

# LaserBond Limited

## A beneficiary of the mining boom

LaserBond announced FY20 results on 18 August 2020. All measures were ahead of our forecasts. We forecast higher growth in FY21 and see more than 100% upside to our target price of \$1.00 per share.

- **Better than expected results:** The company surpassed our forecasts on all primary measures in FY20 (Figure 1) including: revenue \$22.2m vs. \$22.1m estimate; EBITDA \$6.2m vs. \$5.4m estimate and EPS 3.0cps – a 25% beat compared to our 2.4c estimate.
- **Revenue to accelerate in FY21:** The primary impact of COVID has been felt in the Technology segment. The company previously hoped to sign a technology licencing deal in FY20. Progress was hampered by travel restrictions. We expect deals to occur when travel resumes. Additionally, a major customer changed its product specification causing production delays in 2H20. Our forecast for 44% revenue growth in FY21 is explained by: dispatch of the delayed orders; the acquisition of UST (a c\$4.5m revenue contribution) and increased demand for repair services from miners/mineral processors which represent c85% of revenues.
- **Hard chrome replacement opens a large market:** The R&D team has been working on a laser-cladding solution to replace hard chrome plating for years. It has finally developed a solution which is both competitive and avoids the negative environmental impacts which led to hard chrome plating being banned in Europe. We estimate the treatment should at least double the size of the company's addressable market.
- **Fair value \$1.00 per share:** Our DCF derived fair value remains unchanged at \$1.0 per share on minor changes to our estimates which see EBITDA increasing and net profit reducing slightly (Figure 1). Our FY22 forecasts are in line with company guidance for revenue of \$40m. Our fair value puts the shares on a P/E of 13.5x in FY23 for 36% three-year EPS CAGR.

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

Year ended June 30 (\$m)	FY20			FY21E			FY22E		
	Est.	Actual	Chg(%)	Old	New	Chg(%)	Old	New	Chg(%)
Revenue	22.1	22.2	0.4	32.7	32.0	-2.2	40.6	40.6	-0.1
Growth (% YoY)	-2.5	-2.2	0.4	48.1	44.3	-3.8	24.1	26.7	2.6
EBITDA	5.4	6.2	13.8	7.7	8.1	5.7	10.1	10.9	7.4
Margin (%)	24.6	27.9	3.3	23.5	25.4	1.9	25.0	26.9	1.9
Profit before tax	3.1	3.8	22.0	5.1	4.6	-10.7	7.5	7.3	-3.1
Normalised dil. EPS (cps)	2.4	3.0	24.6	3.9	3.5	-11.0	5.7	5.5	-3.4
Capex	0.7	0.6	-13.1	2.5	2.5	0.0	2.5	2.5	0.0
Free Cash Flow	1.1	2.5	131.9	2.0	1.6	-19.1	2.4	2.8	17.8

Source: Veritas estimates, company data

LBL.ASX

BUY

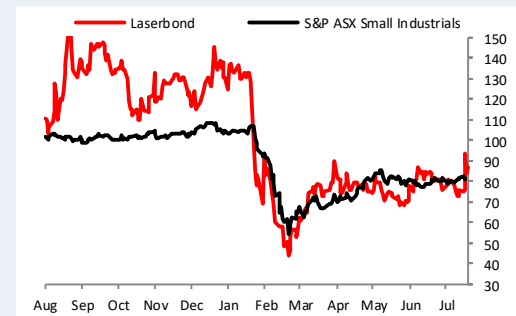
Monday 24 August 2020

Share Price	\$0.49
Price Target	\$1.00
Valuation Method	DCF

Market capitalisation	\$47m
Enterprise value	\$53m
GICS sector	Engineering Services
12 month price range	\$0.25 - 0.90
Average monthly t/o	1.8m
Shares in issue	95.4m
Top 20 holders	67.3m
Previous rating	Buy

