

# OZEQUITIES NEWSLETTER

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Tel 613 9748 5033

[ozequities@pacific.net.au](mailto:ozequities@pacific.net.au)

## ***FEATURE***

### **Week's Special**

**LBL: ESTABLISHED PROFITABLE COMPANY ON GROWTH PATH, NO NET DEBT - RE-ENGINEERS AND RECYCLES MACHINERY FOR MINERS, ENERGY AND INFRASTRUCTURE SECTORS SAVING COSTS - CARBON TAX AN ADDITIONAL OPPORTUNITY**

**By Jenny Prabhu and Gerald Stanley**

LaserBond Ltd, established in late 1992 and listed end 2007, offers the best of all worlds in a gloomy stockmarket - consistently profitable, no net debt, blue chip clientele predominantly in the booming mining sector who make significant savings as LBL's technology reclaims and extends the life of major industrial components (ever more important as rising energy costs lifts prices - and a carbon tax, in Australia and elsewhere - increasingly becomes law).

The company is majority held by its founding family and has high growth potential. It has organically grown revenue by 48.4% over the last 2 years, and directors have reported that growth is expected to continue.

In a fraught market where "risk off" has investors avoiding growth stocks that will need funding further down the track and where the blue chips also suffer almost daily pounding, a tightly held and profitable growth stock servicing the most attractive - almost the only attractive - sector currently - trading at 15c on a trailing p/e of 8.1x, is well worth considering.

For while brokers are bullish on the companies that service the mining sector, forecasting that the sector will continue on a growth path for at least another year, in the GFC - and in earlier mining busts that followed booms - projects were deferred across the industry and the mining services sector suffered. On the other hand, a company whose technology enables miners and mineral processors to postpone replacement of their machinery, reduce downtime, lengthens of life of new parts through thermal coating before they are taken into use - in a world where energy prices are increasing significantly as well as the cost of all machinery - would retain significant attraction through any downturn.

LaserBond is as yet limited to operations in New South Wales with a small operation in Queensland following the acquisition of Peachey's in 2008, due to logistics problems involving the size of many components to be treated. Expansion into other States, which would include setting up its specialised workshops, remains a huge opportunity.

The company is held some 55% by its founder, engineer Greg Hooper and his family. Greg and Wayne Hooper, also an engineer, are executive directors.

LaserBond is ex a maiden .5c dividend on October 3, the DRP will be available.

### **LASERBOND LTD - A SNAPSHOT**

Laserbond Ltd, listing on December 17 2007 at 20c was founded by engineer Greg Hooper, and commenced trading in early 1993 as HVOF Australia after a significant technology development in thermal spraying known as *High Pressure High Velocity Oxy Fuel* (HP HVOF) that increases the quality and performance of machinery.

Typical HP HVOF materials include tungsten carbide, chrome carbide, nickel alloys such as inconel, cobalt alloys such as stellite and various carbon and stainless steels.

LaserBond has established its own metallographic laboratory with a scanning electron microscope that allows detailed investigation of feed materials and coatings for the optimisation of coating system operating parameters. It is seen as a leader in its field.

In 2001 LaserBond commissioned its first *laser cladding system*, further broadening its capabilities. LaserBond provides a metallurgical or welded bond to the substrate with very controlled heat input and has major advantages over other coating techniques. It is seen as the main growth product for the future.

Its other surface engineering technologies include *plasma thermal spray* typically used where higher melting point materials such as ceramics need to be deposited. Applications include high temperature thermal barrier coatings and wear resistant coatings.

Also for economical dimensional restoration, *arc spray* and *combustion metal spraying systems* are used. Arc spray uses an electric arc to continuously melt and spray molten droplets of a wire feed stock. Combustion metal spraying uses an oxygen fuel flame as the heat source. These systems produce lower cost and lower quality coatings to HP HVOF type systems. Typical materials include stainless and carbon steels, nickel alloys, bronzes, aluminium and copper.

LaserBond today utilizes a comprehensive range of thermal spraying, laser cladding and welding technologies, coupled to robotic handling systems. Its comprehensive machine shop provides a complete portfolio of solutions to an ever increasing range of industries.

It has operations in Ingleburn (NSW) and Gladstone (Qld). Each is equipped with full machining and maintenance welding/fabrication facilities.

Its large general purpose engineering workshop at Ingleburn includes Computer Numerical Control (CNC) and conventional machines to allow coated components to be manufactured and finished to the required dimensions and tolerances.

LaserBond's quality management system is certified to comply with ISO 9001.

The carbon tax will have minimal impact on the cost of the business. In full year 2011 direct energy costs were less than 2% of LaserBond's total costs. Mitigation of the increasing energy costs for the future has been achieved through the recent installation of a more efficient solid stater laser, assisted by the Australian Federal Government grant under the Retooling for Climate Change program.

In 2008 LaserBond acquired Peachey's Engineering located in Gladstone, Queensland for an initial purchase price of \$3 million, with an earn out over two years to a maximum of an additional \$2.2 million, in cash and scrip.

Peachey's, in operation since 1981, for the year ended June 30 2008 had sales of approximately \$6.8 million and an EBIT of approximately \$1.4 million.

