

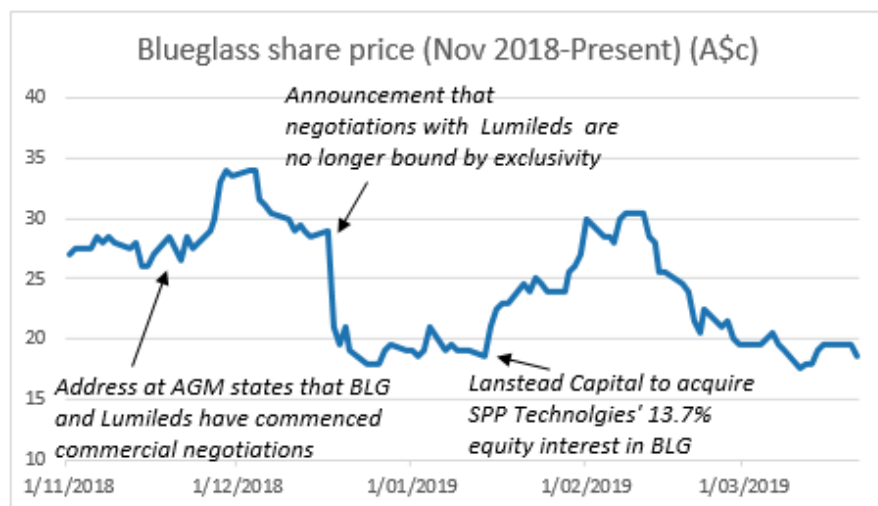
BluGlass Limited (ASX:BLG)

Timeframe to commercialisation still uncertain

Event
 MD Giles Bourne, Chief Operations and Technology Officer Dr Ian Mann, and Brad Siskavich VP of Business Development, presented a Technology and Company update via a video presentation.

State One comment

A significant portion of the presentation was allocated to the group's latest breakthrough – the development of low temperature RPCVD tunnel junctions. These junctions allow LEDs to be stacked vertically on top of each other; these “cascade LEDs” are described by BLG as a potential game-changer for manufacturing smaller, cheaper and higher-performance LEDs. To date, functioning tunnel junctions, and therefore cascade LEDs, have been prohibitively difficult to produce. The presentation also covered the Silverwater facility upgrade and expansion, the group's revenue generating foundry service arm-EpiBlu, and BLG's ongoing progress in growing and strengthening its IP portfolio. However, while commercial negotiations with Lumileds are continuing (although no longer on an exclusive basis), we believe the presentation failed to clarify whether any progress had been made over the past four months i.e., since mid-November 2018 when it was announced that commercial negotiations with Lumileds had started. In addition, we do not know if BLG is also in commercial negotiations with any other parties i.e., another LED manufacturer or an equipment manufacturer. We suspect the market needs more visibility on these issues and some guidance on whether the apparent impasse is due to commercial issues (i.e., related to royalty fee/licencing fee/patent rights) or technology/product issues. The share price fell significantly (-28%) on 18 Dec 2018 after the announcement that exclusive negotiations with Lumileds had ended (see chart below). We believe that news flow around commercial negotiations will continue to be the primary share price driver in the short to medium term



Risk-weighted NPV-derived target price: A\$0.29ps (A\$0.43ps previously)

Our base-case remains that BLG will enter into a commercial agreement with Lumileds. However, because of the apparent lack of progress over the past quarter and continued poor visibility on the timing and metrics of any commercial agreement, we have increased our risk discount to 66% from our original 50%. See initiating coverage research “[At last...commercial negotiations now started](#)”, 3 December 2018. As a result, our target price has fallen to 29cps from 43cps.

We maintain a Speculative Buy (Higher Risk) recommendation. Risks to our forecast earnings profile and target price include but are not limited to: global growth rates in LED demand, successfully entering into a technology licencing agreement, timing and royalty rates associated with this agreement, working capital requirement prior to first royalty payments, competition from alternative technology providers, key personnel risk.

