

# Orocobre<sup>ORE</sup>

## Recommendations

Rating	<b>HOLD</b>
Risk	High
Price Target	<b>\$2.12</b>
Share Price	\$1.99

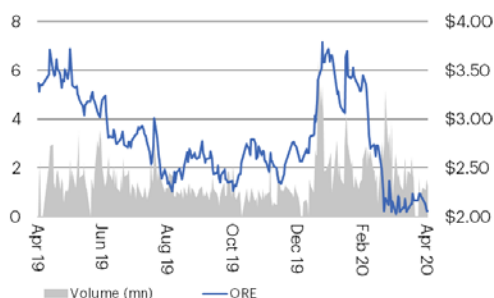
## Snapshot

Monthly Turnover	\$72.9mn
Market Cap	\$519mn
Shares Issued	262.0mn
52-Week High	\$3.96
52-Week Low	\$1.84
Sector	Materials

## Business Description

Orocobre is the first of the Australia lithium brine producer. It is operating Olaroz lithium project in Argentina and its planning on its expansion as well as JV development of a lithium hydroxide plant in Japan. ORE also has a number of borate operations which sell product into the domestic and export markets.

## 12-Month Price & Volume



## Research Analyst

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## Disclosure

The author owns no shares in ORE.

## Company Report

### Good outcome in a tough environment

**Dual headwinds:** In the March quarter, ORE faced disruptions in production from COVID-19 restrictions and a weakening in the lithium carbonate market. Production from Olaroz was 2,732t of Li<sub>2</sub>CO<sub>3</sub>, which was 1,000t less than our forecast, and sales were 2,518t, which was down 23% QoQ – with the plant offline for 21 days. The sales price was US\$4,810/t, down from \$5,419/t in the previous quarter and \$500/t less than our forecast. The good news was that, despite the lower sales, the cost of sales was US\$3,972/t, down 3% QoQ (our forecast was \$4,437/t). The improvement in costs is an illustration of the work being done by management and staff on reducing soda ash and CO<sub>2</sub> consumption and costs, doing work internally rather than hiring contractors, renegotiating supply agreements and on improving the efficiency of operations.

**Guidance withdrawn in uncertain times:** ORE has withdrawn production and sales guidance for FY20 and is not making any commentary on lithium carbonate prices. Ten days of production has been lost due to COVID-19 labour restrictions and on top of this, the plant is being run to meet customer demand which continues to be weak. On that basis, we have reduced capacity utilisation of Stage 1 to 50-60% for CY20. The company indicated it no longer believes there will be a recovery in pricing in 2020 and that demand is unlikely to lead to any price improvement until 2021. The first quarter of 2020 was one of ongoing stockbuilding, as producers of lithium carbonate or spodumene continued to produce when consumer or end-use demand had ceased worsening the situation at the start of the year.

**Earnings and valuation down:** On the back of factoring in lower prices for CY20 and CY21, lower production from Stage 1 at Olaroz and a delay in the completion and ramp-up of the Stage 2 expansion, our valuation has fallen from A\$2.80ps to A\$2.12ps. Our NLAT forecast for FY20 has increased from US\$9.9m to US\$16.0m, and our FY21 forecast has been downgraded from a US\$1.2m profit to an NLAT of US\$6.3m.

**Investment view:** Our price target falls from A\$2.80ps to A\$2.12ps, in line with our valuation. HOLD retained. ORE will continue to languish until there is a turnaround in the lithium market. It is fortunate to have a net cash position of US\$88.2m, which will assist in maintaining some construction activity at Olaroz and Naraha in the intervening period.

## Investment Summary

Year End: 30 June		2018 (A)	2019 (A)	2020 (E)	2021 (E)	2022 (E)
Revenue	US\$m	17	81	20	19	19
EBITDA	US\$m	-9.4	36.1	-3.6	-4.4	-4.4
EBIT	US\$m	-11.2	28.5	-4.7	-5.5	-5.5
Reported Profit	US\$m	1.9	54.6	-16.0	-6.3	16.3
Adjusted Profit	US\$m	1.9	24.8	-16.0	-6.3	16.3
EPS (Reported)	US¢	0.7	20.9	-6.1	-2.4	6.2
EPS (Adjusted)	A¢	0.9	12.8	-8.8	-3.6	9.2
EPS Growth	%	-66.8	N/A	N/A	N/A	N/A
PER (Adjusted)	x	209.8	15.6	N/A	N/A	21.7
EV/EBITDA	x	5.9	7.1	N/A	49.5	8.2
Dividend	A¢	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

## Financial Summary

<b>Code</b>	ORE				
<b>Analyst</b>	Warren Edney				
<b>Date</b>	22-Apr-20				
<b>Share Price (\$A)</b>	\$1.99				
<b>Market Capitalisation (A\$m)</b>	\$519				
<b>Enterprise Value (A\$m)</b>	\$385				
<b>Year End</b>	30 June				

