

Orocobre 2020 Annual General Meeting Transcripts

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BRISBANE, Nov. 13, 2020 - [Orocobre Ltd.](#) (ASX: ORE, TSX: ORL) (“Orocobre” or “the Company”) wishes to provide the Chairman and MD/CEO presentation transcripts for the FY20 Annual General Meeting.

Chairman Script

Before commencing our meeting today, I would like to take this opportunity to acknowledge the Traditional Owners of the many lands on which we are all meeting. In Brisbane we are meeting on the lands of the Turrbal and Yugara people. I recognise their continuing connection to land, water and community, and I pay my respects to their elders, past, present and emerging.

I will now make a short address to the meeting which will be followed by a presentation by our CEO and Managing Director, Mart?n P?rez de Solay. There will then be an opportunity for shareholders to ask questions on any aspect of the Orocobre business, however we will look to answer questions specific to any item of business when that is presented to the meeting.

COVID-19

The health and economic impacts of COVID-19 in Argentina have been significantly different to Australia. Argentina continues to endure high COVID-19 infection rates and material economic challenges constraining the governments capacity to respond to the health challenges and provide fiscal stimulus and support to business. Reported COVID-19 cases now exceed 1.2 million or 2.5% of the population. The economy is experiencing negative GDP, growing unemployment and surging inflation prompted by the 66% devaluation of the Peso during FY20 which has continued into FY21.

In this environment Orocobre has needed to be agile, developing its own bio security protocols and COVID-19 testing capacity. Maintaining our operations by preserving the health and confidence of our communities and people is essential to reducing the economic impact of COVID-19. To date we have been successful in this aim and Martin will talk more about this.

Safety

Our safety performance has continued to improve. The Group LTIFR for FY20 reduced to 2.5 from 3.0 in FY19 while Olaroz experienced a lost time injury (LTI) free period of 160 days during the year. At Borax, Tincalayu achieved 813 days without an LTI and Campo Quijano achieved 456 days, however Campo Quijano incurred an LTI post year end which together with a deteriorating safety performance at Borax prompted both a temporarily cessation of operations and a management restructure to demonstrate safety really does come first at Orocobre.

Review of Performance

Our financial performance reflected the difficult lithium market conditions with persistent oversupply and weak prices. In the second half of FY20, COVID-19 made the situation worse with lithium supply remaining resilient while battery and electric vehicle manufacturing was reduced. In response to these external factors we reduced our production rates and brought forward planned maintenance activities.

The weak lithium pricing environment saw revenue declining year on year by US\$67.5 million to US\$77.1

million and a net loss of US\$67.1 million being reported after impairment and foreign currency losses of US\$44.8 million, compared to a profit in the previous year of US\$65.4 million.

Advances in productivity at Olaroz have been overshadowed by COVID-19. There is no doubt in my mind that at February we were on track to achieve a record year for production. However, despite falling production in the final months we have achieved improved operating metrics such as brine feed grade, recoveries and reagent usage. A strong focus on fixed costs, minimising the use of contractors and eliminating non-essential spend contributed to a 22% reduction in unit cost of sales from Q1 FY20 to Q4 FY20.

Quality improvements are being reflected in better process reliability, the introduction of the world recognised Toyota Production System concepts, reduced unplanned maintenance events, increasing proportion of purified production and growing confidence amongst our customer base. These improvements in quality resulted in all customer product deliveries in FY20 being within required specifications.

Growth Opportunities

We remain confident that the continued electrification of transport will underpin the Olaroz Stage 2 expansion and the Naraha Lithium Hydroxide Project. These growth initiatives were endorsed by the signing of the MOU with PPES, the Toyota Panasonic battery manufacturing joint venture, in August. The Olaroz expansion slowed due to COVID-19 restrictions and regrettably this will mean a delay and an unavoidable 10% increase in the previous estimate of the capital cost.

Growth has also been achieved with the acquisition of Advantage Lithium during the year which effectively doubled our JORC resource base. The Cauchari resource sits adjacent to the southern boundary of Olaroz and provides options for both future development beyond the current Stage 2 expansion and more effective basin management.

Sustainability

Environmental, Social and Governance (ESG) matters have moved from the niche to the mainstream over recent years and this year we published our third Sustainability Report. We are now well placed to further build on the safety targets with other key ESG targets and goals drawn from our Sustainability Report into our ever-evolving governance and remuneration practices for FY21.

Remuneration

The Board continues to be committed to a remuneration philosophy, policies and practices that are fair, competitive, effective and responsible and to their transparent and clear communication. We also believe in the need to design bespoke remuneration structures for Orocobre aligned with Argentine market practices that are motivational to management, ensuring retention of talent and alignment to investor objectives. The skills we require for our success are rare and retention of Martin and his management team is a key focus of your board.

