

Terramin Australia Ltd (TZN)

Tala Hamza shaping up

18 September 2007

Opinion Data

Recommendation	Strong Buy (was Buy)
Risk Rating	High
Current share price	\$2.55
12 month target price	\$3.80 (from \$4.23)
Price range - high/low	\$3.48 - \$1.32
Market capitalisation	\$286m

The latest drill results from the Tala Hamza deposit continue to confirm the tenor of the ore mineralisation, particularly the higher-grade zones, but also indicate that the mineralisation could extend deeper and further south than previously thought.

We expect the current resource - 55mt at 5.0% zinc (Zn) and 1.2% lead (Pb), including 20mt at 7.2% Zn and 2.0% Pb - to continue improving as new and higher-grade drilling information is added. This offers the prospect of upside beyond our life of mine assumption of 29mt at 7.7% Zn and 2.3% Pb.

- We believe that TZN's South Australian Angas project underpins the Company's current market capitalisation.
- However, it is Algeria that offers real upside with the potential for Tala Hamza to become a globally-significant deposit and Oued Amizour a world-class Zn-Pb province.
- Our base case NPV for TZN is \$2.49/share, using long-term zinc of US\$0.72/lb and lead of US\$0.37/lb and a risked 50% valuation for the Algerian project. We expect to reduce this risk weighting as the project is advanced. At current spot prices and FX, TZN would be valued at a risked \$8.60/share.
- Although our target price, which is based on a combination of spot and base case values, has been reduced from \$4.23/share to \$3.80/share, it still remains well above the current share price. As a result, we are increasing our recommendation to a Strong Buy (was Buy).

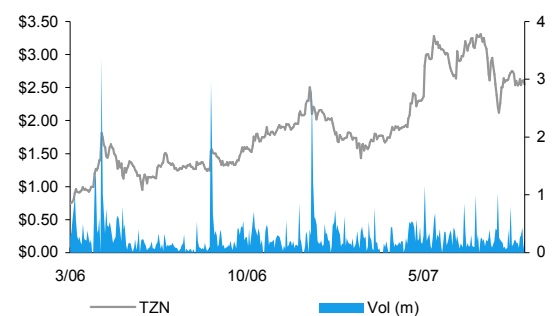
Earnings Forecasts

Y/e Dec (\$m)	CY'06A	CY'07F	CY'08F	CY'09F
Revenue	0.0	0.0	49.1	109.3
EBITDA	(2.8)	(4.4)	32.3	72.7
EBIT	(2.8)	(4.4)	26.8	57.6
NPAT (reported)	(2.4)	(6.8)	17.9	38.1
NPAT (adjusted)	(2.4)	(5.9)	17.9	38.1
Adjusted EPS (cps)	(2.6)	(6.0)	15.9	23.8
EPS Growth (%)	-66%	->100	+>100	50%
DPS (c)	-	-	-	2.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.8%
PE adj. (x)	->50.0	(42.2)	16.0	10.7
EV / EBITDA (x)	(77.5)	(63.4)	9.8	5.2
EV / EBIT (x)	(75.5)	(62.8)	11.8	6.5
Gearing (%)	-12%	26%	44%	0%
EBIT Margin (%)	0.0%	-530.5%	56.0%	53.1%
Interest Cover (x)	(4.4)	(1.8)	5.6	14.1

Earnings Adjustments

Y/e Dec (\$m)	CY'07F	CY'08F	CY'09F
Previous NPAT (\$m)	(8.3)	16.8	37.2
Change in NPAT (%)	29.2%	-6.5%	-2.5%
Previous EPS (cps)	(8.2)	16.7	36.9
Change in EPS (%)	26.1%	-4.3%	-35.0%

TZN Share Price / Volume



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TALA HAMZA SHAPING UP

TZN recently reported further results from the ongoing drill program at the Oued Amizour project in Algeria.

The program is focussed on the Tala Hamza deposit, which currently has a 55mt inferred resource. TZN is in the process of both defining an indicated resource and extending the resource to the west and the south, where it remains open.

Of the 37 drill holes planned under the current program, 17 have been completed thus far, including two holes that were twins of earlier ORGM drilling. Assay results have been received for 10 of the completed holes, providing an initial indication of the overall tenor of the mineralisation and the extent to which it could be extended.

