

# Terramin Australia (TZN)

## Angas all good, TZN great value!

ASX Code: TZN

Basic Materials and Energy

2 October 2008, 7:20AM AEST

On 16 September 2008, TZN announced a financial restructure for their Angas Mine in an effort to free up future cashflow and provide flexibility to develop the world class Tala Hamza deposit.

TZN's Angas mine has been successfully developed and it is now ramping up production.

TZN is trucking product to Port Adelaide and has already shipped a 5,000t parcel of zinc concentrate. TZN has also trucked lead concentrate to the Port Pirie smelter.

### Restructure details

The total financing restructure package for Angas included:

- closing out the lead-zinc hedge book, providing \$13m in cash,
- replacing the Angas' project finance (\$45m over 36 months) with a corporate facility on friendlier terms (\$35m over 54 months),
- an \$11m capital raising comprising;
  - an institutional placement of 3.55m shares at \$1.70 to raise \$6m,
  - the issue of \$5m of unlisted 8% unsecured convertible notes at \$2.21 with a term of five years.

### Valuation and recommendation

The TZN share price has fallen heavily over the last five months, from nearly \$4.00 in May to \$1.35 currently. Furthermore, CommSec's current base case valuation is \$5.09 per share.

While there is a significant difference between the share price and our valuation, there has been nothing in TZN's performance, or that of the zinc price which has fallen from US\$ 2,280 to US\$ 1,680 (or \$2,425/t to \$2,090 in AUD terms) that has not been fully anticipated by CommSec. *In our view, there is upside in TZN not reflected in the TZN share price.*

CommSec retains its BUY / OUT PERFORM recommendation on TZN.

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#### Recommendation\*

Short term call	BUY
Long term call	OUT-PERFORM
Valuation	\$5.09
12 mth price target	\$5.45
52-week high	\$4.05
52-week low	\$1.35
Current price	\$1.39
Market Cap	\$ 152m

Previous short term call BUY  
 Previous long term call OUT PERFORM  
 Date of change N/A

\*SHORT TERM (over the next 6 months we expect the share price to:) Buy – Appreciate by >10%, Accumulate – Increase between 2% and 10%, Reduce – Increase by less than 2% or fall by up to 5%, Sell – Fall by >5%, Rev – Company is under review - no recommendation available. LONG TERM (over the next 24 months we expect the total return to:) Outperform (O / P) – Exceed market return by >5%, Market Perform (M / P) – Be in line with market return, +/-5%, Under Perform (U / P) – Be less than market return by >5%, Rev – Company is under review – no recommendation available.

#### Forecasts and ratios

YE Dec	07a	08e	09e	10e	11e
Sales \$m	\$ 1.5m	\$ 26.3m	\$ 78m	\$ 91m	\$ 323m
NPAT \$m	(\$ 3.6m)	(\$ 2.4m)	\$ 2.8m	\$ 15.3m	\$ 69.7m
EPS	(7.1c)	(1.3c)	2.6c	14.1c	63.9c
EPS growth	(65%)	81 %	292 %	449 %	355 %
PE Ratio x	(51x)	(101x)	53 x	9.6 x	2.1 x
DPS	0.0c	0.0c	0.0c	0.0c	6.0c

