

Austock Securities - Research

Event:	Debt restructure announced. Medium-term project debt replaced with longer-term corporate debt. \$11m capital raising as part of the refinancing (\$5m placement, \$6m convertible notes).
Impact:	Frees up cash flows in the short-medium term, which can then be applied to progressing Tala Hamza. Negates the need to take on additional hedging at current pricing. Moderately dilutionary, reducing our NPV from \$3.66/share to \$3.33/share (including a 50% risk weighting for Tala Hamza).
Recommendation:	Maintain Buy. Price target in line with revised base case NPV of \$3.33 share.

Terramin Australia Ltd (TZN) - \$1.70

Requirement to hedge at current metal prices prompts debt restructure

- **Good progress at Angas.** Start-up of operations at the TZN's new mine, Angas, has been progressing well, with mining grades, metal recoveries and concentrate grades all coming in above forecasts. The first 5,000t shipment of Zn concentrate is now planned ahead of schedule.
- **Next stage of hedging due.** Under the Angas project debt facility, TZN was required to maintain a rolling hedge position and it already had some 15 months of hedging in place at prices well above spot (Zn at A\$1.24/lb, Pb at A\$1.50/lb). However, with Angas now making concentrate deliveries, TZN was getting to a point where it would be required to take on the next stage of hedging and at the current, lower, commodity prices it did not wish to do this.
- **Prompts debt restructure.** This provided the incentive to restructure the loan book and this has involved replacing the existing project debt facility with a corporate rolling debt facility, still with Investec. TZN is now no longer required to hedge. Another plus is that the loan amortisation schedule (\$35m over 54 months) is skewed towards the back end of the facility, whereas the shorter-term, project debt facility (\$45m over 36 months) was more evenly spread. The revised loan structure therefore frees up around \$23m in repayments in 2009, which can instead be applied towards accelerating Tala Hamza. A cost of renegotiating the debt was the issue of 3.125m options to Investec, albeit at an exercise price of \$2.80/share.
- **Capital raising.** In order to reduce the \$45m project loan to the \$35m corporate facility, TZN was required to raise an additional \$11m, which it has done through a \$6m institutional placement (3.55m shares at \$1.70/share) and \$5m unsecured and unlisted convertible notes (\$2.21 conversion price, 8% coupon and 5 year term). Austock Corporate Finance was a Joint Lead manager to the placement.
- **Advantages.** The clear advantage of the restructure is that it frees up cash flows in the short to medium term, which would otherwise have been used to service debt. TZN states that debt payments are reduced by \$23m in 2009. These funds can then be applied towards progressing Tala Hamza. It also frees TZN of any future hedging commitments; the company is therefore exposed to any recovery in the metals prices.
- **Disadvantages.** A disadvantage of the restructure, other than the dilution that is introduced, is the potential P&L impact of the hedgebook closure. We expect this to have a negative impact on our 2009 earnings, but we need to clarify the actual accounting

treatment with the company. This may in any event be a moot point, since the short-to-medium term earnings from Angas have never been the compelling reason to invest in TZN; it is Algeria that is the drawcard. TZN is obviously now exposed to any potential fall in the metals prices.

- **NPV impact.** The immediate impact of the restructure is that our TZN NPV is reduced from \$3.66/share to \$3.33/share. This still applies a 50% risk weighting to our valuation for Tala Hamza. We assume long-term Zn and Pb prices of US\$0.80/lb and US\$0.50/lb respectively.
- **Now self funding.** TZN had cash of \$37m as at Jun'30 2008. Post the debt restructure and close out of the hedging positions, the cash balance is now expected to be around \$20m and TZN expects the Company to be self funding at current metal prices.

Maintain Buy. TZN remains an attractive asset play, underpinned by the potentially world class Tala Hamza project in Algeria. We have a price target in line with our risked NPV of \$3.33 share.

Should you have any queries, please do not hesitate to contact me on 02 9233 9604.

Regards

Hunter Hillcoat
Analyst

NOTE: Provisional financial forecasts. The impact of the hedgebook closure on near term earnings needs to be clarified.

Y/e Dec (\$m)	CY'07A	CY'08F	CY'09F	CY'10F
Revenue	1.5	16.6	65.2	88.2
EBITDA	(4.6)	(1.2)	32.5	40.4
EBIT	(4.8)	(5.6)	19.1	26.2
NPAT (reported)	(6.6)	8.8	10.2	9.0
NPAT (adjusted)	(3.6)	(5.3)	10.2	10.6
Adjusted EPS (cps)	(5.9)	(4.2)	5.0	4.4
EPS Growth (%)	-67%	28%	+>100	-12%
DPS (c)	-	-	-	-
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
PE adj. (x)	(29.0)	(40.3)	34.1	38.6
EV / EBITDA (x)	(39.8)	(191.2)	10.2	12.2
EV / EBIT (x)	(38.3)	-	17.3	18.9
Gearing (%)	14%	35%	4%	44%
EBIT Margin (%)	-92.4%	-18.2%	30.0%	31.7%
Interest Cover (x)	(5.8)	(1.6)	3.8	2.1

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.

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