

## TERRAMIN AUSTRALIA LTD (TZN)

RESEARCH



TOLHURST

<b>Last Price</b> \$3.37	<b>Price Target</b> \$3.64	<b>Sector</b> Materials – Base Metals	<b>Risk Rating</b> HIGH	<b>Short term &lt;12m</b> ACCUMULATE	<b>Long Term &gt; 12m</b> BUY
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<b>Company update</b>	Q1 2008 Quarterly Report
<b>Recommendation Change</b>	YES ST from BUY to ACCUMULATE
<b>Target Price Change</b>	↑from \$3.28 to \$3.64
<b>Forecast Change</b>	Yes due to new assumptions for the Tala Hamza project.

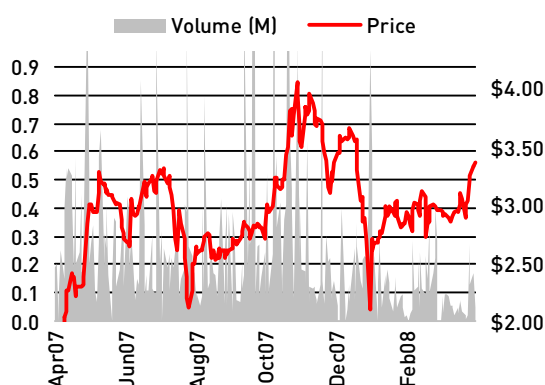
## Market Stats

Market Capitalisation	\$m	\$337m
12 Month Price Range	\$	\$1.80 - \$4.06
Monthly Turnover	\$m	\$4.5m
Monthly Volume	m	1.5m
Monthly T'over (of total)	%	1.5%

Fundamentals		2007A	2008E	2009E	2010E
Net Profit	\$m	-3.4	-12.4	12.2	-9.5
EPS	¢	-0.03	-0.12	0.10	-0.07
PE	x	na	na	na	na
DPS	¢	0	0	0	0
Yield	%	0	0	0	0
Franking	%	0	0	0	0
ROE	%	na	na	na	na

Forecast Returns	% Return- 12 months
Forecast Price Appreciation	8%
Expected Dividend Yield	
Total Forecast Return	8%

## +Share Price Chart 1 Year



## Terra firmer at Angas

## Event:

Terramin Australia Q1 2008 quarterly.

## Key Points:

**Angas Project (100%);** the decline has advanced c102m to 315m, and access to two levels has been established. Development of the 95RL drive has resulted in first ore being trucked up to the surface. Plant construction has been progressing well (85% complete) with the crushing plant, earthworks and the tailings liner installations completed. Practical completion has been extended from the 19<sup>th</sup> May to the 1<sup>st</sup> of June when commissioning will commence. Overall costs are tracking in line with budget.

**Tala Hamza (TH 65%);** Drilling of the deposit has been stepped up with 4 rigs onsite, and five holes completed during the quarter with assays received for 7 previous holes. Significant intersections included:

TH020 147m @ 12.9% Pb + Zn

TH021 280.5m @ 4.1% Pb + Zn

All intersections continue to display thick widths. The geological model is also being revised with new drill results.

A scoping study based on 2mtpa mill throughput, conservative grades of 6.3% Zn and 1.4% Pb identified the project could cost in the order of US\$356m with cash operating costs of US43c/lb payable Zn. A PFS has commenced.

Sempra Metals have agreed to purchase 100ktpa of TH Zn concentrates for 5 years with an option to extend and in return have subscribed for US\$15m in unlisted redeemable convertible notes.

**Menninnie Dam (24%);** Zinifex (ZFX) has assumed exploration management and TZN staff have been seconded to ZFX. A 40,000m drill program has commenced with the aim of testing additional IP and soil targets.

## Valuation and Recommendation

At this stage the Angas project appears to be progressing well although the commissioning phase will be a higher risk period given the plant will need to be ramped up to design. As such we have reduced our short term recommendation to ACCUMULATE to reflect the risk.

However while Angas is an important project it's the effect that Tala Hamza has which is the critical success factor for the company. Exploration drilling is continuing to focus on resource refinement while also identifying additional deposits. Aside from exploration success we would like to see a trend towards an actionable project plan and expect that to be through the PFS.