25 March 2019

Share Price: A\$0.18

Target Price: A\$0.29

Target Upside: 61%

Recommendation

Speculative Buy

Risk Assessment

Higher

IT – Semiconductors (SC) and SC equipment

David Brennan, CFA

Senior Investment Analyst

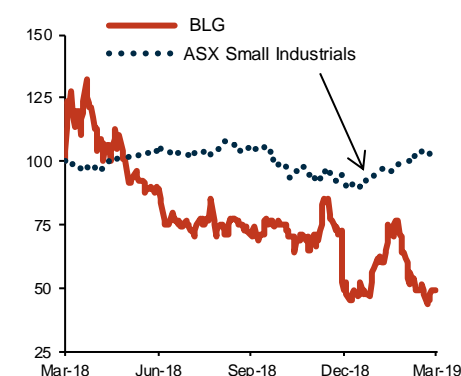
dbrennan@stateone.com.au

+61 02 9024 9142

BluGlass Limited

ASX Code	BLG
52-week range (A\$)	A\$0.16-A\$0.53
Market Cap diluted (A\$m)	80
Shares outstanding (m)	418
Av Daily Turnover (shares)	448,790
ASX All Ordinaries	6,254
FY19E BV per share (A\$)	0.05
FY19E EPS (A\$)	-0.01
FY19E Net (Debt)/Cash (A\$m)	7.5

Relative Price Performance



BluGlass Limited

Year ending June

Profit & Loss Statement (A\$M)	FY18A	FY19E	FY20E	FY21E	FY22E
Lumileds royalty (incl. FY20E licence)	0.0	0.0	15.0	3.1	13.8
Other revenue	0.7	1.00	1.25	1.50	1.75
Revenue (total)	0.7	1.0	16.25	4.6	15.6
Costs	(6.5)	(7.0)	(7.4)	(7.7)	(8.1)
EBITDA	(5.7)	(6.0)	8.9	(3.1)	7.5
Depreciation & Amortisation	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Operating profit	(5.9)	(6.2)	8.7	(3.3)	7.3
Other (R&D rebates)	1.9	2.0	2.0	0.0	0.0
EBIT	(4.0)	(4.2)	10.7	(3.3)	7.3
Interest income	0.2	0.5	0.2	0.4	0.3
Interest expense	0.0	0.0	0.0	0.0	0.0
Tax expense	0.0	0.0	0.0	0.0	0.0
Reported NPAT	(3.8)	(3.7)	10.9	(2.8)	7.6
Normalised NPAT	(5.8)	(5.7)	8.9	(2.8)	7.6

EBITDA Margin (%)	na	na	na	-66%	48%
Operating profit margin (%)	na	na	58%	-70%	47%
EPS Reported (A\$)	(0.01)	(0.01)	0.03	(0.01)	0.02
EPS Normalised (A\$)	(0.01)	(0.01)	0.02	(0.01)	0.02
EPS growth (%)	nm	nm	nm	nm	nm
DPS - Declared (A\$)	0.00	0.00	0.00	0.00	0.00
Avg. no. of fully-diluted shares (m)	393	422	422	422	422
YE no. of fully-diluted shares (m)	422	422	422	422	422

