



Analysis of: OROCOBRE LTD

27 April 2017

KTS Opinion

Price	2.94	Target	5.50	87.07%
Advice	BUY	Stop Loss	2.60	-11.56%

We believe the lithium sector is going to have huge potential going forward because of the substantial program of new electric cars in China, Europe and America. After analysing pure lithium producers, we believe Orocobre has the best risk / reward ratio.

Investment Thesis

Tesla's story is well known to everyone, but Chinese billionaires are starting new companies in the sector, with a target of 5 Mln electric cars by 2020. To give an idea of the enormous potential in China, during 2016 in Germany 25'000 electric vehicles have been sold compared to 500'000 in China. In order to reach this impressive goal, China has to ensure any lithium production by acquiring lithium miners. Even if the sector is hot, by analysing the ETF Global X LITHIUM (LIT US), the market is not investing in pure lithium producers, therefore KTS is of the opinion that still exists certain inefficiencies in the market.

KTS Preferred Indicators

P/E Ratio	79.2x
5y EPS growth	-
PEG Ratio (Next Year)	-
Div Yield	-
Div Yield 5y	0.00%
Cash and Equivalents (M)	48
Net Debt (M)	- 51
Net Debt (M) 5y	- 51
EBITDA (M)	- 12
Net Debt v. EBITDA	23.8%
Free Cash Flow Yield	-1.32%
Free Cash Flow Yield 5y	-5.32%
Net Debt vs Market cap	-8.3%
Price to Book	2.2x
5y avg Price Book	2.3x
Book Value per shs	1.32
Price to sales ratio	29.6x
Goodwill vs equity capital	0.0%

Valuation

The company is in a transition year, but it is already reaching revenues and having a 60% margin. From 2018, the company should be free cash flow positive, and the huge potential in on the expansion of the mine.

The Company

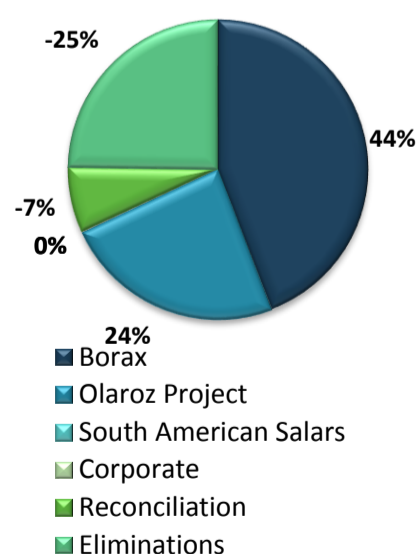
Description

Orocobre Ltd is a mineral exploration company. The Company's primary objective is to develop lithium-potassium brine projects. Orocobre is focused on advancing its flagship Salar de Olaroz (Olaroz) lithium-potassium brine project in Argentina.

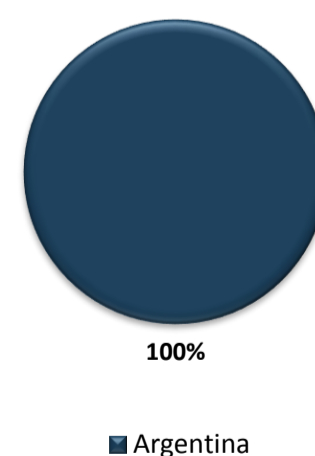
Ticker	ORE AU	Credit Ratings	Date	Outlook
Currency	AUD	S&P	-	-
Revenue (M)	21	Moody's	-	-
Employees	-	Fitch	-	-

