

Stock Focus

Tox-Free Solutions (TOX)



EVANS & PARTNERS

1H09 SETS THE BASE; TIME TO STEP ON THE GAS

RECOMMENDATION : POSITIVE

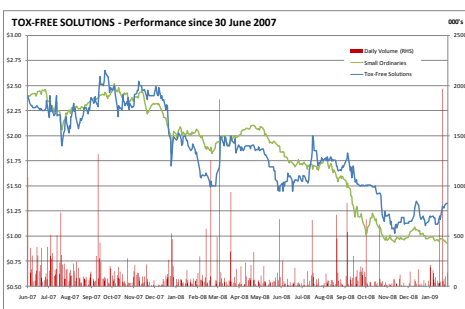
Trading Data

| | |
|-------------------------|-----------------|
| Last Price | \$1.33 |
| 12 month range | \$1.02 - \$2.05 |
| Market cap. | \$105m |
| Free Float | \$98m (93%) |
| Avg. daily volume | 108,489 |
| Avg. daily value | \$172,630 |
| 12m return (historical) | -30.7% |

Earnings Forecasts

| Yr to Jun | 08A | 09E | 10E | 11E |
|----------------------------|---------------|-------------|-------------|-------------|
| EBITDA (\$m) | 13.5 | 26.0 | 30.1 | 32.1 |
| Rep NPAT (\$m) | 6.2 | 10.1 | 13.7 | 16.0 |
| Adj NPAT (\$m) | 6.2 | 10.1 | 13.7 | 16.0 |
| EPS (¢) | 9.0 | 13.2 | 16.5 | 18.7 |
| EPS Gth (%) | 3% | 46% | 25% | 13% |
| PER (x) | 14.7 | 10.1 | 8.1 | 7.1 |
| PEG Ratio (x) | 1.1 | 0.5 | 0.6 | 0.6 |
| DPS (¢) | 0.0 | 2.0 | 3.0 | 4.0 |
| Yield (%) | 0.0% | 1.5% | 2.3% | 3.0% |
| Franking (%) | 0% | 100% | 100% | 100% |
| ROE (%) | 19% | 23% | 22% | 21% |
| EV/EBITDA (x) | 8.1 | 5.2 | 4.2 | 3.6 |
| Net Debt/ EBITDA (x) | 1.4 | 1.6 | 0.9 | 0.5 |
| Int. Cover (x) | 8.5 | 5.1 | 8.3 | 17.0 |
| Valuation (blended) | \$1.55 | | | |

Share Price History



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

VIEW

TOX has made a plethora of acquisitions over the past 18 months - Barry Bros being the largest - plus significant investment in management/systems capability. We see FY09 as establishing the earnings base from which the market can build its assumptions for medium term growth.

We reiterate our Positive view ahead of a company-making year for TOX:

- Service offering expansion, entry into new markets and payback on significant investment in licensed facilities with high barriers to entry all augur well for a strong organic growth outlook.
- Initial contract success with Rio & especially Woodside positions TOX for long-term growth and provides strong 3rd party validation as it moves from being a "waste treater" to a "one stop shop".
- Gorgon Project waste management tender is a company-making contract (decision by Chevron could be as soon as this week). Further mining company contract tenders are also imminent. Likely competing bidder Transpacific Industries is in financial distress & lacks treatment facilities in the NW Shelf/Pilbara region.

RESULT

Key points from a mixed 1H09 result were:

- Organic revenue growth >20%, but EBIT margins off 17%pts to 14% due to mix shift to Industrial Services, expensing of Barry Bros integration costs & increased overheads to support future growth.
- Cash flow strong with GOCF/EBITDA at 120%, operating cash flow of \$6m & capex just \$2m. Prior to any further contract wins, we expect TOX can run capex below depreciation over the next 2 years as it improves utilisation rates of Barry Bros' equipment.

FORECASTS & VALUATION

- We have made marginal changes to our **EPS forecasts** (FY09 -1%, FY10/11 +2-3%) as higher net interest expense is offset by the Woodside contract success. We do not assume any additional contract wins in our base case forecasts.
- However, we expect **consensus** FY09 EPS forecasts may fall ~15%.
- Our **blended valuation** is steady at \$1.55.

Disclosure: Evans & Partners recently acted as Arranger to a raising of \$13m by TOX & received fees for acting in this capacity.

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