

# Orocobre Ltd.

(ORL-TSX: C\$6.83), (ORE-ASX: A\$6.48)

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**BUY**

Target: C\$9.10 (from C\$7.00)

## Funds Arranged for Enlarged Phase II, Record Production

ORE-AU	New	Last
Rating	--	Buy
Target	C\$ 9.10 ▲	C\$ 7.00
Target	A\$ 9.60 ▲	A\$ 7.30
Projected Return	14% ▼	15%
DCF multiple	--	1.10x
2018 - 10% DCF Corporate Value	6.04 ▲	4.46
2018 - Cash and Debt	-0.06 ▼	0.20
2018 - Additional Resource Value	0.33	0.07
NAV	6.31 ▲	4.74
P/NAV	1.26x ▲	1.29x

Company Data		
Last Price		A\$ 6.48
52-week Range	A\$ 2.61 -	A\$ 7.36
Market Cap (\$MM)		A\$ 1,507
Enterprise Value (\$MM)		A\$ 1,746
Shares Outstanding - Basic (MM)		215.4
Shares Outstanding - FD (MM)		217.6
Avg Volume - 100d (000 shares/day)		2,409.5
Cash (\$MM)		(\$87.6)
Debt (\$MM)		\$104.4
Working Capital (\$MM)		(\$84.9)

Spot LCE (US\$/t)	6,386	13,899	10,500	11,250
Realized Price (US\$/t)	6,386	9,812	12,515	11,250
EPS	(0.31)	(0.17)	0.15	
P/E	n/a	n/a	43	
EBITDA (\$MM)	(42.8)	(48.3)	33.8	
CF/share	(0.03)	(0.17)	0.15	
Capex (\$MM)	(3.8)	(57.3)	(136.0)	
FCF (\$MM)	(9.7)	(93.8)	(97.6)	
FCF Yield	n/a	n/a	n/a	

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 recommend Orocobre as a BUY and increase our target to C\$9.10/sh after incorporating new Phase II expansion plans, LiOH conversion plans and financing. Our target is derived by applying a 1.1x multiple to a 10% DCF model. Quarterly operating results from 66.5%-owned Olaroz lithium brine mine were released 16-Jan-18, but more important were details of an upsized Phase 2 expansion (slight capital intensity increase), equity/debt financing plans, strategic alliance & lithium hydroxide plant partnership ([see PR](#)).

These plans light the way for Orocobre to become a major global lithium producer just as demand booms and prices continue to rise. While Olaroz Phase I finally hit its stride with record production and realized prices, plans for organic growth are ready to take Orocobre to a whole new level. The Phase II expansion is larger than expected in order to take advantage of a hot lithium market and provide economies of scale. Expansion costs are still relatively cheap (although might be up since last account) and low risk as ORL has done it before. Lithium hydroxide production adds optionality, and unlike many of its peers, Orocobre will feed itself low cost LCE. Equity financing has been arranged at good terms, grants are being offered, and debt is again being arranged by Toyota Tsusho.

**Strong operations as pond issues end.** Olaroz reported record quarterly production at 3,937 tonnes LCE for FQ2/18, up 84% QoQ, beating our estimate of 3,091t LCE, and now runs at 90% capacity. LCE prices were a record US\$11,550/t LCE on sales of 3,460t LCE. Management expects ~25% higher sales prices over the next six months. Realized prices were US\$11,415/t over the past six. Cash costs sank 21% to US\$3,946/t in line with our estimates of US\$3,891/t as production rose and reagent costs fell. We expect ORL to achieve unchanged production guidance of 14,000t LCE for FY18.

**Expanded expansion.** Phase II production is to rise 25,000 tpa LCE from 17,500 tpa, bringing the enlarged Olaroz plant to 42,500 tpa. New 100% capital costs of US\$271 MM (only a slight increase to capital intensity of US\$10.8 MM/1000 tpa) appears to be 18.5% higher relative to previous US\$160 MM Capex for a 17,500 tpa LCE expansion. However, it is in line with original US\$190 MM Phase II plans and remains about half of its peers. The higher capital intensity is due to scaling up the operation (excluding purification, increased redundancy and higher EPCM and more accurate costs). A production decision is due mid-2018.