#### Price relatives

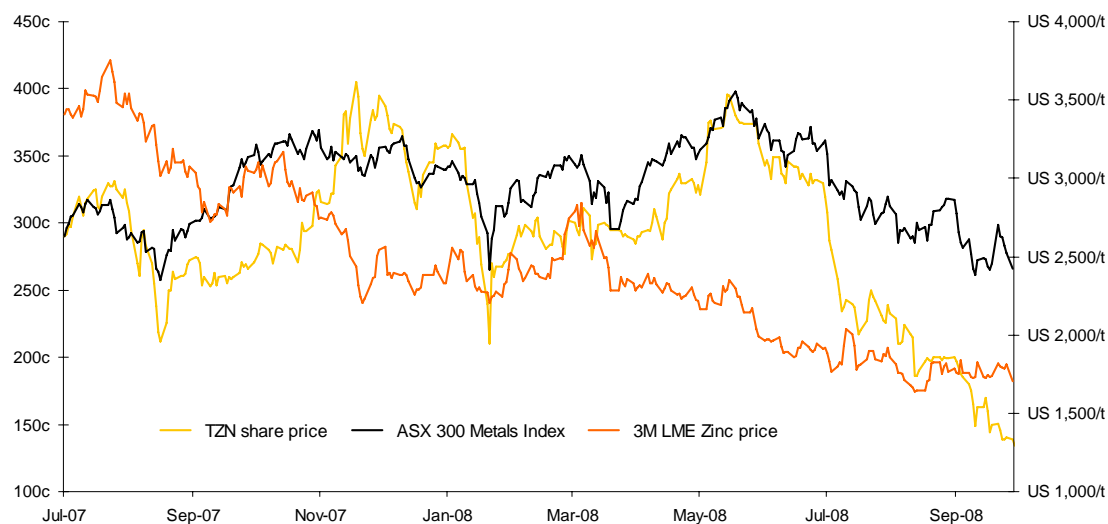


\*The S&P/ASX 200 has been re-based to the stock's starting share price.

## TZN's share price has fallen heavily

Figure 1 shows that the TZN share price dropped heavily, from \$3.30 on 30 June to \$2.17 on 17 July. This move was in isolation of any potential explanation.

**Figure 1: TZN share price compared to 3M LME zinc price and ASX 300 Metals Index**



Source: IRESS, CommSec estimates

## TZN: Operations in line

From an operations perspective, TZN has performed as expected, if not even slightly better than CommSec expected.

- Production from the Angas mine has been higher than expected.
- Zinc concentrate is being delivered to Port Adelaide and a 5,000t parcel has been exported.
- Lead concentrate is being delivered to the Port Pirie lead smelter.
- While recent drilling has reduced the overall metal content while increasing the total tonnes, Angas still has a seven year mine life with significant nearby mineralisation and future resource potential.
- A further phase of exploration at Tala Hamza is proceeding.

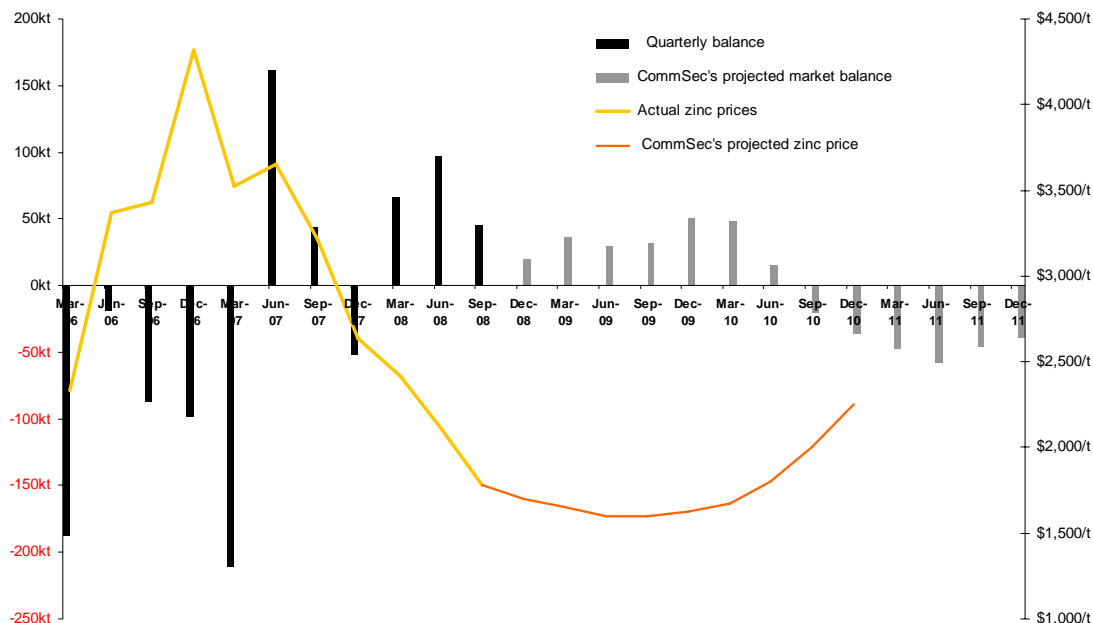
## Zinc price

There have been some operations shut (Lennard Shelf in Australia, Balmat in Canada) and others scaled back (Endeavour, Broken Hill, Golden Grove and Hellyer in Australia and Aljustrel in Portugal)

This scenario is BULLISH for TZN, which still makes good cash at current prices, and brings forward the timing of the expected price upswing.

