

SKM appointed for Detailed Engineering

Progressing and severely undervalued

- Orocobre has awarded the detailed engineering contract for the Salar de Olaroz lithium project to Sinclair Knight Merz (SKM), which also participated in the Olaroz feasibility. SKM is the logical choice as it was responsible for the design and construction of FMC's Salar de Hombre Muerto project, which is also a lithium-from-brines project in Argentina that is now in production.
- The political uncertainty caused by the Committee process in Jujuy Province has been the major negative for ORE. However we believe that this has been a market overreaction because there will be minor, if any, changes to ORE's existing conditions.
- Toyota Tsusho has a 90-day option period to buy 25% of Olaroz AND arrange Japanese bank financing for 60% of the Capex. As we have highlighted before, we believe that arranging the bank funding will take up to the end of the year and that the acquisition and financing agreements will be announced together even though the 90-days finishes this month.
- We see the chance of Toyota not exercising as very small. It funded and was heavily involved in the DFS, which concluded that the NPV ranged from \$275 to \$450m. Also, there are few other near-term lithium producers and they are all under JV and/or offtake agreements with other major consumers, so Toyota would have to go back to square-one to secure its Lithium supplies.
- ORE has \$38m in cash and we expect that it will receive around \$75-100m for 25% of Olaroz, while its eventual equity share of the capex will only be \$66m (\$220m x 40% x 75%) so the company looks fully funded to first production of Lithium Carbonate in late FY13.
- The current share price implies that it is cheaper to takeover the firm than to buy Olaroz. In the case of ORE there are few strategic or management shareholders that would be able to block a serious bid.
- We believe ORE is severely undervalued at an EV of only \$116m. The market is attributing little value to the fact that ORE has a very advanced lithium project (with pilot plant), 3 other attractive projects in the pipeline, and a strong strategic partner. Accordingly we maintain our BUY recommendation with a price target of \$3.95/sh.

9 August 2011

12mth Rating

		BUY
Price	A\$	1.49
Target Price	A\$	3.95
12m Total Return	%	165.1

RIC: ORE.AX

BBG: ORE AU

Shares o/s	m	103.2
Free Float	%	87.4
Market Cap.	A\$m	153.8
Net Debt (Cash)	A\$m	-37.7
Net Debt/Equity	%	na
3m Av. D. T'over	A\$m	0.38
52wk High/Low	A\$	4.00/1.46
2yr adj. beta		1.62

Valuation:

Methodology		DCF
Value per share	A\$	3.95

Analyst:

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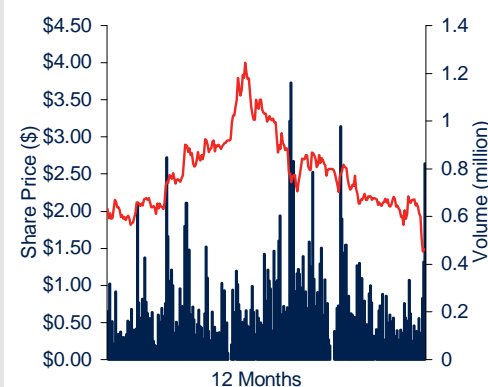
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Disclosure :Patersons acted as joint lead manager for a share placement that raised A\$15m at A\$3.21/sh. In conjunction Cormark Securities Dundee Securities acted as lead Syndicators for C\$20m bought deal at C\$3.20/sh in February 2011. Patersons acted as joint lead manager for a share placement that raised A\$6.25m at A\$1.10/sh in December 2009. It received a fee for this service.