We have adopted the new scoping study assumptions for TH which have reduced our NPV from c\$220m to \$150m, primarily driven by the much higher capital cost. However we believe this value represents the low case view and therefore have increased our overall price target to \$3.64 to reflect the upside we believe is inherent over the long term and maintain a BUY.

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Last Price	Price Target	Sector	Risk Rating	Short term <12m	Long Term > 12m
\$3.37	\$3.64	Materials – Base Metals	HIGH	ACCUMULATE	BUY

Terramin Australia	TZN	\$3.37			
Profit & Loss 31 Dec	07A	08E	09E	10E	11E
Revenue	3.3	21.3	76.3	65.1	199.0
Operating Costs	0.0	12.8	31.2	31.1	58.6
<b>EBITDA</b>	<b>-2.9</b>	<b>5.5</b>	<b>42.1</b>	<b>31.0</b>	<b>137.4</b>
Depn & Amort	0.2	15.6	16.5	17.5	35.6
<b>EBIT</b>	<b>-3.0</b>	<b>-10.2</b>	<b>25.6</b>	<b>13.5</b>	<b>101.8</b>
Interest	0.5	6.3	6.3	19.1	17.2
<b>NPBT</b>	<b>-3.6</b>	<b>-16.5</b>	<b>19.3</b>	<b>-5.5</b>	<b>84.5</b>
Tax Expense	-0.2	-4.1	7.0	4.0	37.6
<b>NPAT</b>	<b>-3.4</b>	<b>-12.4</b>	<b>12.2</b>	<b>-9.5</b>	<b>47.0</b>

Cashflow (A\$m)	07A	08E	09E	10E	11E
<b>Operating Cashflow</b>	<b>-4.8</b>	<b>2.7</b>	<b>33.0</b>	<b>8.0</b>	<b>82.6</b>
-Capex	-37.0	-34.0	-78.6	-211.0	-12.0
-Exploration	-13.1	-23.0	-17.0	-10.0	-8.0
<b>Free Cashflow</b>	<b>-54.9</b>	<b>-54.3</b>	<b>-62.6</b>	<b>-213.0</b>	<b>62.6</b>
-Dividends	0.0	0.0	0.0	0.0	0.0
+Equity Raised	34.2	16.5	85.0	50.0	0.0
+Debt Drawdown	50.3	20.0	-30.0	158.6	-42.9
<b>Net Change in Cash</b>	<b>29.8</b>	<b>-17.7</b>	<b>-7.4</b>	<b>-4.2</b>	<b>19.9</b>
Cash at End Period	39.4	21.7	14.3	10.0	29.9

Balance Sheet (A\$m)	07A	08E	09E	10E	11E
Cash	39.4	21.7	14.3	10.0	29.9
<b>Total Assets</b>	<b>118.6</b>	<b>146.5</b>	<b>213.9</b>	<b>413.2</b>	<b>417.5</b>
Total Debt	54.3	75.8	45.8	204.4	161.5
<b>Total Liabilities</b>	<b>65.3</b>	<b>86.8</b>	<b>56.8</b>	<b>215.4</b>	<b>172.5</b>
Shareholders Equity	53.3	59.7	157.1	197.8	244.9

Contained Production	07A	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	-	-	-	-	61,425
Tala Hamza Pb t	-	-	-	-	18,525
<b>Total Zn Production</b>	<b>-</b>	<b>8,216</b>	<b>32,396</b>	<b>29,160</b>	<b>88,465</b>
<b>Total Pb Production</b>	<b>-</b>	<b>2,820</b>	<b>10,726</b>	<b>10,101</b>	<b>30,044</b>

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	0.91	0.86	0.80	0.78
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	07A	08E	09E	10E	11E
<i>(undiluted)</i>					
EPS (A\$)	-0.03	-0.12	0.10	-0.07	0.32
PER (x)	na	na	35.3	-51.3	10.4
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\$)	-0.03	0.03	0.29	0.08	0.83
ROA (%)	-3%	-7%	12%	3%	24%
ROE (%)	-6%	-21%	8%	-5%	19%
Net Sales Margin	na	na	16%	-15%	24%
EBIT Margin	na	na	34%	21%	51%
EV/EBITDA	na	78.8	9.7	18.5	3.7
Net Debt to Equity	28%	91%	20%	98%	54%
Debt to Assets	46%	52%	21%	49%	39%
NTA	0.5	0.6	1.2	1.4	1.7