Figure 2 shows that CommSec's projections for zinc prices over the near term are to levels even lower than the current prices which are causing mines to shut.

**Figure 2: Zinc price v. stocks**



Source: IRESS, CommSec estimates

Figure 2 also shows that:

- CommSec projects the zinc market to remain in surplus until the middle of 2010, after which it swings into deficit.
- CommSec's projected surplus to the end of September is 200kt, compares with the increase in total exchange stocks of 83kt over the year to date.
  - However, CommSec is not reviewing its projections at this time as we expect that consumption now will be lower than we originally projected, and also we understand that there has been a significant increase in the inventory of zinc concentrate held in China so the increase in metal stocks does not indicate the true surplus.

## Events are in line with CommSec's projections

While the TZN share price has fallen...

- TZN's operations have performed in line with, or better than, CommSec's expectations
- The zinc price has moved roughly as CommSec expected.

Also, TZN is fully funded until the end of 2008 by which time Angas will have ramped up to nameplate capacity and be delivering strong cashflows.

## CommSec's valuation is \$5.09

CommSec's valuation of TZN has been adjusted to \$5.09, as shown in Table 1, with the small change due to:

- TZN's equity raising,
- TZN lifting its zinc hedge at nearly the bottom of the cycle, and
- an increase in CommSec's risk weighting of Menninnie Dam.

**Table 1: CommSec base case valuation of TZN is \$5.09**

Discount rate =	12.5 %	31-Dec-07		1-Oct-08	
		100%	Product	per share	
Angas	90%	\$ 97m	\$ 87m	69c	108c
franking credits	68%	\$ 8m	\$ 6m	5c	5c
Tala Hamza	70%	\$ 657m	\$ 460m	366c	413c
Menninnie Dam	40%	\$ 93m	\$ 37m	30c	34c
franking credits	30%	\$ 40m	\$ 12m	10c	11c
Administration	100%	(\$28m)	(\$28m)	(23c)	(23c)
Net Debt / Cash	100%	(\$15m)	(\$15m)	(12c)	(39c)
<b>TOTAL</b>		<b>\$ 853m</b>	<b>\$ 559m</b>	<b>445c</b>	<b>509c</b>
Shares on Issue		109.065m	FPO shares	16.78m	options

Source: CommSec estimates

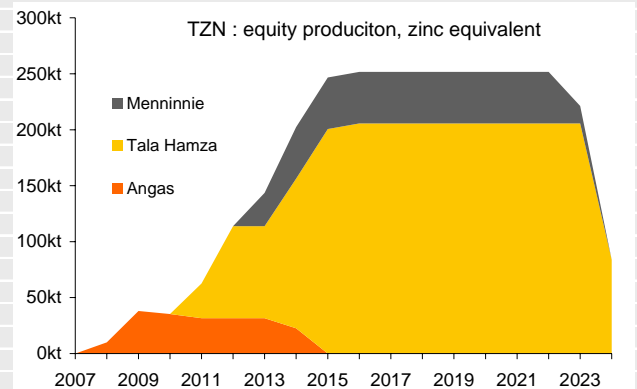
## Conclusions

TZN continues to impress by exceeding expectations at Angas and positioning itself to best exploit the forecast rebound in zinc prices at a time when their world class Tala Hamza project will come on stream.

