

LaserBond Limited

Emerging from COVID

LaserBond announced 1H21 results on 22 February 2021. The result was negatively impacted by COVID. Customers delayed the maintenance of equipment due to restrictions on getting staff on-site. Early signs suggest the pent up demand is now being fulfilled which should drive an acceleration in growth in the second half. We are trimming our fair value to \$0.91 per share from \$1.00, giving 50% share price upside.

- **Earnings miss due to COVID impacts:** The company missed our forecasts in 1H21 with revenue growing 5% YoY to \$11.8m versus our \$14.8m estimate and EBITDA growing 13% YoY to \$3.1m versus our \$3.7m estimate (16% below). The miss was caused by client difficulties in getting the staff required to conduct maintenance. This directly impacted the Services division which saw revenues decline 21% YoY, or 35% YoY if the acquisition of United Surface Technologies is excluded.
- **Early signs of recovery:** Management indicated that clients have resumed maintenance and that there is a record value of quoted jobs in the pipeline. We forecast that this should drive revenue growth in Services of 24% YoY in 2H21 with some help from easy comparatives.
- **North American trials a catalyst:** A North American company is currently trialling Laserbond’s technology. If these trials are successful we expect the company will sign a licence agreement by May 2021 which would give estimated initial revenues of \$1.2-1.5m and recurring revenues of \$1.2m per year. The deal is included in our forecasts from FY22.
- **We are more cautious on guidance:** Management re-iterated an aspiration for \$40m of revenue by FY22. Given the sensitivity of group revenues to the timing of licence deals we forecast the company will surpass the target in FY23, excluding acquisitions.
- **50% upside to our fair value:** We are lowering our DCF derived fair value to \$0.91 per share from \$1.00 previously due to the changes to our forecasts (Figure 1). Our fair value puts the shares on EV/EBITDA of 10x in FY22 versus 7x currently.

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

Year ended June 30 (\$m)	FY21E			FY22E			FY22E		
	Old	New	Chg(%)	Old	New	Chg(%)	Old	New	Chg(%)
Revenue	32.0	25.9	-19.1	40.6	33.6	-17.3	49.5	42.3	-14.6
Growth (% YoY)	44.3	16.7	-27.6	26.7	29.7	2.9	22.1	26.0	3.9
EBITDA	8.1	6.8	-17.0	10.9	9.3	-14.9	13.6	12.1	-11.3
Margin (%)	25.4	26.1	0.7	26.9	27.6	0.8	27.5	28.5	1.1
Profit before tax	4.6	3.5	-23.4	7.3	6.0	-17.9	10.0	8.8	-12.2
Normalised dil. EPS (cps)	3.5	2.6	-24.6	5.5	4.5	-17.8	7.4	6.5	-12.1
Capex	2.5	2.5	0.0	2.5	2.5	0.0	2.5	2.5	0.0
Free Cash Flow	1.6	1.6	-4.9	2.8	2.5	-12.6	4.7	3.6	-24.4

Source: Veritas estimates, company data

LBL.ASX

BUY

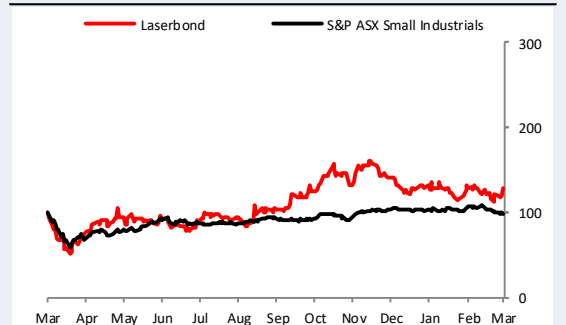
Monday 8 March 2021

Share Price \$0.61
 Price Target \$0.91
 Valuation Method DCF

Market capitalisation \$58m
 Enterprise value \$65m
 GICS sector Engineering Services
 12 month price range \$0.25 - 0.79
 Average monthly t/o 1.8m
 Shares in issue 95.7m
 Top 20 holders 64.6m
 Previous rating Buy

Year ended June 30		FY20A	FY21E	FY22E	FY23E
Revenue	\$m	22.2	25.9	33.6	42.3
Growth	%	-2.2	16.7	29.7	26.0
EBITDA	\$m	6.2	6.8	9.3	12.1
Margin	%	27.9	26.1	27.6	28.5
NPAT	\$m	2.8	2.5	4.4	6.4
EPS	¢ps	3.0	2.6	4.5	6.5
CFPS	¢ps	4.5	5.3	6.3	7.3
DPS	¢ps	1.1	1.3	2.0	3.0
Franking	%	100	100	100	100
Dividend Yield	%	1.8	2.1	3.3	4.9
PER	x	20.6	23.4	13.5	9.3
Price/Cash Flow	x	13.6	11.6	9.7	8.3
EV/Revenue	x	2.9	2.5	1.9	1.5
EV/EBITDA	x	10.5	9.6	7.0	5.4
EV/EBIT	x	15.5	16.9	10.2	7.1
EV/Capital	x	3.9	3.2	2.9	2.6
Gearing (net debt: capita	%	27	32	22	11
Fixed charge cover	x	4.1	4.0	6.0	8.1
Return on capital	%	22.2	15.1	21.7	28.1

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 components used in mining and other industries.