DEEPENING AND EXTENDING TO THE SOUTH

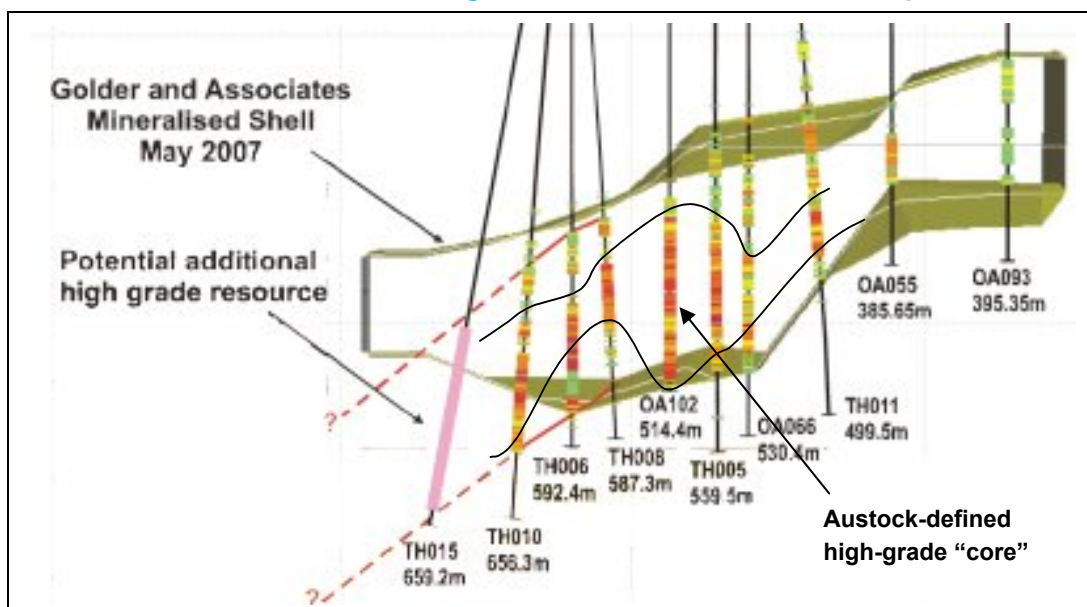
The latest drill results continue to confirm the robustness of the mineralisation, particularly the higher-grade zones, but also indicate that the mineralisation could extend deeper and further south than previously thought.

The following long section illustrates this (left hand side = south), with TH010 drawing the mineralisation down away from the previously interpreted mineralised shell. The assay results from drill hole TH015 (still pending) will determine the extent to which this mineralisation continues, with visual logging appearing to indicate that the hole is “highly mineralised”.

North-south section through the centre of the Tala Hamza deposit

North-south section through the deposit, illustrating drill results in relation to the May 2007 mineralised shell

There is a clear high-grade “core” within the shell and this forms the basis of our forward production assumptions



Hole No.	TH015	TH010	TH006	TH008	OA102	TH005	OA066	TH011
Old/New Hole	New	New	New	New	Old	New	Old	New
Includes	Assays	83m	74m	60m	142m	123m	84m	41m
at Zn %	pending	6.5%	7.5%	10.3%	10.0%	10.1%	5.2%	11.1%
at Pb%		5.6%	6.8%	2.2%	3.9%	1.7%	1.3%	1.2%

Source: Company Reports

Also highlighted in the section and in the underlying table is the overall continuity of the higher-grade material that occurs within the overall mineralised shell. The seven holes depicted average 87m at 8.7% Zn and 3.3% Pb.

In addition, from the above table of high-grade drill results it appears that the lead grade is increasing strongly towards the south, while the zinc grade decreases in the same direction. The lead grades being encountered are well above the deposit average, indicating that historical work may have underestimated the lead content.

SCOPING AND PRE-FEASIBILITY STUDIES WELL UNDERWAY

TZN's aim is to produce an indicated resource and complete the current scoping study by the end of 2007, with the pre-feasibility study to be completed by August 2008. We would suggest that these targets are aggressive, given the environment in which TZN in particular and the resources sector in general is operating.

Two extra drill rigs have been contracted to add to the current two rigs, with the drill program expected to move towards infill drilling (50m-spacing) within the next two months. One of the drill rigs is expected to be dedicated to step-out drilling away from the existing resource.

