

LaserBond Limited

Technology momentum

We are not concerned or surprised by Laserbond’s recent guidance change – the long-standing ambition for \$40m of revenue in FY22 was updated to include an unspecified acquisition at the FY21 results on 23 August 2021. The million-dollar technology sale, announced on 26 August 2021, shows the momentum in the Technology segment and our fair value rises by 15% to \$1.15 per share accordingly.

- **COVID disruptions should not surprise:** Laserbond’s FY21 results were exactly in line with our Revenue and EBITDA estimates (Figure 1). Management re-iterated guidance for \$40m of revenue in FY22 (versus our \$34m prior forecast) with the new qualification that this includes an unspecified bolt-on acquisition. The market clearly viewed the guidance change as concerning with the share price down by more than 20% since the update. COVID makes planning more difficult and we do not read anything more into the guidance than this.
- **Technology momentum:** On 26 August the company announced a technology sale to Curtin University – the second technology deal in the past three months. Laserbond should receive \$1m upfront plus recurring revenue for consumables.
- **Upgrading our revenue forecasts by 2-6%:** We now expect Laserbond will sign three licencing deals in FY22 versus one previously. This gives \$5m revenue in the Technology segment in FY22 vs. \$2.3m previously and our total revenue forecasts rise by 2-6% over FY22-24 (Figure 1). We do not include the unspecified acquisition in our forecasts as the timing and the scope is uncertain.
- **A 15% upgrade to our fair value:** Our DCF based fair value rises to \$1.15 per share on the upgrades. At our fair value, the shares would trade at an EV/EBITDA of 12x in FY22 versus 8x currently.

Figure 1: Changes to Veritas forecasts for Laserbond (\$m)

Year ended June 30 (\$m)	FY21			FY22E			FY23E			FY24E		
	Old	Act	Var(%)	Old	New	Chg(%)	Old	New	Chg(%)	Old	New	Chg(%)
Revenue	24.7	24.7	0	33.7	35.8	6.0	42.3	43.3	2.5	48.6	49.7	2.3
Growth (% YoY)	11.3	11.2	0	36.7	45.0	8.3	25.3	21.2	-4.1	14.9	14.8	-0.2
EBITDA	6.4	6.4	0	9.4	9.6	2.1	12.0	12.0	-0.4	14.0	14.2	1.9
Margin (%)	25.9	25.9	0	28.0	26.9	-1.0	28.4	27.6	-0.8	28.7	28.6	-0.1
Profit before tax	3.1	3.4	8	6.2	6.6	7.2	8.8	9.0	2.2	10.7	11.2	4.8
Normalised dil. EPS (cps)	2.3	3.0	28	4.6	5.0	7.2	6.5	6.6	2.2	7.8	8.2	4.8
Capex	2.5	0.5	-82	2.5	2.5	0.0	2.5	2.5	0.0	2.5	2.5	0.0
Free Cash Flow	1.9	2.6	37	2.0	1.9	-3.0	3.6	3.6	0.7	5.5	5.5	0.0

Source: Veritas, company data.

LBL.ASX

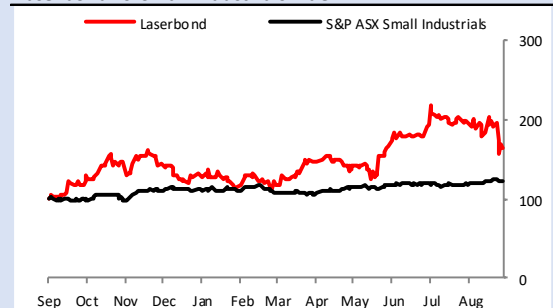
BUY

Tuesday 31 August 2021

Share Price	\$0.78
Price Target	\$1.15
Valuation Method	DCF
Market capitalisation	\$75m
Enterprise value	\$81m
GICS sector	Engineering Services
12 month price range	\$0.49 - \$1.06
Average monthly t/o	2.6m
Shares in issue	96.1m
Top 20 holders	61.2m
Previous rating	Buy

Year ended June 30		FY21	FY22E	FY23E	FY24E
Revenue	\$m	24.7	35.8	43.3	49.7
Growth	%	11.2	45.0	21.2	14.8
EBITDA	\$m	6.4	9.6	12.0	14.2
Margin	%	25.9	26.9	27.6	28.6
NPAT	\$m	2.8	4.8	6.5	8.1
EPS	¢ps	3.0	5.0	6.6	8.2
CFPS	¢ps	5.0	5.7	7.4	9.2
DPS	¢ps	1.2	2.0	3.0	4.0
Franking	%	100	100	100	100
Dividend Yield	%	1.5	2.6	3.8	5.1
PER	x	26.4	15.7	11.7	9.6
Price/Cash Flow	x	15.7	13.7	10.6	8.5
EV/Revenue	x	3.3	2.3	1.9	1.6
EV/EBITDA	x	12.6	8.4	6.7	5.7
EV/EBIT	x	21.1	11.4	8.6	6.9
EV/Capital	x	4.0	3.5	3.1	2.8
Gearing (net debt: capit	%	29	21	10	(4)
Fixed charge cover	x	3.6	6.1	7.7	9.2
Return on capital	%	15.1	23.8	28.0	31.1

Laserbond vs. Small Industrials Index



Source: Factset, Veritas

Laserbond is an engineering company focused on laser cladding, HVOF & welding technologies used to extend the life of components used in mining and other industries.

