Canaccord Genuity Capital Markets

30 August 2021

Raising Target Price

LaserBond Limited

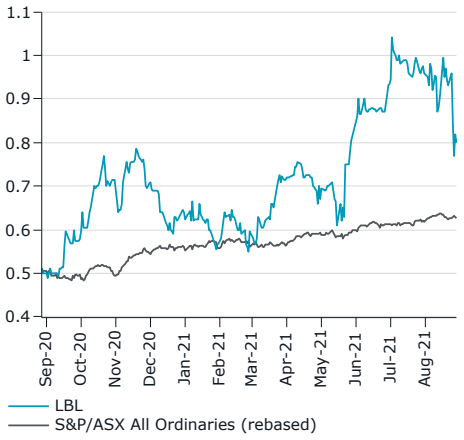
Industrial Technologies

Rating	Price Target
BUY *unchanged*	**A$1.25↑** *from A$0.80*
LBL-ASX	Price **A$0.80**

Market Data

52-Week Range (A$) :	0.48 - 1.07
Avg Daily Vol (000s) :	0
Market Cap (A$M) :	76.6
Shares Out. (M) :	95.7
Dividend /Shr (A$) :	1.10
Dividend Yield (%) :	1.4
Net Debt (Cash) (A$M) :	1.0
Enterprise Value (A$M) :	115
Cash (A$M) :	4.9
Long-Term Debt (A$) :	5.9

FYE Jun	2021A	2022E	2023E	2024E
Sales (A$M)	24.7	36.6↓	43.5↓	51.1
Previous	-	*37.6*	*45.2*	-
EBITDA (A$M)	6.4	9.0↑	10.6↑	12.8
Previous	-	*8.8*	*10.5*	-
Net Income Adj (A$M)	2.4	4.3↓	5.4↓	6.6
Previous	-	*4.4*	*5.6*	-
EPS Adj&Dil (A$)	0.02	0.04	0.06↑	0.07
Previous	-	*0.04*	*0.05*	-
EPS Growth (%)	(11.3)	79.5	26.7	19.8
DPS (A$)	0.01	0.01	0.01	0.03
P/E (x)	32.5	18.1	14.3	11.9
EV/EBITDA (x)	17.0	12.2	10.2	8.3
Div. Yield (%)	1.5	1.6	1.9	3.3



Source: FactSet

Priced as of close of business 27 August 2021

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Excelling in a difficult year

Investment Recommendation

LBL is a business which has clearly not benefited from COVID-19, with near-term ambitions frustrated in FY21 although double-digit group revenue growth was impressive, driven by the Products division. We remain very positive on the outlook for LBL: the company's Products division clearly has customer traction; Services should have a better year in FY22E as maintenance programmes catch up and FY21's acquisition properly hits its stride. The business has announced two Technology sales which will substantially increase the scale of that segment in FY22E. Our earnings forecasts only change modestly but the sterling performance in FY21 in the face of many challenges makes us more positive on the stock, and we increase our valuation from $0.80 per share to $1.25 and stay at BUY.

FY21 result- key points

Services division: More than the other segments, Services division was impacted by COVID-19 with deferred maintenance work and the delay in installing a new laser cladding cell in Victoria both impacting revenues. Revenues did grow in 2H21 as conditions eased somewhat, and we believe there is significant potential upside for revenues in the segment as restrictions ease.

Products division: The Products division had an excellent year, with revenue up 41% yoy, all of which was organic growth with the second half continuing the momentum from 1H21. Even here, the pandemic played a role as previously forecast sale of steel mill rolls did not eventuate as planned given the more personalised interactions needed to complete these larger scale sales.

Technology division: In May LBL announced the completion of a seven-year agreement with a North American manufacturer and a second sale was announced in late August, this time with Curtin University in Western Australia, and which shapes up as an important collaboration partner for LBL, with its presence in WA potentially significant as a showcase facility for LBL technology to customers.

