VIII EIGHT CAPITAL

COMMENT

Orocobre Limited

(ORE-A: A$4.37), (ORL-T: C$4.20)

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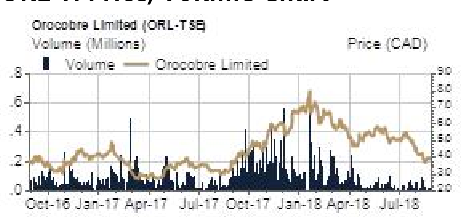
BUY
Target: C$8.70

Preparing For Growth After Closing Solid FY2018

ORE-AU	New	Last
Rating	--	**Buy**
Target	--	**C$ 8.70**
Target	--	**A$ 9.20**
Projected Return	--	114%
DCF multiple	--	1.10x
2018 - 10% DCF Corporate Value	--	5.92
2018 - Cash and Debt	--	-0.19
2018 - Additional Resource Value	--	0.33
NAV	--	6.06
P/NAV		0.72x
Company Data		
Last Price		A$ 4.37
52-week Range	A$ 3.23 -	A$ 7.44
Market Cap ($MM)		A$ 1,077
Enterprise Value ($MM)		A$ 850
Shares Outstanding - Basic (MM)		264.0
Shares Outstanding - FD (MM)		266.3
Avg Volume - 100d (000 shares/day)		1,430.1
Cash (US$MM)		$229.0
Debt (US$MM)		$62.5

All Figures in US$ Unless Otherwise Noted
Source: Company Reports, FactSet, Eight Capital

ORL-T: Price/Volume Chart



Source: Factset

Company Description

Orocobre is a development and junior producing company focused on lithium brine properties. Its flagship is the 66.5% owned Olaroz brine project in Argentina (JV with JEMSE [8.5%] and Toyota Tsusho [25%]). First production from the 6.4 MMt LCE brine began in February 2015.

We continue to recommend Orocobre as a BUY with a target price of C$8.70/sh, based on applying a 1.1x multiple to our 10% DCF model. FY18 fiscal results reported overnight had no surprises given that production stats were provided in July after a 28% production rebound QoQ. As EV demand begins to rise and M&A and IPO activity pick up, ORL is starting to come into its own. Production, sales, and pricing are all due to rise, with costs due to fall. While production missed early year guidance, overall it was a good year with lithium carbonate (LCE) pricing at ORL's back. Pond capacity has now increased ahead of production, Olaroz has positive operating cash flow and the lithium outlook is excellent. ORL's balance sheet has improved...low cost debt will be down 37% to $122 MM ($62.5 MM ORL shares) by Sep/18. Having secured A$361 MM in funding, including a 15% Toyota Tsusho (Not Rated) placement worth A$282 MM, cash was $316.7 MM ($229 MM net) by June end. ORL's share of recouped VAT was $12 MM. While most operational metrics improved YoY, all eyes are now turning to growth projects, including: 1) Olaroz Stage 2 LCE expansion; 2) Naraha LiOH plant construction in Japan; and 3) longer term Cauchari JV development. The first two near construction decisions and ORL is cashed up.

$1.9 MM adjusted net profit, after adjustments including $9.7 MM in FX losses, $21.8 MM in income tax expenses due to legislation changes, and $8 MM borax plant/equipment impairment. Underlying net profit was $25.7 MM.

Most operational metrics improved YoY at 66.5%-owned Olaroz. Production rose 5% YoY to 12,470 t LCE; sales were $148.9 MM, up 24% YoY; contracts fetched $12,578/t LCE (FOB basis); and costs of $4,194/t LCE (excl. royalties and head office costs) are still higher than plan. This allowed for 67% gross margins ($8,384/t). Argentina Peso (ARS) devaluation increased 42% since April, bringing costs back in line with long term inflation, decreasing cost pressures. USD vs. ARS cost impacts are 55/45 for LCE and 40/60 for Borax.

Improved guidance, although not explicit. Management suggests FY19 production to exceed FY18 of 12,470 t LCE (original guidance was trimmed from 14,000 to 12,600 t). FY19 price received to date is ~$14,000/t. More important are pending decisions for Stage 2 LCE expansion and the LiOH plant.

Stage 2 development underway. Work includes new ponds, roads, vegetation clearing, camp infrastructure and engineering. A final production decision is due shortly on this 25,000 tpa LCE expansion. All other approvals are in place. Remaining Capex is $285 MM with commissioning due in H1/CY20.

Borax breakeven, excluding asset sale and after US$8 MM write-down. Up from US$1.7 MM loss in FY17. Sales were flat at US$17.4 MM but accelerated recently as production performance improved and costs declined on weaker FX.

Rosy Cauchari JV outlook. Inferred resources grew six-fold to 3.02 MMt LCE and 450 ppm Li with significant potential at depth. A recent PEA suggests an 8% after-tax NPV of $827 MM, contemplating 20,000 tpa LCE over 25 years, Capex of $401 MM and Opex of $3,667/t LCE. Cauchari is adjacent to Olaroz.

Management not concerned about Chinese spot volatility. It doesn't reflect its contracts. Import prices continue to rise into China, Japan, Europe & Korea. Albemarle says Chinese spot pricing has no impact on its pricing, so you shouldn't see a correlation. FMC says Chinese carbonate spot markets are not useful...it's leading everybody down the wrong path from true market fundamentals.

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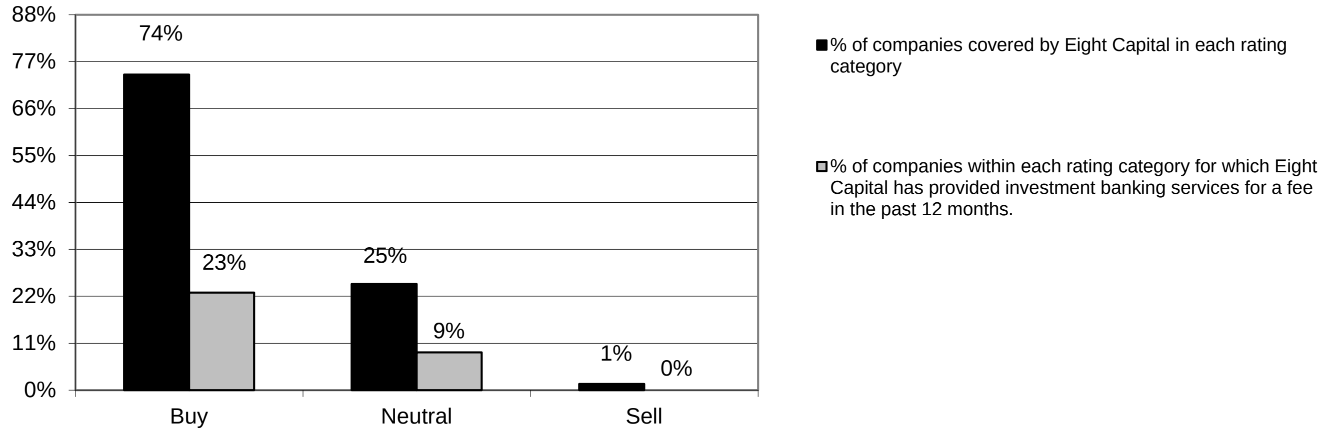

As at June 29, 2018
Source: Eight Capital