



## Boart Longyear Limited (BLY.ASX)

*Volume Growth and Cost Control Delivering Benefits*

### Disclosure

The analyst does not own BLY securities.  
Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 79,512,437 BLY shares.  
Cranport Pty Ltd owns 210,127,060 BLY shares.  
Refer to end of report for details.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target (A\$)	\$ 0.0065
Previous (A\$)	\$ 0.006
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
<b>Undiluted Market Cap, A\$M</b>	<b>105.2</b>
Net Cash/(Debt), A\$M	(949.7)
<b>EV (A\$m)</b>	<b>1,054.9</b>
12mth Av Daily Volume ('000)	16,031

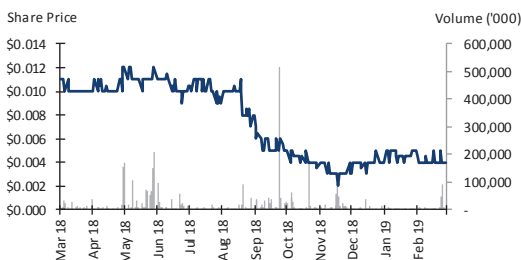
### Shareholders

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:

- **FY18a result; revised earnings, valuation, and price target.**

### Analysis:

- **Impressive EBITDA improvement and incremental margin expansion continued, due to volume growth and optimising cost structure.** Underlying EBITDA continued to improve in FY18a, and was US\$80M, +126% YoY, -6% vs FSBe. EBITDA margin improved 2% YoY to 10% for FY18a with the main determinants being volume growth and cost control.
- **Operating cash flow positive for the first time since 2013, and encouragingly, sooner than expected.** FY18a operating cash was US\$4M, a significant YoY turnaround, from -US\$54M in FY17a.
- **Drilling services rig utilisation upward YoY trend:** FY18a average utilisation of 46% was an incremental 3% improvement on FY17a average rig utilisation of 43%. Global Products cost outs delivered significant margin expansion, while new products demonstrated good early traction.
- **Stronger leading indicators.** We continue to hold the view that gold majors need to replace depleted reserves while exploration spend continues to trend upward. Junior mining activity is also on the cusp of delivering potential pricing uplift to BLY, if its share of total drilling activity continues to grow.
- **We remain of the view that debt can be serviced in the short term. Net debt was US\$683M at 31 December, up from US\$667M at 30 September.** The average interest rate for FY19e falls to 8% from 9.5%. FY19e interest will be payable in cash and in-kind (~50/50 split), while we expect any surplus cash flow will be applied to reducing debt.

### Earnings and Valuation:

- **We have increased forecasts** for FY19e-FY21e adjusted EBITDA of US\$117M, US\$1538M, and US\$145M (previously US\$114M, US\$139M, and US\$107M) and underlying profit of US\$12.5M, US\$39.3M, and US\$35.7M (previously -US\$5.4M, US\$10.5M, -US\$9.2M), due to improved revenue outlook and continued margin expansion.
- **We value BLY at \$0.0065 per share (previously \$0.006)**, based on a DCF methodology and estimated equity value of A\$170M. We have assumed 14% WACC, 2.5% terminal growth, and sales growth of 11% and 8% in FY19e and FY20e (previously 8% and 5%).

### Recommendation:

- We maintain a **Buy recommendation, with an increased PT of \$0.0065** per share (previously \$0.006), in line with our increased valuation. FY18a saw a significant YoY improvement and we look forward to continued operational improvement in the underlying business.
- **Upcoming catalysts:** we see continued progress on cost outs, improved rig utilisation, improved exploration and drilling activity, pricing improvements, continued 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.