**US\$287 MM capital raise/Toyota strategic alliance.** Plans are to raise US\$287 MM equity to cover ORL's share of Phase II Capex. Olaroz' JV partner, Toyota Tsusho (TTC), for the first time, will become a shareholder. Equity comes in two parts: 1) US\$224 MM (A\$282 MM) investment by Toyota priced at A\$7.50 (17% premium to 30d VWAP); and 2) US\$63 MM (A\$79 MM) underwritten entitlement offer for shareholders (8.3% discount). TTC will use best efforts to raise up to US\$100 Phase II debt funding at similar terms as Phase I.

**Lithium hydroxide details and strategic alliance.** ORL and Toyota Tsusho plan to build a 10,000 tpa LiOH conversion facility in Japan (75%:25% split). A decision is due mid-2018. Estimated Capex is US\$60-70 MM with opex of US\$1,500/t LiOH after ORL provides the LCE. This should help enhance margins as LiOH prices remain ~US\$3,000/t higher than LCE and gain a toe-hold into Japan. The Japanese Gov't may kick in US\$27 MM grant money which needs to be bridged, and presuming \$25 MM debt is obtained, leaves TTC and ORL equity contributions a mere US\$2 MM and US\$6 MM, respectively.

<b>Orocobre Limited</b>				<b>ORE-AU</b>	<b>A\$ 6.48</b>
<b>Rating</b>	<b>BUY</b>	<b>A\$ Target</b>	<b>\$9.60</b>	<b>Shares O/S (MM)</b>	<b>215.4</b>
		<b>A\$ Close</b>	<b>\$6.48</b>	<b>Fully Diluted Shares (MM)</b>	<b>217.6</b>
		<b>C\$ Target</b>	<b>\$9.10</b>	<b>Basic Mkt. Capitalization (\$MM)</b>	<b>A\$ 1,395.6</b>
<b>12-month return</b>	<b>14%</b>	<b>C\$ Close</b>	<b>\$7.96</b>	<b>Enterprise Value (\$MM)</b>	<b>A\$ 1,746.3</b>

All figures in US\$, unless stated otherwise

<b>EVALUATION DATA</b>				
Year-end June	2016A	2017A	2018E	2019E
EPS	\$ (0.31)	\$ (0.17)	\$ 0.15	\$ 0.20
P/E	n/a	n/a	43.2x	32.4x
CFPS before changes in WC	\$ (0.03)	\$ (0.17)	\$ 0.15	\$ 0.22
P/CF		N/A	32.6x	22.7x
market cap/reserve t				N/A
enterprise value/reserve t				N/A
market cap/resource t				\$ 310
enterprise value/resource t				\$ 344

<b>ASSUMPTIONS</b>				
	2016A	2017A	2018E	2019E
Lithium US\$/t	6386	13899	10500	11250
Exchange US\$/A\$	0.73	0.75	0.76	0.77

Eight Capital Modelled Reserves and Other Mineralization (MM t)

	Lithium		Contained Li2CO3 (LCE)	
	Mg/L	100% Basis	100% Basis	ORL Share
<b>Ownership</b>				
<b>Proven and Probable Reserves</b>				
Olaroz	66.5%	690	6,400	4,256
Salinas Grandes	100%			

Total Reserves

<b>Measured and Indicated Resources (including reserves)</b>				
		2017A	2018E	2019E
Olaroz	66.5%	690	6,400	4,256
Salinas Grandes	100%			

Total M&I Resources

<b>Inferred Resources</b>				
		2017A	2018E	2019E
Olaroz	66.5%			
Salinas Grandes	100%	795	239	239

Total Inferred Resources

<b>TOTAL RESOURCE</b>				
		2017A	2018E	2019E
		694	6,639	4,495

**PRODUCTION ESTIMATES (t)**

Year-end Jun.	2016A	2017A	2018E	2019E	2019E
Olaroz	6,903	11,862	14,072	17,500	25,974

Sub total

<b>TOTAL CASH COST ESTIMATES (US\$/t)</b>					
Year-end Jun.	2016A	2017A	2018E	2019E	2019E
Olaroz	4,351	4,209	3,363	3,113	3,115

Wt. Ave.

