

Terramin Australia (TZN)

Tala Hamza upgrade confirms upside

ASX Code: TZN

Basic Materials and Energy

14 October 2008, 6:49AM AEST

On 13 October 2008, TZN announced a resource upgrade at their Tala Hamza project in Algeria. The inaugural Indicated Resource at Tala Hamza is 24.8Mt @ 1.8% Pb and 6.5% Zn with within an upgraded total Inferred Resource of 58.6Mt @1.3% Pb and 5.2% Zn.

Tala Hamza upgrade in line with CommSec assumptions

TZN's objective was to upgrade a 20Mt high grade 'priority zone' within the maiden Inferred Resource of 55Mt @ 6.1% Pb+Zn to an 'Indicated' status to be able to estimate a mining reserve for the pre-feasibility study which is scheduled for December 2008.

The upgraded resource is consistent with the assumptions used in CommSec's valuation.

Only one third of the deposit has been drilled and the resource remains open to the southeast as well as up and down dip. *The scope for further resource upgrades is very high.*

Angas mine open day

TZN held a mine open day at Angas on 8 October 2008 in which CommSec participated. Angas continues to exceed expectations as it ramps up to full capacity.

Conclusions

The recent announcements all support CommSec's valuation of TZN, which is \$5.11.

- The Tala Hamza is consistent with, and slightly better than, CommSec's assumptions
- Significant resource potential remains at Tala Hamza
- TZN's Angas operation is performing ahead of CommSec's assumptions

While the US\$ zinc price has been very soft in the last few weeks, the AUD zinc price has been stable. The zinc price is generally consistent with the assumptions used in CommSec's analysis.

CommSec affirms its BUY / OUTPERFORM recommendation on TZN..

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Recommendation*

Short term call	BUY
Long term call	OUT-PERFORM
Valuation	\$5.11
12 mth price target	\$5.46
52-week high	\$4.05
52-week low	\$0.90
Current price	\$0.96
Market Cap	\$ 105m

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)	(72x)	37 x	6.8 x	1.5 x
DPS	0.0c	0.0c	0.0c	0.0c	6.0c

Price relatives



*The S&P/ASX 300 has been re-based to the stock's starting share price.

Tala Hamza resource upgrade

The Tala Hamza resource upgrade announced on 13 October included the delineation of a 24.8Mt Indicated Resource centred on a high grade core within the total resource that will now become the focus of mining studies.

Table 1 below shows the details of the Tala Hamza upgraded resource (October 2008) compared with the maiden resource prepared by Golder Associates (May 2007).

Table 1: Details of Tala Hamza resource upgrade and original resource

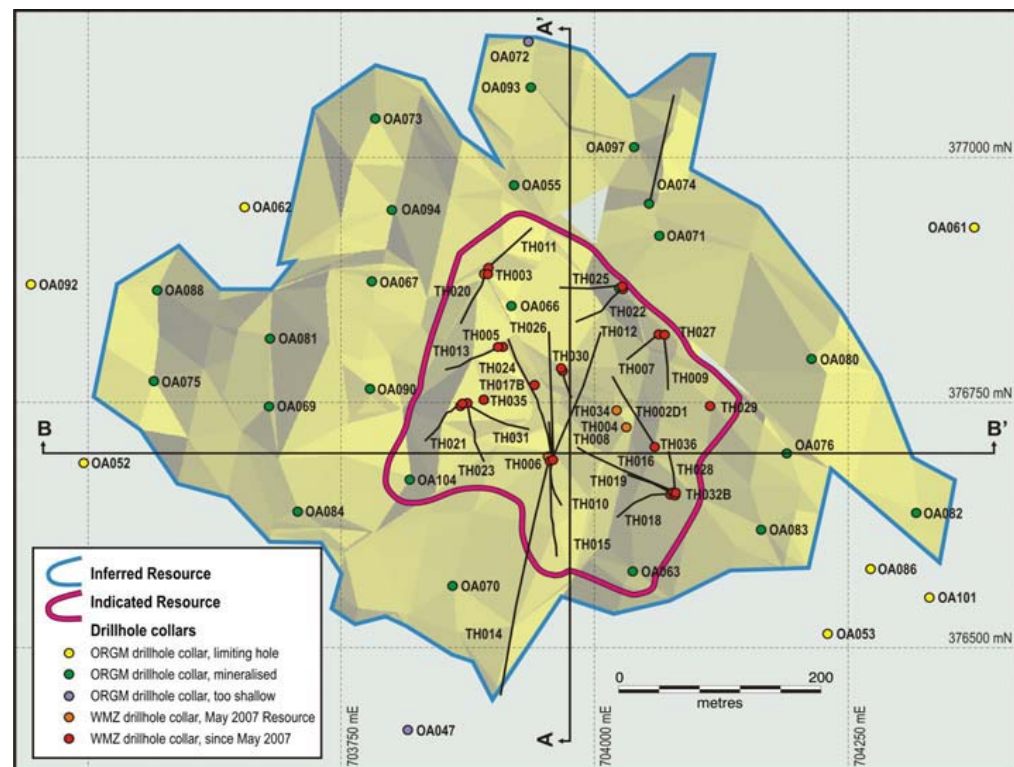
Resources	October 2008				May 2007			
	Tonnes	Lead	Zinc	Metal	Tonnes	Lead	Zinc	Metal
Indicated	24.8 Mt	1.82 %	6.49 %	2.06 Mt				
Inferred	33.8 Mt	0.9 %	4.3 %	1.76 Mt	55.0 Mt	1.1 %	5.0 %	3.36 Mt
Total	58.6 Mt	1.3 %	5.2 %	3.82 Mt	55.0 Mt	1.1 %	5.0 %	3.36 Mt

