SMALL-CAP EQUITY RESEARCH

FOSTER STOCKBROKING
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Terramin Australia Ltd. (TZN.ASX)

Successful commissioning of Angas de-risks company

Wednesday 30 July 2008

Resources

Rating:	BUY
(previous):	BUY

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Successful commissioning of the Angas mine. TZN successfully commissioned the Angas processing plant on 16 July, which is probably the most significant step the company has made in its relatively short history. According to the company, at current metal prices, lead concentrate revenue almost covers all operating costs at the mine. First concentrate sales are due in September and we expect the Angas operations to be cashflow positive within months.

Lower reserve grades at Angas will put upward pressure on unit costs. A review of the geological model has resulted in a 10% reduction in contained metal, albeit at slightly higher tonnages. Current reserves are 2.41mt at 9.72% Zn + Pb, compared to previously stated reserves of 2.34mt at 11.2% Zn + Pb.

Review of long and short term price assumptions. We have revised our CY08 and CY09 zinc price forecast to US$0.85/lb and have assumed a long term zinc price of US$0.90/lb. While current spot zinc prices are lower than this, we do not believe new investment in zinc production will be generated at current spot prices, squeezing out any foreseeable surplus mine production and forcing prices higher.

Valuation: Our current valuation for TZN based on a DCF methodology is $4.56/share and our year-forward valuation is $5.17/share.

Recommendation. We maintain our **BUY** recommendation on TZN. We have revised our price target downwards to $4.02/share, largely reflecting our downward revision in zinc price forecasts. Our price target is based on a DCF with a 25% discount to the Tala Hamza project as it is only at a scoping study stage. There is currently 78% upside to our price target. **We are attracted to the company's proven ability to commission a mining operation largely on time and budget and the possibilities of the world class Tala Hamza deposit.**

Year to December ($m)	2007a	2008e	2009e	2010e	2011e
Revenue	1.5	15.0	59.8	54.2	59.0
% change	nm	nm	nm	-9%	9%
EBITDA	-4.6	-8.1	19.7	14.3	18.9
EBITDA margin	nm	nm	33%	26%	32%
NPAT rep	-5.3	-13.9	2.8	-0.6	6.4
NPAT adj	-3.6	-13.9	2.8	-0.6	6.4
EPS adj (c)	-3.7	-14.1	2.7	-0.5	6.0
% change	nm	nm	nm	nm	nm
Dividend (c)	0	0	0	0	0
PER (x)	nm	nm	84.9	nm	37.5
EV/EBITDA (x)	nm	nm	14.9	27.5	26.0
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Figures adjusted for NRIs and amortisation of intangibles

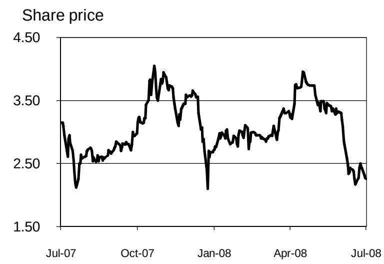
Source: Company, Foster Stockbroking

Share price:	$2.26
Price target:	$4.02
(Previous)	$4.50
NPV per share:	4.56
Risk:	Medium
Shares on issue (m):	105.5
Shares on issue (diluted) (m):	114.3
Free float:	100%
Average daily volume:	204,999
Market cap ($m):	238.4
FY08e Enterprise value ($m):	284.2
FY08e Net debt ($m):	45.8
FY08e Gearing (ND/ND+E):	45%
FY08e S'holders equity ($m):	55.9
FY08e NTA per share ($):	0.57

Forecast:	2008
Free cash flow ($m):	-49.8
Return on average equity:	nm
Net interest cover:	nm

Forecast:	2009
Free cash flow ($m):	-3.5
Return on average equity:	5%
Net interest cover:	1.8x

Share price ($):



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SECOND QUARTER ACTIVITIES REPORT

Successful commissioning of the Angas processing plant (TZN – 100%)

Commissioning of the Angas processing plant represents a significant step for the company as it concretes the move from developer to producer, thus further de-risking our valuation. In our initiation report (dated 10 April 2008) we estimated the mill would be commissioned in late June. However, this did not take place until mid July. We initially expected the first shipment of concentrates in August, however, the company anticipates this will be in September. We note that payment for the lead concentrate is expected to be in August. We consider the slight delay in commissioning the processing plant as insignificant and note that the concentrate grades produced are as per the company's forecast. We see the successful commissioning of the Angas mine as testament to the company's ability to bring a project from an exploration stage through to production, largely on time and within budget.

