

# LaserBond Limited

## On track

LaserBond shares have fallen by c40% since reporting first half results on 21 Feb – a function of lower than anticipated revenues on the phasing of orders and overall share market weakness. Demand from miners and mineral processors (c85% of revenues) remains strong. Operations continue to run as normal despite coronavirus restrictions. We see 175% upside to our \$1.09 per share fair value (was \$1.50).

- **Slower revenue growth in 1H20:** LaserBond revenues grew by 7% in 1H20 versus our 20% forecast and double-digit management guidance. The slowdown occurred in the product division where some customer shipments were delayed. Underlying profit growth remained robust at 16% YoY excluding AASB 16 and the benefit from a one-off government grant in the prior period. We expect the product segment to show a strong recovery in 2H20 due to deliveries of steel mill rolls to the US.
- **Trimming our EPS estimates:** We no longer expect a technology licencing deal to be closed in FY20 due to delays at the client end. This and the 1H20 result mean we are lowering revenue forecasts by 7-11% and EPS by 12-27% over the next three years (Figure 1).
- **On track to deliver \$40m revenue by FY22:** LaserBond has grown sales at 29% over the past three years. We forecast 21% revenue CAGR to \$40min in FY22 in line with company guidance. We expect most of the growth will come from product sales and technology licencing. LaserBond has developed a unique and economic alternative to hardchrome plating – which is increasingly being discouraged by regulators due to environmental concerns – a potential \$3bn global market. Geographic expansion or M&A could provide further upside.
- **Fair value \$1.09 per share:** Our DCF derived fair value falls from \$1.50 to \$1.09 per share on the downgrades to forecasts. Our fair value puts the shares on a P/E of 19x in FY22 which we believe is commensurate to the 26% three-year EPS CAGR. It is also worth noting **on-market share purchases by the CEO and CTO in late March.**

Figure 1: LaserBond revenue by segment

Year ended June 30 (\$m)	FY20E			FY21E			FY22E		
	Old	New	Chg(%)	Old	New	Chg(%)	Old	New	Chg(%)
Revenue	27.1	24.2	-10.8	34.9	30.9	-11.6	43.2	40.2	-6.9
Growth (% YoY)	19.5	6.6	-12.9	29.0	27.9	-1.1	23.7	30.3	6.5
EBITDA	6.2	5.9	-5.0	8.1	7.3	-9.7	10.2	10.0	-2.1
Margin (%)	22.8	24.3	1.5	23.1	23.6	0.5	23.7	24.9	1.2
Profit before tax	4.9	3.6	-27.2	6.7	5.0	-26.2	8.8	7.8	-12.0
Normalised dil. EPS (cps)	3.8	2.7	-27.1	5.1	3.8	-25.9	6.6	5.8	-11.6
Capex	-1.5	-0.7	-53.6	-1.5	-1.5	0.0	-1.8	-1.8	0.0
Free Cash Flow	2.5	2.8	14.5	2.6	1.7	-35.9	3.8	2.9	-22.8

Source: Veritas estimates, company data

LBL.ASX

BUY

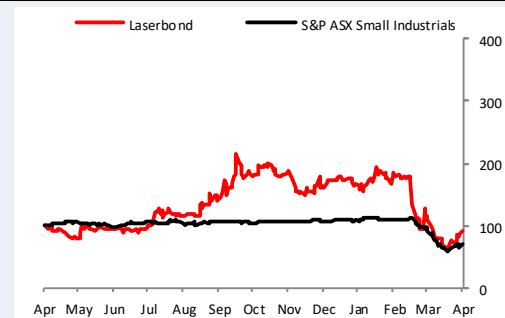
Monday 20 April 2019

Share Price	\$0.44
Price Target	\$1.09
Valuation Method	DCF

Market capitalisation	\$42m
Enterprise value	\$42m
GICS sector	Engineering Services
12 month price range	\$0.15 - 0.97
Average monthly t/o	1.8m
Shares in issue	94.7m
Top 20 holders	67.3m
Previous rating	Buy

