

## Orocobre Limited

(ORL-T: C\$1.71) (ORE-ASX: A\$1.46)

## Update

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### BUY, High Risk\*

12-month target price: C\$3.75 (was C\$4.00)

## Olaroz Lithium Project On Track as Engineering Contract Assigned

Risk		High		
52-Week Range	high	C\$ 1.65 - C\$ 4.00		
Shares Outstanding (MM)		102.8		
Fully Diluted Shares (MM)		102.8		
Market Capitalization (MM)		C\$ 176		
Ave. Volume (000 shares/day)		27		
Working Capital (31-Mar-11) - (MM)		A\$ 36.9		
Value Cash, ST Inv. (31-Mar-11) - (MM)		A\$ 42.7		
<b>Dundee Assumptions</b>				
Li2CO3 Price (US\$/t)	6000	5500	5500	5500
FX (US\$/A\$)	0.93	1.04	1.06	1.02
<b>Valuation (C\$/share)</b>				
2012 - 10% DCF Corporate Value				A\$ 2.68
2011 Year-end Cash etc.				A\$ 0.41
2011 Additional Resource Value				A\$ 0.58
NAV				A\$ 3.67
DCF Multiple				1.0
Target				A\$ 3.67
Target				C\$ 3.75
<b>Earnings and Cash Flow (A\$/share)</b>				
	2010E	2011E	2012E	2013E
EPS	-0.06	-0.03	-0.07	0.08
CFPS before W/C	-0.05	-0.04	-0.07	0.08

All Figures in A\$ Unless Otherwise Noted

Source: See Note 1

**Conclusion: We continue to recommend Orocobre as a BUY but are lowering our 12-month share price target to C\$3.75 from C\$4.00.**

With today's awarding of the detailed engineering contract for its Olaroz lithium project, Orocobre continues to make steady progress. Completion of final permits and financing arrangements could dictate the start of construction by year end. As potentially the first in line to production of the existing lithium brine developers, we believe investors are likely to make this stock their preferred choice in the small lithium sector - especially if dilution is held in check with the possibility of building this ~\$206MM project without raising further equity. As milestones are surpassed, Orocobre is becoming a leader in the space.

We believe that Orocobre is undervalued using our 10% DCF valuation. We recently revised our exchange rate forecasts, increasing assumptions for both A\$ and C\$ in the near term against the US\$. This resulted in a boost to our valuation to A\$4.27 from A\$4.21 (as revenues grew more than costs in A\$ terms), and would have been even more accretive after converting to a C\$ target price. However, in this uncertain economic environment, we have chosen to be cautious and tempered our lithium price assumption for Orocobre down to US\$5,500/t (from our previous US\$6,160/t) in line with the other players. Naturally, this had an offsetting effect on our valuation and we now value the stock at A\$3.67 (C\$3.75) per share.

### Another milestone for Orocobre

- **SKM gets contract.** Orocobre announced this morning that it has awarded the detailed engineering contract to SKM for its Olaroz lithium-potash project in Argentina.
- **Lithium brine project experience.** SKM also built FMC's Salar de Hombre Muerto brine operation that is located in the province to the south.
- **Engineers already know the project.** SKM has intimate knowledge of the Olaroz project as the company recently completed the engineering and cost estimates for the Olaroz DFS study.

### Checking off the milestones

- **Definitive Feasibility Study completed.** This study shows strong project fundamentals. This includes a large resource base (6.4 MM t lithium carbonate) and long life operation (40 years). Studies also indicate good brine chemistry (low Mg:Li and SO<sub>4</sub>:Li ratios). Low costs are expected at \$1512/t, and with by-product potash, costs drop to ~\$1230/t. Pilot plant and refining tests were successful.
- **Financing anticipated by year end.** Orocobre is finalizing financing with its JV partner Toyota Tsusho who is expected to buy 25% of the project, and arrange debt financing through the Japanese.
- **Authorizations are well advanced.** Its EIS has been approved and mine permits are in hand. Secondary approvals related to Jujuy Province declaration of lithium as a strategic metal is pending.
- **Near term production.** ORL suggests 16,400 tpa production beginning in 2013. We believe the company may ultimately produce 20,000 tpa.