Source: Terramin Australia, 13 October 2008

The upgraded Indicated Resource within the overall total Inferred Resource represents an increase in drilling density (down to 50m) as well as a transition in reliance from historical ORGM drilling data to predominantly WMZ drilling data.

Figure 1 below highlights the position of the 'priority zone' 24.8Mt Indicated Resource within the upgraded total Inferred Resource of 58.6Mt.

Figure 1: Tala Hamza Indicated and Inferred resources



Source: Terramin Australia Ltd

Although historical ORGM assay results were validated for use in the resource model by drilling 'twin holes', the confidence of the Indicated Resource and the upgraded total Inferred Resource is substantially improved by the inclusion of significantly more WMZ drillholes in the model.

Table 2 below highlights the composition of drilling data between the original and updated resources for Tala Hamza.

Table 2: Drillhole data comparison between the original and upgraded resources

Data	Upgraded Resource	Original Resource
ORGM Drillholes	28	30
WMZ Drillholes	34	5*
Total	62	35

Source: Terramin Australia Ltd, CommSec

Note: One of the 5 WMZ drillholes used in the original resource estimate contained geological data only

As all recent drilling has focussed on upgrading the 'priority zone' within the original Inferred Resource to Indicated status:

- the total Inferred Resource remains largely defined by ORGM drilling, and
- 92% of all holes within the new Indicated Resource are drilled by WMZ.

There is significant potential for further resource increases and upgrades given that only one third of the deposit has been drilled to date and further extensive high grade areas remain classified within the Inferred Resource shell due to insufficient drilling density.

Key point

The key takeaway from the resource upgrade announcement is that *TZN was able to add 12% to their in-situ metal inventory by effectively drilling within the existing boundaries of the original resource*

Presently there are three rigs at Tala Hamza which are all focussed on geotechnical and hydro-geological data collection which will be incorporated in the pre-feasibility study that is due in December 2008.

Application for a Mining Lease in early 2009 is expected to follow the finalisation of the feasibility study.

Angas Mine open day

On 8 October 2008, TZN hosted an open day at its Angas mine for analysts, service providers and investors.

After commencing continuous operations on 18 July 2008, mine performance at Angas has continued to exceed expectations during the key ramp up stage when mill feed is primarily sourced from development ore.

With a second Jumbo expected to be delivered onsite in the coming week and with access to the first stope ore imminent, Angas is poised to continue to deliver exceptional performance in light of being such a relatively small scale underground operation.

Why Angas?

The Angas operations are able to leverage a series of key advantages that allow the mine to perform beyond expectations for its size. The key operating advantages that Angas has are outlined below.

- Shallow ore – which minimises the amount of overburden and waste to be removed.
- Coarse grind ore – which requires less power and smaller filtration and thickening tanks.
- Grid power – which provides low power costs as the grid passes 100m from the site.
- Town housed personnel – the lack of fly-in/fly-out saves up to \$260k/mth.
- By-product credits – gold and silver credits cover 70-80% of site operating costs.
- Local services – the mine carries little or no inventory of spares or supplies.

