



## Tox Free BUY

Current Price: **\$2.37**  
Valuation: **\$2.80**

Ticker: **TOX.ASX**  
Sector: **Resources Services**

Shares on Issue (m): **90.4**  
Market Cap (\$m): **214.2**  
Net Debt (Cash) (\$m): **8.3**  
Enterprise Value (\$m): **222.4**

52 wk High/Low: **\$2.74 \$1.25**  
12m Av Daily Vol (m): **0.11**

### Key Metrics

	10F	11F
EV/EBITDA (x)	7.7	6.4
P/E (x)	16.0	13.1

### Ratios

	09A	10F	11F
ND / Equity	6%	4%	-3%
EBITDA Mgn	25%	27%	29%
RoA	14%	18%	21%
RoE	14%	13%	16%

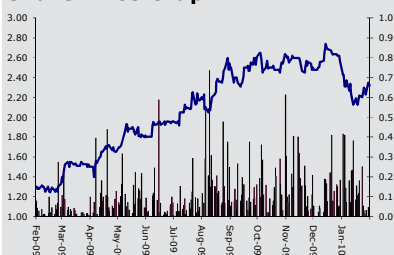
### Financials:

	09A	10F	11F
Revenue (\$m)	88.4	107.5	121.5
EBITDA (\$m)	22.2	29.5	34.6
NPAT (\$m)	8.0	12.9	16.7
Net Assets (\$m)	53.9	91.6	106.5
Op CF (\$m)	9.8	16.4	22.9

### Per Share Data:

	09A	10F	11F
EPS (cps)	10.4	14.8	18.1
DPS (cps)	0.0	0.0	4.5
Div Yield	0.0%	0.0%	19%
NTAPS (cps)	36.4	72.5	87.6
CFPS (cps)	12.9	19.1	24.9

### Share Price Graph



Analyst:  
Ian Christie, CFA

## 25 February 2010

## Not wasting the opportunities

This is the first period in a while where the comparatives for Tox Free Solutions (TOX) are not clouded by acquisitions. It makes for impressive reading, with revenue up 12.5% on pcp to \$46.7m, and normalised NPAT climbing 55.7% to \$4.6m (details overleaf).

The significant growth in margins in each division is a key take-away. It increases our confidence that margins will improve further, particularly with enhanced efficiencies in the Industrial Services division and an excellent exposure to WA's north-west. More specifically:

- × The Pilbara region was a highlight for Industrial Services, with contracts awarded during the period by Rio Tinto and Toll Energy (related to Gorgon). On the east coast, Barry Brothers is reported to be performing well and a number of recently awarded contracts should underpin a strong performance in the second half.
- × The Solid Waste division saw particularly strong growth (up 64% on pcp), and with the Pilbara Resource Recovery Centre (PRRC) being expanded, TOX is ideally placed to manage the increasing volumes of waste in the Pilbara region.
- × The Brisbane and Karratha facilities were the standout performers in the management of Hazardous Waste, the latter helping the PRRC facility to become the biggest contributor to group earnings. Exposed to the slower manufacturing sector, the Liquid Waste division was the only let-down with softer revenues.

Following the \$24.3m equity capital raised in the half, the Company has cash on hand of \$26.2m and net debt of \$8.3m. The net gearing ratio of 10% (down from 61% as at June 2009) places the Company on a solid footing to pursue further organic and acquisitive growth opportunities.

Looking ahead, if the historical earnings split of 40:60 is replicated TOX could easily beat FY10 EBITDA guidance of \$26-28m (which we note was set prior to the RIO contract win). Given the positive tone and the opportunities for further contract wins, we anticipate normalised FY10 EBITDA closer to \$30m.

