Territory Resources Limited

(TTY $1.22) Buy

EUROZ SECURITIES LIMITED
AUSTRALIAN RESEARCH

Comments

Price Target: $1.50/sh

The Frances Ck iron ore mine ramp-up is performing as per expectation. Five shipments by year end comprising 340kt was ahead of our 270kt forecast. This has been one of the more successful largely on time and budget mine start-ups in recent years in Australia (simple is good).

Management has stated that the current mine plan calls for annualized production rate of 2mtpa by June 2008 and 3mtpa by December 2008. We understand that stockpile capacity at Darwin port, ship loading efficiency, and rail rolling stock are the areas requiring some uplift in capacity to permit the expansion. We estimate that the investment required to implement the expansion would be <$10m. Territory is also lobbying for dredging of the Darwin port to allow larger vessels to berth, which would allow better freight economies.

The mineable inventory is somewhat of an investment uncertainty at this stage. Clearly management is confident of a substantial upgrade to the 5mt ore reserve and 10mt mineral resource if it is pursuing a production rate of 3mtpa. We are of the view that at least 10mt of mineable ore will be delineated at Frances Ck eventually. However we are keen to see the results of the 2007 drilling program and how it has impacted the mineral inventory before we formally upgrade our mine life expectations.

The Frances Ck project has significant infrastructure advantages such as being close to rail (15km) and port (200km). The Darwin Port is not volume constrained like many other bulk cargo ports in Australia, such as Newcastle, Dalrymple Bay, Geraldton and Port Hedland.

We expect the 2008 exploration program will be of similar scale to the 2007 campaign, expenditure of $7.5m of which $5m is allocated to the Frances Ck area, which was designed to complete 25,000m of RC drilling. The field season typically starts in around May following the wet season.

The Mt Bundey and Yarram exploration projects also hold good potential to provide satellite ore to the Frances Ck operation over the medium term.

Territory's intention to become a larger diversified carbon steel materials producer has recently progressed with the investment in Windimurra Vanadium, and subsequent sub-underwriting of the $55m rights issue. We would envisage that Territory has ambition fully acquire Windimurra Vanadium in due course however probably not until the project has demonstrated successful redevelopment. We believe that the fundamentals of the vanadium market do support a significant future price rise given the demand growth, and higher production and development cost structure, especially wrt energy costs.

The intention of the investments in other smaller resources plays: Olympia Resources, Northern Mining and Matilda Minerals is not yet clear. We see these as less significant than Windimurra Vanadium in the future for Territory Resources.

Investment Case

Our target price remains at $1.50/sh. This is based on the impact of a potential doubling of reserves at the 3.0mtpa production rate from Frances Ck. Territory is inexpensively priced at ~6.0x FY'09 PER. Our $1.50/sh price target is equivalent to a PER of 7.5x.

Upside to our valuation and forecasts lies with iron ore price assumption, we have assumed a 40% increase although we note the consensus is +50%.

Territory's growth strategy is beginning to become more tangible. The backing of Noble group will continue to support the strategy.

Euroz Securities declares that it has acted as underwriter to, and/or arranged an equity issue in, and/or provided corporate advice to Territory Iron during the last year. Euroz Securities has received a fee for these services.

This analyst declares that he has a beneficial interest in Territory Iron shares.

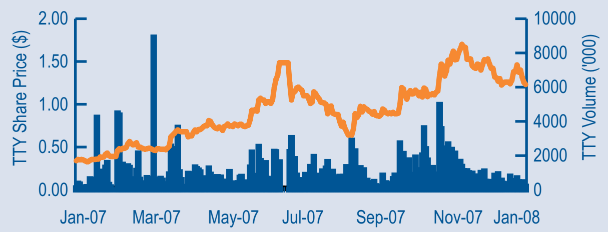
TOP 20 SHAREHOLDERS — AS AT 31 DECEMBER 2007