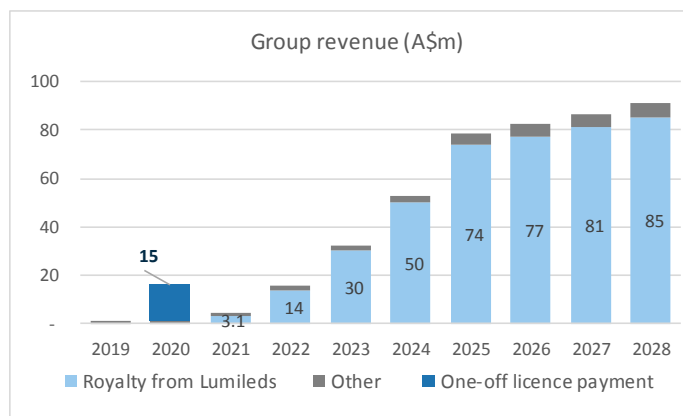
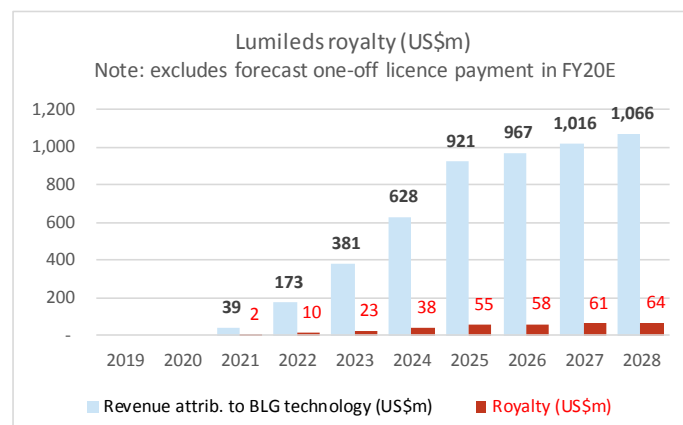
Cash Flow Statement (A\$M)	FY18A	FY19E	FY20E	FY21E	FY22E
EBITDA	(5.7)	(6.0)	8.9	(3.1)	7.5
Investment in working capital	0.1	0.0	0.0	(0.2)	0.0
Tax expense	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	(5.6)	(6.0)	8.9	(3.3)	7.5
Capex	(0.1)	(4.0)	(4.0)	(0.2)	(0.2)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(0.1)	(4.0)	(4)	(0)	(0.2)
Net interest received / (paid)	0.2	0.5	0.2	0.4	0.3
Debt draw down / (repayment)	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (repaid)	10.5	0.0	0.0	0.0	0.0
Financing Cash Flow	10.7	0.5	0.2	0.4	0.3
Non-operating & Other	1.9	1.7	2.0	0.0	0.0
Inc/(Dec) in Cash	6.8	(7.9)	7.1	(3.0)	7.6

Balance Sheet (A\$M)	FY18A	FY19E	FY20E	FY21E	FY22E
Cash & Equivalents	15.4	7.5	14.6	11.6	19.2
Receivables	2.3	2.3	2.3	2.3	2.3
Inventories	0.1	0.1	0.1	0.2	0.2
Other Current Assets	0.1	0.1	0.1	0.1	0.1
PPE and Exploration & Development	0.3	4.1	7.9	7.9	7.9
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	8.7	8.7	8.7	8.7	8.7
Total Assets	26.7	22.6	33.5	30.7	38.3
Payables and other current Liabilities	1.0	1.0	1.0	1.0	1.0
Short Term Debt	0.0	0.0	0.0	0.0	0.0
Long Term Debt	0.0	0.0	0.0	0.0	0.0
Other Liabilities (incl silver stream)	0.3	0.0	0.0	0.0	0.0
Total Liabilities	1.3	1.0	1.0	1.0	1.0
Shareholders Equity	25.4	21.6	32.6	29.7	37.4
Net Cash / (Debt)	15.4	7.5	14.6	11.6	19.2

Substantial Shareholders	%	Date
SPP Technologies Co Ltd	13.7%	
Access Macquarie Limited	4.8%	Aug-18
HSBC Custody Nominees	3.8%	

Source: Company, IRESS, State One Stockbroking forecasts

Lumileds royalty calc	FY18A	FY19E	FY20E	FY21E	FY22E
Lumileds LED revenue (US\$m)	-	1,300	1,430	1,573	1,730
YoY growth (%)	-	-	10%	10%	10%
% revenue attrib. to BLG technology	na	0%	0%	2.5%	10.0%
Revenue attrib. to BLG tech (US\$m)	na	0.0	0.0	39	173
Effective royalty rate (%)	na	6%	6%	6%	6%
Royalty (US\$m)	na	0.0	0.0	2.4	10.4
AUD/USD exchange rate	na	0.75	0.75	0.75	0.75
Royalty (A\$m)	na	0.0	0.0	3.1	13.8



Leverage	FY18A	FY19E	FY20E	FY21E	FY22E
Debt (A\$m)	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	cash	cash	cash	cash	cash
Interest Cover (x)	na	na	na	na	na

Valuation Ratios (x)	FY18A	FY19E	FY20E	FY21E	FY22E
Normalised P/E	na	na	8.5	na	10.0
Price/OP Cash Flow	-14	-13	9	-23	10.2
Book value per share (A\$)	0.06	0.05	0.08	0.07	0.09
EV/EBITDA	-11	-12	7	-22	8.0
ROE (%)	-23%	-27%	27%	-10%	20%