Year ended June 30		FY 19 A	FY 20 E	FY 21 E	FY 22 E
Revenue	\$m	22.7	24.2	30.9	40.2
Growth	%	44.9	6.6	27.9	30.3
EBITDA	\$m	4.7	5.9	7.3	10.0
Margin	%	20.9	24.3	23.6	24.9
NPAT	\$m	2.7	2.6	3.6	5.6
EPS	øps	2.9	2.7	3.8	5.8
CFPS	øps	4.3	3.7	3.3	4.9
DPS	øps	1.0	1.1	3.0	3.8
Franking	%	100	100	100	100
Dividend Yield	%	2.3	2.5	6.8	8.6
PER	x	15.4	16.0	11.7	7.6
Price/Cash Flow	x	10.1	11.9	13.3	9.0
EV/Revenue	x	1.9	1.8	1.4	1.1
EV/EBITDA	x	8.9	7.2	5.8	4.2
EV/EBIT	x	11.0	10.5	7.8	5.2
EV/Capital	x	3.9	2.7	2.4	2.1
Gearing (net debt: capital)	%	6	25	19	11
Fixed charge cover	x	5	4	4.9	7
Return on capital	%	30.8	21.7	23.1	30.8

Laserbond vs. Small Industrials Index



Source: Factset, Veritas

Laserbond is an engineering company with expertise in laser cladding and other technologies that extend the life of metal components used mainly in mining and mineral processing.

<https://www.laserbond.com.au>

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## EQUITY RESEARCH

### LaserBond Limited

#### Financial Performance (A\$m)

Year ended June 30	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>13.8</b>	<b>15.6</b>	<b>22.7</b>	<b>24.2</b>	<b>30.9</b>	<b>40.2</b>
Cost of goods	(6.6)	(8.7)	(11.9)	(12.2)	(15.7)	(20.3)
<b>Gross profit</b>	<b>7.2</b>	<b>7.0</b>	<b>10.7</b>	<b>12.0</b>	<b>15.2</b>	<b>20.0</b>
Operating costs	(4.7)	(4.7)	(5.8)	(6.1)	(7.9)	(9.9)
<b>Normalised EBITDA</b>	<b>2.4</b>	<b>2.2</b>	<b>4.7</b>	<b>5.9</b>	<b>7.3</b>	<b>10.0</b>
Depreciation and amortisation	(0.9)	(0.7)	(0.9)	(1.9)	(1.9)	(1.8)
<b>Normalised EBIT</b>	<b>1.6</b>	<b>1.5</b>	<b>3.8</b>	<b>4.0</b>	<b>5.4</b>	<b>8.2</b>
Associate income	0.0	0.0	0.0	0.0	0.0	0.0
Net interest	(0.1)	(0.1)	(0.2)	(0.4)	(0.4)	(0.4)
<b>Normalised Pre-tax Profit</b>	<b>1.5</b>	<b>1.4</b>	<b>3.7</b>	<b>3.6</b>	<b>5.0</b>	<b>7.8</b>
Normalised tax	(0.4)	(0.4)	(1.0)	(1.0)	(1.4)	(2.1)
Profit attributable to minorities	0.0	0.0	0.0	0.0	0.0	0.0
<b>Normalised profit to holders</b>	<b>1.1</b>	<b>1.0</b>	<b>2.7</b>	<b>2.6</b>	<b>3.6</b>	<b>5.6</b>
One off items (post-tax)	0.0	0.0	0.1	0.0	0.0	0.0
<b>Reported profit to holders</b>	<b>1.1</b>	<b>1.0</b>	<b>2.8</b>	<b>2.6</b>	<b>3.6</b>	<b>5.6</b>

#### Cash Flow Statement (A\$m)

Year ended June 30	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Normalised EBITDA</b>	<b>2.4</b>	<b>2.2</b>	<b>4.7</b>	<b>5.9</b>	<b>7.3</b>	<b>10.0</b>
Cash net interest	(0.1)	(0.1)	(0.2)	(0.4)	(0.4)	(0.4)
Cash tax (paid)/received	(0.2)	(0.4)	(1.0)	(0.9)	(1.4)	(2.1)
Working capital/other	(0.2)	(1.3)	0.5	(1.1)	(2.3)	(2.7)
<b>Operating Cash Flow</b>	<b>2.0</b>	<b>0.4</b>	<b>4.1</b>	<b>3.5</b>	<b>3.2</b>	<b>4.7</b>
Capex	(0.1)	(0.3)	(3.4)	(0.7)	(1.5)	(1.8)
<b>Free Cash Flow</b>	<b>1.9</b>	<b>0.1</b>	<b>0.6</b>	<b>2.8</b>	<b>1.7</b>	<b>2.9</b>
Disposals/Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	(0.2)	(0.3)	(0.5)	(0.7)	(1.1)	(1.8)
Equity raised/buybacks	0.0	0.0	0.0	0.0	0.0	0.0
Borrowings/(debt repayment)	0.0	0.0	0.0	0.0	0.0	0.0
Other inc. finance leases	(0.4)	(0.5)	0.7	(0.7)	(0.7)	(0.7)
<b>Net increase/(decrease) cash</b>	<b>1.2</b>	<b>(0.6)</b>	<b>0.8</b>	<b>1.5</b>	<b>(0.1)</b>	<b>0.4</b>
Cash at beginning	0.8	2.0	1.4	2.2	3.7	3.5
Cash at end (including bank deposits)	2.0	1.4	2.2	3.7	3.5	4.0