Year ended June 30		FY20A	FY21E	FY22E	FY23E
Revenue	\$m	22.2	32.0	40.6	49.5
Growth	%	-2.2	44.3	26.7	22.1
EBITDA	\$m	6.2	8.1	10.9	13.6
Margin	%	27.9	25.4	26.9	27.5
NPAT	\$m	2.8	3.3	5.3	7.3
EPS	¢ps	3.0	3.5	5.5	7.4
CFPS	¢ps	4.5	5.5	6.7	8.5
DPS	¢ps	1.1	1.3	2.0	3.0
Franking	%	100	100	100	100
Dividend Yield	%	2.2	2.7	4.1	6.1
PER	x	16.5	14.2	8.9	6.6
Price/Cash Flow	x	10.9	9.0	7.4	5.8
EV/Revenue	x	2.4	1.7	1.3	1.1
EV/EBITDA	x	8.5	6.5	4.8	3.9
EV/EBIT	x	12.6	10.7	6.9	5.1
EV/Capital	x	3.2	2.7	2.4	2.1
Gearing (net debt: capital)	%	27	24	12	(3)
Fixed charge cover	x	4	4.9	7	9
Return on capital	%	22.2	19.7	26.8	32.3

Laserbond vs. Small Industrials Index



Source: Factset, Veritas

Laserbond is an engineering company with expertise in laser cladding, HVOF & welding. Its technologies are used to extend the life of metal components used in mining and other industries.

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

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**LaserBond Limited**

Share Price: **\$0.49 ps**

Valuation: **\$1.00 ps**

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

Year ended June 30	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>15.6</b>	<b>22.7</b>	<b>22.2</b>	<b>32.0</b>	<b>40.6</b>	<b>49.5</b>
Cost of goods	(8.7)	(11.9)	(10.7)	(16.4)	(20.3)	(24.8)
<b>Gross profit</b>	<b>7.0</b>	<b>10.7</b>	<b>11.5</b>	<b>15.7</b>	<b>20.3</b>	<b>24.8</b>
Operating costs	(4.7)	(5.8)	(5.3)	(7.5)	(9.4)	(11.1)
<b>Normalised EBITDA</b>	<b>2.2</b>	<b>4.9</b>	<b>6.2</b>	<b>8.1</b>	<b>10.9</b>	<b>13.6</b>
Depreciation and amortisation	(0.7)	(0.9)	(2.0)	(3.2)	(3.2)	(3.2)
<b>Normalised EBIT</b>	<b>1.5</b>	<b>4.0</b>	<b>4.2</b>	<b>4.9</b>	<b>7.7</b>	<b>10.4</b>
Associate income	0.0	0.0	0.0	0.0	0.0	0.0
Net interest	(0.1)	(0.2)	(0.4)	(0.4)	(0.4)	(0.4)
<b>Normalised Pre-tax Profit</b>	<b>1.4</b>	<b>3.8</b>	<b>3.8</b>	<b>4.6</b>	<b>7.3</b>	<b>10.0</b>
Normalised tax	(0.4)	(1.0)	(1.0)	(1.3)	(2.0)	(2.8)
Profit attributable to minorities	0.0	0.0	0.0	0.0	0.0	0.0
<b>Normalised profit to holders</b>	<b>1.0</b>	<b>2.8</b>	<b>2.8</b>	<b>3.3</b>	<b>5.3</b>	<b>7.3</b>
One off items (post-tax)	0.0	0.0	0.0	0.0	0.0	0.0
<b>Reported profit to holders</b>	<b>1.0</b>	<b>2.8</b>	<b>2.8</b>	<b>3.3</b>	<b>5.3</b>	<b>7.3</b>