In our view the outlook for TOX is excellent:

- × The Company envisages significant growth in earnings in 2H10 and FY11. We have no reason to doubt this – apart from the normal 2H weighting and an improving economy, this half will benefit from the Rio Tinto and Gorgon contracts:
  - Gorgon is expected to deliver ~\$30m in revenue over 3 years
  - The Rio contract (starting in March) has a 3 year term (plus a 2 year option) and will generate ~\$7.5m p.a.
- × Further contract opportunities are being explored and TOX is currently waiting on the outcome of four large waste management and industrial services contracts

We believe TOX, with its dominant position in WA's north-west, is ideally positioned for further contract wins and strong growth in the medium term. Factoring this into our model improves our DCF based valuation to \$2.80 per share.

This prompts an upgrade in our recommendation to Buy with contract wins the likely catalysts for share price appreciation.

## BUY

## Impressive Performance

**TOX delivered a solid 1H10 performance .....**

Table 1: Group performance compared to pcp

\$m	1H09	1H10	Change on pcp
Revenue	41.5	46.7	12.5%
Norm. EBITDA	10.3	12.2	18.9%
EBITDA Margin	24.8%	26.2%	
NPAT	3.0	4.6	55.7%
EPS (cents)	3.87	4.98	28.6%
Gearing (ND/E)	61.0% (30/06/09)	10.0%	

Source: TOX

**..... with revenue growth across most market segments .....**

### Industrial Services:

- × Revenue increased by 7.2% to \$27.4m, and the EBIT margin improved from 12.8% to 14.1%
- × The Pilbara was the highlight, with contracts awarded by Rio and Toll (Gorgon)
- × Barry Brothers is performing well – non-core assets have been divested, the client base is broadening, returns are improving, and a number of recently awarded contracts will underpin strong 2H performance

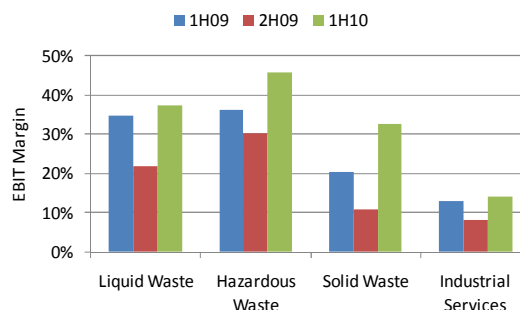
### Solid Waste:

- × Revenue increased by 64.0% to \$7.5m, and the EBIT margin improved from 20.3% to 32.6%
- × Strong growth through provision of services to Woodside and Toll, both under long term contract
- × The PRRC is being expanded and TOX is well placed to manage growth in waste volumes in the Pilbara region

### Hazardous & Liquid Waste:

- × Hazardous Waste revenue increased by 24.5% to \$6.7m, and the EBIT margin improved from 36.2% to 45.6%
- × The Brisbane and Karratha facilities were standout performers, with the PRRC facility in Karratha now the biggest contributor to group earnings
- × The Kwinana facility performed well – a number of projects were completed in the half, and more hazardous waste remediation projects are being tendered in 2H
- × Liquid Waste revenue decreased by 14.7% to \$5.1m, and the EBIT margin improved from 34.7% to 37.5%
- × This segment is most closely linked to manufacturing, which was impacted by the slowdown in economic activity in the period

Figure 1: Divisional EBIT margins



**..... and impressive margin expansion in each division**

Source: TOX, Argonaut

## Tox Free Solutions Limited

*Equities Research*  
Ian Christie, CFA

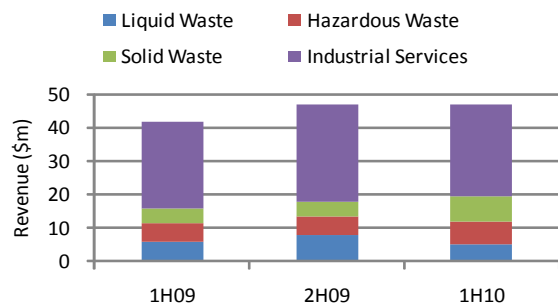
<b>Recommendation</b>	<b>BUY</b>
<b>Current Price (\$)</b>	<b>2.37</b>
<b>All Ords (XAO)</b>	<b>4,614.9</b>