Sector	Materials
Industry	Metals & Mining
ISIN	AU000000ORE0

Business Segments



Geographic Segments



Indicators and trend

	2012	2013	2014	2015	2016	2017	
KTS Preferred Indicators	P/E Ratio	1.7x	2.9x	-	-	-	79.2x
	5y EPS growth	-	-	-	-	-	-
	PEG Ratio (Next Year)	-	-	-	-	-	-
	Div Yield	-	-	-	-	-	-
	Div Yield 5y	-	0.0%	0.0%	0.0%	0.0%	0.0%
	Net Debt (M)	- 7	- 24	- 6	- 44	-	- 51
	Net Debt (M) 5y	- 14	- 18	- 18	- 21	- 18	- 38
	EBITDA (M)	- 9	- 5	- 9	- 12	-	- 9
	Net Debt v. EBITDA	127.9%	22.6%	158.2%	27.7%	-	17.3%
	Free Cash Flow Yield	-6.7%	-2.1%	-3.2%	-3.1%	-1.6%	-1.3%
	Free Cash Flow Yield 5y	-	-10.4%	-10.7%	-8.8%	-7.2%	-5.3%
	Net Debt vs Market cap	-4.2%	-7.9%	-1.9%	-4.4%	-	-8.3%
	Price to Book	0.9x	2.0x	2.0x	1.9x	3.7x	2.2x
	5y avg Price Book	3.2x	2.8x	2.2x	2.3x	-	2.3x
	Book Value per shs	1.56	1.22	1.40	1.22	-	1.32
Price to sales ratio	8.6x	13.6x	16.6x	19.8x	39.0x	29.6x	
Goodwill vs equity capital	0.0%	0.0%	0.0%	0.0%	-	0.0%	
Current Capitalization	Common Shares Out. (M)	118	132	152	209	-	209
	Market Capitalization (M)	164	298	318	1,003	-	619
	Cash and Equivalents (M)	11	26	9	48	-	48
	Total Debt (M)	4	3	4	4	-	4
	Enterprise Value (M)	166	304	360	342	907	577
Share Price Performance	Current Price	-	-	-	-	-	2.94
	52 Week High	-	-	-	-	-	5.05
	52 Week Low	-	-	-	-	-	2.62
	52 Week Beta	-	-	-	-	-	1.33
	1M Return	-	-	-	-	-	1.7%
	6M Return	-	-	-	-	-	-4.5%
	52 Week Return	-	-	-	-	-	-9.5%
YTD Return	-	-	-	-	-	-35.1%	
Valuation Ratios	P/E	1.7x	2.9x	-	-	-	79.2x
	EV/EBIT	-	-	-	-	-	-
	EV/EBITDA	-	-	-	-	-	-
	P/S	8.6x	13.6x	16.6x	19.8x	39.0x	29.6x
	P/B	0.9x	2.0x	2.0x	1.9x	3.7x	2.2x
Div Yield	-	-	-	-	-	-	
Profitability Ratios	Gross Marg.	10.7%	9.6%	1.6%	6.4%	-	6.4%
	EBITDA Marg.	-46.4%	-23.0%	-40.1%	-57.1%	-	-57.1%
	Oper. Marg.	-50.2%	-28.8%	-47.1%	-68.1%	-	-68.1%
	Profit Margin	499.6%	-23.6%	-4.4%	-141.1%	-	-141.1%
	ROA	68.6%	-2.7%	-0.5%	-10.7%	-	3.1%
	ROE	79.0%	-3.2%	-0.5%	-12.4%	-	3.5%
Leverage & Coverage	Current Ratio	2.4	3.5	1.4	3.9	-	3.9
	Quick Ratio	1.4	2.8	0.7	3.1	-	3.1
	EBIT/Interest	-	-0.1	0.0	0.0	-	0.0
	Tot Debt/Capital	0.0	0.0	0.0	0.0	-	0.0
	Tot Debt/Equity	0.0	0.0	0.0	0.0	-	0.0
	Eff. Tax Rate %	1.3%	-	-	-	-	-