*CommSec maintains a BUY / OUT PERFORM recommendation with a valuation of \$5.09 per share.*

## Financials

Terramin Australia Limited (TZN)						Current Share Price : \$ 1.39						
Year End						12 month return 304 %						
December						Short term BUY Long Term OUT-PERFORM						
Income Statement						Assumptions						
	FY 07a	FY 08e	FY 09e	FY 10e	FY 11e	FY 07a	FY 08e	FY 09e	FY 10e	L - R		
Sales	\$ 2m	\$ 26m	\$ 78m	\$ 91m	\$ 323m	Zinc Price	US 147c/lb	US 91c/lb	US 73c/lb	US 88c/lb	US 91c/lb	
Operating Costs	\$ 6m	\$ 23m	\$ 56m	\$ 56m	\$ 149m	Lead Price	US 58c/lb	US 115c/lb	US 104c/lb	US 68c/lb	US 68c/lb	
<b>EBITDA</b>	<b>(\$ 4.6m)</b>	<b>\$ 3.2m</b>	<b>\$ 21.6m</b>	<b>\$ 34.3m</b>	<b>\$ 173m</b>	Silver price	\$ 11.55/oz	\$ 13.39/oz	\$ 16.68/oz	\$ 15.50/oz	\$ 12.50/oz	
Hedge Book						AS / US\$	0.754	0.840	0.914	0.850	0.780	
Depreciation & Amortisation	\$ 0.2m	\$ 5.3m	\$ 13.8m	\$ 13.8m	\$ 24.6m	<b>Major Shareholders</b>						
<b>EBIT</b>	<b>(\$ 4.8m)</b>	<b>(\$ 2.1m)</b>	<b>\$ 7.8m</b>	<b>\$ 20.6m</b>	<b>\$ 149m</b>	<b>Holding</b>						
Net Interest Expense (Revenue)	(\$ 1.2m)	\$ 0.3m	\$ 5.0m	\$ 5.2m	\$ 3.5m	David Paterson 8.7 %						
<b>Pre-Tax Profit</b>	<b>(\$ 3.6m)</b>	<b>(\$ 2.4m)</b>	<b>\$ 2.8m</b>	<b>\$ 15.3m</b>	<b>\$ 145.3m</b>	Kevin Moriarity 8.6 %						
Tax Expense/(Benefit)	\$ 0.0m	\$ 0.0m	\$ 0.0m	\$ 0.0m	\$ 29.9m	Colin Jackson 1.4 %						
Minorities	\$ 0.0m	\$ 0.0m	\$ 0.0m	\$ 0.0m	\$ 45.7m	J.P. Morgan Chase & Co 7.9 %						
Reported NPAT	(\$ 3.6m)	(\$ 2.4m)	\$ 2.8m	\$ 15.3m	\$ 69.7m	Geologic Resource Funds 6.5 %						
Significant Items (After Tax)	\$ 0.0m	\$ 0.0m	\$ 0.0m	\$ 0.0m	\$ 0.0m	Deephaven Capital Management LLC 6.5 %						
<b>NPAT (Pre-Significant Items)</b>	<b>(\$ 3.6m)</b>	<b>(\$ 2.4m)</b>	<b>\$ 2.8m</b>	<b>\$ 15.3m</b>	<b>\$ 69.7m</b>	<b>Production</b>						
EBITDA Margin (%)	(300%)	12%	27.6%	37.8%	53.7%	FY 07a	FY 08e	FY 09e	FY 10e	FY 11e		
Effective tax Rate (%)	0.0%	0.0%	0.0%	0.0%	20.6%	Angas Zinc (payable)	0.0 kt	5.2 kt	25.3 kt	24.0 kt	21.3 kt	
EPS Reported (cps)	(7.1c)	(1.3c)	2.6c	14.1c	63.9c	Angas Lead equiv, payable	0.0 kt	2.9 kt	14.5 kt	12.7 kt	11.5 kt	