The Angas decline is currently 140m below surface with three levels currently being worked (75RL, 95RL & 120RL). The forthcoming September Quarterly report will provide the first detailed operational cost guidance for the Angas mine ahead of the transition from development to stope ore.

Figure 2 below shows a Jumbo working underground at Angas.

Figure 2: Jumbo underground at Angas



Source: CommSec

Zinc concentrate is hauled by truck-trailer in 44t consignments three times a day (6am, 10am & 2pm) to Port Adelaide. As soon as a 5,000t consignment has been accumulated, vessel transport is arranged for its shipment to a zinc smelter in Korea.

Lead concentrate is hauled by B-Double in 33t consignments to the smelter at Port Pirrie as accumulated. TZN invoice the smelter the day after delivery and generally receive payment within two weeks.

CommSec's valuation is \$5.11

CommSec's valuation of TZN is \$5.11 per share as shown in Table 3 below.

Table 3: CommSec base case valuation of TZN is \$5.11

Discount rate =	12.5 %	31-Dec-07		13-Oct-08	
		100%	Product	per share	
Angas	90%	\$ 97m	\$ 87m	69c	110c
franking credits	68%	\$ 8m	\$ 6m	5c	5c
Tala Hamza	70%	\$ 657m	\$ 460m	366c	415c
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)	(40c)
TOTAL		\$ 853m	\$ 559m	445c	511c
Shares on Issue		109.065m	FPO shares	16.78m	options

Source: CommSec estimates

Conclusions

The quality and confidence associated with the Tala Hamza Indicated Resource and the upgraded total Inferred Resource confirm our opinion that the project has the potential to:

- achieve world class status from continued resource upgrades, given the under explored nature of the region, and
- time its development to coincide with the projected rebound in zinc prices forecast for post-2010.

The three keys to CommSec's analysis are

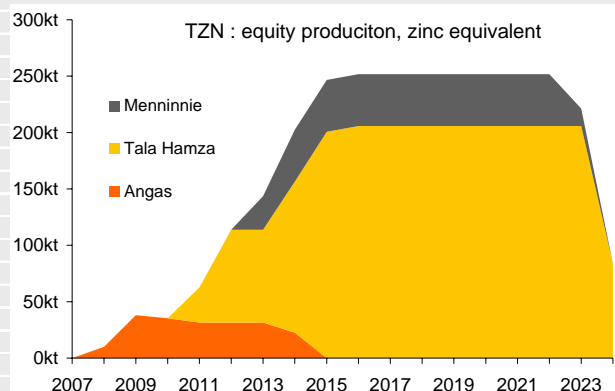
- Angas ramp-up and operations performance
- Tala Hamza resource
- The zinc price.

All of these are performing consistent with CommSec's expectations.

CommSec maintains a BUY / OUT PERFORM recommendation on TZN with a valuation of \$5.11 per share.