In an effort to speed up the assaying process, which has so far been done in South Australia, TZN has changed to a nearer assay laboratory, based in Ireland.

Premium, low-iron concentrate

The scoping and pre-feasibility studies are being undertaken in parallel. Initial metallurgical work suggests that TZN should be able to produce a premium, low-iron concentrate through a conventional floatation circuit.

No unmanageable geotechnical issues

While the mineralisation occurs within a soft, clay-rich setting (volcanic-hosted hydrothermal deposit), geotechnical work has indicated that there are no unmanageable issues. Depending on the mining strategy employed, TZN should be able to apply either bulk mining methods such as a sub-level caving or more selective fill methods.

RESOURCE EXPECTED TO CONTINUE IMPROVING

The current JORC resource is 55mt at 5.0% Zn and 1.2% Pb. This includes 20mt at 7.2% Zn and 2.0% Pb. It should be noted that the current resource is derived from a combination of older 1980's Algerian drill information and new drill data obtained from the current drill program: specifically 30 older ORGM holes and four new TZN holes.

Older drilling tended to under-report the high grade zones

The older drilling had poor core recovery and tended to under-report the high grade zones (due to core loss in these zones). This was illustrated in the two holes that TZN has twinned thus far:

- TH006 (twinned with historical hole OA100) contained 61% more metal overall (Zn-equiv basis) with a 60% higher grade.
- TH004 (twinned with historical hole OA068) contained 30% more metal overall (Zn-equiv basis) with a 16% higher grade. Within this, the high-grade zone contained 80% more metal than the equivalent historical high-grade zone.

Overall grade of the resource to improve

The implication is that the overall grade of the resource will continue to improve as new (and higher-grade) drilling information is added to the database that underlies the resource calculations.

Our financial model for Tala Hamza assumes life of mine production of 28.7mt at 7.7% Zn and 2.3% Pb. We believe these assumptions are reasonable, given the consistently broader and higher-grade results coming from modern drilling.

The back-of-the-envelope calculations from the drilling information thus far suggest a 23mt high-grade zone (500m length x 200m width x 87m depth) at average grades in line with our expectations.

INVESTMENT THESIS

While the South Australian Angas project underpins TZN's market cap (with some way still to go based on comparison with say, Jabiru Metals (JBM)), it is Algeria that offers real upside with the potential for Oued Amizour to become a globally-significant zinc project.

**Base case, risked
NPV of
\$2.49/share**

Our base case NPV for TZN is \$2.49/share, using long-term US\$0.72/lb Zn and US\$0.37/lb Pb and a risked 50% valuation for the Algerian project. We expect to reduce this risk weighting as the project is advanced.

**Spot NPV of
\$8.60/share**

At current spot prices (Zn US\$1.26/lb, Pb US\$1.42/lb, FX 0.83), TZN would be valued at \$8.60/share. This still assumes the 50% risk weighting. TZN's strong leverage to metals prices work in both directions. At the end of July 2007 our spot valuation for TZN was \$11.21/share, when the Zn and Pb prices were around US\$1.70/lb and US\$1.60/lb respectively.

**Forward EPS
forecasts have
reduced on the
assumption of
future equity
financing**

The Angas project remains on track and we have not made any material changes to our earnings expectation, post the recent half-year financials.

We have, however, assumed that funding for the development of Tala Hamza (~\$220m) is met by a nominal 50:50 debt:equity, versus previous assumptions of 100% debt. This results in an additional ~46m shares in 2009, reducing our forward earnings on an EPS basis.

We note that this is merely a notional assumption and is likely to change when financing is eventually achieved.

Our target price, which is based on a combination of spot and base case values, has been reduced from \$4.23/share to \$3.80/share. Notwithstanding this, we are increasing our recommendation to a Strong Buy (was Buy), based on the upside to the target price.

OUED AMIZOUR SUMMARY

The Oued Amizour project (Tal Hamza orebody) is located in Algeria, 10km south of the port of Bejaia, one of the main harbours on the Mediterranean Sea and the pipeline terminal for the Saharan oil and gas fields. Infrastructure is good with nearby road and rail services, electrical power and an international airport.

Discovered in 1989

Following mapping of the region in the 1970's, and more advanced exploration work in the 1980's, the base metal mineralisation was discovered in 1989. During the 1990's, the main Tala Hamza orebody was drill defined and assessed (hydrogeology, metallurgy) with an initial, non-JORC, resource of 30mt at 6.9% Pb+Zn identified, including 11mt at 10.9% Zn and 3% Pb. However, the government was unable to attract foreign investment, initially due to the civil unrest and then due to the restrictive mining codes of the time.

