Laser guided growth

By Chris Gibson

LaserBond ASX:LBL

Last close	$0.230	Net assets	$7.7m
Market cap	$17.1m	NTA	$4.1m
Net debt	-$0.6m	Price/book	2.22x
EV	$16.5m	Price/NTA	4.19x
Gearing	-3.4%	Year end	Jun 30

Risk measures	Beta (2yr): -0.06	Z score:	8.11
see back page for definitions		M score:	-1.92

Consensus/ historic	FY10a	FY11a	*LTM*
Revenue	10.4	13.3	*15.0*
EBITDA	1.4	2.6	*3.00*
EPS (adj)	$0.006	$0.020	*$0.024*
DPS	$0.000	$0.005	*$0.008*
EV/revenue	1.59x	1.24x	*1.10x*
EV/EBITDA	12.09x	6.45x	*5.50x*
P/E	38.31x	11.60x	*9.58x*
Yield	n/a	2.17%	*n/a*

Laserbond Limited engages in the manufacture and reclamation of industrial components and assemblies in Australia. It provides services to a range of industries to extend the life of components subject to corrosion and/or wear. The company utilizes surface engineering technologies, including LaserBond, high pressure high velocity oxy-fuel, and plasma thermal spray. It serves an array of industries, including steel making and processing, pumping and valve equipment, paper making and conversion, timber mining and minerals processing, rail transport, trucking and road transport, power generation, water and waste water treatment, aluminium making and processing, plastics, packaging, toolmaking, glass manufacturing, automotive and motorsport, concrete and concrete products, building products, printing, aerospace, pet food, food, marine, defence, and agriculture. The company also manufactures new replacement components incorporating surface enhancing technologies. Laserbond Limited is based in Ingleburn, Australia.

Source: CapitalIQ

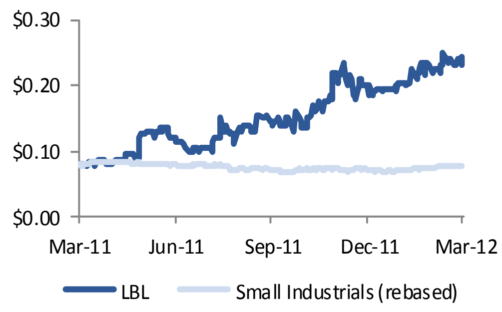
LaserBond (LBL) specialises in reclamation and surface engineering of industrial components. That is, LBL can repair worn or corroded project-critical metallurgical surfaces in a range of industrial processes using High Pressure High Velocity Oxy Fuel (HP HVOF) thermal spraying and/or Laser Cladding precision welding of materials. LBL's resurfacing techniques reduce downtime, on-going maintenance costs and extend the life of machinery.

Approximately 60% of sales are into resource-related industries and 20% are into the aluminium and steel sectors, with the remaining going to a vast array of industries. LBL's largest customers are focussed on resource extraction and processing. The downsizing of the steel sector has not impacted LBL to date; LBL actually expects to be a beneficiary of the impending carbon tax. While its own systems are energy intensive, LBL can reclaim a worn component using as little as 5% of the energy required to manufacture a replacement part.

NSW-based LBL's growth challenge is that the cost of transporting very large and heavy wear-plate components to service centres can be inhibitive and so LBL needs to go to the customer. To that end LBL acquired a Gladstone-based engineering business in mid-2008. After suffering early integration challenges, Gladstone is now operationally profitable. This has allowed LBL to progress with the development of a new 5,400m^2 site to bring together its NSW operations, which currently operate at capacity out of two sites. Gladstone's progress also provides management the opportunity to pursue acquisition or greenfield growth opportunities in WA.

The outlook provided by LBL with its 1H12 results release stood in stark contrast to the seemingly moribund nature of many ASX-listed industrials in recent times: "Abundant sales growth opportunities with new and existing customers stem from investments in new equipment and the increase in capacity..."

Share Price



Source: Iress

Key Thoughts

- Targeting WA based acquisitions to increase exposure to resource related industries (which form 60% of its east-coast client base).
- Expects to be a net beneficiary of the carbon tax.
- New single-site facility due to come on stream in home state of NSW this year. Should alleviate current site capacity constraints. Had been delayed due to working capital demands related to development of its Qld operations.
- The Hooper family, led by executive directors Greg (founder) and Wayne Hooper, hold just over 50% of shares on issue.

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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
- Below 1.1: indicates company could be in financial distress
- Between 1.1 and 2.6: potential warning of financial distress
- Above 2.6: The company 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