<b>NET ASSET VALUE</b>					
(beginning 2017)	0% NAV	US\$/share	10% NAV	US\$/share	
Corporate DCF	4,004	15.37	1,574	6.04	
Cash and Debt	-192	-0.74	-16	-0.06	
Exploration & unmodelled Resources	87	0.33	87	0.33	
<b>Total</b>	<b>3,899</b>	<b>14.97</b>	<b>1,644</b>	<b>6.31</b>	

Eight Capital DCF Target Multiple

Share Price Target **A\$ 9.60**

Share Price Target **C\$ 9.10**

<b>NAV &amp; Price Target Sensitivity to Long-term Lithium Price Assumption</b>					
<b>Long Term Lithium Price Assumption (US\$/t)</b>					
Target (C\$/share)	6,000	8,000	10,000	12,000	14,000
0% Discount	4.41	8.32	12.23	16.14	20.04
5% Discount	2.86	5.38	7.91	10.43	12.95
10% Discount	2.01	3.78	5.54	7.30	9.06
15% Discount	1.52	2.83	4.14	5.46	6.77

**Year-end June**

<b>BALANCE SHEET</b>				
	2016A	2017A	2018E	2019E
<b>Assets</b>				
Cash & ST Investments	35,058	(87,599)	186,206	(15,161)
Other Current Assets	15,003	15,003	15,003	15,003
Current Assets	50,061	(72,596)	201,209	(158)
Mineral Properties	14,977	229,942	365,857	568,227
Other non-current Assets	150,790	56,894	56,894	56,894
<b>Total Assets</b>	<b>215,828</b>	<b>214,239</b>	<b>623,959</b>	<b>624,962</b>

**Liabilities**

Current Liabilities	12,726	12,308	75,777	10,699
Capital lease / LT Debt	1,044	102,770	137,692	137,692
Other non-current Liabilities	12,631	(53,768)	(52,768)	(51,768)
<b>Total Liabilities</b>	<b>26,401</b>	<b>61,310</b>	<b>160,701</b>	<b>96,623</b>
Capital Stock	242,248	242,248	514,237	525,787
Retained/Deficit	(52,821)	(89,319)	(50,978)	2,552
<b>Total Shareholder Equity</b>	<b>189,427</b>	<b>152,929</b>	<b>463,259</b>	<b>528,340</b>

