

Terramin Australia Ltd (TZN)

Joining the producers

30 July 2008

Opinion Data

Recommendation	Buy
Risk Rating	High
Current share price	\$2.23
12 month target price	\$3.61
Price range - high/low	\$4.06 - \$1.80
Market capitalisation	\$264m

The June Quarterly should be TZN's last quarter as a non-producer. Commissioning at Angas, near Adelaide, is near completion and the Company has already dispatched its first concentrate shipments.

TZN has released a revised reserve statement for the Angas project, reflecting a greater degree of conservatism, at the request of the technical advisors of TZN's banker's. Actual production may deliver better results, particularly in terms of dilution.

While the reduction in Angas's reserve grade is a negative, it is really only a small part of TZN's value:

- Our short-term earnings estimates have been impacted by ~20%;
- Our NPV has reduced from \$3.72/share to \$3.61/share (down 3%), illustrating that the value lies in the Oued Amizour project, not Angas.

TZN expects to release an updated resource estimate for the Tala Hamza deposit in the September quarter, and intends to start drill testing away from the Tala Hamza deposit itself. This will follow up on earlier drilling undertaken by the Algerian Government, which had identified significant lead-zinc intercepts. The tenor of these intersections suggests that Tala Hamza could be just part of a 3km wide mineralised system.

While zinc supply-demand fundamentals look weak in the short term, TZN is a long-term value play. Maintain Buy. Target price of \$3.61/share, in line with NPV.

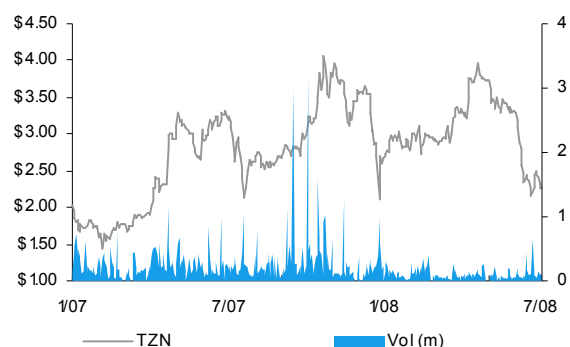
Earnings Forecasts

Y/e Dec (\$m)	CY'07A	CY'08F	CY'09F	CY'10F
Revenue	1.5	16.2	69.9	88.2
EBITDA	(4.6)	3.4	44.9	42.3
EBIT	(4.8)	(0.1)	31.5	28.0
NPAT (reported)	(6.6)	(3.3)	19.9	12.7
NPAT (adjusted)	(3.6)	(3.3)	19.9	14.3
Adjusted EPS (cps)	(5.9)	(2.8)	11.2	7.1
EPS Growth (%)	-67%	52%	+>100	-36%
DPS (c)	-	-	1.0	1.0
Dividend Yield (%)	0.0%	0.0%	0.4%	0.4%
PE adj. (x)	(38.1)	->50.0	20.0	31.2
EV / EBITDA (x)	(51.3)	86.7	8.4	12.7
EV / EBIT (x)	(49.3)	-	12.0	19.1
Gearing (%)	14%	40%	3%	42%
EBIT Margin (%)	-92.4%	10.6%	45.9%	34.1%
Interest Cover (x)	(5.8)	0.4	7.7	2.9

Earnings Adjustments

Y/e Dec (\$m)	CY'08F	CY'09F	CY'10F
Previous NPAT (\$m)	(2.4)	24.2	16.7
Change in NPAT (%)	-38.5%	-17.8%	-14.5%
Previous EPS (cps)	(2.0)	13.6	8.4
Change in EPS (%)	-38.5%	-17.8%	-14.5%

TZN Share Price / Volume



Contact Details

Hunter Hillcoat
 hhilcoat@austock.com
 612 9233 9604

Tim Gerrard
 tgerrard@austock.com
 612 9233 9603

ACHIEVING PRODUCER STATUS

NOT THE MAIN GAME, BUT ANGAS IN PRODUCTION

First concentrates dispatched from Angas mine

The June Quarterly should be TZN's last quarter as a non-producer. Commissioning at Angas, near Adelaide, is near completion and the Company has already dispatched its first concentrate shipments; the lead-copper concentrate is going to the Port Pirie smelter and the zinc concentrate is going to Port Adelaide for eventual shipping to Asia, once a 5,000t batch has been accumulated (Sept'08).