Financials

Terramin Australia Limited (TZN)	Year End					December	Current Share Price :	12 month return	Short term	Long Term
Income Statement	FY 07a	FY 08e	FY 09e	FY 10e	FY 11e		\$ 0.96	468 %	BUY	OUT-PERFORM
Sales	\$ 2m	\$ 26m	\$ 78m	\$ 91m	\$ 323m					
Operating Costs	\$ 6m	\$ 23m	\$ 56m	\$ 56m	\$ 149m					
EBITDA	(\$ 4.6m)	\$ 3.2m	\$ 21.6m	\$ 34.3m	\$ 173m					
Hedge Book										
Depreciation & Amortisation	\$ 0.2m	\$ 5.3m	\$ 13.8m	\$ 13.8m	\$ 24.6m					
EBIT	(\$ 4.8m)	(\$ 2.1m)	\$ 7.8m	\$ 20.6m	\$ 149m					
Net Interest Expense (Revenue)	(\$ 1.2m)	\$ 0.3m	\$ 5.0m	\$ 5.2m	\$ 3.5m					
Pre-Tax Profit	(\$ 3.6m)	(\$ 2.4m)	\$ 2.8m	\$ 15.3m	\$ 145.3m					
Tax Expense/(Benefit)	\$ 0.0m	\$ 0.0m	\$ 0.0m	\$ 0.0m	\$ 29.9m					
Minorities	\$ 0.0m	\$ 0.0m	\$ 0.0m	\$ 0.0m	\$ 45.7m					
Reported NPAT	(\$ 3.6m)	(\$ 2.4m)	\$ 2.8m	\$ 15.3m	\$ 69.7m					
Significant Items (After Tax)	\$ 0.0m	\$ 0.0m	\$ 0.0m	\$ 0.0m	\$ 0.0m					
NPAT (Pre-Significant Items)	(\$ 3.6m)	(\$ 2.4m)	\$ 2.8m	\$ 15.3m	\$ 69.7m					
EBITDA Margin (%)	(300%)	12%	27.6%	37.8%	53.7%					
Effective tax Rate (%)	0.0%	0.0%	0.0%	0.0%	20.6%					
EPS Reported (cps)	(7.1c)	(1.3c)	2.6c	14.1c	63.9c					
EPS Pre Significant Items (c)	(7.1c)	(1.3c)	2.6c	14.1c	63.9c					
DPS (c)	0.0c	0.0c	0.0c	0.0c	6.0c					
Payout Ratio (%)	0%	0%	0%	0%	9%					
Franking (%)	0%	0%	0%	0%	100%					
Cash Flow Statement	FY 07a	FY 08a	FY 09e	FY 10e	FY 11e					
EBITDA	(\$ 4.6m)	\$ 3.2m	\$ 21.6m	\$ 34.3m	\$ 173.4m					
cashflow from hedges		\$ 6.6m	\$ 11.9m							
Change in Working Capital	\$ 0.0m	(\$ 0.5m)	(\$ 1.1m)	(\$ 1.1m)	(\$ 5.4m)					
Net Interest (paid)/received	(\$ 1.2m)	\$ 0.3m	\$ 5.0m	\$ 5.2m	\$ 3.5m					
Tax Paid	\$ 0.0m	\$ 0.0m	\$ 0.0m	\$ 0.0m	(\$ 3.3m)					
Operating Cash Flow	(\$ 5.8m)	\$ 9.6m	\$ 37.4m	\$ 38.4m	\$ 168.3m					
Exploration / Net acquisitions	(\$ 3.0m)	(\$ 8.0m)	(\$ 8.0m)	(\$ 5.0m)	(\$ 5.0m)					
Project + Sustaining Capex	(\$ 49.9m)	(\$ 65.8m)	(\$ 56.0m)	(\$ 104.0m)	(\$ 10.8m)					
Other investing items	\$ 0.0m	\$ 0.0m	\$ 0.0m	\$ 0.0m	\$ 0.0m					
Investing Cash Flow	(\$ 52.9m)	(\$ 73.8m)	(\$ 64.0m)	(\$ 109.0m)	(\$ 15.8m)					
Incl/(Dec) in Equity	\$ 32.8m	\$ 34.4m	\$ 0.0m	\$ 0.0m	\$ 0.0m					
Incl/(Dec) in Borrowings	\$ 25.9m	\$ 29.8m	\$ 26.7m	\$ 70.6m	(\$ 149.3m)					
Dividends Paid	\$ 0.0m	\$ 0.0m	\$ 0.0m	\$ 0.0m	(\$ 3.3m)					
Financing Cash Flow	\$ 58.8m	\$ 64.2m	\$ 26.7m	\$ 70.6m	(\$ 152.6m)					
Net Inc/(Dec) in Cash	(\$ 25.9m)	(\$ 29.8m)	(\$ 26.7m)	(\$ 70.6m)	\$ 149.3m					
Balance Sheet (\$A m)	FY 07a	FY 08a	FY 09e	FY 10e	FY 11e					
Cash	\$ 39.4m	\$ 39.4m	\$ 39.4m	\$ 39.4m	\$ 39.4m					
Other Current Assets	\$ 1.8m	\$ 1.3m	\$ 1.0m	\$ 1.0m	\$ 1.0m					
Total Current Assets	\$ 41m	\$ 41m	\$ 40m	\$ 40m	\$ 40m					
Fixed Assets	\$ 61.4m	\$ 121.9m	\$ 164.2m	\$ 254.5m	\$ 240.7m					
Explor'n & Evalu'n	\$ 10.9m	\$ 18.9m	\$ 26.9m	\$ 31.9m	\$ 36.9m					
Other	\$ 5.2m	(\$ 35.0m)	(\$ 54.4m)	(\$ 62.6m)	(\$ 124.8m)					
