

LaserBond (LBL)

The Gateway to WA

LaserBond Ltd (LBL), the provider of innovative laser cladding services and long-lasting surface engineered products, achieved FY24 H1 revenue of \$20.3m up 8.7% on the prior corresponding period, while EBITDA was down 9.1% on FY23 H1, to \$4.2m, due to supply chain issues. With a resolution found, we expect a stronger H2 with FY24 revenue and EBITDA forecast to be 14% and 7.5% above FY23 figures respectively. We maintain our BUY recommendation with a 12-month target price of \$1.35 per share.

Now resolved supply issue the cause of FY24 H1 EBITDA slip

During FY23, a key component supplier to the Products division ceased business, temporarily preventing the completion of product orders, until a new supplier was found and qualified. LaserBond is now aiming to fulfil the resultant backlog of orders during the second half, which we expect will result in a lift in H2 revenue and earnings.

WA foothold with 40% purchase of Gateway Group

LaserBond has announced a strategic investment in Perth-based parts servicing business Gateway Group, with LBL taking a 40% stake in exchange for cash and scrip worth \$10m. The agreement also provides Laserbond the option to become a 51% owner in three years. In FY23, Gateway reported \$32.6m in revenue and \$5.6m in EBITDA, with LaserBond to provide a key growth vertical when it adds its laser cladding technology to Gateway's facility.

North American acquisition hunt well underway

LaserBond reports good progress on inorganic opportunities in North America, with the company working with a speciality M&A firm to identify appropriate targets. LBL has existing customers that operate in North America who have indicated they will substantially increase purchase volumes if a local presence is established.

\$60m revenue target on-track for next financial year*

LaserBond is on track to achieve its target \$60m of revenue in FY25, via strong organic growth prospects across all of the company's divisions and facilities. *The company will however be factoring 40% of Gateway's revenue in FY25 towards the target, which will differ from statutory revenue due to accounting standards treatment of a minority interest, thus we now expect FY25 statutory sales of \$55m.

Machinery

12-month rating	BUY
12-m price target (A\$)	1.35
Price (A\$)	0.75
Upside	80%
BBG: LBL AU	

Trading data & key metrics

52-week range (\$):	0.7 - 0.94
Market Cap (\$m):	72.0
Shares on issue (M):	109.3
Avg daily volume (K):	57.5
Avg. daily volume (\$m):	0.05

Directors

Philip Suriano	NEC
Wayne Hooper	ED/CEO
Matthew Twist	ED/CFO/CS
Ian Neal	NED
Dagmar Parsons	NED

Substantials

Wayne Hooper	10.4%
Diane Hooper	8.9%
Rex Hooper	6.3%
Berenberg Int Microcap	5.9%
Lillian Hooper	5.0%

Price Chart (12 Months)



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Key financials - AUD\$m

Year end Jun	2021A	2022A	2023A	2024F	2025F	2026F	2027F	2028F
Revenue	24.7	30.7	38.6	44.0	55.0	62.0	72.0	82.0
EBITDA	6.4	8.7	10.3	11.0	17.6	20.9	25.7	30.5
EBIT	3.8	5.8	7.0	7.9	14.8	17.9	22.7	27.3
NPAT	2.8	3.6	4.8	5.1	9.7	11.9	15.2	18.4
EPS (A¢ ps)	3.0	3.3	4.3	4.4	8.3	10.2	13.1	15.8
P/E	25.4	22.6	17.3	17.0	9.0	7.4	5.7	4.7
EV/EBITDA	10.5	9.3	7.6	8.0	5.0	4.3	3.2	0.0
DPS (A¢ ps)	0.7	1.2	1.6	1.6	4.5	7.7	9.5	12.3
Yield	0.9%	1.6%	2.1%	2.1%	6.0%	10.2%	12.7%	16.4%
Gearing (ND/ND+E)	N/A							

Source: Company accounts, Curran & Co estimates. AUD\$m unless otherwise stated.

Please see the last page of this report for important disclosures.

Financial Forecast Updates

Revenue

While we are expecting a stronger second half from LaserBond in FY24 we do not expect at this stage that the company will be able to achieve our prior FY24 forecast. FY25 however is expected to be more in-line with prior expectations, with the \$5m reduction the result of non-recognition of the WA investment's revenue, which carries through into latter years.