Outlook

LBL remains committed to its $40m revenue objective for FY22E but now expects a contribution from an acquisition, with organic growth set to land revenue "*close to the target*". We believe the Services segment is one which could benefit from an acquisition, especially one which brings the business closer to customers in resource-rich states like Queensland and WA. The business will undertake increased international marketing in its Products division with likely warehousing and distribution and, possibly, manufacturing offshore. Technology is projected to grow through licensing of its E-clad and other proprietary technologies.

Forecast changes

We have lowered our FY22E revenue forecast by 3% and FY23E by 4%. However, FY21's margins were better than we expected and that is reflected in our EBITDA forecasts, which are largely unchanged. Based on our revised forecasts, LBL would reach c. $40m revenue approximately in the year to December 2022, or six months later than previously contemplated, which helps put into some perspective the impact of the pandemic on the business.

Valuation and view

The shares trade on FY22E valuation multiples of 18.1x and EV/EBITDA 12.2x. We can easily envisage LBL being a much different, and larger, business in five years' time, which makes valuing the equity a tricky proposition. We estimate that EBITDA growth over the next year is double that of the Small Industrials Index. A 50% valuation premium in recognition of that superior growth implies an EV/EBITDA multiple of 17x and an equity value of $1.25 per share, and we stay at BUY.

Figure 1: Financial summary for LaserBond

				Target Price $ 1.25
LaserBond Limited				Share Price $ 0.80
Profit & Loss ($m)	**2021A**	**2022F**	**FY23F**	**FY24F**
Revenues	**24.7**	**36.6**	**43.5**	**51.1**
Gross profit	12.6	17.2	20.3	23.9
Opex	-6.2	-8.1	-9.7	-11.1
EBITDA	**6.4**	**9.0**	**10.6**	**12.8**
D & A	-2.6	-2.9	-3.0	-3.0
EBIT	**3.8**	**6.1**	**7.6**	**9.8**
Net Interest Expense	-0.5	-0.4	-0.4	-0.4
NPBT	**3.4**	**5.7**	**7.2**	**9.4**
Tax expense	-0.5	-1.4	-1.8	-2.8
NPAT underlying	**2.4**	**4.3**	**5.4**	**6.6**
Post tax NRI's	0.0	0.0	0.0	0.0
NPAT reported	**2.4**	**4.3**	**5.4**	**6.6**
EBITDA Margin (%)	*25.9%*	*24.6%*	*24.4%*	*25.0%*
EBIT Margin (%)	*15.5%*	*16.6%*	*17.5%*	*19.2%*
NPAT Margin (%)	*9.5%*	*11.6%*	*12.5%*	*12.8%*
Cash Flow ($m)	**2021A**	**2022F**	**FY23F**	**FY24F**
Operating EBITDA	**6.4**	**9.0**	**10.6**	**12.8**
Change in working capital	-1.2	-3.1	-1.9	-2.1
Interest	0.6	-0.4	-0.4	-0.4
Tax	-1.0	-1.4	-1.8	-2.8
Other	0.0	0.0	0.0	1.0
Operating Cashflow	**4.8**	**4.1**	**6.5**	**8.5**
Capex	0.5	-2.0	-1.7	-2.0
Acquisitions	-0.8	0.0	0.0	0.0
Sale of assets	0.0	0.0	0.0	0.0
Investing cash flow	**-0.3**	**-2.0**	**-1.7**	**-2.0**
Dividends	-0.8	-0.8	-1.0	-1.1
Equity issued	0.0	0.0	0.0	0.0
Change in borrowings	0.0	0.7	0.4	0.6
Lease payments	-1.7	-1.8	-1.8	-0.8
Financing cash flow	**-2.6**	**-2.0**	**-2.4**	**-1.4**
Net Cashflow	**1.9**	**0.1**	**2.3**	**5.0**
Cash at beginning of period	4.5	9.0	6.5	6.3
Cash at end of period	9.0	6.5	6.3	8.7
Balance Sheet	**2021A**	**2022F**	**FY23F**	**FY24F**
Cash	4.9	5.0	7.4	11.4
Debtors	5.8	8.7	10.4	12.2
Inventory	3.4	5.1	6.1	7.1
PPE	9.6	9.6	9.5	9.6
Intangibles	0.1	0.1	0.1	0.1
Right of Use Assets	4.4	5.2	5.9	5.6
Other assets	1.3	1.3	1.3	1.3
Total Assets	**29.5**	**35.0**	**40.6**	**47.3**
Borrowings	5.9	6.6	6.9	7.5
Trade Creditors	2.4	3.8	4.6	5.3
Lease liabilities	4.8	4.8	4.8	4.8
Other Liabilities	2.2	2.2	2.2	2.2
Total Liabilities	**15.3**	**17.4**	**18.5**	**19.8**
NET ASSETS	**14.3**	**17.7**	**22.1**	**27.5**
Board of Directors / Substantial Shareholders				
Board of Directors		**Shareholding (m)**		**%**
Philip Suriano, Chairman		0.8		0.8%
Wayne Hooper, CEO		11.1		11.6%
Matthew Twist, Executive Director		0.1		0.1%
Significant shareholders				
Diane Hopper		9.8		10.2%
Rex Hooper		7.2		7.6%
Lillian Hooper		6.2		6.5%

