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Laserbond Limited (LBL)

Stronger second half expected, Products division performing well

Recommendation: BUY		Target Price: 83cps (previous 108cps)		Market Capitalization: \$54m	
Index: None		Share Price: 56cps		Sector: Industrials	
<i>Values in AUD'm unless otherwise stated</i>					
YE Jun	2019A	2020A	2021E	2022E	2023E
Revenue	22.7	22.2	27.0	32.3	37.6
EBITDA	4.9	6.2	7.3	8.1	9.5
U-NPAT	2.8	2.8	3.3	3.8	4.7
U-EPS (cps)	3.0	3.0	3.5	4.0	4.9
U-EPS growth	193.8%	1.7%	15.3%	14.1%	24.0%
U/PE	19.0x	18.7x	16.2x	14.2x	11.4x
EV/EBIT	17.8x	17.4x	15.6x	13.7x	10.6x
Div Yield	1.8%	2.0%	2.1%	2.5%	2.9%

Report HY	2H-20	1H-21	2H-21	1H-22
U-NPAT	1.7	1.2	2.3	1.8
Div (cps)	0.6	0.6	0.7	0.7



- First half update:** LBL declared 1H21 revenue and EBITDA of \$11.8 M and \$3.1M respectively (vs \$11.3M and \$2.7M pcp up +4.8% and +13.4%). The result was lower than expectations, largely due to COVID-19 restrictions causing delays in interstate transportation of parts to LBL's facilities in NSW, SA and Victoria. Most notably, LBL's softer services revenue that experienced delayed sales from new customers and reduced maintenance servicing for large mining and manufacturing businesses. However, the company is expecting a stronger second-half contribution from the services division (46% of group revenues 1H21) with the company declaring a *'record volume of open quotes for active opportunities that currently exceeds \$10M, with much of this work expected to proceed'*.
- Services softer, Product sales strong:** LBL displayed strong product sales during the first half (\$6.3M up from \$4.36M, +45% vs pcp), due to a product reconfiguration from a material OEM customer, combined with strong general demand. Management also highlighted several new products will add to the current sales momentum, including NanoClad® and EClad® which are close to commercialisation and promise to disrupt significant addressable markets. With lockdowns interrupting business conditions in 1H21, United Surfacing Technologies (UST), which was acquired in June 20, is expected to rebound in the second half, regaining the lost momentum caused by lockdowns in Victoria.
- Technology Division:** LBL have *'two promising local opportunities and one international opportunity under negotiation'*, and we expect more opportunities will open as border restrictions ease. This will enable LBL's sales force to meet customers face to face, further increasing tech sales and licensing revenues. The company noted that a technology sale in the US was imminent, subject to final testing, however we have not included these in our numbers given the uncertainty in timing (tech sales have traditionally added between \$1.2M-\$1.7M revenue for a core laser cladding cell, \$200K in licensing revenue and \$1M in consumables pa).
- Valuation:** We reduced our valuation to \$0.83 per share (previously \$1.08) taking into account a weaker services contribution. We have reduced our estimates for FY21 Revenue to \$27M and NPAT to \$3.3M (CCZ prior forecast Rev \$32.3M and NPAT \$4.2M) excluding technology sales in the second half in our assumptions. We have also reduced the company's Fy22 \$40M revenue target and only included organic revenue growth as it remains unclear as to the timing of an acquisition which is required to reach the company's stated target.

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LASERBOND (LBL.AX)

Market Capitalization	54m	Index Sector	None Industrials	Year End Shares on Issue (m)	Jun 95.7
Share Price (AUD/share)	0.56				
Recommendation	BUY	LBL.AX Investment Thesis	Services revenue declined for the half, however the Products division was up 45% on pcp. LBL is expecting a stronger 2nd half as orders regain momentum post COVID-19 lockdowns.		
Target Price (AUD/share)	0.83				
Total Shareholder Return	+50.2%				

Returns Analysis	2019A	2020A	2021	2022	2023	Balance Sheet	2019A	2020A	2021	2022	2023
Underlying EPS (AUD cps)	2.95	3.00	3.46	3.95	4.90	Cash & Equivalents	2.2	4.0	2.7	4.5	9.5
Growth	193.8%	1.7%	15.3%	14.1%	24.0%	Trade Receivables	5.4	4.4	5.9	7.1	8.2
Wtd Avg SOI	94.5	94.5	95.7	95.7	95.7	Inventories	2.5	3.5	4.1	4.4	5.1
PE	19.0x	18.7x	16.2x	14.2x	11.4x	Other	0.0	0.0	0.0	0.0	0.0
PEG	13.1x	10.8x	1.1x	1.0x	0.5x	Total Current Assets	10.1	11.8	12.7	15.9	22.8
EV/EBITDA	14.5x	11.8x	10.5x	9.2x	7.4x	PPE	5.9	11.4	13.7	14.4	15.1
EV/EBIT	17.8x	17.4x	15.6x	13.7x	10.6x	Goodwill	0.0	0.0	0.6	0.6	0.6
Dividend	1.00	1.10	1.20	1.40	1.60	Intangibles	0.0	0.0	0.0	0.0	0.0
Div Yield	1.8%	2.0%	2.1%	2.5%	2.9%	Other	0.4	0.4	0.5	0.6	0.8
Franking	100.0%	100.0%	100.0%	100.0%	100.0%	Total Non-Current Assets	6.3	11.8	14.8	15.6	16.4
Payout Ratio	33.9%	36.7%	34.7%	35.4%	32.7%	Total Assets	16.4	23.6	27.5	31.5	39.2
ROFE	39.7%	34.6%	33.8%	32.4%	28.8%	Trade Payables	2.0	1.3	2.3	2.8	3.2
ROE	27.7%	23.2%	23.0%	22.4%	20.3%	Debt	2.9	8.5	8.9	9.6	10.6
ROA	17.0%	12.0%	12.1%	12.0%	12.0%	Provisions	0.7	0.7	0.7	0.7	0.8
Gearing (ND/ND+E)	(28%)	(49%)	(23%)	(36%)	(70%)	Other	0.8	0.9	1.2	1.6	1.6
ND/EBITDA	(0.4x)	(0.6x)	(0.4x)	(0.6x)	(1.0x)	Total Liabilities	6.3	11.4	13.1	14.7	16.1
EBITDA Interest Cover	27.6x	14.1x	16.2x	20.3x	23.8x	Net Assets	10.1	12.2	14.4	16.8	23.1
Cash Conversion	106%	91%	87%	92%	88%	Contributed Equity	6.7	7.0	7.0	7.0	7.0
Free Cash Yield	2.6%	4.6%	(1.0%)	4.4%	4.9%	Retained Earnings	3.3	5.2	7.4	9.8	16.1

