

Comments

Price Target: \$1.50/sh

The injection of \$30m equity at \$0.50/sh from Crawley Resources (Michael Kiernan & Noble Resources) has transformed the outlook for Territory Resources. The deal has the effect of both reducing risk and creating a sense of urgency to pursue growth. Crawley now has a 30.8% stake.

The 1st shipment of iron ore from Frances Ck iron is now imminent. All aspects of the operation are understood to be performing satisfactorily. The last remaining item of commissioning, the new multi-user bulk commodity shiploader, has already been verified by OMH on several shipments.

Our forecasts assume ~275kt of ore shipped during the Dec H'07 and the 1.5mtpa rate achieved thereafter. Territory has also confirmed that the price for its first shipment of 61.5% Fe ore has been agreed at US\$75/t net FOB.

The 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. Frances Ck has starting ore reserves of 4.8mt grading 61.3% Fe from a resource base of 9.7mt grading 60.7%. Development capex was approximately \$15m.

Territory is embarking on an aggressive exploration campaign in 2007 comprising 25,000m of RC drilling on a more expansive basis than earlier exploration had done. The 2007 exploration budget is \$7.5m of which \$5m is allocated to the Frances Ck area. Exploration over the last couple of years has been close spaced drilling on known deposits designed to commence mining. Drilling in 2007 is more targeted toward identifying new zones of mineralization on wider spaced drilling.

Territory has stated an intention to double both the ore reserves and planned production rate during the FY'08 year. We believe these targets are achievable, based on our view of the exploration potential discussed above. We estimate some 40-50% upside to our NPV based valuation should these resource and production target be achieved.

Territory has also flagged its intention to grow into being a "diverse carbon steel commodity supplier". Territory probably still has an unsatisfied appetite for an acquisition following the unsuccessful attempt at ConsMin. However in the short-medium term we think it more likely that it will focus on maximising value at Frances Ck rather than chasing another acquisition.

Investment Case

We have increased our price target to \$1.50/sh. This price target is based on our risk adjusted view of the impact of a doubling of reserves and production rate. Our \$1.02/sh valuation reflects the reserve and production as currently built, however we are confident on delivery of resource upside leading to higher valuation. Territory is priced at ~6x FY'09 PER, however an expansion scenario would see this fall toward ~3x.

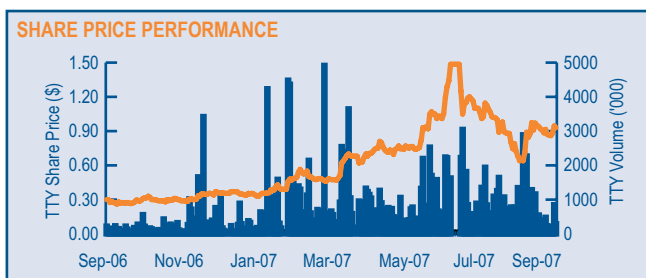
The iron ore sector displays good supply/demand fundamentals for the foreseeable future. We anticipate the next benchmark negotiations to achieve a +25% increase in iron ore prices relative to last year. This is approximately equivalent to the US\$75/t that TTY is already achieving.

Disclosure: 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 10 SEPTEMBER 2007	
Shareholders	Shares (m)		(%)
1	Crawley Resources Limited	60.00	30.10
2	O M Holdings Limited	25.00	12.54
3	Zero Nominees Pty Limited	14.45	7.25
4	J P Morgan Nominees Australia Limited	3.50	1.75
5	National Nominees Limited	3.45	1.73
6	ANZ Nominees Limited	2.74	1.37
7	DCM Decometal	2.35	1.18
8	HSBC Custody Nominees	1.98	0.99
9	MLEQ Nominees Pty Limited	1.83	0.92
10	RBC Dexia Investor Services Aust Nom Pty Limited	1.65	0.83
11	Heng Siow Kwee	1.60	0.80
12	Fangrove Pty Limited	1.51	0.76
13	DBS Vickers Securities	1.44	0.72
14	Mr K G Bartley + Mr R G Bartley + Mr A J Bartley	1.17	0.59
15	Yue Chuan Wang	1.00	0.50
16	Citicorp Nominees Pty Limited	0.90	0.45
17	Apnea Holdings Pty Limited	0.70	0.35
18	Australian Executor Trustees Limited	0.53	0.26
19	Mineral ResourCes Limited	0.50	0.25
20	Palazzo Nominees Pty Limited	0.50	0.25
	TOTAL	126.81	63.59

MARKET STATISTICS			
Share Price	\$0.90 A\$/sh	Directors	
Issued Capital		M Kiernan	Ex Chair
FP Ord	199.3m	A Quadrio	MD Designate
Opt (@\$0.20/sh)	-m	B McFadzean	Ex Dir
Opt (@\$0.25/sh)	1.0m	T Tennant	Dir
Opt (@\$0.40/sh)	0.3m	J Wolseley	Dir
Opt (@\$0.50/sh)	0.3m		
Opt (@\$0.60/sh)	3.0m	Shareholders	
Total Dil. FPOrd	204.8m	OM Holdings	12.8%
		Crawley Res	30.5%
		Confluence	5.8%
Market Capitalisation	\$180m		
Enterprise Value	\$160m		
Debt	\$-m		
Cash	\$20m		