Valuation ratios	**2021A**	**2022F**	**FY23F**	**FY24F**
EPS underlying (cps)	2.5	4.4	5.6	6.7
EPS Growth (%)	*-11%*	*80%*	*27%*	*20%*
P/E (x)	32.5	18.1	14.3	11.9
Equity value	76.8	77.2	77.7	79.0
Net debt/ (cash)	1.0	1.5	-0.4	-3.9
Leases	30.9	30.9	30.9	30.9
Enterprise Value ($m)	109	110	108	106
EV/ gross profit	8.6	6.4	5.3	4.4
EV / EBITDA (x)	17.0	12.2	10.2	8.3
EV / EBITA (x)	28.4	18.1	14.2	10.8
DPS (cps)	1.2	1.3	1.5	2.6
Dividend Yield (%)	1.5%	1.6%	1.9%	3.3%
Payout Ratio	49%	29%	27%	39%
Franking (%)	100%	100%	100%	200%
FCFPS - excl acq. (cps)	5.5	2.2	4.9	6.6
P / FCFPS (x)	22.5	57.0	25.3	19.0
Dupont Analysis	**2021A**	**2022F**	**FY23F**	**FY24F**
Net Margin	9.5%	11.6%	12.5%	12.8%
Asset Turnover	0.9	1.1	1.2	1.2
ROA (%)	8.9%	13.2%	14.3%	14.9%
Financial Leverage	2.0	2.0	1.9	1.8
ROE (%)	17.8%	26.7%	27.3%	26.5%
ROCE (%)	19.9%	23.8%	25.6%	27.8%
Balance Sheet ratios	**2021A**	**2022F**	**FY23F**	**FY24F**
Net debt/ (cash)	1.0	1.5	-0.4	-3.9
Net debt/ EBITDA	0.2	0.2	net cash	net cash
NTA per share ($)	0.15	0.18	0.23	0.28
Price / NTA (x)	8.4	6.8	5.5	4.5
Shares in issue (m)	96.1	96.5	97.1	98.7
EFPOWA (m)	95.7	96.3	96.8	97.9
Growth ratios	**2021A**	**2022F**	**FY23F**	**FY24F**
Sales revenue	11%	48%	19%	18%
EBITDA	3%	41%	18%	21%
EBIT	-9%	58%	26%	28%
PBT	-11%	69%	27%	30%
NPAT	-16%	81%	27%	21%
$m	**2021A**	**2022F**	**FY23F**	**FY24F**
Services	11.6	17.5	19.8	22.2
Products	13.0	15.2	18.3	21.9
Technology	0.1	3.8	5.4	7.0
Group revenue	**24.7**	**36.6**	**43.5**	**51.1**
Valuation				
EV/ EBITDA multiple		17.0		
FY22F EBITDA		9.0		
EV		153.2		
Less net debt		-1.5		
Less leases		-30.9		
Equity value		**120.7**		
Equity value per share		1.25		

Description

LaserBond engages in the reclamation and surface engineering of industrial components operating in severe environments and critical applications. The firm also provides thermal spraying, laser cladding, and welding technologies. It operates through the following business segments: Services, Product, and Technology. Broadly speaking the Services segment remediates a customer's own equipment; the Product segment produces new finished products and the Technology segment sells and licences the company's proprietary innovations. The company was founded in 1992 and has operations in New South Wales, Victoria and South Australia.