KTS Notes

Ownership

Top 20 Owners				
#	Holder Name	Position	Pos. Change	Own.
1	HENDERSON GROUP PLC	12,983,763		6.17%
2	UBS	10,643,682		5.06%
3	BLACKROCK	9,009,673	-230,973	4.28%
4	LITHIUM INVESTORS LL	8,841,563		4.20%
5	VANGUARD GROUP	6,487,931	136,302	3.08%
6	SEVILLE RICHARD PHIL	5,091,829		2.42%
7	MASSACHUSETTS MUTUAL	2,821,825	-61,559	1.34%
8	TAN JACK TIAN HOCK	2,750,000		1.31%
9	HINTON DENNIS GREVNI	2,658,457		1.26%
10	ROYCE AND ASSOCIATES	2,650,000	165,000	1.26%
11	FAIRGROUND PTY LTD	2,437,227		1.16%
12	CANADIAN IMPERIAL BA	2,212,571	-782,069	1.05%
13	CI INVESTMENTS INC	2,193,400	1,362,200	1.04%
14	GLOBAL X MANAGEMENT	1,964,699	44,400	0.93%
15	ALLIANZ SE	1,640,911	226,179	0.78%
16	ROBERT B&ERIKA WOODL	1,617,000		0.77%
17	HANDELSBANKEN FONDER	1,467,416	972,416	0.70%