A decrease in reserve grades will affect profitability. TZN has reviewed reserves at Angas with updated information from in-mine data and additional drilling. This has resulted in an overall reduction in contained metal of 10%. While we do not expect this to effect mine life, it will reduce the overall returns of the project as well as increase unit costs per pound of zinc. Partially offsetting lower grades are higher expected recoveries. We have assumed zinc recoveries and lead recoveries are 92% and 88% respectively over the life of the mine.

TZN – Current resources at the Angas mine – updated 29 July 2008

	Mt	Zn %	Pb %	Cu %	Ag (g/t)	Au (g/t)	ZnEq %
New resources	2.41	7.00	2.72	0.24	31	0.48	9.6
Old resources	2.34	8.1	3.1		33	0.5	10.8

Source: Company

Tala Hamza (TZN – 65%)

Work at Tala Hamza continues as planned. The company continues to achieve record intersections with the latest being 203m at 9.9% Pb + Zn and 140m at 13.0% Pb + Zn. The company has 4 drill rigs on site, with one rig focusing on drilling areas of known mineralisation adjacent to the main Tala Hamza deposit. Pre-feasibility studies are on-going with Bateman Engineering, Golder Associates and in-house engineers.

Menninnie (TZN – 24%)

Exploration continues on the minority owned Menninnie prospect. In conjunction with its partner, OZ Minerals, the JV intend to spend $10m on the prospects in CY08 in an attempt to increase resources to a level where a long term mining project is viable.

Corporate

On the corporate front, we note cash in the bank at the end of June was $39.1m, total Angas debt was $50m and the Investec Finance Facility of $50m was only drawn down to $30m. Net debt was $10.9m. The company raised $16.4m during the quarter at $3.40/share for working capital and other investment opportunities. One of these opportunities was the Ain Bougda zinc project in Algeria, which the company submitted a tender for in June. TZN was outbid by a Chinese company for this project.

Also worth noting was the mark-to-market value of the hedge book at the end of June of $14.8m. Zinc and lead hedging remains unchanged at $2,736 per tonne for 13,200 tonnes of payable zinc and $3,296 per tonne for 5,312 tonnes of payable lead.

Review of zinc and lead price forecasts

We have reviewed our short and long term base metal price forecasts. Our changes are summarised in the table below. The main change is a revised long term zinc price of US$0.90/lb. The negative effect on our valuation is partially offset by our revised long term AUD/USD which has been revised downwards from 0.78 to 0.76.

Zinc and lead price assumptions

	Zinc price assumptions (US$/lb)			**Lead price assumptions (US$/lb)**		
	Old	New	Change	Old	New	Change
CY08	1.02	0.85	-16.7%	1.08	1.00	-7.4%
CY09	1.06	0.85	-19.8%	0.92	0.90	-2.2%
CY10	0.96	0.90	-6.2%	0.72	0.75	4.2%
CY11	0.92	0.90	-2.2%	0.59	0.60	1.7%
CY12	1.01	0.90	-10.9%	0.59	0.60	1.7%
LT	1.00	0.90	-10.0%	0.59	0.60	1.7%

Source: FSB research

VALUATION

Our current NPV based valuation of Angas reduces to $1.07/share from $1.48/share, due to lower forecast zinc prices. Taking into account the lower reserve grades, partially offset by higher recovery assumptions, our valuation reduces to $0.88/share, with a one-year forward valuation of $0.97/share.

We have not made changes to our operational assumptions affecting our Tala Hamza valuation. Our downward revision of forecast zinc prices result in our one-year forward DCF valuation of Tala Hamza reducing from $4.64/share to $4.58/share. We maintain our 75% risk weighting to Tala Hamza and therefore ascribe a value to this project of $3.43/share.

TZN – DCF breakdown

	Now		**One year forward**	
	A$m	$/share	A$m	$/share
Angas	92.8	0.88	102.0	0.97
Tala Hamza*	317.5	3.01	362.3	3.43
Sub-total	410.3	3.89	464.3	4.40
Menninnie	2.5	0.03	2.5	0.02
Other Exploration	10.0	0.10	20.0	0.19
Corporate	-36.8	-0.37	-36.8	-0.35
Net debt	-10.9	-0.11	-25.8	-0.24
NPV Total	**375.1**	**3.54**	**424.2**	**4.02**

*Source: FSB estimates. *Tala Hamza NPV is discounted to 75% of calculated NPV*

We have calculated a current NPV of $4.56/share and a one year out DCF of $5.17/share. This is based on a WACC of 10%. Our price target of $4.02 per share reflects our one-year forward valuation with a 75% risk weighting to Tala Hamza.