Source: Company reports, Canaccord Genuity estimates

FY21 review

Services division

Delivering positive revenue growth in FY21 was always going to be a struggle after minus 21% in 1H21 but second half revenues were ahead 4% yoy, assisted by a modest contribution from the United Surface Technologies acquisition. The business has been hampered by delays to maintenance programmes at end users of equipment and a planned laser cladding cell installation at the Victoria site could not be completed due to inter-state border restrictions. A remote installation is being planned with revenues set to flow from 2Q FY2. We believe the Services segment is one which could benefit from an acquisition, especially one which brings the business closer to customers in resource-rich states like Queensland and WA.

Products division

The Products division had an excellent year, with revenue up 41% yoy, all of which was organic growth with the second half delivering a 38% yoy uplift after 45% in 1H21 – a period when LBL was catching up on deferred orders. The divisional commentary notes that previously forecast sale of steel mill rolls in North America and Asia did not eventuate as planned given the more personalised interactions needed to complete these larger scale sales. Like the Services segment although on different dynamics, the Products division feels to us like it has significant further growth potential ahead once travel restrictions are lifted and LBL can place sales representatives in the field to meet with prospective customers in more personalised settings.

Technology division

Announced in May, LBL completed a seven-year agreement with a North American manufacturer for cladding equipment which is slated to deliver $1.5m revenue in FY22E along with ongoing licence fees and consumables sales of c$0.8m p.a.

A second Technology sale was announced in late August, this time with Curtin University in Western Australia for a Laser Metal Deposition (LMD) system. A smaller unit, with c.$1m in equipment sales and ongoing consumables revenue, Curtin shapes up as an important collaboration partner for LBL, with its presence in WA potentially significant as a showcase facility for LBL technology to customers in the state.

With the Curtin University agreement representing one of the two Technology sales anticipated in FY22, we expect one more during the rest of FY22. LBL plans to maintain that sales level in future years. In addition to the big-ticket equipment sale, a key attraction of Technology sales is the additive impact of recurring annual revenues arising from each new sale.

FY21 financials

- FY21 revenue of $24.7m was in line with the May update which guided to 10-12% yoy growth, which implied $24.4-24.9m.
- We had been too optimistic on a rebound for Services revenues in 2H21, with the result that we were $1.6m, or 13% above the actual outturn. As noted in the review, the segment was impeded in multiple ways by the pandemic, including Victorian lockdowns shuttering the UST business for periods; OEM access to customer sites to secure equipment for LBL to repair and remediate; and the delay in installing a new laser cladding cell in Victoria.
- Products revenues were in line with our forecasts as 1H21's impressive growth carried on into the second half and underscored the traction the products continue to enjoy in-market.
- In Technology, we had pencilled in a Technology sale for 2H21 which did not eventuate – at least in the form of revenue – although LBL was able to announce a sale late in FY21 with first revenues falling in FY22E.

- We were concerned the lower revenue would translate into lower earnings but operating costs were much lower than we had envisaged, with the result that EBITDA was in line with our forecast and the margin over 400bps ahead.

