

Stock Focus

Tox-Free Solutions (TOX)



EVANS & PARTNERS

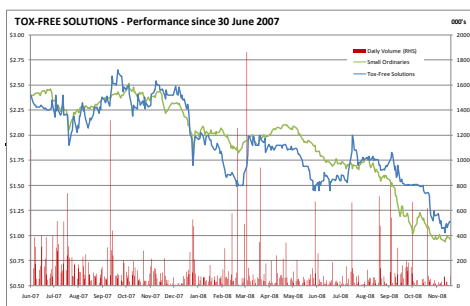
CLEANING UP

RECOMMENDATION : POSITIVE

Trading Data	
Last Price	\$1.14
12 month range	\$1.02-\$2.49
Market cap.	\$90m
Free Float	\$84m (93%)
Avg. daily volume	103,709
Avg. daily value	\$179,231
12m return (historical)	-53%

Earnings Forecasts

Yr to Jun	08A	09E	10E	11E
EBITDA (\$m)	13.5	26.0	29.0	30.9
Rep NPAT (\$m)	6.2	10.5	13.2	15.0
Adj NPAT (\$m)	6.2	10.5	13.2	15.0
EPS (¢)	9.0	13.4	16.1	18.2
EPS Gth (%)	3%	48%	21%	13%
PER (x)	12.6	8.5	7.1	6.2
PEG Ratio (x)	1.1	0.5	0.6	0.6
DPS (¢)	0.0	2.0	4.0	6.0
Yield (%)	0.0%	1.8%	3.5%	5.3%
Franking (%)	0%	100%	100%	100%
ROE (%)	19%	24%	21%	20%
EV/EBITDA (x)	7.2	4.4	3.7	3.2
Net Debt/ EBITDA (x)	1.4	1.5	1.0	0.7
Int. Cover (x)	8.5	5.9	10.1	17.4
Valuation (blended)				\$1.53



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

THESIS

We initiate coverage of Tox-Free Solutions with a Positive view.

Since FY05 Management has transformed Tox into an integrated waste management/industrial services provider & repeatedly exceeded guidance.

Located primarily in Western Australia, Tox's licensed facilities are quasi-monopolies. Add a growing East Coast presence & strong capital base and Tox is poised to deliver significant earnings & cash flow growth by:

- Ramping-up new waste treatment facilities in WA, NSW & Qld;
- Leveraging the Barry Bros acquisition to win market share as it broadens its geographic footprint & service offering;
- Creating an annuity revenue stream in Emergency Response;
- Ongoing volume opportunities from infrastructure & civil works; &
- Contract wins on the back of >\$20bn oil & gas industry capex to develop the North West Shelf.

EARNINGS & VALUATION

- **FY09 EPS** of 13.4¢ is consistent with guidance for \$26m EBITDA,
- **EPS growth** remains >10% pa to FY12 as Tox realises the benefits of increased scale to gain market share in a slowing organic growth environment. No new acquisitions or large contract wins assumed.
- **\$1.53 blended valuation** based on DCF (\$1.65, 12.7% WACC), FY09 PER at 50% premium to the Small Industrials market (\$1.22, 9.2x) & FY09E Sum-of-the-Parts EV/EBITDA (\$1.72, 6.2x).

SCENARIO ANALYSIS

- **Bull Case = \$1.90** if Gorgon Project & Woodside Petroleum contract tenders are successful & Barry Brothers integration underpins 10% organic growth to FY11.
- **Bear Case = \$0.86** if weak industrial/construction activity hits organic volumes, impacting utilisation & cutting margins 300-400bp.

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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