	Office Manager
Ashley Brandon	617 3361 3304	Client Advisor

Austock Corporate Finance Limited

Jeremy Kirkwood	613 8601 2638	Managing Director – Investment Banking
Jonathan Tooth	613 8601 2006	Director, Head of Corporate Finance
James Andronis	613 8601 2001	Director
Anthony Stani	613 8601 2017	Director
Ian Davies	613 8601 2648	Associate Director
Emma Harink	613 8601 2013	Corporate Assistant
Chris Heffernan	613 8601 2614	Corporate Analyst
Harry Kingsley	613 8601 2089	Associate Director
Natino Malvaso	613 8601 2019	Associate Director
Miron Meydan	613 8601 2077	Associate Director
Paran Ramakrishnan	613 8601 2004	Corporate Analyst
Kylie Toomey	613 8601 2025	Corporate Transactions
Henry Townsing	613 8601 2620	Corporate Analyst

DISCLOSURE

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 each author described in this publication about the subject issuer and its securities. In the situation where multiple analysts are responsible for the research, no part of the relevant analyst's compensation was, is or will be directly or indirectly related to any recommendation or view expressed in this report.

Austock and its associates within the meaning of the Corporations Act may hold securities in the companies referred to in this publication.

However, neither Austock, an associate of Austock within the meaning of the Corporations Act nor any author and/or immediate family of the authors described in this report have any interests in the companies referred to in this publication which are considered to be material.

Disclaimer/Disclosure

This publication has been prepared solely for the information of the particular person to whom it was supplied by Austock Securities Limited ("Austock") AFSL 244410. This publication contains general financial product advice. In preparing the advice, Austock has not taken into account the investment objectives, financial situation and particular needs of any particular person. Before making an investment decision on the basis of this advice, you need to consider, with or without the assistance of a financial product adviser, whether the advice in this publication is appropriate in light of your particular investment needs, objectives and financial situation.

Austock is a subsidiary of Austock Group Limited ABN 90 087 334 370 ("AGL"). Mr William Bessemer is currently a director of AGL and is a director of ABS which is a company described in this publication. That association between Austock and ABS might reasonably be expected to be capable of influencing Austock in providing the general advice in this publication. Mr Bessemer has a relevant interest in shares in ABS and receives remuneration and benefits from ABS in his capacities as a shareholder and director of ABS, but Austock does not believe that those interests might reasonably be expected to be capable of influencing Austock in providing the general advice in this publication.

An associate of Austock, Austock Property Investments Ltd (APIL), has a relevant interest in 880 shares (55%) of the responsible entity of Australian Education Trust (AEU), Austock Property Management Ltd (APML). The cost of that interest was \$1.5 million. The current directors of APML are all associates of Austock. Those associations between Austock and AEU might reasonably be expected to be capable of influencing Austock in providing the general advice in this publication.

The directors of APML receive remuneration and benefits from APML in their capacities as directors of APML. The directors of APML may from time to time have relevant interests in units in AEU and receive benefits from AEU in their capacity as unitholders of AEU. However, Austock does not believe that those interests might reasonably be expected to be capable of influencing Austock in providing the general advice in this publication.

Disclosure of Corporate Involvement

Austock has provided corporate advisory, investment banking and dealing services and has also been involved in publicly-announced transactions in the past twelve months involving the payment of fees to Austock from the following companies referred to in this publication: ABB, ABS, AEU, ALB, ARX, BEC, DKN, JMB, KIS, LPM, LYC, NEC, OGC, SGH, SIP, SNO, SRL, TIM, TTI, TZN, VIR and WCB.

OFFICE LOCATIONS

Melbourne

Level 1, 350 Collins Street
Melbourne VIC 3000

Phone: 613 8601 2000

Fax: 613 9600 1138

Sydney

Level 9, 56 Pitt Street
Sydney NSW 2000

Phone: 612 9233 9600

Fax: 612 9251 9368

Brisbane

Level 3, 100 Eagle Street
Brisbane QLD 4000

Phone: 617 3361 3303

Fax: 617 3229 4305