12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	-36.5	-49.8	-39.2
Rel. S&P/ASX 300	-24.9	-40.0	-34.2

Year End June 30	2011F	2012F	2013F	2014F	2015F
Reported NPAT (\$m)	(2.7)	(3.5)	(10.9)	(9.2)	(1.0)
Recurrent NPAT (\$m)	(2.7)	(3.5)	(10.9)	(9.2)	(1.0)
Recurrent EPS (cents)	(2.6)	(3.3)	(10.4)	(8.9)	(1.0)
EPS Growth (%)	na	na	na	na	na
PER (x)	(56.7)	(44.6)	(14.3)	(16.8)	(155.1)
EBITDA (\$m)	(2.7)	(2.1)	5.4	50.4	71.3
EV/EBITDA (x)	(43.0)	(104.5)	67.1	6.5	3.9
Free Cashflow	(18.6)	(141.4)	(101.4)	30.3	52.6
FCFPS (cents)	(17.9)	(136.0)	(97.4)	29.1	50.5
PFCF (x)	(8.3)	(1.1)	(1.5)	5.1	2.9
DPS (cents)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0	0.0

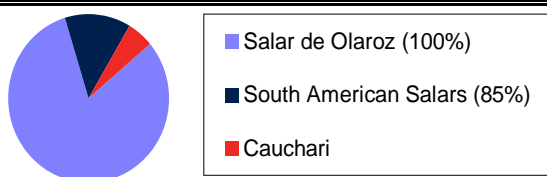
Orocobre Resources Ltd

\$1.49

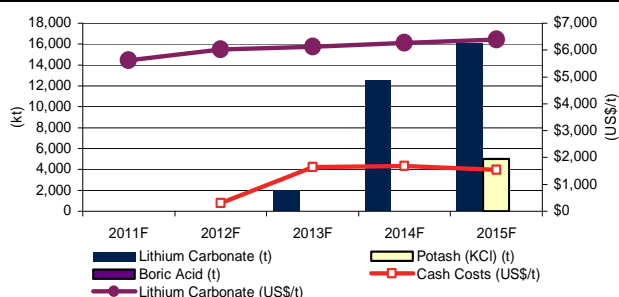
Valuation	A\$m	A\$/sh
Salar de Olaroz (100%)	304	2.92
South American Salars (85%)	50	0.48
Cauchari	20	0.19
Exploration	20	0.19
Corporate	(26)	(0.25)
Elementos Holding	4	0.04
Unpaid Capital	0	0.00
Debt	0	0.00
Cash	38	0.36
NPV (at 10%)	409	3.93
Price Target		3.95

Price Target Sensitivities	-10%	0%	+10%
Lithium Carbonate Price (US\$/t)	3.39	3.93	4.47
Potash Price (US\$/t)	3.89	3.93	3.98
Exchange Rate (US\$/A\$)	4.22	3.93	3.70

Valuation Summary of Operating Assets



Lithium Production Summary



Reserves & Resources (100% of Project)

	Volume (cubic km)	Lithium (mg/L)	Potassium (mg/L)	Boron (mg/L)
Salar Olaroz	1.75	690	5,730	1,050
Contained Metal (kt)		1,209	10,041	1,840
Product Equivalent (kt)		6,433	19,179	10,527

Directors

Name	Position
James Calaway	Non-Executive Chairman
Richard Seville	Managing Director
John Gibson	Non-Executive Director
Federico Nicholson	Non-Executive Director
Fernando Oris De Roa	Non-Executive Director
Courtney Pratt	Non-Executive Director
Neil Stuart	Non-Executive Director

Substantial Shareholders

	Shares (m)	(%)
Lithium Investors LLC	8.2	7.9%
Richard Seville	4.8	4.7%
Fairground	4.4	4.3%
Eye Investment Fund	4.0	3.9%
CIBC GAM	3.6	3.5%

Commodity Assumptions	Year End June 30				
	2011F	2012F	2013F	2014F	2015F
US\$/A\$	0.99	1.05	0.98	0.93	0.92
Lithium Carbonate (US\$/t)	\$5,625	\$6,023	\$6,136	\$6,260	\$6,386
Potash (KCl) (US\$/t)	\$700	\$582	\$593	\$605	\$617
Boric Acid (US\$/t)	\$500	\$502	\$511	\$522	\$532
Sodium Sulphate (US\$/t)	\$120	\$120	\$123	\$125	\$128