#### Balance Sheet (A\$m)

Year ended June 30	FY17	FY18	FY19	FY20E	FY21E	FY22E
Cash	2.0	1.4	2.2	3.7	3.5	4.0
Receivables	4.1	5.4	5.4	5.3	7.3	9.6
Inventories	1.8	2.5	2.5	2.5	3.1	4.1
<b>Current Assets</b>	<b>7.9</b>	<b>9.2</b>	<b>10.1</b>	<b>11.5</b>	<b>14.0</b>	<b>17.6</b>
Property, Plant & Equipment	2.5	3.1	5.9	10.4	10.0	10.0
Intangibles	0.0	0.0	0.0	0.0	0.0	0.0
Other non current assets	0.2	0.3	0.4	0.4	0.4	0.4
<b>Non Current Assets</b>	<b>2.8</b>	<b>3.4</b>	<b>6.3</b>	<b>10.8</b>	<b>10.4</b>	<b>10.4</b>
<b>Total Assets</b>	<b>10.6</b>	<b>12.6</b>	<b>16.4</b>	<b>22.3</b>	<b>24.4</b>	<b>28.1</b>
Payables	1.4	1.9	2.0	1.2	1.5	1.9
Current tax	0.1	0.2	0.4	0.4	0.4	0.4
Employee benefits	0.7	0.8	1.1	1.1	1.1	1.1
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Total debt	1.4	1.9	2.9	7.6	6.9	6.3
<b>Total Liabilities</b>	<b>3.6</b>	<b>4.9</b>	<b>6.3</b>	<b>10.3</b>	<b>9.9</b>	<b>9.7</b>
<b>Shareholder Funds</b>	<b>7.0</b>	<b>7.8</b>	<b>10.1</b>	<b>12.0</b>	<b>14.5</b>	<b>18.3</b>

#### Directors and Key Management Personnel

	Shares	Holding
Wayne Hooper	10.9m	11.5%
Greg Hooper	9.6m	10.1%
Philip Suriano	0.7m	0.7%
Matthew Twist	0.1m	0.1%

#### Major Shareholders (excluding nominees)

	Shares	Holding
Hooper Family	44.2m	46.7%
Peachey Family	4.9m	5.2%
<b>Top 20 shareholders</b>	<b>67.3m</b>	<b>71.0%</b>

Source: Company data, Veritas Research. Note: AASB16 boosts EBITDA by c\$1m and increases assets & debt by \$5.4m from FY20 onward.

Share Price: \$0.44 ps

Valuation: \$1.09 ps

#### Valuation Metrics

	Valuation
Price Target (ps)	\$1.086 147%
Share Price (ps)	\$0.440
FY21E P/E (x)	11.7
Implied FY21 P/E (x)	28.8 147%
Implied FY22 P/E (x)	18.7 61%
Market Capitalisation (A\$m)	41.7
Enterprise Value (A\$m)	42.3

#### Valuation Multiples

Year ended June	FY17	FY18	FY19	FY20E	FY21E	FY22E
P/E (x)	35.7	42.3	15.4	16.0	11.7	7.6
Price/Cash Flow (x)	20.1	105.9	10.1	11.9	13.3	9.0
EV/Revenue (x)	3.1	2.7	1.9	1.8	1.4	1.1
EV/EBITDA (x)	17.3	19.0	8.9	7.2	5.8	4.2
EV/EBIT (x)	26.8	28.0	11.0	10.5	7.8	5.2
Equity FCF yield (%)	4.5	0.3	1.6	6.8	4.0	7.0
Dividend yield (%)	1.1	1.4	2.3	2.5	6.8	8.6
EV/capital (x)	6.6	5.1	3.9	2.7	2.4	2.1
Price to book value (x)	5.6	5.3	4.1	3.5	2.9	2.3