## Directors / Management

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

## Substantial Shareholders

Substantial Shareholders	Shares (m)	%
<i>Fully Paid Ordinary Shares</i>	99.9	
David Paterson	9.2	9.18%
Kevin Moriarty	9.0	9.04%
JP Morgan Chase	7.9	7.91%
Geologic Resource Fund	6.5	6.52%
Deephaven Capital Management LLC	5.0	5.01%

## Valuation Summary

Valuation Summary	A\$m	A\$/share
Angas	112.2	1.00
Tala Hamza	149.8	1.33
Exploration	90.0	0.80
Forwards	-11.4	-0.10
Cash	39.4	0.35
Debt	-54.3	-0.48
Corporate	-26.6	-0.24
Unpaid Capital	19.3	0.17
<b>Total (diluted) NAV</b>	<b>10%</b>	<b>318</b>
<b>Price Target</b>		<b>409</b>
		<b>2.84</b>
		<b>3.64</b>



Last Price  
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Sector  
Materials – Base  
Metals

Risk Rating  
HIGH

Short term <12m  
ACCUMULATE

Long Term > 12m  
BUY

## Tala Hamza (TH) Scoping Study Review

In late February 2008 TZN announced scoping study results for the Tala Hamza project.

The study was based on an early 2007 resource model with conservative metal grades which did not separate between high grade and low grade domains. A minimum mill throughput of 2mtpa and conventional flotation was recommended while sublevel caving was chosen over long hole open stoping as the mining method.

Capital costs for the project were estimated at US\$356m and broken down into; Mine; US\$36m, Plant; US\$85m, Infrastructure; US\$85m, Indirect capital; US\$70m, Contingency US\$52m, Owners costs; US\$23m.

TZN have indicated that savings can be made for around US\$70m of the capital which has been attributed to infrastructure. For instance a gas fired power plant has been included in the costing and if the quality of the national grid is appropriate this could reduce the need for this item.

Furthermore c\$40m is related to earthworks which have been designed for further expansion, the company has indicated throughput may be expanded from 2mtpa to 4-5mtpa. An expansion would also involve a parallel decline, crusher upgrades and grinding and flotation upgrades amongst other items.

The study also qualified that based on low power costs, cheap labour and inexpensive mining that C1 cash costs of US\$0.43 per pound of payable Zn could be expected (using Pb by-product credits at US\$0.55/lb) and significantly lower if spot Pb was used.

Figure 1: Model Assumption Changes

Assumption Used	New	Old
Throughput	2.0mt	1.5mt -3.0mt
Plant Feed LOM	39.5mt	30.3mt
Avg. LOM Grades Zn + Pb	6.3%Zn + 1.9%Pb	7.8%Zn + 1.77%Pb
Grade Profile	Flat	Hi to Lo
Zn Recovery	90%	88%
Pb Recovery	85%	80%
Mine Life	20	11
Mine Operating Costs	US\$18/t	US\$35/t
Capex 100%	US\$356	US\$200
Risk Rating	100%	70%

Source: Company Reports and Tolhurst Estimates

Based on previous guidance we had previously modelled Tala Hamza using somewhat varying assumptions. The most important changes being the opportunity to vary the grade profile in the mine plan and significantly the capital estimate US\$200m was used in the earlier model.

We had previously valued the project on a risked basis (70%) between **A\$200m and A\$220m** using the "old" criteria in Figure 1 above. By adopting the much more generalised scoping results and higher capital our valuation has reduced to **A\$150m** (we have also modified other assumptions).

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### Conclusion

The scoping study has certainly thrown a conservative shadow over the project. We do believe however that it represents a very conservative case and there are more iteration to come, especially with respect to capital costs savings, and improved mine grade scheduling not to mention expansion.

As such while we have adopted the new conservative case in our NPV valuation, we believe that most likely represents a low case. For instance we have run flat US\$1.10/lb Zn prices and increased the value of the project from A\$150m to A\$481m.

Therefore given the preliminary nature of the scoping study we still expect that the TH project offers much more upside over the long term and thus have opted to reflect this in a higher overall target price.

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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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