

October 26, 2012

LaserBond

Company Update

A specialist in reclamation and surface engineering of industrial components operating in severe environments (prone to corrosion and/or wear) and critical applications. LBL's products include: LaserBond™ cladding, High-Pressure High-Velocity Oxy Fuel (HP HVOF) and Thermal Spraying.

Long term gains cause short term pain

LaserBond is undergoing a step change in its size and structure. This has included the current, almost complete, shift to substantially larger purpose deigned premises in Sydney and a doubling of sales staff across the group. The changes have begun to bear fruit. However, it has come too late for 1Q13, which was impacted by expected lost productivity as the NSW operations were centralised at the new facility and subdued customer orders. The net result was a fall in revenue of 8% relative to 1Q12. This and the higher cost base has resulted in a small net loss being recorded.

On a positive note, the increased sales force has been able to increase the number of quotes by 33% over the prior corresponding period (pcp), with early trials for prospective clients proceeding well. The value of quotes was 83% higher than the pcp.

Improved performance to flow through from 2H13

We remain confident that LBL will achieve FY13 revenue in excess of \$15m but following 1H13 adjustments our forecast is reduced by \$0.2m to \$15.3m. We had been looking for 1H13 revenue to be on par with that achieved in 1H12 but do not expect this now. Slightly lower sales and margins have seen our FY13f NPAT fall to \$1.2m from \$1.4m.

Geographic expansion still the big opportunity

LBL is well placed for significant growth in the coming years particularly through acquisitive expansion to spread the footprint of what is still a relatively new technology. LBL has stated an intention to grow into both Western Australia and South Australia and is in discussions with several possible partners at present.

Buy retained and \$0.225 a share valuation

Our valuation is a blend of our base case (\$0.20 a share) and acquisition case valuations (\$0.25 a share). The reduced FY13 forecasts have seen the EV/EBITDA valuation fall, lowering our valuation by one cent a share to \$0.225. We view LBL as a strong growth potential story but recognise that the capital raising dilution effect without an offsetting acquisition as yet currently sees LBL trading at over 10-times FY13f earnings.

Investorfirst Securities managed and underwrote the issue of 9.1 million shares in LBL in May 2012 and received fees for this

Rating	Valuation	ASX code
Buy	\$0.225	LBL

Pricing Data

52-w range (\$)	\$0.13 - \$0.28
Current price (\$)	\$0.160
Diluted shares (m)	84.7
Market cap (\$m)	13.56
Net debt (\$m)	-1.37
EV (\$m)	12.19



Key Financial Metrics & Forecasts

\$m	FY11a	FY12a	FY13f	FY14f
Revenue	13.28	14.39	15.31	16.53
EBIT	2.14	1.92	1.76	2.06
Net profit (adj)	1.43	1.29	1.16	1.38
EPS (adj) (c)	2.02	1.74	1.37	1.63
Dividend (c)	0.5	0.5	0.5	0.7
EV/EBIT	5.7x	6.3x	6.9x	5.9x
P/E	7.9x	9.2x	11.6x	9.8x
Net yield	3.1%	3.1%	3.1%	4.1%

***base case' forecast (excludes potential acquisitions)*



Laserbond

ASX code LBL
Bloomberg LBL AU
Reuters LBL.AX

Recommendation: Buy

Valuation: \$0.225

Financial risk: 8.17 (ZScore) -2.29 (MScore)