Income Statement	2019A	2020A	2021	2022	2023	Cash Flow Statement	2019A	2020A	2021	2022	2023
<u>Underlying</u>						Cash Received	25.5	26.9			
Revenue	22.7	22.2	27.0	32.3	37.6	Cash Paid	(20.3)	(21.2)			
Underlying EBITDA	4.9	6.2	7.3	8.1	9.5	Cash EBITDA			7.3	8.1	9.5
D&A	(0.9)	(2.0)	(2.4)	(2.7)	(2.9)	Working Capital Change			(0.9)	(0.7)	(1.2)
Underlying EBIT	4.0	4.2	4.9	5.4	6.7	Net Interest Paid	(0.2)	(0.4)	(0.5)	(0.4)	(0.4)
Net Interest	(0.2)	(0.4)	(0.5)	(0.4)	(0.4)	Tax Paid	(0.9)	(1.0)	(1.1)	(1.3)	(1.6)
Underlying PBT	3.8	3.8	4.4	5.0	6.3	Other			0.0	0.0	0.0
Tax	(1.0)	(1.0)	(1.1)	(1.3)	(1.6)	Operating Cash Flow	4.1	4.3	4.8	5.8	6.4
Underlying NPAT	2.8	2.8	3.3	3.8	4.7	Capital Expenditure	(3.4)	(0.6)	(3.3)	(2.4)	(2.8)
<u>Statutory</u>						Net Acquisitions	0.0	0.0	(1.1)	0.0	0.0
Underlying PBT	3.8	3.8	4.4	5.0	6.3	Other	0.0	0.0	0.0	0.0	0.0
One-offs	0.0	0.0	0.0	0.0	0.0	Investing Cash Flow	(3.4)	(0.6)	(4.4)	(2.4)	(2.8)
PBT	3.8	3.8	4.4	5.0	6.3	Change in Debt	0.0	0.0	0.4	0.7	0.8
Tax	(1.0)	(1.0)	(1.1)	(1.3)	(1.6)	Change in Equity	0.0	0.0	0.0	0.0	0.0
NPAT	2.8	2.8	3.3	3.8	4.7	Dividends Paid	(0.5)	(0.6)	(1.2)	(1.3)	1.5
Basic EPS (AUD cps)	2.95	3.00	3.46	3.95	4.90	Other	0.7	(1.2)	(1.0)	(1.0)	(1.0)
Sales Growth	44.9%	(2.2%)	21.7%	19.4%	16.7%	Financing Cash Flow	0.2	(1.9)	(1.7)	(1.6)	1.4
Underlying NPAT Growth	195.9%	1.7%	16.8%	14.1%	24.0%	Starting Cash	1.4	2.2	4.0	2.7	4.5
Basic EPS Growth	195.9%	1.7%	16.8%	14.1%	24.0%	Net Cash Flow	0.8	1.8	(1.3)	1.8	5.0
EBITDA Margin	21.5%	28.0%	26.9%	25.2%	25.3%	Ending Cash	2.2	4.0	2.7	4.5	9.5
EBIT Margin	17.6%	19.1%	18.0%	16.9%	17.7%	Free Cash Flow	1.4	2.4	(0.5)	2.4	2.6
Underlying NPAT Margin	12.3%	12.8%	12.3%	11.7%	12.5%						

Interim Expectations	1H-20A	2H-20A	1H-21E	2H-21E	1H-22E	Valuation	2021E	2022E	2023E	2024E	2025E
Revenue	11.3	10.9	11.8	15.2	15.0	NPV of FCF & TV	78.1	88.4	99.8	112.0	124.9
EBITDA	2.7	3.5	3.1	4.2	3.8	Number of Shares	95.7	95.7	95.7	95.7	95.7
EBIT	1.8	2.4	1.9	2.9	2.7	DCF Valuation per Share	0.83	0.94	1.06	1.19	1.32
Underlying NPAT	1.2	1.7	1.2	2.1	1.8						
NPAT	1.2	1.7	1.2	2.1	1.8	Substantial Shareholders					
Basic EPS (AUD cps)	1.22	1.78	1.24	2.22	2.70	Ms Diane Constance Hooper		10.2%			
Dividend (AUD cps)	0.50	0.60	0.60	0.70	0.70	Mr Wayne Edward Hooper		10.2%			
Gearing	(30.9%)	(48.5%)	(36.7%)	(23.1%)	(32.1%)	Mr Rex John Hooper		7.6%			
Cash Conversion	20.9%	106.2%	79.7%	77.1%	97.4%	Ms Lillian Hooper		6.5%			
Sales Growth	7.3%	9.4%	4.8%	41.5%	27.1%						
EBIT Margin	15.9%	22.4%	16.3%	19.4%	17.7%						

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