Production Summary	2011F	2012F	2013F	2014F	2015F
Salar Olaroz (100%)					
Lithium Carbonate (t)		0	2,000	12,500	16,050
Potash (KCl) (t)		0	0	0	5,000
Boric Acid (t)					
Sodium Sulphate (t)					

Cash Costs (US\$/t)			\$1,653	\$1,678	\$1,533
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Profit & Loss (A\$m)	2011F	2012F	2013F	2014F	2015F
Sales Revenue	0.0	0.0	11.8	76.0	104.3
Other Income	1.3	2.0	1.2	1.2	1.5
Operating Costs	0.0	0.0	3.5	22.6	30.2
Exploration Exp.	0.0	0.0	0.0	0.0	0.0
Corporate/Admin	4.0	4.0	4.1	4.2	4.3
EBITDA	(2.7)	(2.1)	5.4	50.4	71.3
Depn & Amort	0.0	0.0	8.0	50.0	64.2
EBIT	(2.7)	(2.1)	(2.6)	0.4	7.1
Interest	0.0	1.4	8.2	9.6	8.1
Operating Profit	(2.7)	(3.5)	(10.9)	(9.2)	(1.0)
Tax expense	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Abnormals	0.0	0.0	0.0	0.0	0.0
NPAT	(2.7)	(3.5)	(10.9)	(9.2)	(1.0)
Normalised NPAT	(2.7)	(3.5)	(10.9)	(9.2)	(1.5)

Cash Flow (A\$m)	2011F	2012F	2013F	2014F	2015F
Adjusted Net Profit	(2.7)	(3.5)	(10.9)	(9.2)	(1.0)
+ Interest/Tax/Expl Exp	0.0	1.4	8.2	9.6	8.1
- Interest/Tax/Expl Inc	15.4	9.5	16.4	18.0	16.6
+ Depn/Amort	0.0	0.0	8.0	50.0	64.2
+/- Other	0.0	0.0	0.0	0.0	0.0
Operating Cashflow	(18.1)	(11.5)	(11.0)	32.4	54.7
- Capex (+asset sales)	0.5	129.9	90.3	2.1	2.1
- Working Capital Increase	0.0	0.0	0.0	0.0	0.0
Free Cashflow	(18.6)	(11.4)	(11.4)	30.3	52.6
- Dividends (ords & pref)	0.0	0.0	0.0	0.0	0.0
+ Equity raised	37.0	0.0	0.0	0.0	0.0
+ Debt drawdown (repaid)	0.0	129.9	89.8	(20.5)	(42.0)
Net Change in Cash	12.6	(11.5)	(11.6)	9.9	10.6
Cash at End Period	37.7	26.2	14.6	24.5	35.1
Net Cash/(LT Debt)	37.7	(59.4)	(205.1)	(174.8)	(122.2)

Balance Sheet (A\$m)	2011F	2012F	2013F	2014F	2015F
Cash	37.7	26.2	14.6	24.5	35.1
Total Assets	62.8	189.2	268.2	238.5	195.5
Total Debt	0.0	85.6	219.7	199.3	157.3
Total Liabilities	0.7	130.7	220.5	200.0	158.1
Shareholders Funds	62.0	58.6	47.7	38.5	37.5

Ratios

Net Debt/Equity (%)	na	1.0	4.3	4.5	3.3
Interest Cover (x)	na	-1.4	-0.3	0.0	0.9
Return on Equity (%)	na	na	na	na	na

Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return
06 Dec 10	Resources Review	3.00	2.97	H	
07 Mar 11	Research Note	3.60	2.52	B	
05 May 11	Research Note	3.95	2.47	B	-2.0%
17 May 11	Resources Review	3.95	2.44	B	-1.2%
14 Jun 11	Research Note	3.95	2.15	B	-11.9%
	Current Share Price		1.49		-30.7%

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