Valuation	(A\$m)	(A\$/share)	Comment
Estimated NPV ₁₀ valuation	340	0.81	30-year Lumileds royalty
Other BLG tech partnerships	17	0.04	Nominal 5% of royalty NPV
Enterprise value	357	0.85	
FY19E Net cash / (debt) (A\$m)	7	0.02	
Equity value (unrisked)	365	0.86	Equity valuation - unrisked
Risk discount	66%		Timing / operational / royalty
Equity value (risked) & TP	124	0.29	Equity valuation - risked

Note: Per share valuation based on 422 million shares (diluted)

Alan Hill
Executive Chairman
Phone: +61 8 9288 3388
ahill@stateone.com.au

Ric Heydon
Equities & Derivatives Advisor
Phone: +61 8 9288 3307
rheydon@stateone.com.au

Mark Sullivan
Institutional Dealer
Phone: +61 2 9024 9134
msullivan@stateone.com.au

Thomas Tan
Equities Advisor
Phone: +61 2 9024 9131
ttan@stateone.com.au

Morris Levitzke
Equities Advisor
Phone: +61 8 9288 3315
mlevitzke@stateone.com.au

Graeme Johnson
Equities & Derivatives Advisor
Phone: +61 8 9288 3316
gjohnson@stateone.com.au

Yitz Barber
Equities Advisor
Phone: +61 2 9024 9107
ybarber@stateone.com.au

Tammie Wong
Equities Advisor
Phone: +61 2 9024 9133
twong@stateone.com.au

Dawn Chia
Business Development Manager
Phone: +61 8 9288 3336
Dawn.Chia@stateone.com.au

David Zhang
Equities Advisor
Phone: +61 2 9024 9130
dzhang@stateone.com.au

David Brennan
Senior Investment Analyst
Phone: +61 2 9024 9142
dbrennan@stateone.com.au

Wayne Osterberg
Equities Advisor
Phone: +61 8 9288 3318
Wayne.Osterberg@stateone.com.au

General Advice Warning

The contents of this document have been prepared without taking account of your objectives, financial situation or needs. You should, before taking any action to acquire or deal in, or follow a recommendation (if any) in respect of any of the financial products or information mentioned in this document, consult your own investment advisor to consider whether that is appropriate having regard to your own objectives, financial situation and needs.

Whilst State One Stockbroking Ltd believes information contained in this document is based on information which is believed to be reliable, its accuracy and completeness are not guaranteed and no warranty of accuracy or reliability is given or implied and no responsibility for any loss or damage arising in any way for any representation, act or omission is accepted by State One Stockbroking Ltd or any officer, agent or employee of State One Stockbroking Ltd. If applicable, you should obtain the Product Disclosure Statement relating to the relevant financial product mentioned in this document (which contains full details of the terms and conditions of the financial product) and consider it before making any decision about whether to acquire the financial product.

This report was prepared solely by State One Stockbroking Limited. ASX Limited ABN 98 009 642 691 and its related bodies corporate ("ASX") did not prepare any part of the report and has not contributed in any way to its content. The role of ASX in relation to the preparation of the research reports is limited to funding their preparation by State One Stockbroking Limited, in accordance with the ASX Equity Research Scheme. ASX does not provide financial product advice. The views expressed in this research report may not necessarily reflect the views of ASX. To the maximum extent permitted by law, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by ASX as to the adequacy, accuracy, completeness or reasonableness of the research reports.

Disclosure

The directors and associated persons of State One Stockbroking Ltd may have an interest in the financial products discussed in this document and they may earn brokerage, commissions, fees and advantages, pecuniary or otherwise, in connection with the making of a recommendation or dealing by a client in such financial products.

The Research Analyst who prepared this report hereby certifies that the views expressed in this research document accurately reflect the analyst's personal views about the company and its financial products. The research analyst has not been and will not be receiving direct or indirect compensation for expressing the specific recommendations or views in this report.

This research at all times remains the property of State One Stockbroking Ltd. And as such cannot be reprinted, distributed, copied, posted on the internet, in part or whole, without written prior approval from an Executive Director of State One Stockbroking Ltd.