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EQUITIES RESEARCH

LaserBond Limited

Financial Performance (A\$m)

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	22.7	22.2	24.7	35.8	43.3	49.7
Cost of goods	(11.9)	(10.7)	(12.1)	(17.8)	(21.9)	(25.2)
Gross profit	10.7	11.5	12.6	17.9	21.5	24.5
Operating costs	(5.8)	(5.3)	(6.2)	(8.3)	(9.5)	(10.3)
Normalised EBITDA	4.9	6.2	6.4	9.6	12.0	14.2
Depreciation and amortisation	(0.9)	(2.0)	(2.6)	(2.6)	(2.6)	(2.6)
Normalised EBIT	4.0	4.2	3.8	7.1	9.4	11.7
Associate income	0.0	0.0	0.0	0.0	0.0	0.0
Net interest	(0.2)	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)
Normalised Pre-tax Profit	3.8	3.8	3.4	6.6	9.0	11.2
Normalised tax	(1.0)	(1.0)	(0.5)	(1.8)	(2.5)	(3.1)
Profit attributable to minorities	0.0	0.0	0.0	0.0	0.0	0.0
Normalised profit to holders	2.8	2.8	2.8	4.8	6.5	8.1
One off items (post-tax)	0.0	0.0	0.0	0.0	0.0	0.0
Reported profit to holders	2.8	2.8	2.8	4.8	6.5	8.1

Cash Flow Statement (A\$m)

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
Normalised EBITDA	4.9	6.2	6.4	9.6	12.0	14.2
Cash net interest	(0.2)	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)
Cash tax (paid)/received	(1.0)	(1.0)	(1.0)	(1.8)	(2.5)	(3.1)
Working capital/other	0.4	(0.5)	(0.1)	(1.8)	(1.8)	(1.5)
Operating Cash Flow	4.1	4.3	4.8	5.5	7.2	9.1
Capex	(3.4)	(0.6)	(0.5)	(2.5)	(2.5)	(2.5)
Payments on finance leases	0.7	(1.2)	(1.7)	(1.1)	(1.1)	(1.1)
Free Cash Flow	1.4	2.5	2.6	1.9	3.6	5.5
Disposals/Acquisitions	0.0	0.0	(0.8)	0.0	0.0	0.0
Dividends paid	(0.5)	(0.6)	(0.8)	(0.8)	(1.3)	(1.9)
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	(0.0)	0.0	(0.0)	(0.0)	(0.0)	(0.0)
Net increase/(decrease) cash	0.8	1.8	0.9	1.0	2.2	3.6
Cash at beginning	1.4	2.2	4.0	4.9	5.9	8.2
Cash at end (including bank deposit):	2.2	4.0	4.9	5.9	8.2	11.8

Balance Sheet (A\$m)

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
Cash	2.2	4.0	4.9	5.9	8.2	11.8
Receivables	5.4	4.4	5.8	7.8	9.5	10.9
Inventories	2.5	3.5	3.4	4.0	4.9	5.6
Current Assets	10.1	11.8	14.9	18.6	23.3	29.0
Property, Plant & Equipment	5.9	11.4	14.0	15.1	16.1	17.2
Intangibles	0.0	0.0	0.1	0.1	0.1	0.1
Other non current assets	0.4	0.4	0.5	0.5	0.5	0.5
Non Current Assets	6.3	11.8	14.6	15.7	16.7	17.8
Total Assets	16.4	23.6	29.5	34.2	40.1	46.8
Payables	2.0	1.3	2.4	3.1	3.8	4.3
Current tax	0.4	0.4	0.0	0.0	0.0	0.0
Employee benefits	1.1	1.2	1.6	1.6	1.6	1.6
Other liabilities	0.0	0.0	0.6	0.6	0.6	0.6
Total debt	2.9	8.5	10.7	10.7	10.7	10.7
Total Liabilities	6.3	11.4	15.3	16.0	16.7	17.2
Shareholder Funds	10.1	12.2	14.3	18.2	23.4	29.6

Directors and Key Management Personnel

	Shares	Holding
Wayne Hooper	11.1m	11.5%
Philip Suriano	0.8m	0.8%
Matthew Twist	0.1m	0.1%

