

Stock Focus

Tox-Free Solutions (TOX)



EVANS & PARTNERS

GORGANTUAN

RECOMMENDATION : POSITIVE

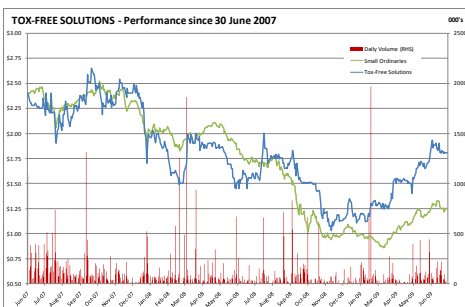
Trading Data

Last Price	\$1.805
12 month range	\$1.02 - \$2.03
Market cap.	\$143m
Free Float	\$133m (93%)
Avg. daily volume	85,914
Avg. daily value	\$130,819
12m return (historical)	+18.0%

Earnings Forecasts

Yr to Jun	08A	09E	10E	11E
EBITDA (\$m)	13.5	23.0	29.0	34.0
Rep NPAT (\$m)	6.2	8.1	12.9	16.8
Adj NPAT (\$m)	6.2	8.1	12.9	16.8
EPS (¢)	9.0	10.5	15.6	19.7
EPS Gth (%)	3%	16%	48%	26%
PER (x)	19.9	17.1	11.6	9.2
PEG Ratio (x)	1.0	0.5	0.6	0.7
DPS (¢)	0.0	1.0	2.0	3.0
Yield (%)	0.0%	0.6%	1.1%	1.7%
Franking (%)	0%	100%	100%	100%
ROE (%)	19%	19%	22%	23%
EV/EBITDA (x)	10.6	7.5	6.0	4.7
Net Debt/				
EBITDA (x)	1.4	1.8	1.2	0.6
Int. Cover (x)	8.5	4.3	7.9	12.0
Valuation (blended)				\$2.00

Share Price History



For a copy of the full research report please contact Evans & Partners on +61 3 9631 9888

MATERIAL CONTRACT WIN

TOX (as part of the successful Toll Holdings bid) is all but certain to provide waste management services during the 3-5 year construction phase of the **Gorgon** Project's gas processing facility on Barrow Island.

Scope of work details are limited (contract finalised in coming weeks). While volume dependent, we estimate revenue could be c.\$12-15m pa once project construction is fully underway (FY11). An EBIT margin of 20%+ should generate a strong return on <\$10m capital employed.

TOX is well placed to reap further benefits by virtue of having:

- Facilities at Karratha and Port Hedland to treat project waste; and
- Equipment & staff on site at Barrow Island at project completion. Substantial ongoing water treatment, waste disposal & plant maintenance will be required to meet strict environmental hurdles. Revenue potential could be in excess of the ~\$5m pa contract which TOX recently won with Woodside for its smaller NW Shelf plant.

EARNINGS/VALUATION IMPACT

The Gorgon Project remains subject to various Government approvals & a Final Investment Decision by JV partners Chevron, ExxonMobil and Shell.

However, we view the **probability** of Gorgon proceeding as **high** given:

- Gorgon is Chevron's #1 upstream development priority globally in 2009 & contract awards have ramped up significantly (now >\$1bn).
- The new WA Government is displaying a very can-do attitude.

As such, we have decided to incorporate Gorgon into our TOX forecasts:

- **EPS upgrades** of +6% in FY10, +11% in FY11 (full year impact).
- Our **blended valuation** rises 8% to \$2.00 as we assume TOX will capture ongoing revenue benefits from the Gorgon operation.

RISKS REMAIN ON THE UPSIDE

TOX is delivering on the strategy to leverage its strong WA asset base & enhanced industrial services capability into material contract wins.

An **upside scenario** could see TOX deliver FY11 EPS of c.22¢ if it:

- Enjoys further contract success in the Pilbara in 1H10;
- Upgrades the Port Hedland gas incinerator in CY10; and
- Achieves material cost savings (procurement/fleet efficiencies).

We view 12.5x - a premium to the Small Industrials FY10 PER - as justified given TOX's strong growth profile, expanding opportunity set and ~20% ROE. Under our upside scenario this implies a \$2.75 share price on a 12-18 month view. We maintain our Positive recommendation.

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