

Stock Focus

Tox-Free Solutions (TOX)



EVANS & PARTNERS

GROWING PAINS

RECOMMENDATION : POSITIVE

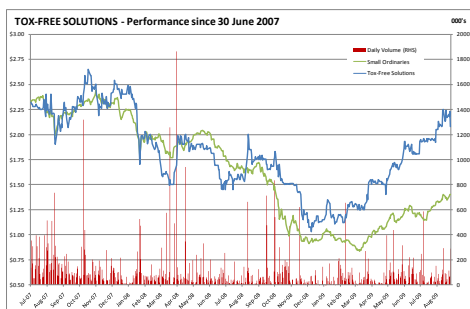
Trading Data

Last Price	\$2.08
12 month range	\$1.02 - \$2.35
Market cap.	\$165m
Free Float	\$153m (93%)
Avg. daily volume	92,753
Avg. daily value	\$147,760
12m return (historical)	+18.9%

Earnings Forecasts

Yr to Jun	09A	10E	11E	12E
EBITDA (\$m)	21.4	27.5	33.2	37.5
Rep NPAT (\$m)	7.6	11.5	15.2	18.2
Adj NPAT (\$m)	7.6	11.5	15.2	18.2
EPS (¢)	9.9	14.1	18.2	21.8
EPS Gth (%)	20%	43%	29%	20%
PER (x)	21.1	14.8	11.4	9.5
PEG Ratio (x)	2.8	0.6	0.6	0.9
DPS (¢)	0.0	1.0	2.0	3.0
Yield (%)	0.0%	0.5%	1.0%	1.4%
Franking (%)	0%	100%	100%	100%
ROE (%)	18%	19%	21%	20%
EV/EBITDA (x)	9.2	7.2	5.8	4.8
Net Debt/				
EBITDA (x)	1.5	1.1	0.7	0.2
Int. Cover (x)	3.9	6.3	8.5	12.5
Valuation (blended)				\$2.18

Share Price History



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

VIEW

Notwithstanding a **patchy result & poor disclosure**, we maintain our Positive view but look for sub-\$2 entry points over the next 6 months.

Tox is **transitioning** from a successful turnaround run on the smell of an oily rag to an integrated waste management & industrial services provider adequately resourced to deliver on its significant growth potential.

In FY09 (and we expect again in 1H10) this involved:

- Integration of the Barry Bros acquisition.
- Opening of new facilities in Karratha & Sydney.
- Entry into new markets, most notably WA industrial services.
- Several major contract wins (Woodside & Gorgon).
- Major investment in head office capabilities.

With Gorgon timing/scope of work still to be decided & several other major contract tenders outstanding, Tox chose not to declare a **dividend** or provide FY10 **guidance**. We expect clarity on both at November's AGM.

FY10 PER of 15x looks a stretch but we remain confident in forecasting **strong EPS & cash flow growth to FY12** driven by market share gains, ramp up of new facilities, Barry Bros integration & major contract wins.

RESULT

- **EBITDA at low end of \$22-24m guidance range** with margins off 14%pts to 24% due to changes in business mix, significant head office investment & Barry Bros integration costs.
- **Net debt** up \$1m since December 2008 due to **working capital** build & **capex** to support major contract wins into FY10.

FORECASTS & VALUATION

- We have **downgraded our FY10-11 EPS forecasts by 8-10%** to reflect a more conservative view on the timing of major project commencements, lower margin & higher capex assumptions.
- Blended **valuation** +8% to \$2.18 on higher market/peer multiples.

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