

Orbite Aluminae Equity

Research Report



Small Cap Sector - Date: 11/02/2011

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Stock Rating:

Buy

Sector Weighting:

Neutral

Today's Date: \$2.90

Price Target: \$4.00

Target Price Date: 03/01/2012

COMPANY MARKET STATISTICS

Ticker	ORT
Exchange	TSX
Fiscal Year End	December
52-week Range (High/Low)	\$5.69/\$0.48
Shares Outstanding	168.072M
Avg. Daily Trading Vol.	2.76M
Market Capitalization	\$430.15M
Annual Dividend	N/A
Dividend Yield	N/A
Price/Earnings	N/A
Enterprise Value	\$412.62M
EV/EBITDA	N/A
Price to Book	\$16.39
BETA	1.85
Short Interest %	0.63

ANNUAL EARNINGS PER SHARE (EPS)

Q1 2011	-\$0.01
Q2 2011	-\$0.02

HIGHLIGHTS

- 100 % interest in the Grande-Vallee clay deposit in North-Eastern Quebec
 - Indicated mineral resources of 1 billion tonnes of aluminum oxide in the first 100 metres of depth, at a grade of 23% alumina
- Patented low-cost process for extracting alumina from aluminous ore
- The initial samples of Metallurgical Alumina and High-Purity Alumina meet industry standards
- Strategically located near several smelters in Quebec for refining

OVERVIEW

Orbite Aluminae Inc. is a Canadian exploration company operating in the aluminum industry. Orbite owns a 100% interest in the 6,441 hectare Grande-Vallee deposit in North-Eastern Quebec that contains approximately 1 billion tonnes of indicated mineral resources (aluminous oxide). The property is strategically located near several deepwater ports and across the St. Lawrence River from Quebec's major aluminum smelters. Orbite has patented a process for the extraction of metallurgical-grade alumina, high-purity alumina and high-value elements, including rare earths, from locally sourced aluminous clay, in an environmentally sustainable manner. Orbite plans to deploy these technologies locally and to license them to producers who want to reduce their costs and environmental footprint. These technologies are projected to be Orbite's greatest asset in replacing a majority of high-cost imports currently being imported by Quebec.

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PRICE CHARTS

1-Year Price Graph



- Price has depreciated from highs in March/April 2011, but has rallied in October from its low of \$1.35 on October 3rd, 2011, to \$2.90 as of November 8th, 2011.

1-Year Price vs. LME Aluminum Commodity (\$USD/MT)

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1-Year Price vs. TSX Venture Index



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NEWS AND EVENTS

The CEO of Orbite Aluminae was invited to attend and present at the 2011 Industrial Minerals Conference in Toronto on October 18th, 2011. This conference attracts national leaders (North America) that discuss new developments in the industrial minerals industry. Orbite particularly will explain its innovative, patented technology in processing aluminous clays (argillite) into two forms of alumina and rare earth by-products. The potential engraved here is the opportunity of this technology to become a viable substitute for the current Bayer process and also will give alumina producers access to more affordable and environmentally friendly alternative.

Implications:

- Orbite is gaining prominence in the alumina industry
- The conference was a great way to introduce/raise awareness of its patented technology; thus will breed greater opportunity in near future
- Orbite's technology is both affordable and environmentally friendly; which is a good indication as this is in line with present day solutions for the future

Orbite Aluminae announced the completion of its 2011 drilling campaign wherein a 43-101 technical report is due at the beginning of the 2nd quarter of 2012. A previous 43-101 technical report issues in March 2011 indicated approximately 1 billion metric tonnes of aluminous clay in a portion of Orbite's mineral deposits. On another note, a representative (Dr. Watanabe) of the Geological Survey of Japan warranted a visit based on strong interest in the deposits of Orbite. The Japanese industry has growing needs for these minerals. Furthermore, Orbite owns 100% of the mining rights on approximately 6,400 hectares of Grande-Vallee property, owns intellectual property rights to a unique Canadian and U.S. patented process for extracting alumina from aluminous ores and for which patents are also pending in other countries.

Implications:

- Orbite is expanding its operations and delving further into the industry with explorative initiatives
- The March 2011 43-101 technical report indicates a promising amount of aluminous clay in only a portion of Orbite's mineral deposits (100 metre depth in Marin sector alone)
- International interest is indication of growth potential and Japan's mineral needs are rising

Habanero Resources Inc. (TSX: HAO) has announced the commencement of its operations in Quebec. HAO recently acquired the Grand-Vallee North Aluminous clay prospect which directly borders to the north Orbite Aluminae 6,441 hectare Grand-Vallee property; a site of aluminous clay deposits. The property is strategically located near several deepwater ports and across the St. Lawrence River from the province's major aluminum smelters.