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

Year ended June 30	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Normalised EBITDA</b>	<b>2.2</b>	<b>4.9</b>	<b>6.2</b>	<b>8.1</b>	<b>10.9</b>	<b>13.6</b>
Cash net interest	(0.1)	(0.2)	(0.4)	(0.4)	(0.4)	(0.4)
Cash tax (paid)/received	(0.4)	(1.0)	(1.0)	(1.3)	(2.0)	(2.8)
Working capital/other	(1.3)	0.4	(0.5)	(1.3)	(2.1)	(2.2)
<b>Operating Cash Flow</b>	<b>0.4</b>	<b>4.1</b>	<b>4.3</b>	<b>5.2</b>	<b>6.4</b>	<b>8.3</b>
Capex	(0.3)	(3.4)	(0.6)	(2.5)	(2.5)	(2.5)
Payments on finance leases	(0.5)	0.7	(1.2)	(1.1)	(1.1)	(1.1)
<b>Free Cash Flow</b>	<b>(0.3)</b>	<b>1.4</b>	<b>2.5</b>	<b>1.6</b>	<b>2.8</b>	<b>4.7</b>
Disposals/Acquisitions	0.0	0.0	0.0	(1.1)	0.0	0.0
Dividends paid	(0.3)	(0.5)	(0.6)	(0.6)	(0.9)	(1.3)
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)
<b>Net increase/(decrease) cash</b>	<b>(0.6)</b>	<b>0.8</b>	<b>1.8</b>	<b>(0.1)</b>	<b>1.9</b>	<b>3.3</b>
Cash at beginning	2.0	1.4	2.2	4.0	3.9	5.8
Cash at end (including bank deposits)	1.4	2.2	4.0	3.9	5.8	9.2

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

Year ended June 30	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Current Assets</b>	<b>9.2</b>	<b>10.1</b>	<b>11.8</b>	<b>14.5</b>	<b>19.3</b>	<b>25.6</b>
Cash	1.4	2.2	4.0	3.9	5.8	9.2
Receivables	5.4	5.4	4.4	7.0	8.9	10.9
Inventories	2.5	2.5	3.5	3.6	4.6	5.6
Property, Plant & Equipment	3.1	5.9	11.4	12.9	13.3	13.7
Intangibles	0.0	0.0	0.0	0.0	0.0	0.0
Other non current assets	0.3	0.4	0.4	0.4	0.4	0.4
<b>Non Current Assets</b>	<b>3.4</b>	<b>6.3</b>	<b>11.8</b>	<b>13.3</b>	<b>13.7</b>	<b>14.1</b>
<b>Total Assets</b>	<b>12.6</b>	<b>16.4</b>	<b>23.6</b>	<b>27.8</b>	<b>32.9</b>	<b>39.6</b>
Payables	1.9	2.0	1.3	2.8	3.6	4.3
Current tax	0.2	0.4	0.4	0.4	0.4	0.4
Employee benefits	0.8	1.1	1.2	1.2	1.2	1.2
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Total debt	1.9	2.9	8.5	8.5	8.5	8.5
<b>Total Liabilities</b>	<b>4.9</b>	<b>6.3</b>	<b>11.4</b>	<b>12.8</b>	<b>13.6</b>	<b>14.4</b>
<b>Shareholder Funds</b>	<b>7.8</b>	<b>10.1</b>	<b>12.2</b>	<b>14.9</b>	<b>19.3</b>	<b>25.3</b>

**Directors and Key Management Personnel**

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

**Major Shareholders (excluding nominees)**

	Shares	Holding
Hooper Family	44.2m	46.3%
Peachey Family	4.9m	5.2%
<b>Top 20 shareholders</b>	<b>67.3m</b>	<b>70.5%</b>

Source: Company data, Veritas Research

**Valuation Metrics**

	Valuation
Price Target (ps)	\$1.00 103%
Share Price (ps)	\$0.49
FY20E EV/EBITDA (x)	8.5
Implied FY20 EV/EBITDA (x)	16.4 92%
Implied FY21 EV/EBITDA (x)	12.4 46%
Market Capitalisation (A\$m)	46.8
Enterprise Value (A\$m)	52.8

**Valuation Multiples**

Year ended June	FY18	FY19	FY20	FY21E	FY22E	FY23E
P/E (x)	47.1	16.5	16.5	14.2	8.9	6.6
Price/Cash Flow (x)	117.9	11.3	10.9	9.0	7.4	5.8
EV/Revenue (x)	3.4	2.3	2.4	1.7	1.3	1.1
EV/EBITDA (x)	23.7	10.8	8.5	6.5	4.8	3.9
EV/EBIT (x)	34.9	13.2	12.6	10.7	6.9	5.1
Equity FCF yield (%)	-0.7	3.0	5.3	3.5	6.1	10.1
Dividend yield (%)	1.2	2.0	2.2	2.7	4.1	6.1
EV/capital (x)	6.3	4.9	3.2	2.7	2.4	2.1
Price to book value (x)	5.9	4.6	3.8	3.1	2.5	1.9