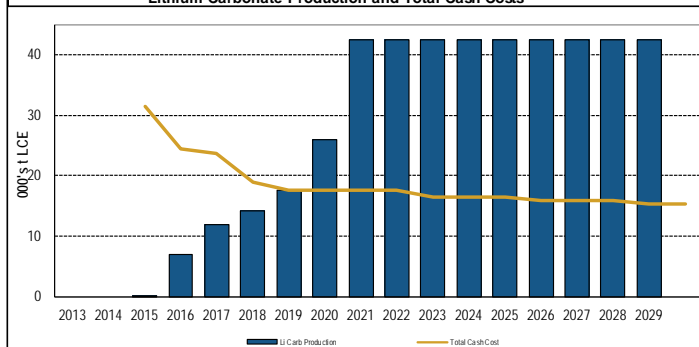
**EARNINGS SUMMARY**

	2016A	2017A	2018E	2019E
Revenue				
Lithium	-	-	112,615	130,922
Clay + Other	18,563	22,142	22,142	22,142
<b>Total Revenue</b>	<b>18,563</b>	<b>22,142</b>	<b>134,757</b>	<b>153,064</b>
Operating Costs	49,468	52,484	65,951	73,027
Other Costs	4,861	3,000	-	-
DD&A	1,693	42	85	4,130
Exploration	-	-	-	-
S, G&A	6,996	15,000	35,000	35,000
<b>EBITDA</b>	<b>(42,762)</b>	<b>(48,342)</b>	<b>33,806</b>	<b>45,037</b>
FX Gain	(2,552)	-	-	-
Interest	475	(5,342)	(9,329)	(10,603)
Writedown of min. properties	-	-	-	-
<b>EBT</b>	<b>(44,839)</b>	<b>(53,684)</b>	<b>24,477</b>	<b>34,434</b>
less Tax	(634)	-	7,317	9,091
<b>Earnings from Olaroz</b>	<b>(11,001)</b>	<b>17,228</b>	<b>21,267</b>	<b>32,318</b>
Net Income (reported)	(55,205)	(36,456)	38,426	57,661
<b>Average shares (MM)</b>	<b>183.8</b>	<b>210.5</b>	<b>260.5</b>	<b>262.6</b>

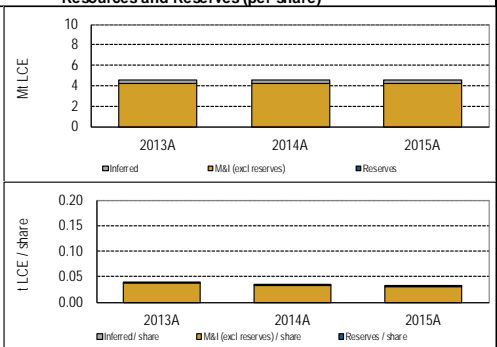
**STATEMENT OF CASH FLOWS**

	2016A	2017A	2018E	2019E
Net Income (000's\$)	(56,853)	(36,498)	38,341	53,531
D, D&A	1,693	42	85	4,130
Future income taxes	-	-	-	-
Writedown of min. properties	-	-	-	-
FX Gain	-	-	-	-
Change in working capital	146	-	-	-
Other Operating	49,132	-	-	-
<b>Total Operating CF</b>	<b>(5,882)</b>	<b>(36,456)</b>	<b>38,426</b>	<b>57,661</b>
Short term investments	-	-	-	-
Mineral Properties	(3,792)	(57,336)	(136,000)	(206,500)
Acquisitions	(1,691)	-	1,000	1,000
Increase in Investments	106	-	1,000	1,000
Other Investing	(4,193)	-	-	-
<b>Total Investing CF</b>	<b>(9,570)</b>	<b>(57,336)</b>	<b>(134,000)</b>	<b>(204,500)</b>
Equity financing	82,472	-	271,989	11,550
Debt Issue	1,973	-	100,000	-
Debt Repayment	-	(28,865)	(1,609)	(65,078)
Other financing	-	-	-	-
<b>Total Financing CF</b>	<b>84,445</b>	<b>(28,865)</b>	<b>370,379</b>	<b>(53,528)</b>
Foreign Exchange effect	(1,549)	-	-	-
Change in cash	68,993	(122,657)	274,805	(200,367)
<b>Cash &amp; ST Inv., end of year</b>	<b>35,058</b>	<b>(87,599)</b>	<b>186,206</b>	<b>(15,161)</b>