<b>Sector</b>	<b>Equip. &amp; Services</b>
<b>Market Cap (\$m)</b>	<b>214.2</b>
<b>Date</b>	<b>25 February 2010</b>

<b>Profit and Loss (\$m)</b>	<b>2009A</b>	<b>1H10A</b>	<b>2010F</b>	<b>2011F</b>
<b>Revenue</b>	<b>88.2</b>	<b>46.7</b>	<b>107.2</b>	<b>121.5</b>
<b>Norm EBITDA</b>	<b>22.2</b>	<b>12.1</b>	<b>29.5</b>	<b>34.6</b>
Depreciation	-7.6	-4.4	-9.0	-9.0
<b>Norm EBIT</b>	<b>14.2</b>	<b>7.7</b>	<b>20.4</b>	<b>25.6</b>
Net Interest	-3.5	-1.4	-2.3	-1.7
<b>Norm PBT</b>	<b>10.7</b>	<b>6.4</b>	<b>18.1</b>	<b>23.9</b>
<b>Norm NPAT</b>	<b>8.0</b>	<b>4.6</b>	<b>12.9</b>	<b>16.7</b>

<b>Cash Flow (\$m)</b>	<b>2009A</b>	<b>1H10A</b>	<b>2010F</b>	<b>2011F</b>
<b>Receipts</b>	<b>83.6</b>	<b>47.1</b>	<b>101.7</b>	<b>117.8</b>
Payments	-65.1	-36.9	-78.0	-86.0
Other	-8.7	-3.8	-7.3	-8.9
<b>Cash from Operations</b>	<b>9.8</b>	<b>6.4</b>	<b>16.4</b>	<b>22.9</b>
Property, Plant & Equip	-9.7	-6.1	-12.3	-14.0
Payment for Subsidiary	-10.4	0.0	-0.4	0.0
Other	0.0	0.0	0.0	0.0
<b>Cash From Investing</b>	<b>-20.2</b>	<b>-6.1</b>	<b>-12.7</b>	<b>-14.0</b>
Issue of Shares	12.6	24.3	25.6	2.3
Net Borrowing	0.7	-3.0	-4.0	-1.4
Dividends	0.0	0.0	0.0	-4.1
<b>Cash From Financing</b>	<b>13.3</b>	<b>21.3</b>	<b>21.6</b>	<b>-3.2</b>
<b>Net Cash Flow</b>	<b>3.0</b>	<b>21.6</b>	<b>25.3</b>	<b>5.7</b>
<b>Ending Cash</b>	<b>4.6</b>	<b>26.2</b>	<b>29.9</b>	<b>35.6</b>

<b>Balance Sheet (\$m)</b>	<b>2009A</b>	<b>1H10A</b>	<b>2010F</b>	<b>2011F</b>
<b>Cash</b>	<b>4.6</b>	<b>26.2</b>	<b>29.9</b>	<b>35.6</b>
Receivables	22.1	22.0	27.9	31.6
Inventory	0.1	0.2	0.2	0.2
Other	2.0	0.9	2.0	2.0
<b>Current Assets</b>	<b>28.8</b>	<b>49.3</b>	<b>60.1</b>	<b>69.5</b>
Property, Plant & Equip	46.7	48.4	49.9	54.9
Intangibles	25.0	25.0	25.4	25.4
Other Non-current Assets	0.8	1.9	0.8	0.8
<b>Non-Current Assets</b>	<b>72.5</b>	<b>75.4</b>	<b>76.1</b>	<b>81.1</b>
<b>Total Assets</b>	<b>101.3</b>	<b>124.7</b>	<b>136.1</b>	<b>150.5</b>
Payables	7.7	5.6	8.6	9.5
Borrowings	37.5	34.5	33.5	32.1
Provisions	2.4	2.0	2.4	2.4
Other	-0.2	-0.2	0.1	0.1
<b>Total Liabilities</b>	<b>47.4</b>	<b>41.9</b>	<b>44.5</b>	<b>44.0</b>
<b>Net Assets</b>	<b>53.9</b>	<b>82.8</b>	<b>91.6</b>	<b>106.5</b>
Ordinary Equity	42.0	66.3	67.6	69.9
Reserves	2.3	2.9	2.3	2.3
Retained Earnings	9.5	13.6	21.7	34.3
<b>Total Equity</b>	<b>53.9</b>	<b>82.8</b>	<b>91.6</b>	<b>106.5</b>