In FY20, the People and Governance Committee devoted considerable time to the appropriate level of Short Term Incentive or STI awards. The Board considered that target KPIs had been substantially met as significant progress has been made in our focus areas of Safety, Quality, Productivity and Growth.

The Board then considered fully the disappointing post COVID-19 earnings outcome and share price performance before making these awards. Consequently, STI awards due and payable post COVID-19 have been reduced by 20% from target achievement and this year will be paid in performance rights vesting on 1 July 2021. In this way we have endeavoured to balance the goals of shareholder alignment with our desire to retain this highly motivated management team over the next crucial few years, when the continued improvements in operating performance and the successful completion of our growth projects remain our primary goals and the most effective method of growing shareholder value.

Board Diversity and Renewal

Last year I outlined a policy of Board diversity that would set a target of 30% female composition or two female directors. While COVID-19 has slowed the process of appointing a new female Director during FY20, I am pleased to report that Patricia Martinez has been appointed to the Board and will commence her duties on 1 December.

Governance

During the year we have moved to strengthen our governance practices by restructuring the Remuneration Committee into the People and Governance Committee and the establishment of the Sustainability Committee which will ensure that these important areas of our business receive an appropriate level of involvement by both the Board and management team.

Additionally, we have undertaken a full review of Company policies, and Board and Committee charters and work plans to ensure they meet the needs of Orocobre into the future.

Closing

I would like to acknowledge our employees, management team and Board colleagues as this has been a year where everyone has gone the extra mile. I would also like to thank the communities with whom we operate every day, our joint venture partner and governments in Argentina who have supported us during these extraordinary times. Finally, I would like to thank our shareholders for their belief in our business.

I would now like to invite Mart?n to make his presentation.

MD/CEO Script

Thank you Rob and thanks to our shareholders for joining us today in this virtual format. The fact that we are meeting in this form characterizes the challenges and changes we have navigated as an organisation throughout this turbulent year.

In the first half of the year we navigated through a period of low lithium prices by managing the things within our control. The most important of these were costs and efficiency.

As I will discuss shortly, we have had significant success in lowering our costs over the last 12 - 15 months. Looking forward we expect to maintain costs at or below the US\$4,000 per tonne level.

The second half of the year presented a totally new set of challenges with the arrival of COVID-19. We quickly recognized that this could have a material impact on our business and started educating our workforce around symptoms and strategies to minimize the risk of infection.

An emergency committee was established to manage our response which started with the preparation and implementation of a detailed bio-security plan. Importantly, this was done in conjunction with local authorities to ensure a consistent approach within our local communities.

We continue to actively manage COVID-19 and have been successful in restricting the spread of the disease when it has been identified in our employees. This has allowed us to maintain relatively normal levels of production.

We released our full year 2020 results in late August and concurrently undertook a placement to institutional investors.

In addition, we subsequently undertook a Share Purchase Plan for existing shareholders. Through both of

these measures we raised A\$169 million before costs. This will ensure Olaroz Stage 2 is fully funded and Olaroz Stage 1 can continue ramping up through a range of operating, COVID-19 and pricing environments.

These funds are also available for future capital growth initiatives as opportunities arise.

As at 12 November the share price is approximately 20% above the issue price.

At Olaroz we have continued our focus on safety, quality, productivity and growth. Our safety performance has improved year on year and while production was down due to COVID-19 and demand related shutdowns, we saw material improvements in process stability, product quality and consistency.

These improvements are reflected in the 22% reduction in costs from the first quarter of the year to the last quarter of the year. Pleasingly, costs subsequent to the end of the year have remained at similarly low levels.

The efforts on cost reduction and process stability allowed us to maintain a positive operating margin of 21% despite lower sales prices.

As I mentioned, product quality is improving and this is most clearly demonstrated by the brine concentration that is fed into the processing plant from the evaporation ponds. We are seeing year on year improvements in brine concentration throughout the annual evaporation cycle with better management of the pond system and access to additional ponds.

We have also managed to achieve very low levels of magnetic particles in our product. Customer requirements continue to become more demanding across many aspects of product specifications. Over the last 12-18 months magnetic particle allowances have reduced by 93% from 1.5 parts per million to 0.1.

Improvements in productivity such as reduced unplanned maintenance events, plant yield and lithium recovery are being driven by a focus on our people. We have supplemented the operating team and strived to ensure we have the right people, with the right skills, to deliver improvements into the future.

Moving onto the expansion of Olaroz and our recent MOU with PPES.

Prior to COVID-19 we had made good progress on the expansion and construction of ponds. Work has by necessity slowed with COVID-19 but we have now completed more than 44% of planned works. The expansion will deliver approximately 25,000 additional tonnes of primary lithium carbonate. This will bring total site production capacity to more than 40,000 tonnes.