Shareholders	Shares (m)	(%)
1 Crawley Resources Limited	69,991,975	27.52
2 O M Holdings Limited C/- Om Materials<S> Pty Ltd	29,161,413	11.47
3 DCM Decometal	22,154,336	8.71
4 Zero Nominees Pty Ltd	13,723,000	5.40
5 ANZ Nominees Limited	4,263,260	1.68
6 HSBC Custody Nominees	2,092,791	0.82
7 Heng Siow Kwee	1,307,631	0.51
8 Fangrove Pty Ltd	1,250,000	0.49
9 DBS Vickers Securities	1,247,960	0.49
10 Mr Keith George Bartley + Mr Robert George Bartley + Mr Andrew John Bartley (Bartley Brothers A/C)	1,040,000	0.41
11 Yue Chuan Wang	1,009,784	0.40
12 Mr Keith William Sheppard (The Sheppard Family A/C)	785,000	0.31
13 Palazzo Nominees Pty Ltd	745,000	0.29
14 Natuka Pty Limited	710,000	0.28
15 Cybertop Pty Ltd	700,000	0.28
16 UBS Wealth Management Australia	604,700	0.24
17 Citicorp Nominees Pty Limited	571,544	0.22
18 RBC Dexia Investor Services Australia Nominees Pty Ltd	542,49	.21
19 ADL (WA) Pty Ltd	505,000	0.20
20 Apnea Holdings Pty Ltd (Kelly Family A/C)	505,000	0.20
Total	152,910,886	60.13

MARKET STATISTICS

Share Price	$1.22 A$/sh	**Directors**	
Issued Capital		M Kiernan	Ex Chair
FP Ord	254.3 m	A Quadrio	Mg Dir
Opt (@$0.20/sh)	1.4 m	B McFadzean	Ex Dir
Opt (@$0.25/sh)	1.0 m	J Wolseley	Dir
Opt (@$0.40/sh)	7.0 m	A Simpson	Dir
Opt (@$0.50/sh)	2.5 m		
Opt (@$0.60/sh)	1.3 m	**Shareholders**	
Total Dil. FPOrd	266.3 m	OM Holdings	11.5%
		Crawley Res	27.5%
Market Capitalisation	$315 m		
Enterprise Value	$290 m		
Debt	$- m		
Cash	$25 m		

SHARE PRICE PERFORMANCE



Territory Resources Limited

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TERRITORY RESOURCES (TTY)		YEAR END 30 JUNE
ASSET VALUATION	A$m	A$/sh
Frances Creek	148	0.56
Hedging	0	0.00
Corporate	-5	-0.02
Residual Value	5	0.02
Frances Ck Expl'n	65	0.24
Other FeO Projects	20	0.08
Tambao MnO Option	1	0.00
Investments	26	0.10
Working Capital	10	0.04
Unpaid Capital	1	0.00
Debt	0	0.00
Cash	25	0.09
Total @ 10% nom	296	1.11
Total @ 0% nom	333	1.25
Total @ 5% nom	313	1.18
Total @ 15% nom	282	1.06

FORECAST PRODUCTION		2007a	Dec H'07f	2008f	2009f	2010f
Frances Creek (100%)						
Lump Sales	kt	0	255	721	1,625	1,875
Fines Sales	kt	0	85	359	875	1,125
Total Fe Ore Sales	kt	0	340	1,080	2,500	3,000
Total Cash Costs	A$/t	38	55	55	50	50
Net Lump Rec'd	US$/t	-	75	78	87	85
Net Fines Rec'd	US$/t	-	59	55	60	59
B'mark Lump JFY fob	US$/dmtu	-	102.7	102.7	143.8	143.8
Foreign Exchange						
Avg Rate Ach'd	US$:A$	0.10	0.87	0.87	0.85	0.82
Ass'd Spot Rate	US$:A$	0.78	0.87	0.87	0.85	0.83

RATIO ANALYSIS	2007a	Dec H'07f	2008f	2009f	2010f
CF (A$m)	(24.0)	(5.9)	1.1	91.7	100.7
CF / Sh (Ac/sh)	(11.8)	(2.4)	0.4	34.5	37.8
CF Ratio (x)	(12.5)	-	286.1	3.5	3.2
Earnings (A$m)	(4.5)	3.8	12.0	54.6	65.6
EPS (Ac/sh)	(2.2)	1.6	4.5	20.5	24.6
EPS Growth (%)	-6%	0%	-	355%	20%
Earnings Ratio (x)	-	-	27.1	5.9	5.0
E'prise Val. (A$m)	278	276	285	170	70
EV : EBITDA (x)	(60.7)	19.2	11.7	1.7	0.6
EV : EBIT (x)	(53.7)	27.5	17.7	2.2	0.8
Net Debt / ND+Eq (%)	-82%	-147%	-138%	7258%	327%
Interest Cover (x)	6	-	-	(43)	(16)
EBIT Margin (%)	0%	0%	18%	33%	32%
ROE (%)	-11%	9%	23%	47%	43%
ROA (%)	-13%	10%	28%	62%	46%
Div. (Ac/sh)	-	-	-	-	-
Div. payout ratio	0%	0%	0%	0%	0%
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Div. Franking	0%	0%	0%	0%	0%