Territory Resources Limited

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EUROZ

SECURITIES LIMITED

AUSTRALIAN RESEARCH

TERRITORY RESOURCES (TTY)		YEAR END 30 JUNE				
ASSET VALUATION		A\$m		A\$/sh		
Frances Creek		97		0.47		
Hedging		0		0.00		
Corporate		-4		-0.02		
Residual Value		5		0.02		
Frances Ck Expl'n		65		0.32		
Other FeO Projects		20		0.10		
Tambao MnO Option		5		0.02		
Working Capital		-3		-0.01		
Unpaid Capital		4		0.02		
Debt		0		0.00		
Cash		20		0.10		
Total @ 10% nom		209		1.02		
Total @ 0% nom		233		1.14		
Total @ 5% nom		220		1.07		
Total @ 15% nom		200		0.97		
FORECAST PRODUCTION		2007f	Dec H'07f	2008f	2009f	2010f
Frances Creek (100%)						
Lump Sales	kt	0	206	628	1,001	963
Fines Sales	kt	0	69	317	539	578
Total Fe Ore Sales	kt	0	275	945	1,540	1,540
Total Cash Costs	A\$/t	38	55	55	50	50
Net Lump Rec'd	US\$/t	-	75	76	78	77
Net Fines Rec'd	US\$/t	-	59	53	51	50
B'mark Lump JFY fob	US\$/dmtu	-	102.7	102.7	128.4	128.4
Foreign Exchange						
Avg Rate Ach'd	US\$:A\$	0.10	0.84	0.83	0.82	0.78
Ass'd Spot Rate	US\$:A\$	0.78	0.84	0.84	0.82	0.78
RATIO ANALYSIS		2007f	Dec H'07f	2008f	2009f	2010f
CF (A\$m)		(24.0)	1.6	15.4	42.6	44.4
CF / Sh (Ac/sh)		(11.8)	0.8	7.5	20.8	21.7
CF Ratio (x)		(12.6)	-	12.0	4.3	4.2
Earnings (A\$m)		(4.5)	3.6	11.4	29.4	33.3
EPS (Ac/sh)		(2.2)	1.8	5.6	14.3	16.3
EPS Growth (%)		-6%	0%	-	158%	14%
Earnings Ratio (x)		-	-	16.2	6.3	5.5
E'prise Val. (A\$m)		280	164	152	112	69
EV : EBITDA (x)		(61.3)	24.5	7.2	2.3	1.3
EV : EBIT (x)		(54.1)	34.6	9.8	2.8	1.6
Net Debt / ND+Eq (%)		-82%	-116%	-240%	-1282%	-275%
Interest Cover (x)		6	-	-	(25)	(12)
EBIT Margin (%)		0%	0%	20%	31%	33%
ROE (%)		-11%	12%	29%	40%	22%
ROA (%)		-13%	13%	34%	51%	38%
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		2007f	Dec H'07f	2008f	2009f	2010f	
Iron Ore Sales Revenue		0.0	23.3	76.1	128.2	131.7	
Forex Hedging Revenue		0.0	0.0	0.0	0.0	0.0	
Interest Revenue		0.7	0.4	0.8	1.7	3.6	
Other Revenue		-	-	-	-	-	
TOTAL REVENUE		0.7	23.8	76.9	129.9	135.2	
Operating Costs		0.0	15.1	52.0	77.0	77.0	
Dep/Amort		0.0	1.2	4.1	6.4	7.1	
Corp O/H		4.6	1.5	3.0	3.0	2.0	
Prov/w off (expl'n)		0.3	0.6	1.5	1.5	1.5	
EBITDA		(4.6)	6.7	21.1	48.2	52.7	
EBIT		(5.2)	4.7	15.5	40.2	44.1	
Interest Expense		-	-	-	-	-	
NPBT		(4.5)	5.2	16.3	41.9	47.6	
Tax		-	1.6	4.9	12.6	14.3	
Minority Interest		-	-	-	-	-	
NET PROFIT		(4.5)	3.6	11.4	29.4	33.3	
Net Abnormal Gain/(Loss)		-	-	-	-	-	
NET PROFIT After Abn'l		(4.5)	3.6	11.4	29.4	33.3	
CASHFLOW		2007f	Dec H'07f	2008f	2009f	2010f	
Net Profit		-4.5	3.6	11.4	29.4	33.3	
+ Working Capital Adjustment		-0.1	-5.0	-4.0	2.0	2.0	
+ Dep/Amort		0.0	1.2	4.1	6.4	7.1	
+ Provisions / writeoffs (explor)		0.6	0.8	1.5	1.5	1.5	
+ Tax Expense		0.0	1.6	4.9	12.6	14.3	
- Tax Paid		0.0	0.0	1.6	9.3	13.9	
Operating Cashflow		-4.0	2.1	16.4	42.6	44.4	
-Capex + Development		20.0	0.5	1.0	0.0	0.0	
-Exploration		1.8	5.0	7.0	3.0	1.0	
-Assets Purchased		0.0	0.0	0.0	0.0	0.0	
+Asset Sales		0.0	0.0	0.0	0.0	0.0	
Investing Cashflow		-21.8	-5.5	-8.0	-3.0	-1.0	
+ Equity Issues		29.2	0.0	0.0	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	0.0	0.0	0.0	0.0	
Period Sur (Def)		4.5	-3.4	8.4	39.6	43.4	
Cash Balance		19.8	16.5	28.2	67.7	111.1	
BALANCE SHEET		2007f	Dec H'07f	2008f	2009f	2010f	
Assets							
Cash		19.8	16.5	28.2	67.7	111.1	
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	17.0	14.5	8.1	1.0	
Total Assets		40.7	36.6	45.9	79.0	115.3	
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	30.6	39.9	73.0	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%
Others		-	-	-	1.32	58.7%	0.09%
Total		4.8	61.3%	0.09%	9.7	60.7%	0.10%

Resources Quarterly ▶ September 2007

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