BASE CASE SCENARIO - NO ACQUISITION

Share price \$0.160

No. shares 84.7m

Options etc. 0.0m

Market cap \$13.6m

		Financial year end: June 30											
		FY10a	FY11a	FY12a	FY13f	FY14f							
Income Statement							Valuation Metrics		FY10a	FY11a	FY12a	FY13f	FY14f
Operating revenue		10.42	13.28	14.39	15.31	16.53	Price / earnings (adj)	23.7x	7.9x	9.2x	11.6x	9.8x	
EBITDA		0.93	2.30	2.29	2.16	2.50	EV/EBITDA	13.1x	5.3x	5.3x	5.6x	4.9x	
Deprec & Amort		-0.21	-0.16	-0.36	-0.41	-0.44	EV/EBIT	16.8x	5.7x	6.3x	6.9x	5.9x	
EBIT		0.73	2.14	1.92	1.76	2.06	Dividend yield	0.0%	3.1%	3.1%	3.1%	4.1%	
Net interest expense		-0.06	-0.10	-0.08	-0.09	-0.08	Current price / book	1.3x					
PBT		0.67	2.04	1.84	1.66	1.97	Current price / NTA	2.0x					
Non-recurring items		0.00	0.00	-0.25	0.00	0.00	Margins	FY10a	FY11a	FY12a	FY13f	FY14f	
Tax Expense		-0.11	-0.70	-0.47	-0.50	-0.59	EBITDA margin	8.94%	17.31%	15.88%	14.12%	15.10%	
Equity-accounted		0.00	0.00	0.00	0.00	0.00	EBIT margin	6.96%	16.12%	13.36%	11.46%	12.45%	
Reported net profit		0.56	1.34	1.12	1.16	1.38	PBT margin	6.39%	15.38%	12.80%	10.86%	11.94%	
Adjusted net profit		0.47	1.43	1.29	1.16	1.38	Adj. net profit margin	4.47%	10.77%	8.96%	7.60%	8.36%	
Adjusted EPS ¢		0.67	2.02	1.74	1.37	1.63	Growth	FY10a	FY11a	FY12a	FY13f	FY14f	
Dividends per share ¢		0.000	0.005	0.005	0.005	0.007	Revenue growth	15.0%	27.4%	8.4%	6.4%	7.9%	
First half review		1H10a	1H11a	1H12a	1H13f	1H14f	EBITDA growth	30.6%	146.6%	-0.6%	-5.4%	15.4%	
First half revenue (\$m)		5.42	6.02	7.77	7.16	7.96	EPS growth	n/a	198.9%	-13.6%	-21.1%	18.7%	
First half EBITDA		0.27	0.74	1.25	0.71	1.16	Du Pont Analysis (reported ROE)	FY10a	FY11a	FY12a	FY13f	FY14f	
First half adj net profit		0.11	0.43	0.78	0.32	0.63	Operating profit margin	7.0%	16.1%	11.6%	11.5%	12.4%	
Cash Flow		FY10a	FY11a	FY12a	FY13f	FY14f	Asset turnover	128.5%	139.3%	119.1%	106.5%	107.3%	
Reported net profit		0.56	1.34	1.12	1.16	1.38	Interest expense rate	0.7%	1.0%	0.7%	0.6%	0.5%	
Deprec & Amort		0.21	0.16	0.36	0.41	0.44	Equity multiplier	141.7%	145.1%	140.4%	135.0%	133.9%	
Working capital		-2.30	-0.59	-0.81	0.38	-0.23	Tax retention rate	83.5%	65.5%	70.3%	70.0%	70.0%	
Others		0.00	0.00	0.00	0.00	0.00	Return on equity	9.7%	20.4%	13.0%	10.9%	12.0%	
Net operating cash flow		-1.54	0.90	0.67	1.95	1.59	Net tangible assets	2.69	3.37	6.61	7.48	8.30	
Capex		-0.21	-0.12	-1.52	-0.47	-0.25	Net debt (cash)	-0.06	-0.44	-1.37	-2.54	-3.34	
Acquisitions		-0.26	-0.15	0.01	0.00	0.00	W/av diluted shares on issue	69.1m	71.2m	76.3m	84.7m	84.7m	
Others		0.00	0.00	0.00	0.00	0.00	Share Outstanding	69.1m	72.1m	83.9m	84.7m	84.7m	
Net investing cash flow		-0.46	-0.27	-1.51	-0.47	-0.25	Segment Sales						
Change in debt		0.13	-0.07	0.00	0.00	0.00							
Equity issuance		0.46	0.00	1.91	0.12	0.00	Capital Structure						
Dividends		0.00	0.00	-0.29	-0.42	-0.55							
Other		0.00	0.00	1.01	0.00	0.00							
Net financing cash flow		0.59	-0.07	2.63	-0.30	-0.55							
Net cash flow		-1.41	0.56	1.80	1.17	0.79							
Balance Sheet		FY10a	FY11a	FY12a	FY13f	FY14f							
Cash		0.42	0.98	2.78	3.95	4.75							
Receivables		2.27	3.28	3.61	3.36	3.53							
Inventory		1.61	1.55	1.77	1.76	1.91							
Other		0.00	0.00	0.00	0.14	0.15							
Total current assets		4.30	5.81	8.17	9.22	10.33							
PP&E		0.69	0.65	1.80	1.87	1.68							
Intangibles		3.46	3.61	3.61	3.61	3.61							
Other non-current		0.27	0.27	0.24	0.24	0.24							
Total non-current assets		4.42	4.53	5.65	5.72	5.53							
Total assets		8.72	10.34	13.82	14.94	15.86							
Current debt		0.10	0.09	0.42	0.42	0.42							
Payables		1.09	1.10	1.41	1.39	1.49							
Provisions		0.00	0.65	0.51	0.58	0.61							
Other		0.89	0.82	0.16	0.36	0.32							
Total current liabilities		2.08	2.66	2.50	2.75	2.85							
Non-current debt		0.27	0.45	0.99	0.99	0.99							
Other		0.22	0.25	0.11	0.11	0.11							
Total non-current liabilities		0.49	0.70	1.10	1.10	1.10							
Total liabilities		2.56	3.36	3.60	3.85	3.95							
Net assets		6.16	6.98	10.22	11.09	11.92							



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Research Ratings Methodology

Sell: Valuation < (Share Price X 0.9)

Hold: Valuation > (Share Price X 0.9) < Share Price

Buy: Valuation > Share Price

Speculative (in addition to Buy/Hold/Sell): no history of positive earnings or cash flow; or highly geared; or highly volatile & inherently uncertain earnings

Financial Risk Metrics

General Z-Score: indicator of risk of bankruptcy

- <1.1: may be in financial distress
- 1.1 to 2.6: potential warning of financial distress
- >2.6: may be in good financial shape

Beneish M-Score: indicator of potential earnings manipulation. A result below -2.22 indicates no apparent manipulation of financial results