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LaserBond Limited

Share Price: \$0.61 ps

Valuation: \$0.91 ps

Financial Performance (A\$m)						
Year ended June 30	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenue	15.6	22.7	22.2	25.9	33.6	42.3
Cost of goods	(8.7)	(11.9)	(10.7)	(13.2)	(16.8)	(21.1)
Gross profit	7.0	10.7	11.5	12.7	16.8	21.2
Operating costs	(4.7)	(5.8)	(5.3)	(5.9)	(7.5)	(9.1)
Normalised EBITDA	2.2	4.9	6.2	6.8	9.3	12.1
Depreciation and amortisation	(0.7)	(0.9)	(2.0)	(2.9)	(2.9)	(2.9)
Normalised EBIT	1.5	4.0	4.2	3.9	6.4	9.2
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)
Normalised Pre-tax Profit	1.4	3.8	3.8	3.5	6.0	8.8
Normalised tax	(0.4)	(1.0)	(1.0)	(1.0)	(1.7)	(2.4)
Profit attributable to minorities	0.0	0.0	0.0	0.0	0.0	0.0
Normalised profit to holders	1.0	2.8	2.8	2.5	4.4	6.4
One off items (post-tax)	0.0	0.0	0.0	0.0	0.0	0.0
Reported profit to holders	1.0	2.8	2.8	2.5	4.4	6.4

Cash Flow Statement (A\$m)						
Year ended June 30	FY18	FY19	FY20	FY21E	FY22E	FY23E
Normalised EBITDA	2.2	4.9	6.2	6.8	9.3	12.1
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)	(0.9)	(1.7)	(2.4)
Working capital/other	(1.3)	0.4	(0.5)	(0.4)	(1.2)	(2.1)
Operating Cash Flow	0.4	4.1	4.3	5.0	6.1	7.2
Capex	(0.3)	(3.4)	(0.6)	(2.5)	(2.5)	(2.5)
Payments on finance leases	(0.5)	0.7	(1.2)	(1.0)	(1.1)	(1.1)
Free Cash Flow	(0.3)	1.4	2.5	1.6	2.5	3.6
Disposals/Acquisitions	0.0	0.0	0.0	(0.8)	0.0	0.0
Dividends paid	(0.3)	(0.5)	(0.6)	(0.8)	(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)
Net increase/(decrease) cash	(0.6)	0.8	1.8	(0.1)	1.6	2.2
Cash at beginning	2.0	1.4	2.2	4.0	3.9	5.5
Cash at end (including bank deposits)	1.4	2.2	4.0	3.9	5.5	7.7

Balance Sheet (A\$m)						
Year ended June 30	FY18	FY19	FY20	FY21E	FY22E	FY23E
Cash	1.4	2.2	4.0	3.9	5.5	7.7
Receivables	5.4	5.4	4.4	5.1	7.4	9.3
Inventories	2.5	2.5	3.5	3.9	3.8	4.8
Current Assets	9.2	10.1	11.8	12.8	16.6	21.7
Property, Plant & Equipment	3.1	5.9	11.4	14.5	15.2	15.9
Intangibles	0.0	0.0	0.0	0.1	0.1	0.1
Other non current assets	0.3	0.4	0.4	0.5	0.5	0.5
Non Current Assets	3.4	6.3	11.8	15.1	15.8	16.6
Total Assets	12.6	16.4	23.6	28.0	32.4	38.2
Payables	1.9	2.0	1.3	1.9	2.9	3.7
Current tax	0.2	0.4	0.4	0.3	0.3	0.3
Employee benefits	0.8	1.1	1.2	1.5	1.5	1.5
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Total debt	1.9	2.9	8.5	10.3	10.3	10.3
Total Liabilities	4.9	6.3	11.4	14.1	15.1	15.8
Shareholder Funds	7.8	10.1	12.2	13.9	17.4	22.4

Directors and Key Management Personnel		Shares	Holding
Wayne Hooper	CEO & Executive Director	11.1m	11.6%
Phillip Suriano	Non Exec Chairman	0.8m	0.8%
Matthew Twist	CFO & Company Secretary	0.1m	0.1%