18	INVESTEC PLC	1,355,101	79,280	0.64%
19	CONTANGO ASSET MANAG	1,343,844	-46,488	0.64%
20	VAN ECK ASSOCIATES C	1,323,287		0.63%
Top 5 Insiders				
1	SEVILLE RICHARD PHILLI	5,091,829		2.42%
2	TAN JACK TIAN HOCK	2,750,000		1.31%
3	ANTHON RICHARD STACY	727,144		0.35%
4	DE ROA FERNANDO ORIS	100,000		0.05%
5	NICHOLSON FEDERICO	100,000		0.05%

Ownership Statistics

Shares Outstanding (M)	209
Float	81.62%
Short Interest (M)	46.85
Short Interest as % of Float	27.40%
Days to Cover Shorts	33.78
Ownership (Institutional)	34.16%
Ownership (Retail & Other)	61.61%
Ownership (Insider)	4.23%

Geographic Own. Distribution

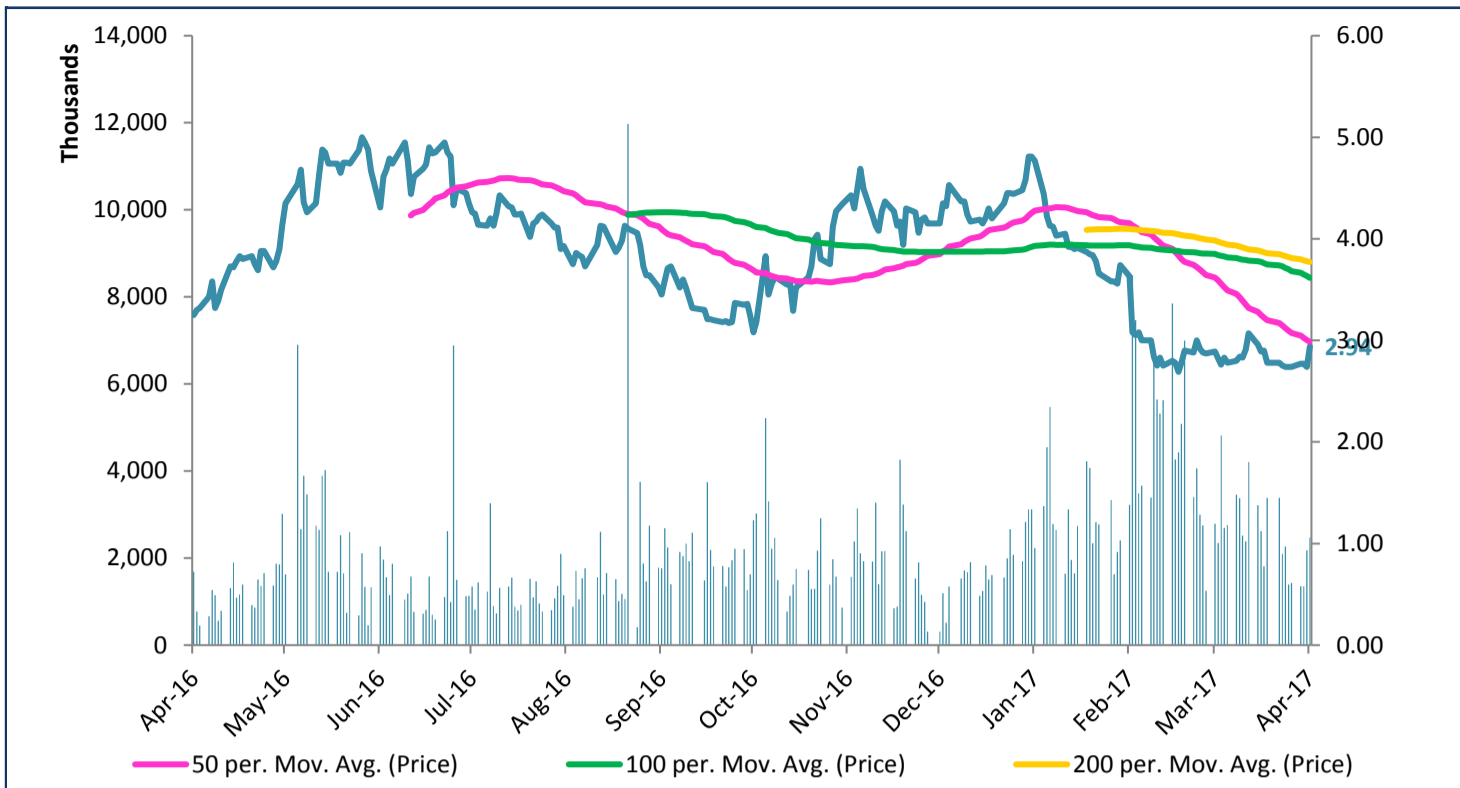
United States	29.15%
Britain	17.23%
Unknown Country	15.22%
Switzerland	12.50%
Australia	8.09%
Canada	5.05%
Luxembourg	4.51%
Others	8.25%