PROFIT & LOSS	2007a	Dec H'07f	2008f	2009f	2010f
Iron Ore Sales Revenue	0.0	27.9	87.2	228.8	273.1
Forex Hedging Revenue	0.0	0.0	0.0	0.0	0.0
Interest Revenue	0.7	0.4	1.0	2.1	6.5
Other Revenue	-	-	-	-	-
TOTAL REVENUE	0.7	28.3	88.2	230.9	279.5
Operating Costs	0.0	18.7	59.4	125.0	150.0
Dep/Amort	0.0	1.4	6.6	23.4	31.3
Corp O/H	4.6	2.0	3.5	3.0	3.0
Prov/w'off (expl'n)	0.3	0.6	1.5	1.5	1.5
EBITDA	(4.6)	7.2	24.3	100.8	120.1
EBIT	(5.2)	5.0	16.1	75.9	87.3
Interest Expense	-	-	-	-	-
NPBT	(4.5)	5.5	17.1	78.0	93.7
Tax	-	1.6	5.1	23.4	28.1
Minority Interest	-	-	-	-	-
NET PROFIT	(4.5)	3.8	12.0	54.6	65.6
Net Abnormal Gain/(Loss)	-	-	-	-	-
NET PROFIT After Abn'l	(4.5)	3.8	12.0	54.6	65.6

CASHFLOW	2007a	Dec H'07f	2008f	2009f	2010f
Net Profit	-4.5	3.8	12.0	54.6	65.6
+ Working Capital Adjustment	-0.1	-10.0	-9.0	2.0	2.0
+ Dep/Amort	0.0	1.4	6.6	23.4	31.3
+ Provisions / writeoffs (explor)	0.6	0.8	1.5	1.5	1.5
+ Tax Expense	0.0	1.6	5.1	23.4	28.1
- Tax Paid	0.0	0.0	1.6	13.2	27.9
Operating Cashflow	-4.0	-2.4	14.6	91.7	100.7
-Capex + Development	20.0	3.5	13.5	0.0	0.0
-Exploration	1.8	5.0	7.0	3.0	1.0
-Assets Purchased	0.0	26.2	26.2	0.0	0.0
+Asset Sales	0.0	0.0	0.0	0.0	0.0
Investing Cashflow	-21.8	-34.7	-46.7	-3.0	-1.0
+ Equity Issues	29.2	42.2	42.2	0.0	0.0
+Loan Drawdown/Receivable	1.1	0.0	0.0	0.0	0.0
+Loans repaid from/(to) other entities	0.0	0.0	0.0	0.0	0.0
-Loan Repayment	0.0	0.0	0.0	0.0	0.0
-Dividends	0.0	0.0	0.0	0.0	0.0
Financing Cashflow	30.3	42.2	42.2	0.0	0.0
Period Sur (Def)	4.5	5.1	10.1	88.7	99.7
Cash Balance	19.8	24.9	29.9	118.6	218.3

BALANCE SHEET	2007a	Dec H'07f	2008f	2009f	2010f
Assets					
Cash	19.8	24.9	29.9	118.6	218.3
Current Receivables	2.4	2.4	2.4	2.4	2.4
Other Current Assets	0.8	0.8	0.8	0.8	0.8
Non-Current Assets	17.7	19.8	24.5	1.2	-30.1
Total Assets	40.7	47.9	57.6	123.0	191.4
Liabilities					
Borrowings	1.4	0.0	0.0	0.0	0.0
Current Accounts Payable	5.8	5.8	5.8	5.8	5.8
Other Liabilities	0.2	0.2	0.2	0.2	0.2
Total Liabilities	7.4	6.0	6.0	6.0	6.0
Net Assets	40.8	41.9	51.6	117.0	151.5

RESERVES AND RESOURCES	Reserves			Resources		
	mt	Fe%	P%	mt	Fe%	P%
Helene 6/7	1.42	63.4	0.03	3.02	61.9	0.04
Helene 5	0.59	59.1	0.06	1.39	59.7	0.13
Helene 2/3	0.30	64.4	0.08	0.69	62.4	0.08
Thelma/Rosemary	1.28	61.1	0.19	1.86	61.1	0.19
Jasmine East	0.21	59.3	0.06	0.30	59.4	0.07
Ochre Hill	1.01	59.5	0.09	1.15	59.4	0.11
Surface Fines	0.21	60.0	0.08	0.35	53.6	0.13
Others				1.32	58.7	0.09
Total	5.0	61.3	0.09	10.1	60.7	0.10

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