<b>Summary</b>	
<b>Valuation (A\$ per share, diluted)</b>	<b>2.80</b>
<b>Forecast 2010 P/E (x)</b>	<b>16.0</b>
<b>Forecast 2011 P/E (x)</b>	<b>13.1</b>

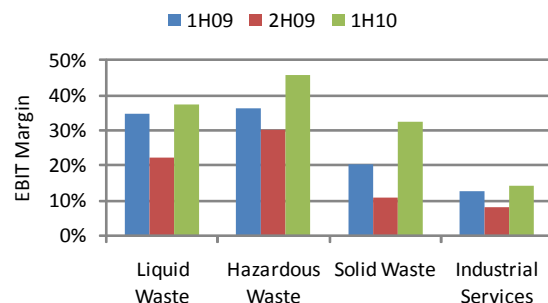
<b>Valuation Method</b>	<b>Calculations</b>	<b>Results</b>
<b>DCF Valuation</b>	Discount Rate / WACC (%)	9.9%
	PV Free Cash Flow (\$m)	266.4
	Less Net Debt / Plus Cash (\$m)	-8.3
	Unpaid Capital (\$m)	6.0
	Equity Value (\$m)	264.1
	<b>Equity Value (A\$ps)</b>	<b>2.80</b>

	<b>Multiple</b>	<b>EV</b>	<b>Equity Val per Share</b>
EV/EBITDA (x)			
EV/EBIT (x)			
P/E (x)			
<b>Multiple Valuation (A\$ps)</b>			

<b>Valuation</b>	<b>2.80</b>
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<b>Financial Ratios</b>	<b>2008A</b>	<b>2009A</b>	<b>2010F</b>	<b>2011F</b>
<b>Balance Sheet Ratios</b>				
Net Debt / Equity (%)	51.0%	61.1%	3.9%	-3.3%
Current Ratio (x)	1.4	2.2	4.2	4.6
Net Interest Cover (x)	8.8	4.1	10.6	29.9
<b>Profitability Ratios</b>				
Gross Margin (%)	41.5%	25.0%	27.2%	28.5%
Net Profit Margin (%)	19.9%	9.1%	12.0%	13.8%
Return on Assets (%)	17.8%	14.1%	18.0%	21.5%
Return on Equity (%)	17.1%	14.2%	13.3%	15.7%
ROIC (%)	13.4%	9.3%	13.6%	16.2%
<b>Cash Flow Ratios</b>				
Free Cash Flow Yield	-7.8%	-1.1%	2.2%	5.2%

<b>Per Share Data</b>	<b>2008A</b>	<b>2009A</b>	<b>2010F</b>	<b>2011F</b>
Basic EPS (cps)	9.9	10.6	15.0	18.2
Diluted Norm EPS (cps)	9.7	10.4	14.8	18.1
Diluted P/E (x)	15.7	17.4	16.0	13.1
Dividends per share (cps)	0.0	0.0	0.0	4.5
Dividend Yield (%)	0.0%	0.0%	0.0%	1.9%
NTA per share (cps)	14.0	36.4	72.5	87.6
Cash Flow per share (cps)	10.0	12.9	19.1	24.9



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