Major Shareholders (excluding nominees)		Shares	Holding
Hooper Family		39.1m	40.8%
Peachey Family		4.9m	5.2%
Top 20 shareholders		64.6m	67.5%

Source: Company data, Veritas Research

Valuation Metrics		Valuation	
Price Target (ps)		\$0.91	50%
Share Price (ps)		\$0.61	
FY21E EV/EBITDA (x)		9.6	
Implied FY21 EV/EBITDA (x)		13.9	45%
Implied FY22 EV/EBITDA (x)		10.2	6%
Market Capitalisation (A\$m)		58.4	
Enterprise Value (A\$m)		65.0	

Valuation Multiples						
Year ended June	FY18	FY19	FY20	FY21E	FY22E	FY23E
P/E (x)	58.7	20.5	20.6	23.4	13.5	9.3
Price/Cash Flow (x)	146.8	14.0	13.6	11.6	9.7	8.3
EV/Revenue (x)	4.2	2.9	2.9	2.5	1.9	1.5
EV/EBITDA (x)	29.1	13.2	10.5	9.6	7.0	5.4
EV/EBIT (x)	42.9	16.2	15.5	16.9	10.2	7.1
Equity FCF yield (%)	-0.6	2.4	4.2	2.7	4.2	6.1
Dividend yield (%)	1.0	1.6	1.8	2.1	3.3	4.9
EV/capital (x)	7.8	6.1	3.9	3.2	2.9	2.6
Price to book value (x)	7.3	5.7	4.7	4.2	3.4	2.7

Per Share Data						
Year ended June 30	FY18	FY19	FY20	FY21E	FY22E	FY23E
EPS diluted - adjusted (cps)	1.04	2.97	2.96	2.60	4.51	6.53
EPS diluted (cps)	1.04	2.97	2.96	2.60	4.51	6.53
Cash flow per share (cfs)	0.42	4.35	4.49	5.28	6.30	7.32
Free cash flow per share (cfs)	(0.37)	1.48	2.59	1.63	2.57	3.64
Cash (cfs)	1.48	2.34	4.22	4.07	5.66	7.84
Net assets (cfs)	8.35	10.72	12.91	14.53	17.99	22.93
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	96	98
Shares on issue - avg. diluted (m)	93	94	95	96	96	98

Segmental revenue, EBITDA and margins						
Year ended June 30	FY18	FY19	FY20	FY21E	FY22E	FY23E
Services	10.0	11.2	12.8	12.8	15.1	16.7
Product	5.6	9.1	9.2	12.4	16.1	20.9
Tech	0.0	2.4	0.2	0.7	2.3	4.7
Revenue (\$m)	15.6	22.7	22.2	25.9	33.6	42.3
Services	38.7	11.3	14.8	0.0	18.0	10.0
Product	10.5	62.8	0.4	35.0	30.0	30.0
Tech			(92.4)	277.4	243.5	102.8
Revenue growth (%)	13.8	44.9	(2.2)	16.7	29.7	26.0
Services	2.0	2.6	4.0	3.5	4.4	4.8
Product	0.8	2.7	3.0	4.0	5.4	7.1
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)
EBITDA (\$m)	2.2	4.9	6.2	6.8	9.3	12.1
Services	20.1	23.0	31.4	27.5	28.8	28.9
Product	13.4	29.1	32.3	32.6	33.3	34.0
Tech		14.5	(21.7)	8.2	26.3	29.9
R&D (as % of group sales)	(3.2)	(2.9)	(3.4)	(3.4)	(3.2)	(3.0)
EBITDA margin	14.3	21.6	27.9	26.1	27.6	28.5

Performance Ratios (%)						
Year ended June 30	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Gross margin	44.5	47.4	51.9	49.0	50.0	50.0
Operating cost margin	30.2	25.8	24.1	22.9	22.4	21.5
Gross profit growth	-3	54	7	10	32	26
Cost growth	0	23	-9	11	27	21
Normalised EPS growth	-15	186	0	-12	73	45
Tax rate	31.0	26.7	25.5	28.7	27.5	27.5
Return on capital	14.2	30.8	22.2	15.1	21.7	28.1

Balance Sheet Ratios						
Balance Sheet (A\$m)	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Gross debt (\$ m)	1.9	2.9	8.5	10.3	10.3	10.3
Net cash/(debt) (\$ m)	-0.5	-0.7	-4.5	-6.4	-4.8	-2.6
Gearing (net debt: capital)	7	6	27	32	22	11
Fixed charge cover (x)	2.7	5.1	4.1	4.0	6.0	8.1

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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