### ORL-T: Price/Volume Chart



Source: Thomson ONE

### Company Description

Orocobre is an Australian-based exploration and development company focused on lithium-potassium brine properties. Its flagship is the Olaroz lithium-potassium brine project in the Olaroz Salar of Argentina. The brine hosts an estimated 6.4 million tonnes of lithium carbonate equivalent resources.

<b>Orocobre Limited</b>				<b>ORL-T</b>		<b>C\$ 1.71</b>	
<b>Rating</b>	<b>BUY</b>	<b>C\$ Target</b>	<b>\$3.75</b>	<b>Shares O/S (MM)</b>	<b>102.8</b>		
<b>Risk*</b>	<b>High</b>	<b>C\$ Close</b>	<b>\$1.71</b>	<b>Float (MM)</b>	<b>102.8</b>		
		<b>A\$ Target</b>	<b>\$3.67</b>	<b>Fully Diluted Shares (MM)</b>	<b>102.8</b>		
<b>12-month return</b>	<b>119%</b>	<b>A\$ Close</b>	<b>\$1.46</b>	<b>Basic Mkt. Capitalization (\$MM)</b>	<b>C\$ 175.8</b>		

All figures in A\$, unless stated otherwise

<b>EVALUATION DATA</b>				
Year-end June	2010A	2011E	2012E	2013E
EPS	\$ (0.06)	\$ (0.03)	\$ (0.07)	\$ 0.08
P/E		N/A	N/A	21.8x
CFPS before changes in WC	\$ (0.05)	\$ (0.04)	\$ (0.07)	\$ 0.08
P/CF		N/A	N/A	21.8x
market cap/reserve t				na
enterprise value/reserve t				na
market cap/resource t				\$ 27
enterprise value/resource t				\$ 21

<b>ASSUMPTIONS</b>				
	2010A	2011E	2012E	2013E
Lithium US\$/lb	6000	5500	5500	5500
Exchange US\$/A\$	0.93	1.04	1.06	1.02

<b>Dundee Modelled Reserves and Other Mineralization (MM Lbs)</b>				
Ownership	Brine Volume cubic km	Li Grade mg/L	Contained	
			Li Metal 000s tonnes	Li2CO3

<b>Proven and Probable Reserves</b>				
Ownership	Brine Volume cubic km	Li Grade mg/L	Li Metal 000s tonnes	Li2CO3
Olaroz 100%	1.8	690	1,210	6,400

Total Reserves

<b>Measured and Indicated Resources</b>				
Ownership	Brine Volume cubic km	Li Grade mg/L	Li Metal 000s tonnes	Li2CO3
Olaroz 100%	1.8	690	1,210	6,400

Total M&I Resources

<b>Inferred Resources</b>				
Ownership	Brine Volume cubic km	Li Grade mg/L	Li Metal 000s tonnes	Li2CO3
Olaroz 100%	0.0	-	-	-

<b>TOTAL RESOURCE</b>				
Ownership	Brine Volume cubic km	Li Grade mg/L	Li Metal 000s tonnes	Li2CO3
Olaroz 100%	1.8	690	1,210	6,400

<b>PRODUCTION ESTIMATES (t)</b>					
Year-end Dec.	2012E	2013E	2013E	2013E	2013E
Olaroz	0	8,200	16,400	16,400	16,400
Sub total	0	8,200	16,400	16,400	16,400

<b>TOTAL CASH COST ESTIMATES (US\$/t)</b>					
Year-end Dec.	2012E	2013E	2013E	2013E	2013E
Olaroz	0	1952	1952	1781	1781
Wt. Ave.	na	1952	1952	1781	1781

