

TERRAMIN AUSTRALIA LTD (TZN)

RESEARCH



TOLHURST

Last Price	Price Target	Sector	Risk Rating	Short term <12m	Long Term > 12m
\$2.10	\$3.28	Materials – Base Metals	HIGH	BUY	BUY

Company update	Q4 2007 Quarterly Report
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Recommendation Change	NA
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Target Price Change	↓ from \$3.87
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Forecast Change	NA
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Market Stats

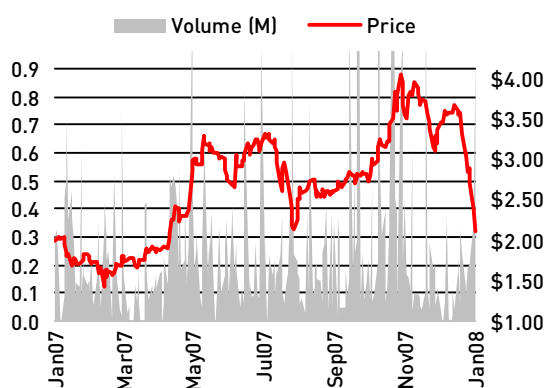
Market Capitalisation	\$m	\$209 (undiluted)
12 Month Price Range	\$	\$1.36 - \$4.06
Monthly Turnover	\$m	\$12.5m
Monthly Volume	m	4.2m
Monthly T'over (of total)	%	4.2%

Fundamentals		2007E	2008E	2009E	2010E
Net Profit	\$m	-9.3	-10.0	14.2	4.0
EPS	¢	-0.09	-0.10	0.12	0.03
PE	x	na	na	18.2	64.1
DPS	¢	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0
Franking	%	0.0	0.0	0.0	0.0
ROE	%	-26	-32	14	4

Forecast Returns % Return- 12 months

Forecast Price Appreciation	56%
Expected Dividend Yield	0.0
Total Forecast Return	56%

+Share Price Chart 1 Year



Angas on Track then the big One!

Event:

Terramin Australia (TZN) has reported its Q4 2007 progress which has highlighted that the Angas mine under development in SA is on time and tracking to budget.

Key Points:

The Angas mine (100%) is on track; the decline has advanced 155m to 215m over the quarter providing access to the first development drive level. The vent shaft is underway and should be completed by February, while all the mobile fleet are also onsite. Stope definition drilling for the first 18 months production has also been completed. The process plant is 58% complete with the SAG mill and most of the steel and concrete works in place. Thirty percent of the tailings dam liner is installed. Commissioning is expected in June 2008.

Tala Hamza (65%) deposit continues to confirm thick high grade zones: five holes were completed (TH012-TH016) at the Algerian project with assay results for 4 holes (TH012-TH015) highlighting significant results. The best intersection from the heart of the deposit is demonstrated by hole;

TH012: 163m @ 10.21% Zn+Pb from 370m and a high grade interval of 63m @ 17.38% Zn+Pb from 393m.

The results are consistent with previous drilling while results for holes TH016-TH021 are yet to be received.

TZN has also been undertaking a scoping study which was due during the quarter but has been pushed out into January, presumably to include the new drilling results.

Menninnie Dam (24%) delivers initial JORC Inferred Resource: of 3.8mt @ 7.2% Zn+Pb and 34g/t Ag. The resource is based on the Menninnie Central prospect however no estimates have been made to date for 4 other major prospects in the area. The Menninnie Central resource comprises 4 separate lode positions commencing some 120m below surface. Though the result is acceptable we expect more from this project in future.

Valuation and Recommendation

We have reviewed and rolled forward our model while reducing our Zn price forecast for 2008 (to US\$1.1/lb from \$1.4/lb) and maintaining our previous assumptions.

We are pleased to hear of the progress being made at Angas and the continuation of the strong results from the large Algerian project. The scoping study due this month should provide further evidence of the potential of this project which underpins our valuation and also provides further upside.

While the zinc price has fallen sharply in response to the threat of short term supply coming on in 2008/09 we believe that TZN is positioning itself to time the Tala Hamza development with a supply shortage in 2011.

Notwithstanding the significant share price fall we maintain our BUY and have reduced the target price to \$3.28 per share to reflect sector weakness.