RESERVE ADJUSTMENT AT ANGAS – THE STARTER PROJECT

Revised reserve statement.....

TZN has released a revised reserve statement for the Angas project, incorporating the extensive in-fill drilling undertaken over the past year.

- Reserves are now 2.4mt @ 7.0% Zn, 2.7% Pb, 0.2% Cu, 31g/t Ag and 0.5g/t Au
- Resources are 3.0mt @ 6.6% Zn, 2.6% Pb, 0.2% Cu, 30g/t Ag and 0.5g/t Au

....tonnage up, contained metal down...

The new reserve has increased the overall tonnage by ~3%, but with ~10% lower contained metal. The difference from the Nov'05 estimate reflects a number of changes:

- Positives: Extends 45m deeper, lower cut-off (3.0% Pb+Zn vs. 4.5%)
- Negatives: Lower density determinations (incorporating additional data), greater assumed hanging wall dilution (now 1.0m vs. previous 0.5m), increased assumed minimum mining widths (now 3.5m vs. previous 2.5m), increased crown pillar height

....reflecting banker's conservatism

We note that some of these reserve adjustments simply reflect greater conservatism, at the request of the technical advisors of TZN's banker's. Actual production may deliver better results, particularly in terms of dilution.

Exploration drilling underway

TZN has started exploring directly north of the current reserves, with initial drilling providing encouraging results. The drill program is to be accelerated through a second rig, due early next month.

EARNINGS & VALUATION IMPACT

We have reduced our average ore grade assumptions to reflect TZN's revised reserve grades at Angas, i.e., a reduction in overall metal grade by ~10%.

This has impacted the revenue line by ~10%, reducing our forward earnings by an average 20%. We are now expecting NPAT of -\$3.3m (was -\$2.4m) in CY'08, \$19.9m (was \$24.2m) in CY'09 and \$14.3m (was \$16.7m) in CY'10.

Note that given the likelihood of TZN identifying additional ore beyond the current reserve base, we currently assume approximately two years more life than the reserve base. Our model mines 3.0mt over the life of mine, in line with the resource base, versus actual reserves of 2.4mt.

Our TZN NPV has reduced from \$3.72/share to \$3.61/share.

TALA HAMZA - A WORLD CLASS DEPOSIT

Algerian resource update expected this quarter

Algerian exploration continues to progress well with four drill rigs on site at the Oued Amizour project and another three rigs being considered. TZN expects to release an updated resource estimate for the Tala Hamza deposit in the September quarter.

Exploration suggests Tala Hamza may prove to be part of larger system

The Company is using one of the drill rigs to commence drill testing away from the Tala Hamza deposit itself, following up on earlier drilling undertaken by the Algerian Government, which had identified significant lead-zinc intercepts. The tenor of these intersections suggests that Tala Hamza could be just part of a 3km wide mineralised system.

TZN expects to spend ~\$20m in 2008 on Algerian drilling and engineering studies.

CASH POSITION

TZN has thus far incurred costs of \$72m at Angas, in line with expectations. TZN's cash outflows, as at 30 June, were approximately \$2m above our expectations.

\$39m cash

At the end of the quarter TZN had \$39m cash and borrowings of \$56m. TZN's hedgebook is currently \$15m in-the-money and the Company is looking at the possibility of realising some of this to reduce debt. Exploration costs over the next six months are expected to total \$8-10m.

INVESTMENT THESIS

Angas provides cashflow to advance the Oued Amizour project

While the reduction in Angas's reserve grade has reduced TZN's short-term earnings outlook, Angas is not the reason to be attracted to TZN. Angas is simply one means of advancing TZN's key asset, the world-class Tala Hamza deposit, which has the capacity to be more than 10x the scale of Angas. It is well located, close to the European smelters and adjacent excellent infrastructure.

Our base case valuation for TZN is \$3.61/share, underpinned by a 50% risked valuation for Tala Hamza of \$2.40/share.

Maintain Buy.