**Per Share Data**

Year ended June 30	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>EPS diluted - adjusted (cps)</b>	<b>1.04</b>	<b>2.97</b>	<b>2.96</b>	<b>3.45</b>	<b>5.49</b>	<b>7.43</b>
EPS diluted (cps)	1.04	2.97	2.96	3.45	5.49	7.43
Cash flow per share (cfs)	0.42	4.35	4.49	5.47	6.66	8.49
Free cash flow per share (fcfs)	(0.37)	1.48	2.59	1.71	2.94	4.81
Cash (cfs)	1.48	2.34	4.22	4.06	6.01	9.36
Net assets (cfs)	8.35	10.72	12.91	15.57	20.00	25.81
DPS (cfs)	0.60	1.00	1.10	1.30	2.00	3.00
Franking (%)	100	100	100	100	100	100
Shares on issue - avg. basic (m)	93	94	95	96	97	98
Shares on issue - avg. diluted (m)	93	94	95	96	97	98

**Segmental revenue, EBITDA and margins**

Year ended June 30	FY18	FY19	FY20	FY21E	FY22E	FY23E
Services	10.0	11.2	12.8	20.8	24.5	27.0
Product	5.6	9.1	9.2	10.5	13.7	17.8
Tech	0.0	2.4	0.2	0.7	2.3	4.7
<b>Revenue (\$m)</b>	<b>15.6</b>	<b>22.7</b>	<b>22.2</b>	<b>32.0</b>	<b>40.6</b>	<b>49.5</b>
Services	38.7	11.3	14.8	62.0	18.0	10.0
Product	10.5	62.8	0.4	15.0	30.0	30.0
Tech	(92.4)	277.4	243.5	102.8		
<b>Revenue growth (%)</b>	<b>13.8</b>	<b>44.9</b>	<b>(2.2)</b>	<b>44.3</b>	<b>26.7</b>	<b>22.1</b>
Services	2.0	2.6	4.0	5.8	7.2	7.9
Product	0.8	2.7	3.0	3.1	4.2	5.5
Tech	(0.0)	0.3	(0.0)	0.1	0.6	1.4
R&D	(0.5)	(0.7)	(0.8)	(0.9)	(1.1)	(1.3)
<b>EBITDA (\$m)</b>	<b>2.2</b>	<b>4.9</b>	<b>6.2</b>	<b>8.1</b>	<b>10.9</b>	<b>13.6</b>
Services	20.1	23.0	31.4	28.1	29.3	29.4
Product	13.4	29.1	32.3	29.6	30.4	31.1
Tech	14.5	(21.7)	8.2	26.3	29.9	
R&D (as % of group sales)	(3.2)	(2.9)	(3.4)	(2.7)	(2.6)	(2.6)
<b>EBITDA margin</b>	<b>14.3</b>	<b>21.6</b>	<b>27.9</b>	<b>25.4</b>	<b>26.9</b>	<b>27.5</b>

**Performance Ratios (%)**

Year ended June 30	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Gross margin	44.5	47.4	51.9	48.9	50.0	50.0
Operating cost margin	30.2	25.8	24.1	23.5	23.1	22.5
Gross profit growth	-3	54	7	36	29	22
Cost growth	0	23	-9	41	25	19
Normalised EPS growth	-15	186	0	17	59	35
Tax rate	31.0	26.7	25.5	27.5	27.5	27.5
Return on capital	14.2	30.8	22.2	19.7	26.8	32.3

**Balance Sheet Ratios**

Balance Sheet (A\$m)	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Gross debt (\$ m)	1.9	2.9	8.5	8.5	8.5	8.5
Net cash/(debt) (\$ m)	-0.5	-0.7	-4.5	-4.6	-2.7	0.7
Gearing (net debt: capital)	7	6	27	24	12	-3
Fixed charge cover (x)	2.7	5.1	4.1	4.9	7.1	9.1

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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