EPS Pre Significant Items (c)	(7.1c)	(1.3c)	2.6c	14.1c	63.9c	Tala Hamza Zinc pay. TZN share	0.0 kt	0.0 kt	0.0 kt	0.0 kt	23.6 kt	
DPS (c)	0.0c	0.0c	0.0c	0.0c	6.0c	Tala Hamza Lead pay. TZN share	0.0 kt	0.0 kt	0.0 kt	0.0 kt	7.4 kt	
Payout Ratio (%)	0%	0%	0%	0%	100%	Menninnie Dam Zinc, TZN	0.0 kt	0.0 kt	0.0 kt	0.0 kt	0.0 kt	
Franking (%)	0%	0%	0%	0%	100%	Menninnie Dam Lead, TZN	0.0 kt	0.0 kt	0.0 kt	0.0 kt	0.0 kt	
<b>Cash Flow Statement</b>						<b>TOTAL, Zinc payable, TZN</b>	<b>0.0 kt</b>	<b>9.9 kt</b>	<b>47.4 kt</b>	<b>43.8 kt</b>	<b>79.3 kt</b>	
EBITDA	(\$ 4.6m)	\$ 3.2m	\$ 21.6m	\$ 34.3m	\$ 173.4m	<b>Reserves &amp; Resources</b>						
cashflow form hedges		\$ 6.6m	\$ 11.9m			FY 07a	FY 08e	FY 09e	FY 10e	FY 11e		
Change in Working Capital	\$ 0.0m	(\$ 0.5m)	(\$ 1.1m)	(\$ 1.1m)	(\$ 5.4m)	Angas Reserves	2.41 Mt	2.28 Mt	1.88 Mt	1.48 Mt	1.08 Mt	
Net Interest (paid)/received	(\$ 1.2m)	\$ 0.3m	\$ 5.0m	\$ 5.2m	\$ 3.5m	zinc	7.00 %	7.00 %	7.00 %	7.00 %	7.00 %	
Tax Paid	\$ 0.0m	\$ 0.0m	\$ 0.0m	\$ 0.0m	(\$ 3.3m)	lead	2.72 %	2.72 %	2.72 %	2.72 %	2.72 %	
<b>Operating Cash Flow</b>	<b>(\$ 5.8m)</b>	<b>\$ 9.6m</b>	<b>\$ 37.4m</b>	<b>\$ 38.4m</b>	<b>\$ 168.3m</b>	copper	0.24 %	0.24 %	0.24 %	0.24 %	0.24 %	
Exploration / Net acquisitions	(\$ 3.0m)	(\$ 8.0m)	(\$ 8.0m)	(\$ 5.0m)	(\$ 5.0m)	silver	31 g/t	31 g/t	31 g/t	31 g/t	31 g/t	
Project + Sustaining Capex	(\$ 49.9m)	(\$ 65.8m)	(\$ 56.0m)	(\$ 104.0m)	(\$ 10.8m)	gold	0.48 g/t	0.48 g/t	0.48 g/t	0.48 g/t	0.48 g/t	
Other investing items	\$ 0.0m	\$ 0.0m	\$ 0.0m	\$ 0.0m	\$ 0.0m	Tala Hamza Resource (100%)	55.0 Mt	55.0 Mt	55.0 Mt	55.0 Mt	54.2 Mt	
<b>Investing Cash Flow</b>	<b>(\$ 52.9m)</b>	<b>(\$ 73.8m)</b>	<b>(\$ 64.0m)</b>	<b>(\$ 109.0m)</b>	<b>(\$ 15.8m)</b>	zinc	6.3 %	6.3 %	6.3 %	6.3 %	6.3 %	
Inc/(Dec) in Equity	\$ 32.8m	\$ 34.4m	\$ 0.0m	\$ 0.0m	\$ 0.0m	lead	1.9 %	1.9 %	1.9 %	1.9 %	1.9 %	
Inc/(Dec) in Borrowings	\$ 25.9m	\$ 29.8m	\$ 26.7m	\$ 70.6m	(\$ 149.3m)	<b>Valuation</b>						
Dividends Paid	\$ 0.0m	\$ 0.0m	\$ 0.0m	\$ 0.0m	(\$ 3.3m)	Real Discount Rate :	12.5%				31 December 2007	01-Oct-08
<b>Financing Cash Flow</b>	<b>\$ 58.8m</b>	<b>\$ 64.2m</b>	<b>\$ 26.7m</b>	<b>\$ 70.6m</b>	<b>(\$ 152.6m)</b>	Angas	90 %	\$ 97m	\$ 87m	69c	108c	