Implications:

- Habanero is starting operations; indicating growth in the industry
- Habanero's acquisition of a bordering property to Orbite is a good indication of expansion/opportunity in the industry
- Both Orbite and Habanero are strategically located near key areas that can make them a valuable player in the industry

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Orbite Aluminae Inc. congratulated partners Aluminerie Alouette and the Government of Quebec on the announcement of the expansion of Aluminerie Alouette facility. "This expansion project is great news for Quebec, which continues to position itself as the ideal place to produce aluminum at a low cost and with a minimum environmental footprint. Orbite hopes to contribute to this positioning by producing metallurgical alumina." Alouette has been a partner of Orbite since 2009; having invested 1 million dollars in the Orbite pilot plant in Cap-Chat and providing technical assistance during the start-up of the facility.

Implications:

- Quebec is expanding its position as an aluminum producer; combined with the expertise/technologies of Quebec-situated companies makes for viable opportunities in the industry
- Alouette (aluminum manufacturing/smelter company) is identified as a partner, investor and supporter of Orbite

Orbite Aluminae Inc. awarded the contract for Feasibility Study to top ranking engineering firms, GENIVAR Inc. and Johnston-Vermette. The NI 43-101 Feasibility Study involved the fast tracked release, by the end of November 2011, of a Preliminary Economic Assessment (PEA). The PEA covers all aspects of the project and is expected to confirm the technology brought forward by Orbite and its commercialization potential. Both GENIVAR and Johnston recognized the potential economic and environmental advantages that Orbite's state-of-the-art process offers over the existing Bayer process; there is excellent potential for the technology to become an example of sustainability and reducing residues. Furthermore, the Feasibility Study will confirm the extent of Orbite's potential to offer a viable alternative to the aluminum industry worldwide. The Feasibility Study is expected to be published during first half of 2012.

Implications:

- Feasibility Study will strengthen the trust in Orbite's operations and highlight potential growth to investors
- The PEA that is due out at the end of November should increase confidence of investors
- 2 top ranking engineering firms have stated to recognize the potential of Orbite; indicating that their patented process may replace the Bayer process currently in use
- There is growing demand for aluminum globally and a sustainable and affordable method of extraction will do well in the industry

COMPANY RISK

Overall, the risk for Orbite Aluminae is above average due to the fact that the company is in development/exploration stage. Orbite has a BETA of 1.85 and is therefore more volatile than the market. The possibility of higher expected returns will assume a greater amount of systematic or market risk. With that in mind, unexpected markets fluctuations from macroeconomic factors will have a more adverse impact on share price. Orbite Aluminae has a WACC of 23.26%, which is high due to the fact that Orbite's capital structure is primarily equity. Moody's credit rating of B2H for Orbite falls under the High Yield (speculative) category, which implies high credit risk. However, Orbite has good political support from the Quebec government. Quebec's Ministere des Ressources naturelles et de la Faune approved the extraction of a 400 tonne bulk sample of aluminous clay at the Grande-Vallee deposit. From this sample, Orbite produced its first tonne of alumina which confirmed its method of extraction for both metallurgical and high purity alumina.

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The Quebec government continues to support the aluminum industry by discounting electricity rates at certain refining smelters in the province.

BETA	Moody's Rating	5 YR CDS
1.85	B2H	N/A
Volatility	WACC	
146.6	23.26%	

PEER COMPARISON

Ticker	Market Cap	Price	Div. Yield	Trailing P/E	Forward P/E	Annual Revenue	1-Mo Return	3-Mo Return	1-Yr Return
ORT.TO	430.15M	C\$2.56	N/A	N/A	N/A	N/A	75.34%	-18.98%	401.96%
FBX.TO	C\$39.31M	C\$0.73	N/A	N/A	N/A	N/A	7.35%	1.39%	-17.98%
ALU.TO	C\$12.22M	C\$0.145	N/A	N/A	N/A	N/A	52.63%	-3.33%	-48.21%
CYM.TO	C\$5.67M	C\$0.05	N/A	N/A	N/A	C\$2.95M	-16.66%	-83.56%	-69.70%
KALU	US\$892M	US\$45.31	2.13%	41.49	20.15	US\$1.62B	2.32%	-18%	3.25%
AA	US\$11.45B	US\$10.40	1.16%	10.83	12.49	US\$31.44B	8.67%	-29.49	-19.68%
CENX	US\$1.02B	US\$10.58	N/A	7.56	30.23	US\$1.93B	18.34%	-16.16%	-21.10%