Revenue is forecast to grow 14% in FY24

Table 1 – Revenue Forecasts

Group Revenue (\$m)	FY24	FY25	FY26	FY27	FY28
Sep 2023 Forecasts	\$ 48.6	\$ 60.0	\$ 70.0	\$ 80.0	\$ 88.0
Current Forecast	\$ 44.0	\$ 55.0	\$ 62.0	\$ 72.0	\$ 82.0

Source: Curran & Co Forecasts

Gross Margin

Gross Margin was less during the half than anticipated and is not expected to completely recover during H2. However, we do expect a gradual and modest improvement of 0.9% in gross margin during the forecast period.

Gross margin is expected gradually improve over time

Table 2 – Gross Margin Forecasts

Gross Margin (%)	FY24	FY25	FY26	FY27	FY28
Sep 2023 Forecasts	54.1%	54.1%	54.1%	54.1%	54.1%
Current Forecast	53.2%	53.5%	53.7%	54.0%	54.1%

Source: Curran & Co Forecasts

EBIT

EBIT Margin was also impacted during H1 and while it is still expected to improve strongly during the forecast period, as a result of operating leverage, we have opted to be more conservative over the medium term.

EBIT is expected to grow 13.4% in FY24

Table 3 – EBIT Forecasts

EBIT (\$m)	FY24	FY25	FY26	FY27	FY28
Sep 2023 Forecasts	\$ 11.0	\$ 15.6	\$ 20.3	\$ 25.0	\$ 28.5
Current Forecast	\$ 7.9	\$ 14.8	\$ 17.9	\$ 22.7	\$ 27.5

Source: Curran & Co Forecasts

Likely Upside to Forecasts

Our forecasts currently do not factor plans to increase shareholding in Gateway to 51%, thus consolidating Gateway's financials into LBL's, which when combined with organic growth resulting from adding laser cladding services to that business, are expected to be material. Likewise, an acquisition in North America presents large upside potential.

Valuation | A\$1.35/share (80% upside)

Our 12-month target price for LaserBond (LBL) has been determined via the Dividend Discount Model, with the Gordon Growth Model used to determine the present value of dividends beyond FY29.

Company dividends are expected to grow at 4% p.a. Beyond FY29

Table 4 – Dividend Discount Model Assumptions

Risk Free Rate	Market Risk Premium	Equity Beta	Cost of Equity	Gordon Growth Rate
4.2%	6.5%	1.46	13.7%	4.0%

Source: Curran & Co Estimates

LaserBond (LBL) - Financial Summary

Profit & Loss Statement

Year to Jun 30 (A\$m)	2022A	2023A	2024F	2025F	2026F
Revenue	30.7	38.6	44.0	55.0	62.0
- change	24.5%	25.7%	14.0%	25.0%	12.7%
EBITDA	8.7	10.3	11.0	17.6	20.9
- change	35.9%	18.2%	7.5%	60.0%	18.3%
Depreciation and Amortisation	-2.9	-3.3	-3.1	-2.9	-3.0
EBIT	5.8	7.0	7.9	14.8	17.9
- change	50.8%	21%	13.4%	86.4%	21.3%
Net finance costs	-0.4	-0.6	-0.9	-1.0	-1.0
Pre-tax profit	5.3	6.4	7.1	13.8	16.9
Tax expense	-1.7	-1.6	-1.9	-4.1	-5.1
Reported NPAT	3.6	4.8	5.1	9.7	11.9
- change	27.9%	31%	7.8%	88.5%	22.6%
Add Comprehensive Items	0.0	0.0	0.0	0.0	0.0
Comprehensive Income	3.6	4.8	5.1	9.7	11.9
- change	27.9%	31%	7.8%	88.5%	22.6%
Remove Abnormals	0.0	0.0	0.0	0.0	1.0
Remove Comprehensive items	0.0	0.0	0.0	0.0	0.0
Nominalised NPAT	3.6	4.8	5.1	9.7	12.9
- change	27.9%	31%	7.8%	88.5%	33.0%