RECOMMENDATION

We maintain our BUY recommendation on TZN. We have revised our price target downwards from $4.50/share to $4.02/share, largely reflecting lower forecast zinc price assumptions, and to a lesser degree lower reserve grades at Angas. There is currently 78% upside between the current share price and our price target.

We believe our modelling on the Tala Hamza deposit to be conservative. **The NPV of the project provides underlying base line support**. The real value of the company will be unlocked over the next two years as feasibility studies progress and the likely size of the deposit increases significantly and production rates increase accordingly.

Key catalysts for the stock include the zinc price, positive operating results from the Angas mine in the September quarter report and continued de-risking the Tala Hamza Deposit.

BACKGROUND AND INTRODUCTION

Terramin was incorporated in December 1993 under the name of Playford Resources NL, with the objective of exploring for and developing Australian mineral resources. In 1997 Terramin acquired the Fleurieu project situated in Australia's first mining belt east of Adelaide. The tenements included the Angas Pb-Zn-Ag resource. Terramin has quadrupled the resource and identified a substantial high grade core. In late 2003 Terramin (TZN) listed on the ASX in a fully underwritten IPO and has since proved up the Angas zinc mine to a viable project while pursuing other opportunities such as the promising Tala Hamza deposit in Algeria.

First production for the company at the Angas mine was expected in August this year. The company commissioned the processing plant on July 16 2008 and have already produced both lead and zinc concentrates. Lead concentrates have been trucked to Port Pirie for smelting and zinc concentrates have been trucked to Port Adelaide where they will be exported to an Asian smelter once a 5,000 tonne parcel is ready.

It is testament to management's operational ability that, despite some initial delays, they have commissioned the Angas Zinc mine and processing plant largely on time and budget. While initial feasibility studies envisaged mining to commence in 2007, there were early delays to that timetable due to an extended community consultation program resulting in amended designs to the Tailings Treatment Facility. This facility is arguably one of the safest tailings facilities in the world.

TZN purchased 65% of the Algerian Tala Hamza project in February 2006 and has since reviewed all previous exploration work and conducted its own drilling enabling it to define a 55Mt JORC resource @ 5% zinc and 1.2% lead. The deposit has been known since the 70's and significant work was done in the 80's by the National Government's Geological and Exploration arm – ORGM. Algeria found it hard to attract foreign investment until the Mining Act was rewritten in 2001. The deposit looks like it could be much larger and initial scoping studies using current resources indicate a project processing 2Mt per annum for 20 years plus.

We are attracted to the management's focus on zinc, its manageable growth profile, immediate cashflow prospects and a zinc project that has the ability to re-rate the company and attract the attention of larger mining companies.

BUSINESS STRATEGY

The key business strategy involves:

- Focusing on zinc;
- Successfully commissioning the Angas project to generate positive cashflow and underwrite company value;
- Growing the company via the long life, low cost world class Tala Hamza deposit; &
- Focus on remaining low on the zinc cost curve to ensure longevity even if zinc prices decline.

FINANCIAL FORECASTS

Full Year Ended 31 Dec

Profit and Loss ($m)	2007a	2008e	2009e	2010e
Revenue	1.5	14.5	57.7	52.3
EBITDA	**-4.6**	**-8.1**	**19.7**	**14.3**
EBITDA margin (%)	nm	nm	34.1	27.3
D & A tangibles	0.2	2.7	10.6	9.6
EBITA	**-4.8**	**-10.7**	**9.1**	**4.7**
EBITA margin (%)	nm	nm	15.7	8.9
Amortisation intangibles	0.0	0.0	0.0	0.0
EBIT	**-4.8**	**-10.7**	**9.1**	**4.7**
EBIT margin (%)	nm	nm	15.7	8.9
Net Interest	1.2	-3.2	-5.1	-5.2
Profit before tax	**-3.6**	**-13.9**	**4.0**	**-0.6**
Tax	0.0	0.0	1.2	0.0
Minoritiy Interests	0.0	0.0	0.0	0.0
NPAT rep	**-3.6**	**-13.9**	**2.8**	**-0.6**
NPAT adj	**-3.6**	**-13.9**	**2.8**	**-0.6**
EPS adj	-3.7	-14.1	2.7	-0.5

