

Stock Focus

Tox-Free Solutions (TOX)



EVANS & PARTNERS

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

RECOMMENDATION : POSITIVE

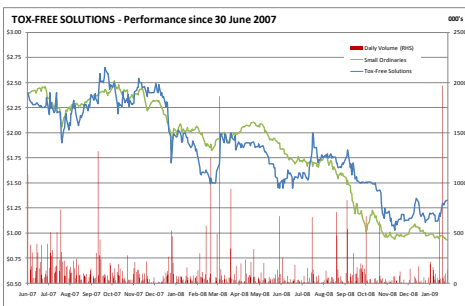
Trading Data

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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February 23, 2009

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