Major Shareholders (excluding nominees)

	Shares	Holding
Hooper Family	33.3m	34.6%
Peachey Family	4.9m	5.1%
Top 20 shareholders	61.2m	63.7%

Source: Company data, Veritas Research

Share Price: \$0.78 ps

Valuation: \$1.15 ps

Valuation Metrics

	Valuation
Price Target (ps)	\$1.15
Share Price (ps)	\$0.78
FY22E EV/EBITDA (x)	8.4
Implied FY22 EV/EBITDA (x)	12.1
Implied FY23 EV/EBITDA (x)	9.7
Market Capitalisation (A\$m)	74.9
Enterprise Value (A\$m)	80.7

Valuation Multiples

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
P/E (x)	26.2	26.4	26.4	15.7	11.7	9.6
Price/Cash Flow (x)	17.9	17.4	15.7	13.7	10.6	8.5
EV/Revenue (x)	3.6	3.6	3.3	2.3	1.9	1.6
EV/EBITDA (x)	16.5	13.1	12.6	8.4	6.7	5.7
EV/EBIT (x)	20.2	19.2	21.1	11.4	8.6	6.9
Equity FCF yield (%)	1.9	3.3	3.4	2.5	4.8	7.4
Dividend yield (%)	1.3	1.4	1.5	2.6	3.8	5.1
EV/capital (x)	7.5	4.8	4.0	3.5	3.1	2.8
Price to book value (x)	7.3	6.0	5.3	4.1	3.3	2.6

Per Share Data

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
EPS diluted - adjusted (cps)	2.97	2.96	2.96	4.97	6.65	8.16
EPS diluted (cps)	2.97	2.96	2.96	4.97	6.65	8.16
Cash flow per share (cps)	4.35	4.49	4.95	5.70	7.37	9.19
Free cash flow per share (cps)	1.48	2.59	2.69	1.97	3.69	5.58
Cash (cps)	2.34	4.22	5.11	6.16	8.38	11.88
Net assets (cps)	10.72	12.91	14.85	18.87	23.92	29.74
DPS (cps)	1.00	1.10	1.20	2.00	3.00	4.00
Franking (%)	100	100	100	100	100	100
Shares on issue - avg. basic (m)	94	95	96	97	98	100
Shares on issue - avg. diluted (m)	94	95	96	97	98	100

Segmental revenue, EBITDA and margins

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
Services	11.2	12.8	11.6	14.0	15.4	16.9
Product	9.1	9.2	13.0	16.8	21.9	25.2
Tech	2.4	0.2	0.1	5.0	6.1	7.7
Revenue (\$m)	22.7	22.2	24.7	35.8	43.3	49.7
Services	11.3	14.8	(9.3)	20.0	10.0	10.0
Product	62.8	0.4	41.3	30.0	30.0	15.0
Tech	(92.4)	(60.7)	6,889.0	22.8	26.0	
Revenue growth (%)	44.9	(2.2)	11.2	45.0	21.2	14.8
Services	2.6	4.0	3.0	4.0	4.5	5.0
Product	2.7	3.0	4.1	4.9	6.8	8.1
Tech	0.3	(0.0)	(0.1)	1.5	1.6	2.2
R&D	(0.7)	(0.8)	(0.6)	(0.8)	(0.9)	(1.1)
EBITDA (\$m)	4.9	6.2	6.4	9.6	12.0	14.2
Services	23.0	31.4	25.7	28.8	29.2	29.5
Product	29.1	32.3	31.5	29.2	31.0	32.3
Tech	14.5	(21.7)	(84.6)	29.6	26.9	28.2
R&D (as % of group sales)	(2.9)	(3.4)	(2.5)	(2.1)	(2.1)	(2.2)
EBITDA margin	21.6	27.9	25.9	26.9	27.6	28.6

Performance Ratios (%)

Year ended June 30	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E
Gross margin	47.4	51.9	51.0	50.2	49.5	49.3
Operating cost margin	25.8	24.1	25.1	23.3	21.9	20.7
Gross profit growth	54	7	9	43	20	14
Cost growth	23	-9	16	34	14	8
Normalised EPS growth	186	0	0	68	34	23
Tax rate	26.7	25.5	15.7	27.5	27.5	27.5
Return on capital	30.8	22.2	15.1	23.8	28.0	31.1

Balance Sheet Ratios

Balance Sheet (A\$m)	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E
Gross debt (\$ m)	2.9	8.5	10.7	10.7	10.7	10.7
Net cash/(debt) (\$ m)	-0.7	-4.5	-5.8	-4.8	-2.5	-1.1
Gearing (net debt: capital)	6	27	29	21	10	-4
Fixed charge cover (x)	5.1	4.1	3.6	6.1	7.7	9.2

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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