**Lithium Carbonate Production and Total Cash Costs**



**Resources and Reserves (per share)**



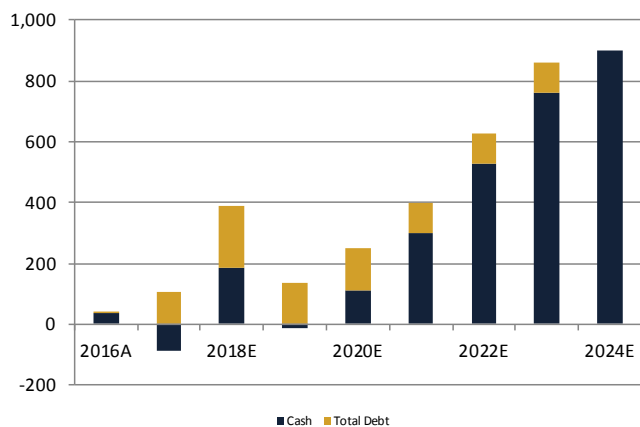
## Orocobre Limited

### Net Asset Valuation at Eight Capital Price Deck (A\$)

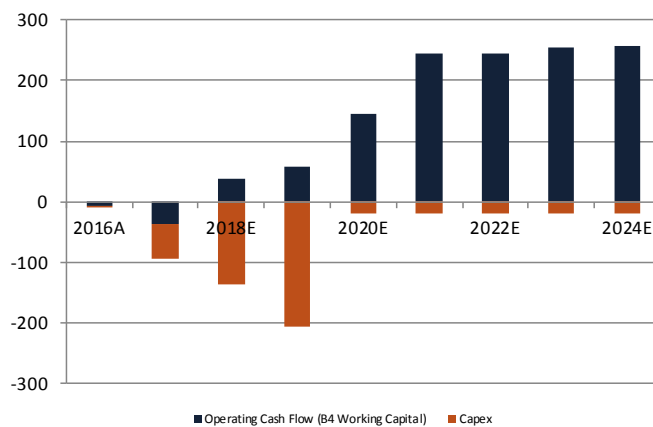
	Target Setting NAV			NAV at Various Discount Rates					
	Discount Rate	(MM US\$)	(US\$/Share)	0% (\$MM)	0% (US\$/Share)	5% (MM US\$)	5% (US\$/Share)	15% (MM US\$)	15% (US\$/Share)
<b>Mining Assets</b>									
Olaroz (66.50%)	10%	926	3.56	2,142	8.22	1,365	5.24	662	2.54
Borax (100%)	10%	9	0.03	17	0.07	12	0.05	7	0.03
Japan LiOH	10%	79	0.30	<b>2,159</b>	<b>8.29</b>	<b>1,376</b>	<b>5.28</b>	<b>669</b>	<b>2.57</b>
<b>Total Mining Assets</b>		<b>935</b>	<b>3.59</b>						
<b>Other Assets &amp; Expenses</b>									
Cash		185	0.71	185	0.71	(88)	-0.34	(88)	(0.34)
Debt		(201)	(0.77)	(201)	-0.77	(104)	-0.40	(104)	(0.40)
Resources		87	0.33	87	0.33	87	0.33	87	0.33
Exploration, G&A, Other	10%	561	2.15	1600	6.14	1084	4.16	583	2.24
<b>Net Other Assets</b>		<b>631</b>	<b>2.42</b>	<b>1671</b>	<b>6.41</b>	<b>979</b>	<b>3.76</b>	<b>478</b>	<b>1.83</b>
<b>Net Asset Value</b>		<b>1,566</b>	<b>6.01</b>	<b>3,830</b>	<b>14.71</b>	<b>2,356</b>	<b>9.04</b>	<b>1,146</b>	<b>4.40</b>
<b>Share Price</b>			<b>6.48</b>		<b>6.48</b>		<b>6.48</b>		<b>6.48</b>
<b>P/NAV</b>			<b>0.86x</b>		<b>0.35x</b>		<b>0.57x</b>		<b>1.18x</b>