#### Per Share Data

Year ended June 30	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>EPS diluted - adjusted (¢ps)</b>	<b>1.23</b>	<b>1.04</b>	<b>2.87</b>	<b>2.74</b>	<b>3.77</b>	<b>5.80</b>
EPS diluted (¢ps)	1.23	1.04	2.99	2.74	3.77	5.80
Cash flow per share (¢ps)	2.19	0.42	4.35	3.71	3.32	4.87
Free cash flow per share (¢ps)	2.07	0.12	0.69	2.98	1.75	3.02
Cash (¢ps)	2.23	1.48	2.34	3.85	3.70	4.10
Net assets (¢ps)	7.80	8.35	10.72	12.67	15.18	18.88
DPS (¢ps)	0.50	0.60	1.00	1.10	3.00	3.80
Franking (%)	100	100	100	100	100	100
Shares on issue - avg. basic (m)	90	93	94	95	96	97
Shares on issue - avg. diluted (m)	90	93	94	95	96	97

#### Segmental revenue, EBITDA and margins

Year ended June 30	FY17	FY18	FY19	FY20E	FY21E	FY22E
Services	7.2	10.0	11.2	14.3	16.0	18.7
Product	5.1	5.6	9.1	9.6	12.4	16.5
Tech	1.4	0.0	2.4	0.3	2.5	5.0
<b>Revenue (\$m)</b>	<b>13.8</b>	<b>15.6</b>	<b>22.7</b>	<b>24.2</b>	<b>30.9</b>	<b>40.2</b>
Services	38.7	11.3	27.9	12.0	17.0	
Product	10.5	62.8	4.8	30.0	33.0	
Tech			(87.3)	716.7	103.1	
<b>Revenue growth (%)</b>	<b>30.8</b>	<b>13.8</b>	<b>44.9</b>	<b>6.6</b>	<b>27.9</b>	<b>30.3</b>
Services	1.6	2.0	2.6	3.8	4.2	5.1
Product	1.0	0.8	2.7	2.8	3.6	5.0
Tech	0.3	(0.0)	0.3	0.1	0.5	1.2
R&D	(0.4)	(0.5)	(0.7)	(0.8)	(1.1)	(1.3)
<b>EBITDA (\$m)</b>	<b>2.4</b>	<b>2.2</b>	<b>4.9</b>	<b>5.9</b>	<b>7.3</b>	<b>10.0</b>
Services	21.7	20.1	23.0	26.8	26.2	27.4
Product	19.5	13.4	29.1	29.1	29.3	30.1
Tech	17.7		14.5	21.7	21.4	24.9
R&D (as % of group sales)	(2.7)	(3.2)	(2.9)	(3.4)	(3.5)	(3.3)
<b>EBITDA margin</b>	<b>17.8</b>	<b>14.3</b>	<b>21.6</b>	<b>24.2</b>	<b>23.6</b>	<b>24.9</b>

#### Performance Ratios (%)

Year ended June 30	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E
Gross margin	52.3	44.5	47.4	49.7	49.1	49.6
Operating cost margin	34.4	30.2	25.8	25.4	25.5	24.7
Gross profit growth		-3	54	12	26	31
Cost growth		0	23	5	28	26
Normalised EPS growth		-16	176	-4	38	54
Tax rate	26.3	31.0	26.7	27.5	27.5	27.5
Return on capital	18.4	14.2	30.8	21.7	23.1	30.8

#### Balance Sheet Ratios

Balance Sheet (A\$m)	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E
Gross debt (\$ m)	1.4	1.9	2.9	7.6	6.9	6.3
Net cash/(debt) (\$ m)	0.7	-0.5	-0.7	-4.0	-3.4	-2.3
Gearing (net debt: capital)	-10	7	6	25	19	11
Fixed charge cover (x)	14.3	2.7	5.1	3.6	4.9	7.5

RATING

BUY – anticipated stock return is greater than 10%

SELL – anticipated stock return is less than -10%

HOLD – anticipated stock return is between -10% and +10%

SPECULATIVE – high risk with stock price likely to fluctuate by 50% or more

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