New mining laws passed in 2001 allowed foreign participation of up to 100% and the project was again put up for bid from late 2004. Juniors were apparently given precedence, since the government did not want the project mothballed by a major. TZN was the winning bidder amongst an international contingent of suitors.

TZN's 65% holding is through an Algerian holding company established in early 2006, Western Mediterranean Zinc (WMZ), in JV with two Algerian government departments. The JV requires TZN to expend up to US\$6.6m to reach a decision to mine; then managing the subsequent financing and operation of the project.

The manner in which the government then participates going ahead remains open to conjecture. While TZN has first right of refusal on the government's 35% share, should it lack the funding or the desire to retain this position, the government could also be free carried and diluted down to a lower holding.

Tala Hamza is still at a relatively early stage with the current Scoping Study focussed on confirming historical drill data and establishing metallurgical parameters, together with the other integral components – hydrology, environmental, geotechnical, regulatory, etc.

Production potentially from the end of 2010

The Scoping study is expected to advance to a pre-feasibility study (PFS) during 2007-2008 and to a bankable feasibility study into early 2009. An 18-month construction phase could see production from the end of 2010.

A mine plan could take several directions based on the results of the above and the associated exploration program, from lower-tonnage, more selective methods such as long-hole stoping to the higher tonnage block caving. The base-case key assumptions behind our Oued Amizour model are as follows:

Our valuation is underpinned by an assumed 10 year, 3mtpa operation

- Moderate sized 3mtpa operation with a ten year mine life.
- Life of mine (LOM) processing of 25.7mt of ore at an average 7.7% Zn, 2.3% Pb and 6g/t Ag.
- Average zinc and lead recoveries of 80% and 70% respectively, producing concentrates grading 50% and 65% respectively.
- Dual zinc and lead concentrate production. LOM production of 1,677kt of zinc, 183kt of lead and 3,482koz of silver.
- Operating costs of US\$42.50/t. Cash costs, net of by-product credits, of ~US\$0.43/lb Zn, (assuming a long-term lead price of US\$0.30/lb). We have assumed long-term treatment charges of US\$110/t.
- We estimate pre-production capex of US\$200m, LOM capital of US\$265m.
- TZN ownership increasing to 85% in return for free-carrying the Algerian Government to production.

Terramin Australia Ltd

NFPOS 99 m **Price** \$ 2.55
Market Cap \$286 m

Date: 18-Sep-07
Model Update 18-Sep-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	0.7	1.6	1.0	3.5
Operating Costs	0.0	0.0	10.7	27.9	40.2
Gross Operating Profit	0.9	0.7	40.0	82.4	64.7
Depreciation	0.1	0.0	5.5	15.0	15.1
Exploration and Royalties	0.0	0.2	1.8	4.0	4.0
Corporate and Other	2.7	4.2	4.3	4.8	5.2
EBIT	(2.8)	(4.4)	26.8	57.6	36.9
Borrowing Costs	0.4	2.1	5.1	4.2	10.0
Pre-Tax Profits	(2.4)	(5.9)	23.3	54.5	30.4
Less Tax	-	-	5.4	16.3	9.1
Less Minorities	-	0.9	0.0	0.0	1.1
NPAT (pre-Abs)	(2.4)	(5.9)	17.9	38.1	21.3
Less Minorities	-	0.9	0.0	0.0	1.1
Net Abnormals	-	-	-	-	-
Reported Profit	(2.4)	(6.8)	17.9	38.1	20.2

BALANCE SHEET (A\$m)

Y/E 31 Dec	CY'06A	CY'07F	CY'08F	CY'09F	CY'10F
Current Assets					
Cash	9.6	30.4	18.4	67.4	31.0
Other	0.9	0.9	0.9	0.9	0.9
Non-Current Assets					
Investments	-	-	-	-	-
Other	-	5.0	15.0	20.0	40.0
Fixed Assets	19.5	68.4	113.3	190.9	328.8
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 nc)	6.4	56.4	81.4	66.4	159.9
Other	0.9	0.9	0.9	0.9	0.9
SHAREHOLDERS FUNDS	18.9	43.6	61.5	208.2	236.1