Figure 2: LaserBond FY21 financial performance compared to FY20 and our estimates

$m	FY20A	FY21A	Δ $m	*% change yoy*	CGAu estimate	*Difference versus estimate*
Services revenue	12.8	11.6	-1.2	*-9%*	13.4	*-13%*
Products revenue	9.2	13.0	3.8	*41%*	13.3	*-3%*
Technology revenue	0.2	0.1			1.7	*-96%*
Group revenue	**22.2**	**24.7**	**2.6**	***12%***	**28.4**	***-13%***
Total costs	-16.0	-18.3	-2.3	*14%*	-22.2	*-18%*
Underlying EBITDA	6.2	6.4	0.2	*3%*	6.2	*3%*
Margin	*27.9%*	*25.9%*			*21.8%*	
Underlying NPAT	2.6	2.5	-0.1	*-4%*	2.8	

Source: Company reports, Canaccord Genuity estimates

Outlook

LBL remains committed to its objective of reaching $40m revenue in FY22E. Having reiterated its commitment to the target as part of the May trading update, the plan has been refined to now include a contribution from an acquisition in FY22E revenue – a transaction which LBL expects to begin contributing no later than early 2H FY22E.

In our view, pandemic-related delays and impediments meant that looked a bridge too far based on organic growth, especially after May's guidance of revenue below $25m in FY21 – reaching $40m organically in FY22E would have required 60% yoy growth against a backdrop of ongoing COVID-19-related restrictions.

Nonetheless, the statement certainly implies very healthy organic revenue growth in FY22E, in our view, which is reflected in our forecast of $36.6m, which does not include a contribution from an acquisition. We think it is easy to envisage how the pandemic has cost the business $4-5m in revenue across the Services and Products divisions.

Other key parts of the near-term strategy include expansion of the Services business via acquisition and international ambitions for the Products Division, with the potential for warehousing, distribution and possible manufacturing offshore. LBL also looks to further develop the Technology division through the licensing of E-clad and other proprietary technologies.

Forecast changes

Running through the higher EBITDA margins from FY21 into our FY22E and FY23E forecasts, our EBITDA estimates remain broadly unchanged.

With FY21 revenue lower than we had previously modelled, our revenue forecasts come down by 3% and 4% for FY22E and FY23E, with the FY21-22E revenue bridge shown below in Figure 4.

Our NPAT forecasts come down slightly due to the application of a higher tax rate than before (25% versus c.22% previously).

Figure 3: Forecast changes for LaserBond

	FY22F			FY23F		
	Old	**New**	***Change***	**Old**	**New**	***Change***
Group revenue	37.6	36.6	*-3%*	45.2	43.5	*-4%*
Growth	*52%*	*48%*		*20%*	*19%*	
Underlying EBITDA	8.8	9.0	*2%*	10.5	10.6	*1%*
EBITDA margin	*23%*	*25%*		*23%*	*24%*	
Underlying NPAT	4.4	4.3	*-3%*	5.6	5.4	*-3%*
Underlying EPS (cents)	4.1	4.4	*8%*	5.3	5.6	*6%*

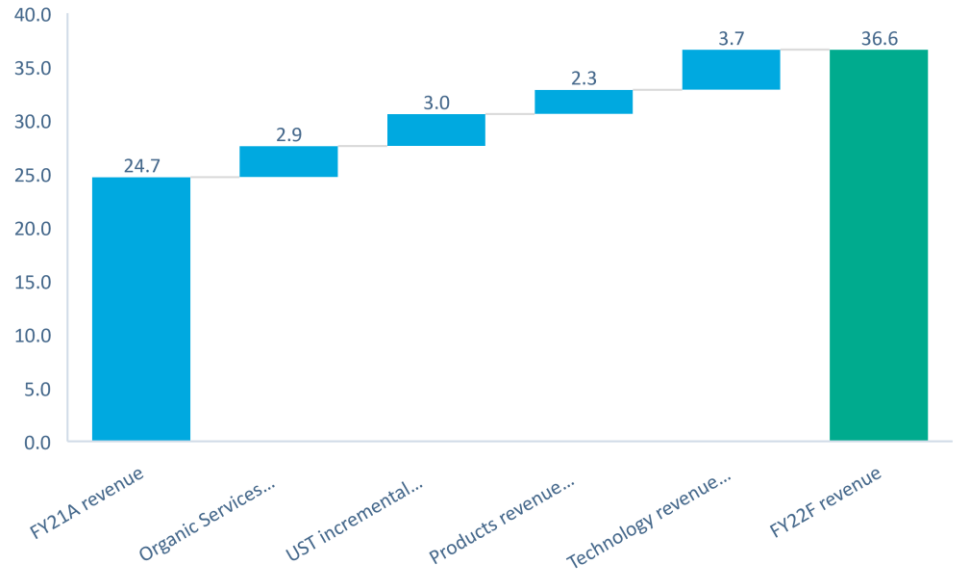
Source: Canaccord Genuity estimates

Revenue bridge, FY21-22E

Our revenue bridge for FY21 to FY22E has a number of moving parts, which are shown below:

- We assume 25% yoy organic growth in the Services division, representing $2.9m of incremental revenue with $3m further additional contribution from UST in the period.
- Noting the comments around Products in the outlook statement, we assume 18% yoy revenue growth, contributing $2.3m of additional revenue in FY21.
- Finally, with two Technology sales secure, we assume one more for the full year, which will assist with a $3.7m yoy uplift in revenue in that division.

Figure 4: Revenue bridge FY21-22E



Source: Canaccord Genuity estimates

Divisional Summary

Figure 5 shows our divisional revenue and EBITDA forecasts for LBL for FY22E-24E. With significant catch-up revenue in Services and a step-change in activity in the Technology segment, we expect revenue to grow at an impressive 48% yoy in FY22E.

We expect group margins to be relatively stable with the growth in the Technology segment, which we model as lower margin than Services or Products, acting as a moderating influence on operating leverage.

Figure 5: Revenue and EBITDA forecasts by division for LaserBond

	FY21	FY22E	FY23E	FY24E
Services	11.6	17.5	19.8	22.2
Product	13.0	15.2	18.3	21.9
Technology	0.1	3.8	5.4	7.0
Group revenue	**24.7**	**36.6**	**43.5**	**51.1**
Underlying change yoy		*48%*	*19%*	*18%*
Services	3.0	4.8	5.4	6.2
Product	4.1	5.0	6.2	7.6
Technology	-0.1	0.4	0.7	1.1
R&D	-0.6	-1.1	-1.7	-2.0
Group EBITDA	**6.4**	**9.0**	**10.6**	**12.8**
Margin	*26%*	*25%*	*24%*	*25%*

Source: Company reports, Canaccord Genuity estimates

LaserBond's returns are excellent

LBL's returns are excellent, with returns on equity trending above 20%, driven by a good balance of profit margins, efficient use of assets and leverage.

Return on capital employed (ROCE), defined here as EBIT divided by total assets less current liabilities, also trends above 20%, indicating that LBL generates returns well above its WACC, which would probably be in the high-single-digit range.

Figure 6: LaserBond return on assets, equity and capital employed

	2021	2022E	FY23E	FY24E
Net Margin	9.5%	11.6%	12.5%	12.8%
Asset Turnover	0.9	1.1	1.2	1.2
ROA (%)	8.9%	13.2%	14.3%	14.9%
Financial Leverage	2.0	2.0	1.9	1.8
ROE (%)	17.8%	26.7%	27.3%	26.5%
ROCE (%)	19.9%	23.8%	25.6%	27.8%

Source: Company reports, Canaccord Genuity estimates

Valuation and view

Fast-forward five years and it is easy for us to envisage LBL as a much different – and larger – business than it is today, with the Services division having expanded into several new states, thereby growing its customer and service base. Consistent with the company's strategy, the Products division may have established warehousing and distribution, and perhaps manufacturing, capabilities overseas, potentially shortening the sale cycle and making the business generally more efficient. A lot has to happen to reach that point but the medium-term outlook appears exciting to us. On our forecasts, which do not include any acquisitions, EBITDA will double over the next three years, with EPS growth exceeding that. We estimate that, based on FactSet consensus, the ASX Small Ordinaries is valued on a June 2022E EV/EBITDA of 12.1x, which is approximately the same rating as LBL. However, we also estimate that LBL's EBITDA is set to grow at twice the rate of the index, which demands a premium valuation, in our view. A pro rata premium would imply a rating of c.24x, which might be a little rich but, splitting the difference at 17x looks manageable, in our view. Applying that figure to $9m FY22E EBITDA and adjusting for net debt and lease liabilities points to a valuation of $1.25 per share which is our new target price (up from $0.80) and we stay at BUY.