### Financial Forecasts at Eight Capital Price Deck (MM US\$)

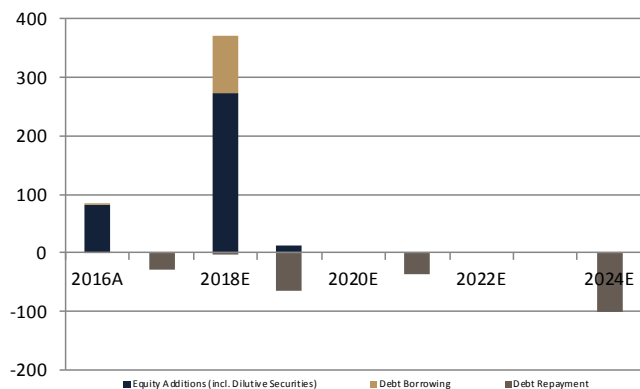
#### Cash and Debt



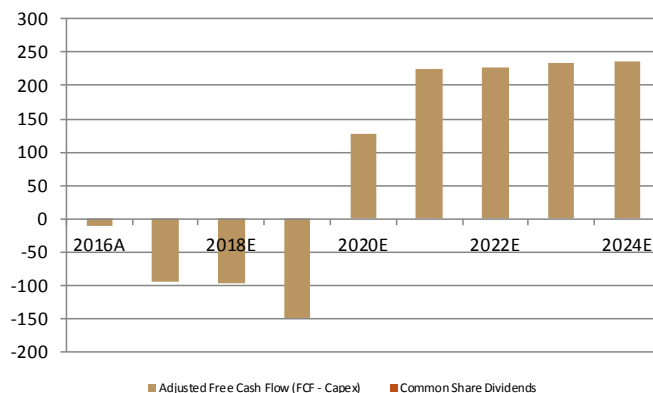
#### Operating Cash Flow and Capital Spending



#### Changes in Debt and Equity



#### Free Cash Flow and Common Share Dividends



Source: Company Reports, FactSet, Eight Capital

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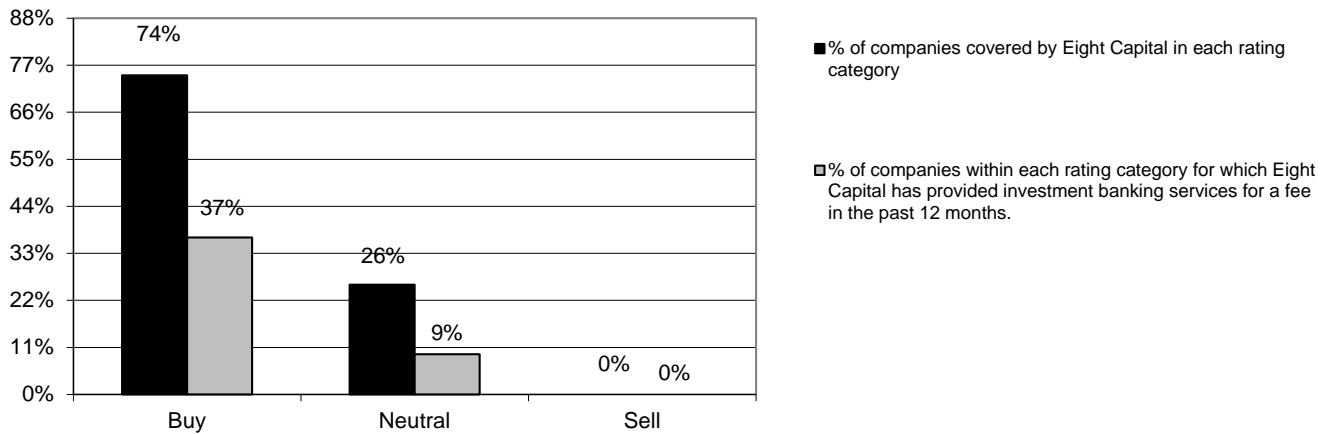
**Explanation of Recommendations**

**Eight Capital target:** Represents the price target as required under IROC Rule 3400. Valuation methodologies used in determining the price target(s) for the issuer(s) mentioned in this research report are contained in current and/or prior research. Eight Capital target N/A: a price target and/or NAV are not available if the analyst deems there are limited financial metrics upon which to base a reasonable valuation.

**Recommendations:** **BUY:** Total returns expected to be materially better than the overall market with higher return expectations needed for more risky securities. **NEUTRAL:** Total returns expected to be in line with the overall market. **SELL:** Total returns expected to be materially lower than the overall market. **TENDER:** The analyst recommends tendering shares to a formal tender offer. **UNDER REVIEW:** The analyst will place the rating and/or target price Under Review when there is a significant material event with further information pending; and/or when the analyst determines it is necessary to await adequate information that could potentially lead to a re-evaluation of the rating, target price or forecast; and/or when coverage of a particular security is transferred from one analyst to another to give the new analyst time to reconfirm the rating, target price or forecast.

**SECURITY ABBREVIATIONS:** NVS (non-voting shares); RVS (restricted voting shares); RS (restricted shares); SVS (subordinate voting shares).

**Eight Capital Equity Research Ratings:**



*As at December 31, 2017*  
 Source: Eight Capital