On July 22 LaserBond announced the purchase the plant and equipment of C&B Engineering based in Minto, NSW.

Negotiations are under way to secure larger premises providing a minimum of 3,000 sq m initially with up to 5,000 sq m available for use within the first 2 to 4 years. Construction is due to be completed in June 2012.

#### *Customers*

While most of its customers are in the mining sector, LaserBond also has customers in the energy industry, pulp and paper, water reticulation and other industries directly involved in mining or related to mining and minerals processing. Its service extends the life of components subject to corrosion and/or wear.

The operational life of parts can be dramatically increased, and the cost of downtime and replacement of parts is reduced considerably, providing large savings in operational costs.

Customers include Alcoa of Australia Rolled Products, under a five year contract signed in 2008 to provide an engineered coating developed in house that will extend the service life and reliability of components used in the production of aluminium sheet used for food and drink packaging. The company has a 3 year contract with Weir Minerals Australia, manufacturer of Warman Slurry Pumps, signed in 2009 for the supply of a range of machined and coated components. Revenue from this contract for LaserBond's Ingleburn facility is an additional \$2.8 million per annum based on historic sales, representing a threefold increase in turnover for this key client.

Other customers include Joy Mining Machinery, Caterpillar/Bucyrus, Queensland Alumina, Rio Tinto, Boyne Smelters, BHP, Cement Australia, NRG, as well as individual mines, minerals processing and power generation companies.

The company actively tenders for applications where its technology can be used to extend the working life of components of high value machinery, as well as projects requiring the use of its significant engineering facilities. The organic growth that has been achieved is as a result of these activities.

The company has a stand at the Asia Pacific International Mining Exhibition (AIMEX) in Sydney, running from September 6 to 9, a one in four year event with more than 600 Australian and international engineering companies exhibiting.

**LASERBOND LTD FINANCIALS**

Last Traded price                      15.5 c  
 Shares Issued                            72.1 m  
 Market Cap                                \$11.2 m  
 Year ended June 30, Values in \$000s

<b>INCOME</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Op Revenue	13,277	10,421	8,941
Op Profit (loss)	2,043	610	605
Underlying Net profit (loss)	1,338	516	568
EPS (Cents)	1.9	0.7	0.8
Dividends (cents)	0.5	-	-
PERatio (times)	8.2	22.1	19.4

<b>BALANCE SHEET</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Current Assets	5812	4320	3282
Non Current Assets..	4528	4626	4214
Current Liabilities	2658	2167	1842
Non Current Liabilities	701	837	369
Net Assets & Shareholders' Funds	6981	5942	5285
Intangibles	3611	3464	3228
Net Tangible Assets	3370	2478	2057
Gearing (Net of Cash) %	Nil	4.7	Nil
NTA per share (cents)	4.7	3.5	3.0
Shares Issued (m's)	72.1	71.0	68.8

<b>Cash Flows:</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Cash on hand (at open)	422	383	3497
Operating Activities	902	89	68
Investing	(269)	(530)	(3604)
Financing Activities	(72)	480	422
<b>Cash on hand at Year end</b>	<b>983</b>	<b>422</b>	<b>383</b>

1/Laserbond has outstanding Convertible Notes on issue with a face value of \$240,000, repayment date is June 30 2012, convertible into shares or 85% of the average market price of the company's ordinary paid shares calculated over the last 5 days on which sales were recorded before the date of conversion and issue. Interest rate is 9.5% per annum payable quarterly in arrears.  
The notes are not listed.

2/ In November 2009 the company was awarded a \$500,000 grant under the Australian Federal Government's "Retooling for Climate Change" program. The grant was awarded to LaserBond to augment the development and commercialisation of its unique laser cladding technology and substantially reduce energy usage and greenhouse gas emissions amongst its range of bluechip customers.

3/ R&D expenditure is extensive and ongoing to develop more applications for the company's technologies. Founders and executive directors spend a significant part of their time in R&D activities, but it is recorded under "overheads", not listed separately. (The only R&D that was recorded separately was that conducted with the aid of a government grant).

**Directors:**

**Timothy McCauley**, Non Exec. Chairman. Tim has extensive experience as a company director and senior executive. He began his career with KPMG accountants and provides expertise at the board level to a number of private companies.

**Phillip Suriano**, non exec director. Mr Suriano's other directorships include Adavale Resources Ltd and Real Brand Holdings Ltd. He began his career in corporate banking with the Commonwealth Bank in 1988. For the past six years Mr Suriano has been Division Director, Equity Capital Markets with boutique investment house Arthur Phillip.

**Wayne Hooper**, executive director. Wayne is a professional engineer with significant experience in the engineering and manufacturing industries. Prior to joining the company in 1994 he held senior roles in marketing and sales management within a large manufacturing organisation. He holds degrees in Science and Engineering (Honours Class 1) and completed his MBA in 1994.

**Greg Hooper**, founder, executive director. Greg is a mechanical engineer, founding the company in late 1992.

**Major shareholders:**

Hooper family with 54.98%

Loretta Mary Peachey holds 6.856%.

The Top 20 shareholders together hold 73.753% of the company.