<b>Net Inc/(Dec) in Cash</b>	<b>(\$ 25.9m)</b>	<b>(\$ 29.8m)</b>	<b>(\$ 26.7m)</b>	<b>(\$ 70.6m)</b>	<b>\$ 149.3m</b>	franking credits	68 %	\$ 8m	\$ 6m	5c	5c	
<b>Balance Sheet (\$A m)</b>						Oued Amizour	70 %	\$ 657m	\$ 460m	366c	413c	
Cash	\$ 39.4m	\$ 39.4m	\$ 39.4m	\$ 39.4m	\$ 39.4m	Menninnie Dam	40 %	\$ 93m	\$ 37m	30c	34c	
Other Current Assets	\$ 1.8m	\$ 1.3m	\$ 1.0m	\$ 1.0m	\$ 1.0m	franking credits	30 %	\$ 40m	\$ 12m	10c	11c	
Total Current Assets	\$ 41m	\$ 41m	\$ 40m	\$ 40m	\$ 40m	Administration	100 %	(\$28m)	(\$28m)	(23c)	(23c)	
Fixed Assets	\$ 61.4m	\$ 121.9m	\$ 164.2m	\$ 254.5m	\$ 240.7m	Net Debt / Cash	100 %	(\$15m)	(\$15m)	(12c)	(39c)	
Explor'n & Evalu'n	\$ 10.9m	\$ 18.9m	\$ 26.9m	\$ 31.9m	\$ 36.9m	<b>TOTAL</b>		<b>\$ 853m</b>	<b>\$ 559m</b>	<b>445c</b>	<b>509c</b>	
Other	\$ 5.2m	(\$ 35.0m)	(\$ 54.4m)	(\$ 62.6m)	(\$ 124.8m)	Shares on Issue	109.065m	FPO shares	16.782m	options		
<b>Total Assets</b>	<b>\$ 119m</b>	<b>\$ 147m</b>	<b>\$ 177m</b>	<b>\$ 264m</b>	<b>\$ 193m</b>							
Current Liabilities	\$ 10.5m	\$ 11m	\$ 12m	\$ 13m	\$ 19m							
Long term Debt	\$ 52.7m	\$ 82.6m	\$ 109.2m	\$ 179.8m	\$ 30.5m							
Other Non Current Liabilities	\$ 2.0m	\$ 2.0m	\$ 2.0m	\$ 2.0m	\$ 2.0m							
<b>Total Liabilities</b>	<b>\$ 65m</b>	<b>\$ 96m</b>	<b>\$ 123m</b>	<b>\$ 195m</b>	<b>\$ 51m</b>							
<b>Total Equity</b>	<b>\$ 53m</b>	<b>\$ 51m</b>	<b>\$ 54m</b>	<b>\$ 69m</b>	<b>\$ 142m</b>							
Net Debt (Cash)	\$ 14.9m	\$ 44.7m	\$ 71.4m	\$ 142.0m	(\$ 7.3m)							
<b>Leverage</b>												
Net Debt/Equity	28 %	88 %	133 %	206 %	(5%)							
Net Debt/Total Assets	13 %	31 %	40 %	54 %	(4%)							
Interest Cover (x)	n / a	(7.4x)	1.6 x	3.9 x	42.1 x							
Dividend Cover (x)	n / a	n / a	n / a	n / a	10.7 x							
<b>Valuation Ratios (x)</b>												
P/E Multiple	(51x)	(104x)	54 x	9.9 x	2.2 x							
Price To Book Value	15.9 x	2.8 x	4.0 x	4.2 x	3.0 x							
Price To Cash Flow	(456x)	(45x)	(15x)	10.2 x	5.8 x							
EBITDA Multiple	(65x)	48 x	7 x	4.9 x	1.0 x							
EBIT Multiple	(153x)	(32x)	(73x)	21.7 x	8.2 x							
Dividend Yield	0%	0%	0%	0%	4%							



Source: CommSec estimates

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