Total Assets	\$ 119m	\$ 147m	\$ 177m	\$ 264m	\$ 193m					
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					
Total Liabilities	\$ 65m	\$ 96m	\$ 123m	\$ 195m	\$ 51m					
Total Equity	\$ 53m	\$ 51m	\$ 54m	\$ 69m	\$ 142m					
Net Debt (Cash)	\$ 14.9m	\$ 44.7m	\$ 71.4m	\$ 142.0m	(\$ 7.3m)					
Leverage	FY 07a	FY 08e	FY 09e	FY 10e	FY 11e					
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					
Valuation Ratios (x)	FY 07a	FY 08e	FY 09e	FY 10e	FY 11e					
P/E Multiple	(51x)	(72x)	37 x	6.8 x	1.5 x					
Price To Book Value	15.9 x	2.0 x	2.8 x	2.9 x	2.1 x					
Price To Cash Flow	(456x)	(31x)	(10x)	7.1 x	4.0 x					
EBITDA Multiple	(65x)	33 x	5 x	3.4 x	0.7 x					
EBIT Multiple	(153x)	(22x)	(50x)	15.0 x	5.7 x					
Dividend Yield	0%	0%	0%	0%	6%					
Assumptions	FY 07a	FY 08e	FY 09e	FY 10e	L - R					
Zinc Price	US 147c/lb	US 91c/lb	US 73c/lb	US 88c/lb	US 91c/lb					
Lead Price	US 58c/lb	US 115c/lb	US 104c/lb	US 68c/lb	US 68c/lb					
Silver price	\$ 11.55/oz	\$ 13.39/oz	\$ 16.68/oz	\$ 15.50/oz	\$ 12.50/oz					
A\$/ US\$	0.754	0.840	0.914	0.850	0.770					
Major Shareholders										
										Holding
David Paterson										8.7 %
Kevin Moriarity										8.6 %
Colin Jackson										1.4 %
J.P. Morgan Chase & Co										7.9 %
Geologic Resource Funds										6.5 %
Deephaven Capital Management LLC										6.5 %
Production	FY 07a	FY 08e	FY 09e	FY 10e	FY 11e					
Angas Zinc (payable)	0.0 kt	5.2 kt	25.3 kt	24.0 kt	21.3 kt					
Angas Lead equiv, payable	0.0 kt	2.9 kt	14.5 kt	12.7 kt	11.5 kt					
Tala Hamza Zinc pay. TZN share	0.0 kt	0.0 kt	0.0 kt	0.0 kt	23.6 kt					
Tala Hamza Lead pay. TZN share	0.0 kt	0.0 kt	0.0 kt	0.0 kt	7.4 kt					
Menninnie Dam Zinc, TZN	0.0 kt	0.0 kt	0.0 kt	0.0 kt	0.0 kt					
Menninnie Dam Lead. TZN	0.0 kt	0.0 kt	0.0 kt	0.0 kt	0.0 kt					
TOTAL, Zinc payable, TZN	0.0 kt	9.9 kt	47.4 kt	43.8 kt	79.3 kt					
Reserves & Resources	FY 07a	FY 08e	FY 09e	FY 10e	FY 11e					
Angas Reserves	2.41 Mt	2.28 Mt	1.88 Mt	1.48 Mt	1.08 Mt					
zinc	7.00 %	7.00 %	7.00 %	7.00 %	7.00 %					
lead	2.72 %	2.72 %	2.72 %	2.72 %	2.72 %					
copper	0.24 %	0.24 %	0.24 %	0.24 %	0.24 %					
silver	31 g/t	31 g/t	31 g/t	31 g/t	31 g/t					
gold	0.48 g/t	0.48 g/t	0.48 g/t	0.48 g/t	0.48 g/t					
Tala Hamza Resource (100%)	55.0 Mt	55.0 Mt	55.0 Mt	55.0 Mt	54.2 Mt					
zinc	6.3 %	6.3 %	6.3 %	6.3 %	6.3 %					
lead	1.9 %	1.9 %	1.9 %	1.9 %	1.9 %					
Valuation										
Real Discount Rate :		12.5%								
Angas	90 %	\$ 97m	\$ 87m	69c	110c					
franking credits	68 %	\$ 8m	\$ 6m	5c	5c					
Oued Amizour	70 %	\$ 657m	\$ 460m	366c	415c					
Menninnie Dam	40 %	\$ 93m	\$ 37m	30c	34c					
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TOTAL		\$ 853m	\$ 559m	444c	511c					
Shares on Issue	109.065m	FPO shares	16.782m	options						



Source : IRESS, CommSec

Source: CommSec estimates

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