RaaS Research as a Service

LaserBond Ltd

Reaffirming $40m revenue target by FY22

Industrial machinery

LaserBond is a specialist advanced surface engineering company founded in 1992 and focused on the development and application of materials, technology and methodologies to increase the operating performance and life of capital-intensive mechanical components. The company services machinery in a range of industries including mining, drilling, mineral processing, construction and transport from its Smeaton Grange (western Sydney) and Adelaide operations. Customers benefit from longer maintenance cycles, reduced down-time, higher efficiency of equipment, reduced inventory of spares, improved product quality, and lower maintenance costs. In June, LaserBond acquired a competitor, United Surface Technologies (UST), for $1.1m, which it funded from existing facilities. The company noted that UST, which was expected to deliver approximately $4.0m in revenues in FY20 and be profitable, extended LaserBond's footprint into Victoria and delivered complementary advanced thermal spray coating technology. The company has reported FY20 revenues of $22.18m, down just 2.2% on FY19, demonstrating resilience in the COVID-19 environment. FY20 NPAT was flat on FY19. LaserBond has a target for revenue of $40m by FY22 which it remains confident of delivering in spite of COVID-19.

Business model

LaserBond operates three divisions – product, services and technology – with the latter generating revenue from licence sales. The services division generates 58% of sales while in FY20, products delivered the rest. The technology division did not sell a licence in FY20. The company's customer base is blue chip with BHP, Rio Tinto, Caterpillar, Westrac, Schlumberger and AGL amongst them. Around 80% of the company's revenues are generated by its proprietary technologies.

FY20 results snapshot and commentary

LaserBond reported FY20 revenues of $22.18m, down just 2.2% on the previous corresponding period, with second half revenues down 10% to $10.9m due to no licence sales from the technology division and COVID-19 impacted travel restrictions impacting on international sales in the products division. The products and services divisions both recorded increased second half revenues, respectively up 10.9% and 8.2%, demonstrating the resilience of the business. For the full year, services revenue increased 14.8% on FY19 to $12.83m with a 56% lift in EBITDA to $4.02m, while products revenue was flat at $9.7m (with the growth in 2H) but EBITDA lifted 11.6% to $2.96m. The company reported EBITDA of $6.18m, which included the new AASB16 treatment of property leases. This boosted EBITDA by $0.77m, with underlying EBITDA at $5.42m, still a 10.4% increase on the previous corresponding period. Underlying Net Profit Before Tax was $3.89m versus reported of $3.77m. The company declared a final dividend of $0.06/share, bringing the total dividend for the year to $0.10/share. The company reiterated its target for $40m revenue by FY22, noting it was still confident of achieving this target despite not being able to meet its FY20 target for double digit revenue growth.

Trading at a 10% discount to its closest peer

Of the defined peers, XRF is the closest in market capitalisation and EV/EBITDA, trading at a 10% premium to LBL. This is despite LBL delivering significantly higher ROE of 25.4% (versus XRF's ROE of 6.5%).

Historical earnings and ratios

Year end	Revenue (A$m)	Gross Profit	EBITDA (A$m)	NPAT (A$m)	EPS (c)	DPS (c)	EV/Sales (x)	EV/EBITDA (x)	P/E (x)	Dividend yield (%)
06/17a	13.75	6.32	2.45	1.11	1.22	0.5	0.8	4.4	10.2	4.00
06/18a	15.65	6.53	2.50	0.97	1.04	0.6	0.8	4.9	12.0	4.80
06/19a	22.67	9.86	4.68	2.81	2.97	1.0	1.7	8.0	13.1	2.56
06//20a	22.18	11.52	6.18	2.81	2.95	1.1	2.3	8.3	16.6	2.24

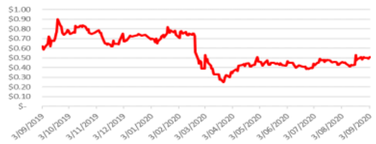
Source: Company data

4 September 2020

Share details

ASX Code	LBL
Share price (3-Sep)	$0.51
Market Capitalisation	$47.7M
Shares on issue	95.4M
Net debt at 30/06/2020	$4.48M
Free float	29.1%

Share performance (12 months)



Upside Case

- Strong and established customer base
- Resilient in the current COVID-19 environment
- Strong balance sheet to fund potential acquisitions

Downside Case

- Liquidity, free-float less than 30%
- International sales have been impacted by the COVID-19 restrictions
- Conditions deteriorate further, stalling the company's FY22 revenue target

Catalysts/upcoming events

AGM (circa 10 October)

Evidence of positive contribution from UST

Comparable companies (Aust/NZ)

Amaero International (ASX:3DA), AML3D Ltd (ASX:AL3), K-Tig (ASX:KTG), XRF Scientific (ASX:XRF)

Top 5 shareholders

Wayne Hooper (direct & indirect)	11.56%
Diane Hooper	10.24%
Greg Hooper (direct & indirect)	9.74%
Rex John Hooper	7.63%
Lilian Hooper	6.53%

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FINANCIAL SERVICES GUIDE

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- complaint processes

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