FX conv at forecast rate

<b>Rating</b>	<b>HOLD</b>
<b>Price Target</b>	\$2.12
<b>Upside/(Downside)</b>	6%
<b>Valuation</b>	\$2.12
<b>Risk</b>	High

Key Ratios	FY18A	FY19A	FY20E	FY21E	FY22E
NPAT - Reported (US\$)	1.9	54.6	-16.0	-6.3	16.3
NPAT - Attributable (US\$)	1.9	24.8	-16.0	-6.3	16.3
EPS - Reported USc	0.7	20.9	-6.1	-2.4	6.2
EPS - Attrib USc	0.7	9.5	-6.1	-2.4	6.2
EPS - Attrib Ac	0.9	12.8	-8.8	-3.6	9.2
EPS Growth (%)	(66%)	1,191%	(165%)	(61%)	(357%)
P/E (x) - Attributable	209.8	15.6	N/A	N/A	21.7
CFPS (USc)	-5.4	3.3	11.4	-2.1	-2.1
CFPS (Ac)	-6.9	4.4	16.4	-94.1	-94.1
P/CF (x)	-28.8	45.5	12.1	-2.1	-2.1
Dividend Yield (%)	0%	0%	0%	0%	0%
Payout Ratio (%)	0%	0%	0%	0%	0%
FCF Yield (%)	N/A	N/A	N/A	N/A	N/A

Assumptions	FY18A	FY19A	FY20E	FY21E	FY22E
Australian Dollar (AUD/USD)	0.78	0.74	0.70	0.68	0.68
ARG - USD	15.00	15.00	15.00	15.00	15.00
LCE (US\$/t)	12482	10739	5460	5750	8000
Borates (US\$/t)	522	524	526	526	526

Production & Costs	FY18A	FY19A	FY20E	FY21E	FY22E
Olaroz - LCE (kt)	12.5	12.6	12.0	13.2	21.4
LCE AISC cost (US\$/t)	4411	4537	4662	4414	4130
Borate Minerals (kt)	37	40	41	40	40
Borate FOB cost (US\$/t)	408	365	359	365	365

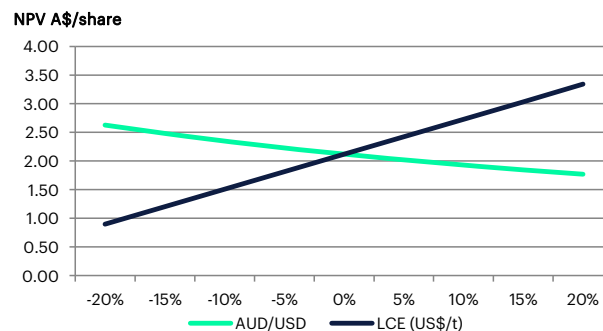
Profit & Loss (US\$m)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating Revenue	17	81	18	17.2	17.2
Other Revenue	-	0	2	2.0	2.0
Total Revenue	17.4	81.2	20.2	19.2	19.2
Operating Expenses	(14)	(52)	(15)	(15)	(15)
Corporate/Other Expenses	(13)	7	(9)	(9)	(9)
EBITDA	(9)	36	(4)	(4)	(4)
Depreciation & Amortisation	(2)	(8)	(1)	(1)	(1)
Exploration/write-offs	-	-	-	-	-
EBIT	(11)	29	(5)	(6)	(6)
Net Interest / (Expense)	4	4	9	-	-
Share in associate	20	-	(7)	(1)	22
FX gain (loss)	(3)	(6)	-	-	-
NPBT	10	26	(2)	(6)	16
Income Tax Expense	-	(2)	(14)	-	-
NPAT - Reported	2	55	(16)	(6)	16
Significant Items	-	31	-	-	-
NPAT - Attributable	2	25	(16)	(6)	16

Cash Flow (US\$m)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash Flow from Ops	(14)	8	30	(6)	(6)
Capex - Development & Sustaining	(2)	(36)	-	-	-
Free Cash Flow	(16)	(27)	30	(6)	(6)
Cash Flow From Investing	(13)	(21)	2	2	2
Cash Flow From Financing	292	(24)	-	-	-
Net Cash Flow	265	(37)	32	(4)	(4)

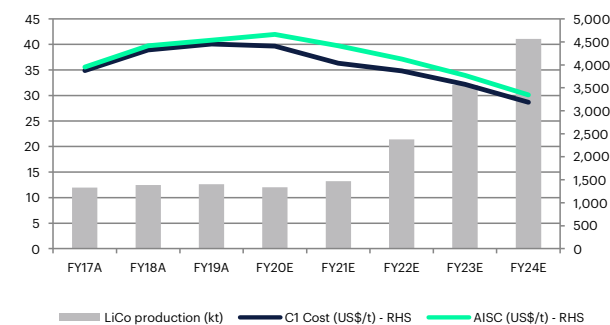
Balance Sheet (US\$m)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash	317	280	282	278.1	274.6
PP&E/Development/Exploration	8	656	647	645.6	644.4
Assets	523	1113	1214	1208.8	1229.8
Debts	1	180	180	180.1	180.1
Liabilities	21	378	378	378.3	378.3
Equity	502	735	751	744.2	763.2
Net Debt / (Cash)	-316	-100	-102	-98.0	-94.5
Gearing (%) - ND / (ND + Equity)	-170%	-16%	-16%	-15%	-14%