As we do not have a purification circuit in Stage 2, production costs will be lower than stage 1. We expect total site costs with Stages 1 and 2, to reduce over time towards a range from US\$3200 to US\$3500 per tonne.

Total capital costs are expected to be approximately US\$330 million excluding VAT and working capital, however we are now well funded to complete this work. We expect Stage 2 to commence production in the second half of calendar year 2022 and ramp up to full production by the second half of 2025.

Nearly half of the production from Stage 2 will be used as feedstock for the Naraha lithium hydroxide plant that we are currently constructing in Japan with our partner Toyota Tsusho Corporation.

A memorandum of understanding was signed at the end of August with a joint venture between Toyota and Panasonic called Prime Planet Energy and Solutions. Under this MOU, battery grade lithium hydroxide from Naraha and purified lithium carbonate from Olaroz will be supplied for battery production. We expect that by 2025 PPES will require 30,000 tonnes per year of lithium chemicals. With other existing contracts this will account for 100% of Olaroz production.

Clearly, we now see a position where existing production plans for both Olaroz and Naraha will be fully sold and we will now consider how to further increase production of both lithium carbonate and lithium hydroxide to meet strongly growing demand.

Moving to the current works at Naraha

Construction at Naraha is progressing well despite COVID-19. Works are more than 80% complete and commissioning is expected to commence in the second half of next calendar year. By the end of September, around US\$50 million had been spent out of a total of approximately US\$86 million. Importantly, the Japanese government has pledged US\$27 million toward construction costs.

Naraha is strategically important to Orocobre as the 75% interest in this project provides exposure to the growing lithium hydroxide market and is another link with our long term partner Toyota.

Our quarterly reports give a fuller review of the lithium market but I just wanted to touch on our expectations into the future.

As you can see from the chart on the left hand side, we expect total annual lithium demand to increase from the current level of approximately 300,000 tonnes to around 800,000 tonnes by 2025. I should point out that these estimates for 2025 demand are not the highest in the market but they still leave questions on how that level of growth and overall demand will be met.

Recent low lithium prices have seen some projects, including our own, reduce production and some expansion or growth projects be delayed. However, we are certain they will all be required in the not too distant future. Our real concern is that when known sources of additional supply have been delivered, there could well be a shortage that will take time to correct.

Lithium is not like gold or copper, it is very hard to produce a high quality product that is suitable for battery applications. Project after project has demonstrated that it takes time for quality new production to come to the market.

The outlook for battery grade lithium chemicals is even tighter. This supports our strategy of investing in additional channels to the high quality battery grade lithium chemicals market.

While the timeframes on quality new production are long, the timeframes on increased demand are shortening. COVID-19 has brought forward government regulation and investment in electric vehicles. The value of EV subsidies provided by European governments has increased between 50 and 100% since June this year.

In the shorter term, we are now starting to see increased spot prices for lithium chemicals with increasing demand for EVs.

Environment, Social and Governance or ESG, practices have always been important to Orocobre.

We are currently preparing our fourth Sustainability report. Earlier this year we were recognised for the second year in a row as Leading our sector in sustainability reporting by ACSI – the Australian Council of Superannuation Investors.

Increasingly ESG is becoming more important to our customers as auto manufacturers and their customers demand ethically and sustainably produced electric vehicles. Roskill, a leading global commodities researcher has recently published a report confirming that lithium from brine has significantly lower emissions intensity than that produced from hard rock spodumene sources. We expect consumer led preferences for green transport solutions to grow demand for brine based lithium into the future.

In summary, Orocobre is an established producer of lithium carbonate and by FY22 will also produce lithium

hydroxide.

Our operational performance has improved significantly and this is best demonstrated by the 22% reduction in costs from the start to the end of FY20.

The strength and capability of our management team is no better exemplified than by our response to COVID-19. Through good management we have been able to continue production while keeping our workforce safe and healthy.

Our long term relationship with TTC grows from strength to strength with the recent signing of the MOU with PPES.

And most importantly, we are funded to not only deliver our current growth projects but also look to the future for additional opportunities.

Thank you, and I will now hand back to Rob.

This announcement has been authorised by:

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About [OroCobre Ltd.](#)
[Orocobre Ltd.](#) (Orocobre) is a dynamic global lithium carbonate producer and an established producer of boron. Orocobre is dual listed on the Australia and Toronto Stock Exchanges (ASX: ORE), (TSX: ORL). Orocobre's interests include its Olaroz Lithium Facility in Northern Argentina, a material JORC Resource in the adjacent Cauchari Basin and Borax Argentina, an established boron minerals and refined chemicals producer. The Company has commenced an expansion at Olaroz and construction of the Naraha Lithium Hydroxide Plant in Japan. For further information, please visit www.orocobre.com.

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