Similar to its Canadian competitors (FBX.to, ALU.to, CYM.to), Orbite Aluminae has no trailing or forward P/E because the company is in development/exploration stage. Relative to these competitors, Orbite is much bigger in terms of market capitalization and has performed significantly better. The comparison to its American competitors (KALU, AA, and CENX) is inferior because they currently produce and refine aluminum and have operations that are significantly larger in scale.

REVENUE AND EARNINGS

Due to the fact that Orbite Aluminae is in the development/exploration stage of the business life cycle, the company does not have any reported revenue or earnings. Production is not expected to start late 2012/early 2013 at approximately 1-3 tonnes per day (TPD). The most significant driver of revenue would most likely be high purity alumina, followed by metallurgical alumina and other rare earth elements. In addition, Orbite could generate significant patent revenue if its patented process for extracting alumina from bauxite replaces the older and conventional Bayer process.

FUNDAMENTAL RATIO ANALYSIS

As of June 30th, 2011, Orbite Aluminae had \$2.38M in cash, and \$17.16M in short-term investments (redeemable at any time without penalty). Furthermore, Orbite had \$1.2M in total current liabilities and \$2.87M in non-current liabilities. The current ratio of 16.94 demonstrates that Orbite is in a strong position to meet its current obligations. While 16.94 is relatively high figure, it is expected to decrease as Orbite will need to use leverage when it enters production. The debt

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to capital ratio is relatively low, illustrating the capacity to for Orbite Aluminae to use debt financing in the future. The fundamental ratios are not strong indicator of valuation for Orbite at its current stage.

Revenue Growth	ROE	Current Ratio	Price/Book
N/A	N/A	16.94	16.47
Gross Margin	ROA	Quick Ratio	
N/A	N/A	16.14	
Profit Margin	P/E	Debt/Capital	
N/A	N/A	7.94%	

CASH FLOW ANALYSIS

Orbite Aluminae has not generated any cash flows from operations, which represents a going concern for the company as indicated in note 1 of their interim financial statements. Therefore, Orbite relies on cash from financing activities to determine whether their process is economically viable for entering production. Until cash flows from operations are positive, Orbite will continue to rely on equity financing as a source of capital. Most recently, Orbite announced they completed a \$57.5M bought deal offering on July 7th, 2011. Furthermore, a significant portion of cash flows has been used in short-term investing activities which demonstrate the need for cash a later time period (i.e. production) versus the current time period.

Net Cash Position	Dividend	Div. Growth Rate	Price/Cash Flow
\$2.38M	N/A	N/A	N/A
FCF Per Share	Dividend Yield	Cash from Operation	
N/A	0.00%	N/A	
FCF Yield	Dividend Payout		
N/A	N/A		

TECHNICAL ANALYSIS

The 10-day moving average crossed over the 30-day moving average in mid-October, triggering a buy signal. From October 18th to November 8th, 2011 (Orbite was listed on the TSX Exchange on Oct. 18th, 2011) Orbite has appreciated 9.02%. The upward crossover of the short term MA over the 200-day MA would further reinforce the bullish trend.

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RSI has appreciated from a low of approximately 36 at the beginning of October, 2011 to 51.85 at the beginning of November, 2011.



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SELECTION METHODOLOGY

In our criteria for selection, we looked for undervalued companies that demonstrated a strong competitive advantage. ORT.TO has a patented process for extracting alumina from bauxite which has the potential to transform the aluminum industry. Strong support from the Quebec government combined with a strategic location to reduce transportation costs, are key factors in Orbite's transition from exploration/development stage to the production stage.

Our price target is based on the release the Preliminary Economic Assessment (PEA) that is due out at the end of November. If the economic assessment is positive, it should increase investor's confidence that ORT.TO can feasibly produce and refine Smelter Grade Alumina (SGA) and High Purity Alumina (HPA). Furthermore, Orbite's graduation to the TSX Exchange illustrates that they have met more stringent listing requirements and exposure is likely to increase.

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