Institutional Own. Distribution

Investment Advisor	65.02%
Individual	0.1017
Venture Capital	0.1008
Other	0.0506
Others	0.0967

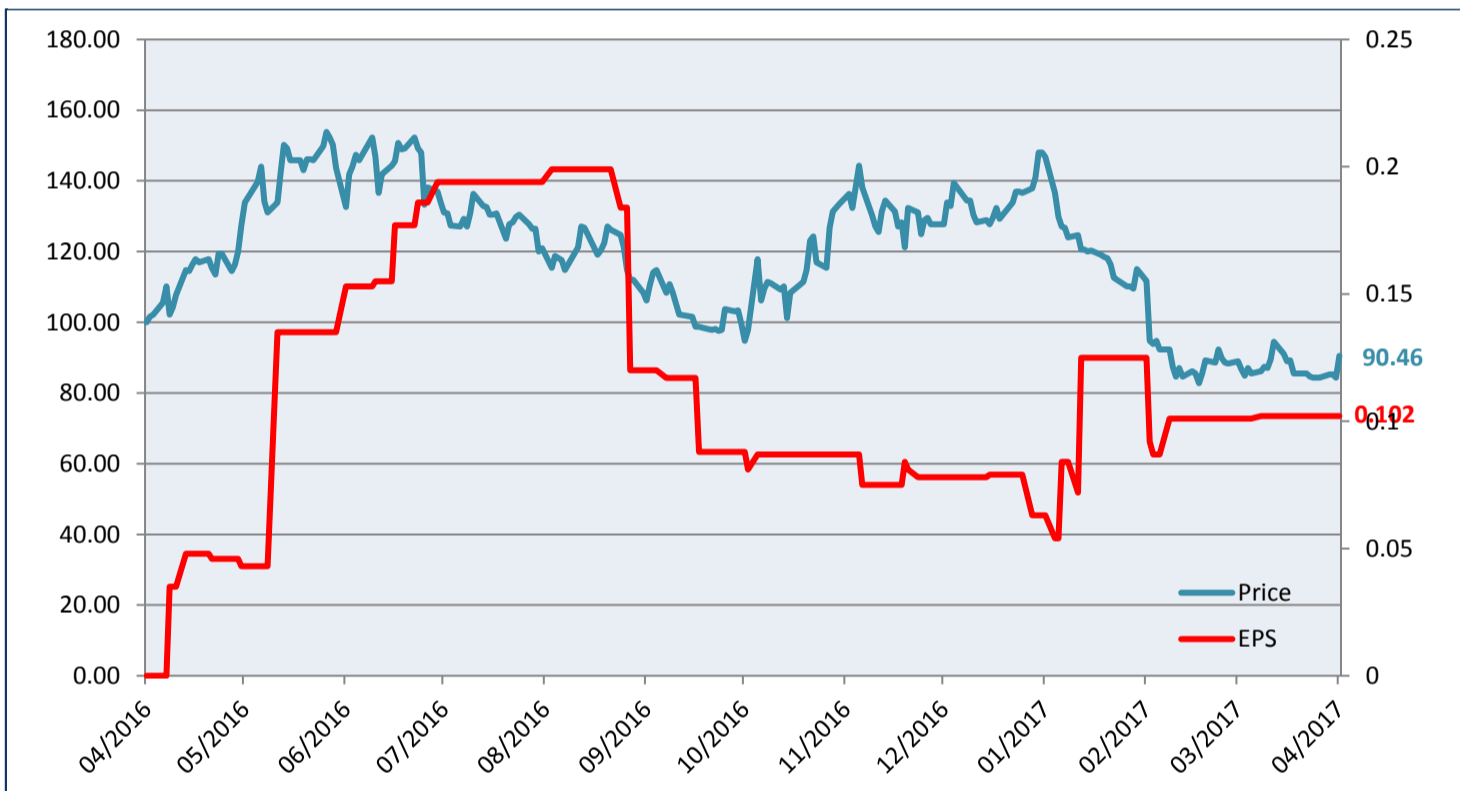
KTS Notes

Technical Analysis



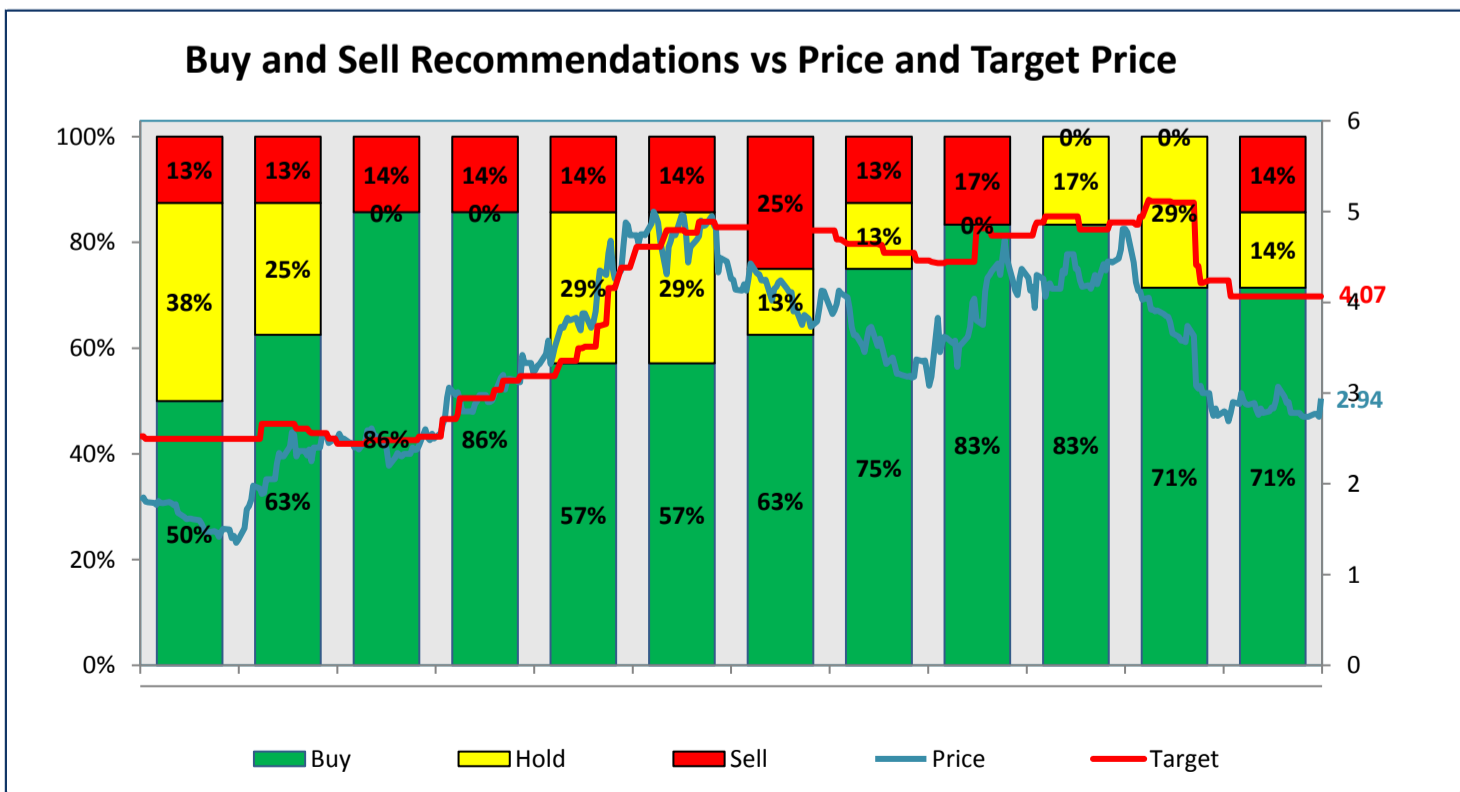
KTS Notes
 After disappointing results at the end of 2016, the share price stabilised at the support level of 2.60. We believe the price level is attractive and drilling results are the next important catalyst. At this valuation, and taking into account the future production increase, and the expansion potential, our opinion is that the company is a clear takeover candidate from Chinese companies. Because of their substantial goal in e-mobility, we believe in a consolidation of lithium producers. This consolidation should help for multiple expansions of the company valuation.

Analysts' expectations



KTS Notes
 The stock price is following earnings' expectations. At the moment is fairly valued, however KTS believes in a future improvement of the profits.

Analysts' consensus



KTS Notes
 Analysts still like the company.

Current Target **4.07**

Date	Buy	Hold	Sell
31/05/16	86%	0%	14%
30/06/16	86%	0%	14%
29/07/16	57%	29%	14%
31/08/16	57%	29%	14%
30/09/16	63%	13%	25%
31/10/16	75%	13%	13%
30/11/16	83%	0%	17%
30/12/16	83%	17%	0%
31/01/17	71%	29%	0%
28/02/17	71%	14%	14%

Legal Information: This publication is intended for information purposes only and does not constitute an offer or an invitation by, or on behalf of, KTS Capital Management to make any investments. Opinions and comments reflect the current view of KTS Capital Management and not that of a third party. KTS Capital Management assumes no obligation to ensure that other such publications are brought to the attention of any recipient of this publication. Investments in the asset classes mentioned in this publication may not be suitable for all recipients. This publication has been prepared without taking into account of the objectives, financial situation or needs of any particular investor. Before entering into a transaction, the investor should consider the suitability of the transaction to his individual circumstances and objectives. This publication does not constitute investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate for individual circumstances, or otherwise constitutes a personal recommendation for any specific investor. KTS Capital Management recommends that investors assess the specific financial risks as well as legal, regulatory, credit, tax and accounting consequences with a professional advisor. The information and data herein are obtained from sources believed to be reliable but no guarantee can be made that the information is accurate or complete.