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)	(1.4)	(3.5)	(3.2)	(6.5)
Tax	-	-	(5.4)	(16.3)	(9.1)
Other incl Corporate	-	(9.2)	(16.1)	(13.8)	(30.3)
Cash Flows From Investing Activities					
Acq. of Property, Plant and Equip	(9.8)	(48.2)	(49.3)	(91.7)	(151.9)
Exploration Expenditure	-	(1.0)	(1.0)	(1.0)	(1.0)
Other	-	-	-	-	-
Cash Flows From Financing Activities					
Net Change in Borrowings	-	50.0	25.0	(15.0)	93.5
Dividends Paid	-	-	-	(1.5)	(2.9)
Other	13.7	30.6	-	110.0	10.7
Net Increase In Cash Held	2.0	20.8	(12.0)	49.0	(36.4)
Cash At End of Year	9.6	30.4	18.4	67.4	31.0

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

BOARD		MAJOR SHAREHOLDERS	
Kevin Moriarty - Executive Chairman		Kevin Moriarty	9.1%
David Paterson - Director		David Paterson	8.7%
Steve Bonett - Director		Commonwealth Bank	6.7%
Michael Kennedy - Director		Geologic Resource Fund	6.6%
James Thomas Hazel - Director			

KEY RATIOS

Y/E 31 Dec		CY'06A	CY'07F	CY'08F	CY'09F	CY'10F
EBITDA	\$m	-2.8	-4.4	32.3	72.7	52.0
EBITDA Margin	%	0%	0%	64%	66%	50%
EBIT Margin	%	0%	-531%	56%	53%	39%
NPAT Margin	%	271%	832%	38%	35%	22%
ROE	%	-13%	-13%	29%	18%	9%
ROA	%	-9%	-4%	18%	21%	9%
NTA per share	\$	0.22	0.44	0.62	1.41	1.60
Eff Tax Rate	%	0%	0%	23%	30%	30%
Interest Cover	x	(4.4)	(1.8)	5.6	14.1	4.0
Net Gearing	%	-16.7%	59.6%	102.3%	-0.5%	54.6%
Net Debt /Net Debt plus Equity		-12.5%	26.0%	44.1%	-0.4%	32.5%

VALUATION PARAMETERS

Y/E 31 Dec		CY'06A	CY'07F	CY'08F	CY'09F	CY'10F
EPS	c	(2.6)	(6.0)	15.9	23.8	12.6
P/E	x	->50.0	(42.2)	16.0	10.7	20.2
Enterprise Value	\$m	210.9	279.3	316.2	374.5	504.4
EV / Sales	x	(120.9)	-	8.2	4.6	8.2
EV / EBITDA	x	(76.0)	(63.4)	9.8	5.2	9.7
EV / EBIT	x	(74.0)	(62.8)	11.8	6.5	13.7
Price / NTA	x	11.3	5.8	4.1	1.8	1.6
DPS	c	-	-	-	2.0	2.0
Dividend Yield	%	0.0%	0.0%	0.0%	0.8%	0.8%
Franking	%	0%	0%	0%	0%	0%
CFPS	\$	(0.0)	(0.1)	0.1	0.5	0.2
P / CFPS	x	(129.1)	(23.9)	18.9	5.3	16.6
NFPOS	m	83.9	99.3	99.3	147.3	147.3

DCF VALUATION & SENSITIVITY

	NPV A\$m	RESERVES & RESOURCES	
ANGAS	116.8	Zn Ore	Mine Life
OUED AMIZOUR (discounted)	122.7	Angas (Mt)	(Years)
MENNINIE	3.4	Austock Estimate	2.4
Exploration	24.3	Total Reserves	2.2
Corporate	(14.2)	Total Resources	3.0
Hedge Book	-	Oued Amizour	
Net Cash, Options	37.8	Austock Estimate	28.0
TOTAL NPV (A\$m)	290.80	Total Reserves	-
NPV per Share (A\$)	2.59	Total Resources	55.0

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)	(4.4)	(3.4)	(2.5)	(1.9)	
Total	(2.8)	(4.4)	26.8	57.6	36.9	

Directory

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Fook Seng Thong	613 8601 2021	Client Advisor
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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.

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- a member of the immediate family of the author of this report ;
- Austock Securities Limited;
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