Half Year Ended 30 Jun

Profit and Loss ($m)	1H07a	2H07a	1H08a	2H08e
Revenue	0.0	1.5	0.0	14.5
EBITDA	**-2.2**	**-2.4**	**0.0**	**-8.1**
EBITDA margin (%)	nm	nm	nm	nm
D & A tangibles	0.0	0.1	0.0	2.7
EBITA	**-2.2**	**-2.6**	**0.0**	**-10.7**
EBITA margin (%)	nm	nm	nm	nm
Amortisation intangibles	0.0	0.0	0.0	0.0
EBIT	**-2.2**	**-2.6**	**0.0**	**-10.7**
EBIT margin (%)	nm	nm	nm	nm
Net Interest	-0.2	1.4	0.0	-3.2
Profit before tax	**-2.4**	**-1.2**	**0.0**	**-13.9**
Tax	0.0	0.0	0.0	0.0
Minoritiy Interests	0.9	-0.9	0.0	0.0
NPAT rep	**-3.3**	**-0.3**	**0.0**	**-13.9**
NPAT adj	**-3.3**	**-0.3**	**0.0**	**-13.9**
EPS adj	-3.4	-0.3	0.0	-14.1

Cash Flow ($m)	2007a	2008e	2009e	2010e
EBITDA	**-4.6**	**-8.1**	**19.7**	**14.3**
Net Interest	0.1	-3.2	-5.1	-5.2
Tax	0.0	0.0	0.0	-1.2
Δ Working Capital	-0.3	-7.3	-3.9	-4.9
Other	0.0	0.0	0.0	0.0
Operating Cashflow	**-4.8**	**-18.6**	**10.7**	**2.9**
Capex	-49.9	-28.8	-13.7	-76.9
Net Acquisitions	0.0	0.0	0.0	0.0
Asset Sales	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Investing Cashflow	**-49.9**	**-28.8**	**-13.7**	**-76.9**
Equity proceeds	35.2	16.5	0.0	0.0
Debt proceeds	53.4	0.0	0.0	100.0
Debt repayment	-0.2	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0
Other	-3.8	0.0	0.0	0.0
Financing Cashflow	**84.5**	**16.5**	**0.0**	**100.0**
Net Cashflow	29.8	-30.9	-3.0	26.0

Balance Sheet ($m)	2007a	2008e	2009e	2010e
Cash	39.4	8.5	5.5	31.5
Receivables	1.5	0.8	3.7	5.7
Inventories	0.0	1.0	4.7	7.1
PPE	61.4	87.5	90.6	157.8
Intangibles	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0
Other	16.3	19.0	21.1	24.0
Total Assets	**118.6**	**116.8**	**125.6**	**226.1**
Accounts payable	8.7	4.3	9.1	11.4
Provisions	1.1	1.1	1.1	1.1
Tax liabilities	0.0	0.0	0.0	0.0
Debt	54.3	54.3	54.3	154.3
Other	1.2	1.2	2.4	1.2
Total Liabilities	**65.3**	**60.9**	**66.9**	**168.0**
Reserves and capital	61.3	77.8	77.8	77.8
Retained earnings	-12.2	-26.1	-23.3	-23.9
Minorities	4.2	4.2	4.2	4.2
Total Equity	**53.3**	**55.9**	**58.7**	**58.1**

Ratios	2007a	2008e	2009e	2010e
EPS rep c	-5.6	-14.1	2.7	-0.5
EPS adj c	-3.7	-14.1	2.7	-0.5
EPS adj growth (%)	-3.7	-14.1	2.7	-0.5
PER x	nm	nm	84.9	nm
EV/EBITDA x	nm	nm	14.9	27.5
EV/EBIT x	nm	nm	32.3	84.3
Payout ratio	0.0	0.0	0.0	0.0
DPS Total c	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
Average RoE (%)	-9.9	-25.5	4.9	-1.0
Average RoA (%)	-6.5	-9.1	7.5	2.6
Gearing (ND/ND+E) (%)	21.9	45.1	45.4	67.9
Net interest cover x	10.5	-3.3	1.8	0.9
ND/EBITDA x	nm	nm	2.8	10.8
NTA ($ per share)	0.56	0.57	0.56	0.55
Shares on issue (diluted) (m)	114.3	137.0	137.0	137.0

Price assumptions	2007a	2008e	2009e	LT
Zinc (US$/lb)	1.47	0.85	0.85	0.90
Lead (US$/lb)	1.17	1.00	0.90	0.60
AUD/USD	0.84	0.95	0.95	0.76

Valuation	now		one year	
	$m	$ ps	$m	$ ps
Angus	92.8	0.88	102.0	0.97
Tala Hamza	423.4	4.01	483.1	4.58
Menninnie	2.5	0.02	2.5	0.02
Other Exploration	10.0	0.09	20.0	0.19
Corporate	-36.8	-0.35	-36.8	-0.35
Net debt	-10.9	-0.10	-25.8	-0.24
NPV	**481.0**	**4.56**	**545.0**	**5.17**

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