



Boart Longyear Limited (BLY.ASX)

Operational Improvements Signs of Progress

Disclosure

The analyst does not own BLY securities.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 121,000,000 BLY shares.

Cranport Pty Ltd owns 249,127,060 BLY shares.

Refer to end of report for details.

Recommendation	Buy
Previous	N/A
Risk	High
Price Target (A\$)	\$ 0.006
Previous (A\$)	N/A
Share Price (A\$)	\$ 0.004

ASX Code	BLY
52 week low - high (A\$)	0.002-0.015

Capital structure

Shares on Issue (M)	26,296.2
Options (M)	758.9
Undiluted Market Cap, A\$M	105.2
Net Cash/(Debt), A\$M	(939.4)
EV (A\$m)	1,044.6
12mth Av Daily Volume ('000)	20,993

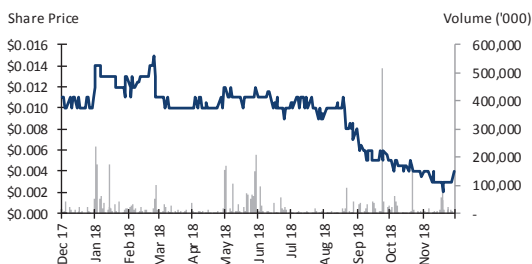
Shareholders

Centerbridge	50.8%
Ascribe	20.9%
Ares	9.7%

Board

Marcus Randolph	Chairman
Kyle Cruz	Non-Executive Director
Jason Ireland	Non-Executive Director
James Kern	Non-Executive Director
Gretchen McClain	Non-Executive Director
Jeffrey Olsen	CEO
Robert Smith	Non-Executive Director
Richard Wallman	Non-Executive Director
Eric Waxman	Non-Executive Director

Share Price Graph



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Talking Point mostly discusses stocks for which Foster Stockbroking does not provide formal research coverage. It combines both a market view and basic research analysis. The aim is to offer clients additional investment ideas that lie outside the firm's universe of formally covered stocks. Occasionally, some stocks under formal research coverage will also be discussed in Talking Point.

Event:

- We initiate on Boart Longyear Ltd (BLY.ASX).

Analysis:

- **Adjusted EBITDA continued to improve in 3Q18a, and was US\$24M, +14% QoQ;** FY18 YTD adjusted EBITDA of US\$61M is a significant 65% improvement vs pcp. Pricing improvement, cost reductions, and productivity drives contributed to the EBITDA improvement, despite weaker Q3a sales -5% QoQ to US\$196M, which was due to a strong USD during the quarter, and masked sound underlying growth.
- **Net cash used in operating activities was US\$2M in 3Q18a.** This is a significant improvement YTD, and has been reduced 85% to US\$13M from US\$92M in the pcp.
- **Drilling services rig utilisation part of a longer upward trend:** although average rig utilisation for 3Q18a was 47% and -2% QoQ, it remains an incremental improvement from FY17a average rig utilisation of 43%. The company also called out pricing improvements for this segment.
- **Global Products revenue weaker for the quarter but YTD EBITDA double pcp:** in spite of cycling off a higher 2Q18a revenue (-11%), EBITDA was a 48% QoQ improvement and FY18e YTD EBITDA was double the pcp.
- **In our view, debt can be serviced in the short term and operating cash flow positive in FY19e. Net debt was US\$667M at 30 September, +2.7% QoQ from US\$650M at 30 June.** FY19e interest will be payable in cash and in-kind (50:50), while we expect any surplus cash flow will be applied to reducing debt. Although sensitive to working capital requirements, we forecast positive operating cash flow in FY19e of US\$66M.
- **Vote to redomicile to Canada on 6 December:** BLY sees advantages of redomiciling to Canada include improved capital access and liquidity, streamlined corporate structure, reduced insurance cost.

Earnings and Valuation:

- **We forecast FY18e and FY19e adjusted EBITDA of \$85.6M and US\$114.4M, and underlying losses of US\$16.2M and US\$5.4M.**
- **We value BLY at \$0.006 per share,** based on a DCF methodology and estimated equity value of A\$162M (EV of A\$1,102M). We have assumed 14% WACC, 2.5% terminal growth, and sales growth of 8% and 5% in FY19e and FY20e.

Recommendation:

- We initiate on BLY with a **Buy recommendation, PT \$0.006**, in line with our valuation. We view the most recent quarterly update as a demonstration of continued operational improvement in the underlying business, and consider BLY a turnaround opportunity.
- **Upcoming catalysts:** we see continued progress on cost outs, improved rig utilisation, improved exploration and drilling activity, greater traction in new product rollout and take up, as well as significant inroads into debt reduction as positive signals for the business in the near term. Vote to redomicile to Canada will be held on 6 December.