Valuation Summary	US\$m	US\$ps	A\$m	A\$ps
<b>WACC 9%</b>				
Olaroz	264	1.01	354	1.36
Hydroxide	24	0.09	32	0.12
Borates	22	0.08	30	0.11
Operations	310	1.19	416	1.60
Corporate	(39)	-0.15	(52)	-0.20
Exploration/Investment	41	0.16	55	0.21
Net Cash / (Debt)	100	0.38	134	0.51
<b>Total Valuation</b>	<b>411</b>	<b>1.58</b>	<b>553</b>	<b>2.12</b>

### Valuation Sensitivity

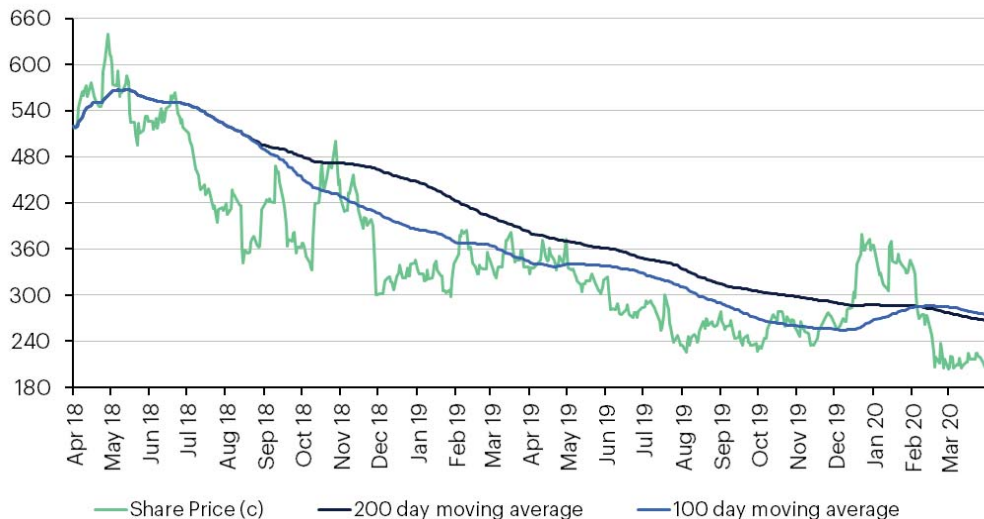


### Production & Costs



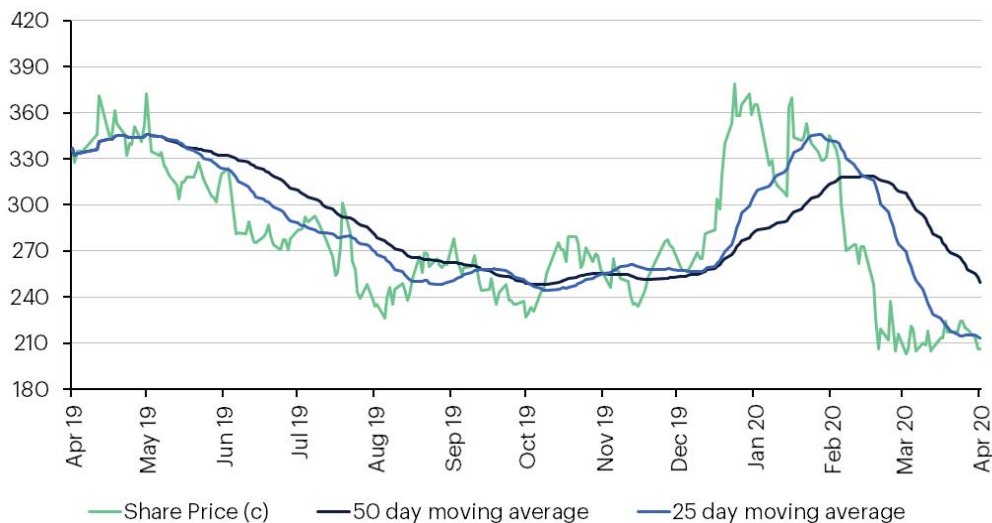
## Appendix

**Fig.1: Long term momentum indicators**



Source: Iress

**Fig.2: Short term momentum indicators**



Source: Iress

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**Buy:** The stock's total return is expected to increase by at least 10-15 percent from the current share price over the next 12 months.

**Hold:** The stock's total return is expected to trade within a range of  $\pm$ 10-15 percent from the current share price over the next 12 months.

**Sell:** The stock's total return is expected to decrease by at least 10-15 percent from the current share price over the next 12 months.

**EL&C Baillieu Analysts' stock ratings distribution as of 09 April 2020:**

**Buy:** 71%

**Hold:** 27%

**Sell:** 2%

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