While zinc supply-demand fundamentals look weak in the short term, TZN is a long-term value play. Maintain Buy. Target price of \$3.61/share, in line with NPV.

Terramin Australia Ltd

NFPOS 106 m Price \$ 2.23
Market Cap \$264 m

Date: 30-Jul-08
Model Update 30-Jul-08

PROFIT & LOSS (A\$m)

Y/E 31 Dec	CY'07A	CY'08F	CY'09F	CY'10F	CY'11F
Sales Revenue	1.5	16.2	69.9	88.2	446.9
Other Revenue	-	-	-	-	-
Operating Costs	0.0	7.7	17.2	37.1	171.5
Gross Operating Profit	1.5	8.5	52.7	51.1	275.3
Depreciation	0.2	3.5	13.4	14.2	39.3
Exploration and Royalties	0.4	0.8	3.0	3.6	19.6
Corporate and Other	5.8	4.3	4.8	5.2	9.2
EBIT	(4.8)	(0.1)	31.5	28.0	207.2
Net Borrowing Costs	(1.2)	3.1	3.1	7.6	9.3
Pre-Tax Profits	(3.6)	(3.3)	28.4	20.4	197.9
Less Tax	-	0.1	8.5	6.1	59.4
Less Minorities	3.0	0.0	0.0	1.6	22.4
NPAT (pre-Abs)	(3.6)	(3.3)	19.9	14.3	138.5
Less Minorities	3.0	0.0	0.0	1.6	22.4
Net Abnormals	-	-	-	-	-
Reported Profit	(6.6)	(3.3)	19.9	12.7	116.1

BALANCE SHEET (A\$m)

Y/E 31 Dec	CY'07A	CY'08F	CY'09F	CY'10F	CY'11F
Current Assets					
Cash	39.4	22.9	58.8	3.6	91.9
Other	1.8	1.8	1.8	1.8	1.8
Non-Current Assets					
Investments	1.0	1.0	1.0	1.0	1.0
Other	4.2	14.2	19.2	39.2	79.2
Fixed Assets	72.2	120.0	204.0	362.8	334.6
Current Liabilities					
Borrowings	1.5	1.5	1.5	1.5	1.5
Creditors	8.7	8.7	8.7	8.7	8.7
Other	0.3	0.3	0.3	0.3	0.3
Non-Current Liabilities					
Borrowings (Incl Convertible nc)	52.7	81.6	66.6	170.1	150.1
Other	2.0	2.0	2.0	2.0	2.0
SHAREHOLDERS FUNDS	53.3	65.8	205.7	225.7	345.8

CASHFLOW STATEMENT (A\$m)

Y/E 31 Dec	CY'07A	CY'08F	CY'09F	CY'10F	CY'11F
Cash Flows From Operating Activities					
Cash Flow from Operations	(4.9)	8.5	52.7	51.1	275.3
Net Interest	0.1	(3.1)	(3.1)	(7.6)	(9.3)
Tax	-	(0.1)	(8.5)	(6.1)	(59.4)
Other incl Corporate	-	(15.1)	(12.8)	(30.4)	(91.2)
Cash Flows From Investing Activities					
Acq. of Property, Plant and Equip	(47.7)	(50.4)	(95.4)	(170.0)	(8.1)
Exploration Expenditure	-	(1.0)	(2.0)	(3.0)	(3.0)
Other	(2.3)	-	-	-	-
Cash Flows From Financing Activities					
Net Change in Borrowings	50.3	28.8	(15.0)	103.5	(20.0)
Dividends Paid	-	-	-	(1.7)	(5.0)
Other	34.2	15.8	120.0	8.9	8.9
Net Increase in Cash Held	29.8	(16.5)	36.0	(55.3)	88.3
Cash At End of Year	39.4	22.9	58.8	3.6	91.9

PRICE ASSUMPTIONS

Y/E 31 Dec		CY'08F	CY'09F	CY'10F	CY'11F
Exchange Rate	A\$/US\$	0.95	0.94	0.89	0.84
Zinc	UScents/lb	97.5	100.0	100.0	110.0
Lead	UScents/lb	99.0	80.0	65.0	57.5
Copper	US\$/lb	3.67	3.50	3.20	2.50
Gold	US\$/oz	930.0	900.0	837.5	775.0
Silver	US\$/oz	17.8	17.3	16.1	14.9