<b>NET ASSET VALUE (beginning 2011)</b>				
	0% NAV (C\$MM)	A\$/share	10% NAV (C\$MM)	A\$/share
Corporate DCF	764	7.43	276	2.68
Cash and other	42	0.41	42	0.41
Exploration & unmodelled Resources	60	0.58	60	0.58
<b>Total</b>	<b>865</b>	<b>8.41</b>	<b>377</b>	<b>3.67</b>

Dundee DCF Target Multiple **1.0x**  
 Share Price Target **A\$ 3.67**  
 Share Price Target **C\$ 3.75**

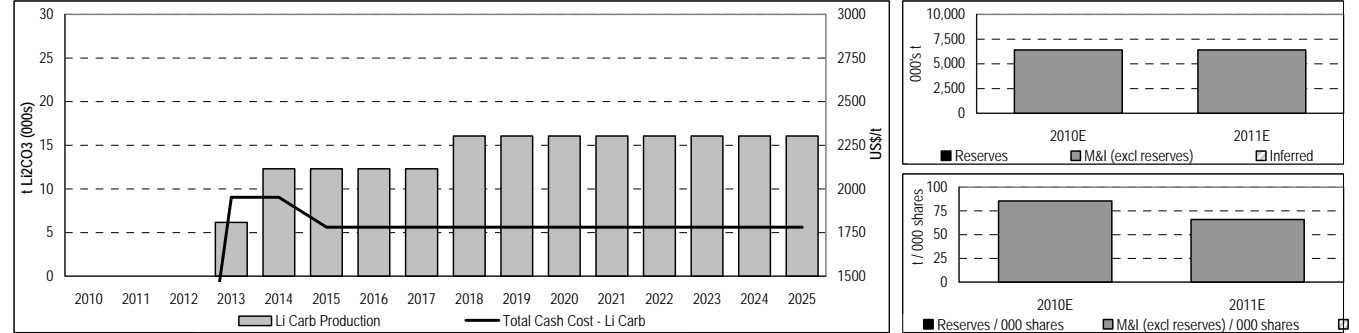
<b>NAV &amp; Price Target Sensitivity to Long-term Lithium Price Assumption</b>					
Long Term Lithium Price Assumption (US\$/t)					
NAV (C\$/share)	3000	4000	5000	6000	7000
0% Discount	2.95	5.36	7.77	10.18	12.59
5% Discount	1.87	3.29	4.71	6.13	7.55
10% Discount	1.37	2.30	3.22	4.15	5.07
15% Discount	1.14	1.79	2.44	3.09	3.74

<b>Year-end June BALANCE SHEET (000\$)</b>				
	2010A	2011E	2012E	2013E
<b>Assets</b>				
Cash & ST Investments	5,044	41,651	-	42,651
Other Current Assets	-	1,511	-	1,511
Current Assets	5,044	43,162	-	44,162
Mineral Properties	1,247	27,675	-	27,675
Other non-current Assets	-	398	-	398
<b>Total Assets</b>	<b>6,290</b>	<b>71,235</b>	<b>-</b>	<b>72,235</b>
<b>Liabilities</b>				
Current Liabilities	-	7,233	-	7,233
Capital lease / LT Debt	-	-	-	-
Other non-current Liabilities	6,918	16	-	16
<b>Total Liabilities</b>	<b>6,918</b>	<b>7,249</b>	<b>-</b>	<b>7,249</b>
Capital Stock	-	73,134	-	73,134
	(627)	(9,148)	-	(8,148)
<b>Total Shareholder Equity</b>	<b>(627)</b>	<b>63,986</b>	<b>-</b>	<b>64,986</b>