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Terramin Australia	TZN	\$2.10			
Profit & Loss 31 Dec	07E	08E	09E	10E	11E
Revenue	0.0	22.7	83.3	68.1	282.8
Operating Costs	0.0	12.9	31.4	31.2	95.6
EBITDA	0.0	9.8	51.9	37.0	187.2
Depn & Amort	0.0	12.8	13.4	14.2	27.9
EBIT	-4.8	-6.0	35.5	19.7	156.2
Interest	4.5	6.2	9.6	8.9	7.1
NPBT	-9.3	-12.2	25.8	10.9	149.2
Tax Expense	0.0	-2.2	11.6	6.8	45.7
NPAT	-9.3	-10.0	14.2	4.0	103.5

Cashflow (A\$m)	07E	08E	09E	10E	11E
Operating Cashflow	-5.7	2.7	29.8	18.3	131.5
-Capex	-41.0	-44.0	-45.8	-89.7	-5.0
Free Cashflow	-46.7	-41.3	-15.9	-71.4	126.5
-Dividends	0.0	0.0	0.0	0.0	0.0
+Equity Raised	34.2	0.0	65.0	0.0	0.0
+Debt Drawdown	51.3	20.0	10.0	-0.4	-20.0
Net Change in Cash	32.1	-18.1	62.2	-68.6	109.6
Cash at End Period	41.6	23.5	85.7	17.1	126.7

Balance Sheet (A\$m)	07E	08E	09E	10E	11E
Cash	41.6	23.5	85.7	17.1	126.7
Total Assets	97.1	112.5	204.8	211.6	298.3
Total Debt	53.5	73.5	83.5	83.1	63.1
Total Liabilities	61.3	81.3	100.7	97.7	116.6
Shareholders Equity	35.9	31.2	104.1	113.9	181.7

Contained Production	07E	08E	09E	10E	11E
Angas Zn t	-	8,216	32,396	29,160	27,040
Angas Pb t	-	2,820	10,726	10,101	11,519
Tala Hamza Zn t	-	-	-	-	77,220
Tala Hamza Pb t	-	-	-	-	17,940
Total Zn Production	-	8,216	32,396	29,160	104,260
Total Pb Production	-	2,820	10,726	10,101	29,459
Reserves and Resources	Mt	Zn%	Pb%	Cu%	Zn kt
Angas Resource	3.04	8.0%	3.1%	0.3%	243
Angas Reserves	2.34	8.1%	3.1%	0.3%	190
Tala Hamza Resource	55.00	5.0%	1.2%	-	2750

Assumptions	07A	08E	09E	10E	11E
US\$/A\$	0.84	0.83	0.76	0.75	0.72
Cu Price US\$/lb	3.23	3.10	2.75	2.40	2.00
Zn Price US\$/lb	1.47	1.10	1.00	0.95	1.05
Pb Price US\$/lb	1.17	1.10	0.90	0.70	0.60

Financial Summary	07E	08E	09E	10E	11E
<i>(undiluted)</i>					
EPS (A\$)	-0.09	-0.10	0.12	0.03	0.84
PER (x)	na	na	18.2	64.1	2.5
DPS (cents)	0.00	0.00	0.00	0.00	0.00
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
CFPS (A\$)	-0.09	0.03	0.28	0.18	1.32
ROA (%)	-5%	-5%	17%	9%	52%
ROE (%)	-26%	-32%	14%	4%	57%
Net Sales Margin	na	na	17%	6%	37%
EBIT Margin	na	na	43%	29%	55%
Net Debt to Equity	33%	160%	-2%	58%	-35%
Debt to Assets	55%	65%	41%	39%	21%
NTA	0.4	0.3	0.8	0.9	1.5

Directors / Management

Kevin Moriarty	Executive Chairman, CEO
David Paterson	Director
Steve Bonett	Director
Michael Kennedy	Director
James Hazel	Director

Substantial Shareholders

	Shares (m)	%
David Paterson	9.20	9.22%
Kevin Moriarty	9.06	9.08%
JP Morgan Chase	7.91	7.93%
GR Fund	6.52	6.54%
Colonial Resource Fund	5.58	5.59%

Valuation Summary

	A\$m	A\$/share
Angas	120.2	1.02
Tala Hamza	70%	222.2
Exploration (+ Menninnie)	70.0	0.60
Forwards	-16.6	-0.14
Cash	41.6	0.35
Debt	-53.5	-0.45
Corporate	-22.1	-0.19
Unpaid Capital	24.3	0.21
Total (diluted) NAV	10%	386
		3.28

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Tolhurst's Recommendation and Risk Rating system:

Recommendations are assessments of each Tolhurst Analyst's view of potential total returns over Short Term and/or Long Term time horizons. A Short Term time horizon is less than 12 months; a Long Term time horizon is greater than 12 months.

Expected total Return is measured as (capital gain (or loss) + dividend)/purchase price

We have divided our recommendations into four main categories:

Buy: Expected Total Return more than 20%

Accumulate: Expected Total Return between 5% - 20%

Hold: Expected Total Return between -5% and 5%

Sell: Expected Total Return less than -5%

Risk Ratings:

Risk is a subjective assessment of overall risk within a company including price volatility and earnings variability, external liquidity, and size. We divide our risk into three categories:

High: Company typically has high price volatility and earnings variability, low external liquidity and has a small market capitalisation.

Medium: Company typically has moderate price volatility and earnings variability, external liquidity and a medium size market capitalisation.

Low: Company typically has low price volatility and earnings variability, high external liquidity and is a large size market capitalisation

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This report has been reviewed by peers within the research department.