BOARD

BOARD		MAJOR SHAREHOLDERS	
Kevin Moriarty - Executive Chairman		Kevin Moriarty	8.6%
David Paterson - Director		David Paterson	8.7%
Steve Bonett - Director		JP Morgan Chase & Co	7.9%
Michael Kennedy - Director		Geologic Resource Fund	6.5%
James Thomas Hazel - Director		Deephaven Capital Management	6.5%

KEY RATIOS

Y/E 31 Dec		CY'07A	CY'08F	CY'09F	CY'10F	CY'11F
EBITDA	\$m	-4.6	3.4	44.9	42.3	246.5
EBITDA Margin	%	0%	19%	63%	46%	55%
EBIT Margin	%	-92%	11%	46%	34%	46%
NPAT Margin	%	-	-	28%	16%	31%
ROE	%	-7%	-5%	10%	6%	40%
ROA	%	-4%	0%	11%	7%	41%
NTA per share	\$	0.54	0.62	1.24	1.37	2.09
Eff Tax Rate	%	0%	-2%	30%	30%	30%
Interest Cover	x	(5.8)	0.4	7.7	2.9	21.9
Net Gearing	%	28.0%	91.5%	4.5%	74.4%	17.3%
Net Debt /Net Debt plus Equity		13.9%	40.4%	3.4%	42.3%	12.0%

VALUATION PARAMETERS

Y/E 31 Dec		CY'07A	CY'08F	CY'09F	CY'10F	CY'11F
EPS	c	(5.9)	(2.8)	11.2	7.1	65.1
P/E	x	(38.1)	->50.0	20.0	31.2	3.4
Enterprise Value	\$m	236.4	295.5	377.9	536.6	428.4
EV / Sales	x	(47.8)	34.8	7.2	10.5	1.6
EV / EBITDA	x	(51.3)	86.7	8.4	12.7	1.7
EV / EBIT	x	(49.3)	(2,156.9)	12.0	19.1	2.1
Price / NTA	x	4.2	3.6	1.8	1.6	1.1
DPS	c	-	-	1.0	1.0	7.0
Dividend Yield	%	0.0%	0.0%	0.4%	0.4%	3.1%
Franking	%	0%	0%	0%	0%	0%
CFPS	\$	(0.0)	(0.1)	0.3	0.1	1.1
P / CFPS	x	(48.7)	(24.1)	8.3	33.9	2.0
NFPOS	m	99.3	105.5	165.3	165.3	165.3

DCF VALUATION & SENSITIVITY

	NPV A\$m	RESERVES & RESOURCES	
ANGAS	112.4	Zn Ore	Mine Life
OUED AMZOUR (discounted)	253.5	Angas (Mt)	(Years)
MENNINIE	3.4	Austock Estimate	2.4
Exploration	36.9	Total Reserves	2.2
Corporate	(19.2)	Total Resources	3.0
Hedge Book	9.1	Oued Amizour	10.0
Net Cash, Options	30.8	Austock Estimate	28.0
TOTAL NPV (A\$m)	426.99	Total Reserves	-
NPV per Share (A\$)	3.61	Total Resources	55.0

ATTRIBUTABLE PRODUCTION PROFILE

Y/E 31 Dec		CY'07A	CY'08F	CY'09F	CY'10F	CY'11F
Angas	100%	0.0	7.0	27.7	23.8	23.4
Oued Amizour	100%	0.0	0.0	0.0	11.7	128.7
Menninnie	100%	0.0	0.0	0.0	0.0	0.0
Total Zn	000t	0.0	7.0	27.7	35.5	152.2
Angas	100%	0.0	11.3	40.8	33.0	33.0
Oued Amizour	100%	0.0	0.0	0.0	13.3	144.1
Menninnie	100%	0.0	0.0	0.0	0.0	0.0
Total Zn -Equiv'	000t	0.0	11.3	40.8	46.3	177.1
Price Received (US\$/lb)	1.39	0.99	1.07	1.00	1.12	
Cash costs (US\$/lb)	0.38	0.48	0.26	0.42	0.43	
Total costs (US\$/lb)	0.44	0.76	0.52	0.63	0.58	