<b>EARNINGS SUMMARY (000\$)</b>				
	2010A	2011E	2012E	2013E
<b>Revenue</b>				
Lithium	-	-	-	33,162
Other	711	719	-	57
<b>Total Revenue</b>	<b>711</b>	<b>719</b>	<b>-</b>	<b>33,219</b>
Lithium costs	-	-	-	11,769
Other Costs	-	(374)	-	-
DD&A	32	-	-	431
Exploration	34	-	3,000	3,000
S, G&A	3,992	3,814	4,000	4,000
<b>EBIT</b>	<b>(3,348)</b>	<b>(2,721)</b>	<b>(7,000)</b>	<b>14,018</b>
FX Gain	(888)	(267)	-	-
Interest	-	-	-	(1,863)
Writedown of min. properties	-	-	-	-
<b>EBT</b>	<b>(4,236)</b>	<b>(2,988)</b>	<b>(7,000)</b>	<b>12,155</b>
less Tax	-	-	-	4,254
<b>Net Income (reported)</b>	<b>(4,236)</b>	<b>(2,988)</b>	<b>(7,000)</b>	<b>7,901</b>
Average shares (MM)	74.8	97.0	102.8	102.8

<b>STATEMENT OF CASH FLOWS (000\$)</b>				
	2010A	2011E	2012E	2013E
Net Income (000's\$)	(4,202)	(2,988)	(7,000)	7,901
D, D&A	32	-	-	431
Future income taxes	-	-	-	-
Writedown of min. properties	-	-	-	-
FX Gain	-	-	-	-
Change in working capital	530	(1,266)	-	-
Other Operating	(45)	218	-	-
<b>Total Operating CF</b>	<b>(3,685)</b>	<b>(4,037)</b>	<b>(7,000)</b>	<b>8,332</b>
Short term investments	-	-	-	-
Mineral Properties	(12,381)	(14,216)	(97,903)	(53,603)
Acquisitions	-	-	-	-
Increase in Investments	-	-	100,000	-
Other Investing	-	-	-	-
<b>Total Investing CF</b>	<b>(12,381)</b>	<b>(14,216)</b>	<b>2,097</b>	<b>(53,603)</b>
Equity financing	-	34,747	-	-
Debt Issue	-	-	-	93,150
Debt Repayment	-	-	-	-
Other financing	76	76	-	-
<b>Total Financing CF</b>	<b>76</b>	<b>34,823</b>	<b>-</b>	<b>93,150</b>
Foreign Exchange effect	(12)	522	-	-
Change in cash	(15,990)	17,092	(4,903)	47,879
<b>Cash &amp; ST Inv., end of year</b>	<b>5,044</b>	<b>41,651</b>	<b>36,748</b>	<b>84,627</b>

**Lithium Carbonate Production and Total Cash Costs**      **Resources and Reserves and Resources and Reserves per 1,000 Shares**



Source: Company Reports, Thomson ONE, Bloomberg, Dundee Capital Markets

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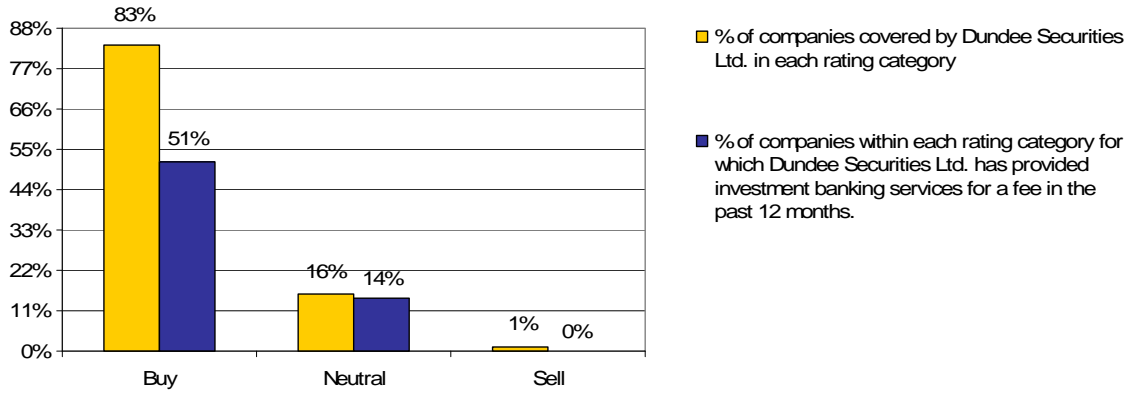
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June 30, 2011

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