Appendix: Important Disclosures

Analyst Certification

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Sector Coverage

Individuals identified as "Sector Coverage" cover a subject company's industry in the identified jurisdiction, but are not authoring analysts of the report.

Investment Recommendation

Date and time of first dissemination: August 29, 2021, 22:26 ET

Date and time of production: August 29, 2021, 22:26 ET

Target Price / Valuation Methodology:

LaserBond Limited - LBL

We value the shares using a 17x multiple of our FY22E EBITDA forecast which we think properly reflects the growth prospects of the business relative to the wider market.

Risks to achieving Target Price / Valuation:

LaserBond Limited - LBL

- We believe the main risk to our view is the group failing to reach its $40m revenue target in FY22. Management has remained consistent in this ambition, even during COVID-19 restrictions, albeit with an allowance that the UST acquisition will now contribute to the bridge to that revenue target. Should the business not reach its objectives, the market may react negatively.
- LBL is heavily exposed to the Mining and Resources sector, with much of its revenue emanating either directly from customers or from OEMs servicing the sector. Therefore, changes in activity in the sector could impact LBL's revenues and earnings.
- One challenge facing LBL is that its coating and surface engineering solutions work "too well", reducing the frequency with which components are sent for repair and refresh. Therefore, LBL has to price its services in such a way as to reflect the value provided to customers as well as develop new solutions and continue to push into new markets to continue its growth trajectory.
- Acquisitions have not been a large part of LBL's historic growth, although the company expanded to South Australia in 2013. The company articulates potential geographic expansion in its strategy, and the UST acquisition in Victoria signals what could be the beginning of that trend. Integrating acquisitions into the business could present a challenge.

Distribution of Ratings:

Global Stock Ratings (as of 08/29/21)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	635	66.15%	45.04%
Hold	162	16.88%	27.16%
Sell	9	0.94%	33.33%
Speculative Buy	145	15.10%	60.69%
	960*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

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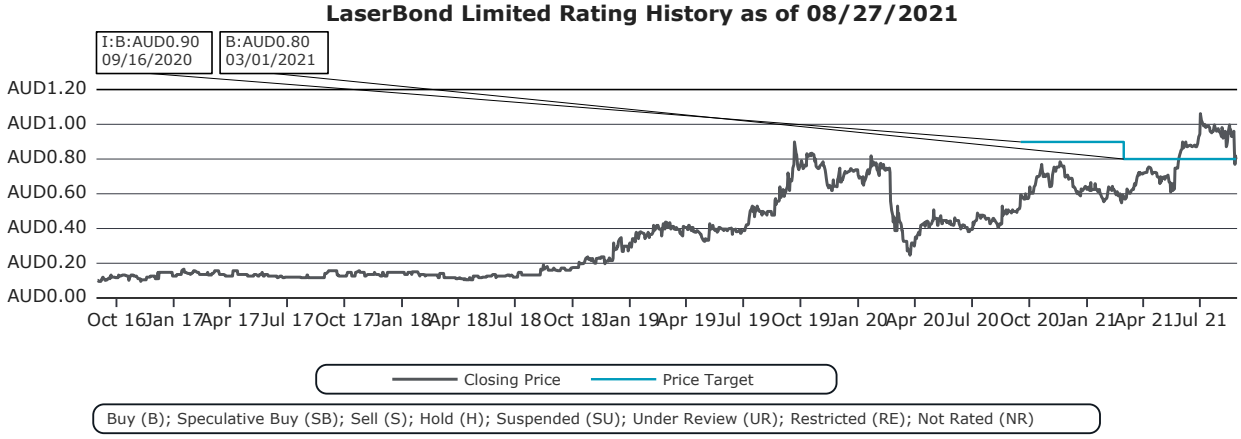

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