EBIT CONTRIBUTIONS

Y/E 31 Dec		CY'07A	CY'08F	CY'09F	CY'10F	CY'11F
EBIT Contribution						
Angas	0.0	3.5	34.6	18.1	30.2	
Oued Amizour	0.0	0.0	0.0	12.0	172.0	
Menninnie	0.0	0.0	0.0	0.0	0.0	
Corporate and Other	(4.8)	(3.6)	(3.1)	(2.0)	5.0	
Total	(4.8)	(0.1)	31.5	28.0	207.2	

Directory

Equities Research Team

Melbourne

Craig Stranger	613 8601 2010	Head of Research, Emerging Companies
Paul Jenz	613 8601 2068	Research Strategy, Agribusiness & Science
Heath Andrews	613 8601 2644	Analyst
John Buonaccorsi	613 8601 2661	Diversified Financial Services Analyst
Andrew Chambers	613 8601 2605	Infrastructure Analyst
Andrew Cleeland	613 8601 2065	Quantitative Data Analyst
Jon Fernie	613 8601 2618	Assistant Analyst
David Grossman	613 8601 2616	Analyst
Thomas Hodson	613 8601 2628	Analyst
Simon Oaten	613 8601 2671	Oil & Gas Analyst
Scott Pullan	613 8601 2640	Assistant Analyst
Maribel Quiza	613 8601 2085	Assistant Analyst
Chris Wiltshire	613 8601 2680	Assistant Analyst

Sydney

Tim Gerrard	612 9233 9603	Resources Analyst
Hunter Hillcoat	612 9233 9604	Resources Analyst
Colin McLelland	612 9233 9635	Assistant Resources Analyst
Rohan Sundram	612 9233 9638	Analyst

Institutional Sales

Melbourne

Tony Smith	613 8601 2041	Head of Institutional Research Sales
Lawry Bugeja	613 8601 2635	Institutional Research Sales
Peter Hollick	613 8601 2011	Institutional Research Sales
Stuart Low	613 8601 2022	Dealers Assistant
Enzo Salvatore	613 8601 2014	Institutional Research Sales
Chris Walker	613 8601 2038	Institutional Research Sales
Peter Ward	613 8601 2099	Institutional Research Sales
Matthew White	613 8601 2624	Dealers Assistant
Robert Wood	613 8601 2031	Institutional Sales Trading

Sydney

Leo Borovilas	612 9233 9606	Institutional Sales Trading
Roderick Clarkson	612 9233 9608	Institutional Research Sales
David Gulson	612 9233 9637	Institutional Sales Trading
Jock McLean	612 9233 9602	Dealers Assistant
Mark Smith	612 9233 9649	Institutional Sales Trading
Stephen Smith	612 9233 9629	Institutional Sales Trading
Gavin Todd	612 9233 9639	Institutional Research Sales
James Wilson	612 9233 9607	Institutional Research Sales

Asia

Chris Chia	612 9233 9605	Head of Asian Sales
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UK

Roderick Clarkson	612 9233 9608	Head of UK Sales
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Private Clients

Melbourne

Scott Young	613 8601 2674	Head of Private Clients
Peter Atkinson	613 8601 2652	Client Advisor
John Axsentieff	613 8601 2042	Senior Client Advisor
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
Peter King	613 8601 2002	Client Advisor
Peter Mason	613 8601 2015	Client Advisor
Daniel McFarlane	613 8601 2639	Client Advisor
Simon Taylor	613 8601 2069	Client Advisor
Patrick Trindade	613 8601 2669	Client Advisor

Sydney

Alan Birkenleigh	612 9233 9625	Head of Private Clients - Sydney
David Dwyer	612 9233 9643	Client Advisor - Options
Josh Graham	612 9233 9645	Client Advisor - Options
Ian Schlipalius	612 9233 9621	Senior Client Advisor
Mark Schwarz	612 9233 9642	Client Advisor - Options

OFFICE LOCATIONS AND DISCLOSURE

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

Recommendation Criteria

Investment View

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

Buy	Hold	Sell
> 20%	20% - 5%	< 5%

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.

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