Profitability Ratios

Year to Jun 30 (A\$m)	2022A	2023A	2024F	2025F	2026F
EBITDA margin (%)	28.3%	26.6%	25.1%	32.1%	33.7%
EBIT margin (%)	18.8%	18.1%	18.0%	26.9%	28.9%
NPAT margin (%)	11.8%	12.3%	11.7%	17.6%	19.1%
Effective tax rate (%)	-31.9%	-25.3%	-27.5%	-30.0%	-30.0%
Shares outstanding	109.3	110.0	116.3	116.3	116.3
Reported EPS (¢)	3.3	4.3	4.4	8.3	10.2
...change (%)	12.4%	30%	1.9%	88.5%	22.6%
Normalised EPS (¢)	3.3	4.3	4.4	8.3	11.1
...change (%)	12.4%	30%	1.9%	88.5%	33.0%
DPS / Cap Return(¢)	1.2	1.6	1.6	4.5	7.7
...Payout on Norm. NPAT	36.1%	36.9%	36.2%	53.7%	69.5%
...Yield (%)	1.6%	2.1%	2.1%	6.0%	10.2%

Gearing / Cashflow Ratios

Year to Jun 30 (A\$m)	2022A	2023A	2024F	2025F	2026F
Net debt	-0.9	-4.9	1.4	1.7	2.0
Net debt/Equity (%)	N/A	N/A	N/A	N/A	N/A
Net Debt/N Debt+Equity (%)	N/A	N/A	N/A	N/A	N/A
Net Debt / EBITDA (x)	N/A	N/A	N/A	N/A	N/A
EBITDA / Net interest (x)	19.5x	16.5x	12.9x	18.2x	21.1x
ROE (%)	13.2%	15.3%	12.9%	21.9%	25.2%
ROA (%)	8.2%	9.2%	8.1%	14.1%	16.4%

Multiples

Year to Jun 30 (A\$m)	2022A	2023A	2024F	2025F	2026F
Enterprise value (A\$m)	81.0	77.5	88.6	88.9	89.2
EV/Sales	2.6x	2.0x	2.0x	1.6x	1.4x
EV/EBITDA	9.3x	7.6x	8.0x	5.0x	4.3x
Price/Earnings	22.6x	17.3x	17.0x	9.0x	7.4x
Price/Book	3.0x	2.7x	2.2x	2.0x	1.9x

Balance Sheet

Year to Jun 30 (A\$m)	2022A	2023A	2024F	2025F	2026F
Cash	5.7	8.9	5.3	5.3	5.3
Receivables	9.8	9.4	11.2	14.0	15.8
Inventories	5.6	7.3	8.4	10.5	11.8
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Current Assets	21.0	25.7	24.9	29.8	32.8
Property, Plant & Equipment	16.4	18.8	20.9	21.5	22.2
Investments	0.0	0.0	10.0	10.0	10.0
Intangibles	6.4	6.5	6.5	6.5	6.5
Other	0.7	0.8	1.0	1.0	1.0
Non-Current Assets	23.5	26.1	38.4	39.0	39.7
Total Assets	44.5	51.8	63.3	68.8	72.5
Payables	4.3	4.7	4.3	5.0	5.5
Financial Liabilities	1.3	1.7	1.2	1.3	1.3
Lease Liabilities	1.3	0.6	0.6	0.6	0.6
Other Current Liabilities	1.9	2.2	2.9	2.9	2.9
Current Liabilities	8.8	9.3	9.1	9.9	10.4
Financial Liabilities	3.4	2.3	5.4	5.7	5.9
Lease Liabilities	3.3	7.2	7.2	7.2	7.2
Employee Benefits	0.1	0.2	0.2	0.2	0.2
Other Non-Current Liabilities	1.4	1.8	1.6	1.6	1.6
Non-Current Liabilities	8.2	11.5	14.5	14.7	15.0
Total Liabilities	17.0	20.8	23.6	24.6	25.4
Net Assets	27.5	31.1	39.7	44.2	47.1
Issued Capital	18.2	18.8	24.1	24.1	24.1
Accumulated Losses	9.3	12.3	15.6	20.1	23.0
Shareholders' Equity	27.5	31.1	39.7	44.2	47.1

Cash Flow Statement

Year ending June (A\$m)	2022A	2023A	2024F	2025F	2026F
Operating Cash Flow	4.2	7.7	5.4	8.4	12.2
Investing Cash Flow	-10.9	-1.3	-6.5	-2.1	-2.1
Free Cash Flow (Basic)	-6.6	6.4	-1.1	6.3	10.1
Financing Cash flow	7.4	-3.1	-2.5	-6.3	-10.1
Exchange rate effects	0.0	0.0	0.0	0.0	0.0
Net Change in Cash	0.8	3.2	-3.6	0.0	0.0

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