UBS

UBS Investment Research

Tox Free Solutions Limited

Solid start to FY10

■ 1H10 inline with expectations

Tox Free reported 1H10 normalised NPAT of $4.6m, up 56% yoy, and inline with UBS est. of $4.6m. The strong yoy growth was driven by organic revenue growth within the majority of divisions, augmented by considerable margin improvement in all divisions. No interim dividend was declared.

■ FY10-12 EPS estimates virtually unchanged

On the back of the 1H10 result, our estimates are essentially unchanged, with FY10-12E EPS revised up c1%, due to lower net interest expense.

■ Maintain Neutral

We continue to believe that TOX is well positioned to benefit from capital expenditure and production activity across the northwest of Australia. However, in our opinion the stock looks fairly valued on our current estimates and we maintain our Neutral rating.

■ Valuation: Price target increased from $2.55 to $2.70

Rolling forward our DCF valuation has resulted in our price target increasing 15cps to $2.70. Our price target equals our one year forward DCF valuation of $2.70, which continues to use a WACC of 11% and TGR of 2.5%.

Highlights (A$m)	06/08	06/09	06/10E	06/11E	06/12E
Revenues	33.7	88.2	109.7	135.4	149.0
EBIT (UBS)	10.7	13.8	19.1	24.8	27.9
Net Income (UBS)	6.2	7.6	11.7	15.5	17.7
EPS (UBS, A$)	0.09	0.10	0.14	0.17	0.20
Net DPS (UBS, A$)	0.00	0.00	0.01	0.01	0.03

Profitability & Valuation	5-yr hist av.	06/09	06/10E	06/11E	06/12E
EBIT margin %	-	15.7	17.4	18.3	18.7
ROIC (EBIT) %	-	20.2	20.7	24.9	27.1
EV/EBITDA (core) x	-	5.8	8.3	6.6	5.6
PE (UBS) x	-	14.9	17.2	13.8	12.0
Net dividend yield %	-	0.0	0.4	0.6	1.2

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of A$2.37 on 25 Feb 2010 16:42 EST

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Global Equity Research

Australia

Industrial Services

12-month rating	Neutral *Unchanged*
12m price target	A$2.70/US$2.41 *Prior: A$2.55/US$2.27*
Price	A$2.37/US$2.11

RIC: TOX.AX BBG: TOX AU

25 February 2010

Trading data (local/US$)	
52-wk range	A$2.74-1.25/US$2.50-0.80
Market cap.	A$0.21bn/US$0.19bn
Shares o/s	90.4m (ORD)
Free float	100%
Avg. daily volume ('000)	149
Avg. daily value (A$m)	0.4

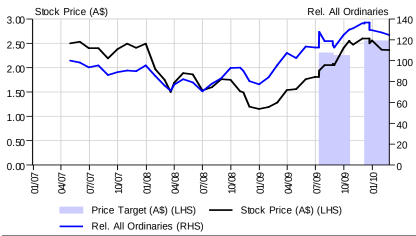
Balance sheet data 06/10E	
Shareholders' equity	A$0.09bn
P/BV (UBS)	2.4x
Net Cash (debt)	(A$0.01bn)

Forecast returns	
Forecast price appreciation	+13.9%
Forecast dividend yield	0.8%
Forecast stock return	+14.7%
Market return assumption	9.2%
Forecast excess return	+5.5%

EPS (UBS, A$)

	06/10E			06/09
	From	To	Cons.	Actual
H1	0.06	0.06	-	0.04
H2E	0.07	0.08	-	0.06
06/10E	0.13	0.14	*0.14*	
06/11E	0.17	0.17	*0.19*	

Performance (A$)



Source: UBS

www.ubs.com/investmentresearch

This report has been prepared by UBS Securities Australia Ltd

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 7.

1H10 result review

Quality result, inline with expectations

Tox Free reported 1H10 normalised NPAT of $4.6m, up 56% yoy, and inline with UBS est. of $4.6m. The strong yoy growth was driven by organic revenue growth within the majority of divisions, augmented by considerable margin improvement in all divisions. No interim dividend was declared and compared to UBS est. of 1.0cps.

Revenues: Group revenues of $46.7m, grew 12% yoy, and were inline with UBS est. of $46.3m. Growth over the pcp was primarily driven by the Solid Waste and Industrial Services divisions, which grew 64% and 7% respectively. Liquid Waste revenues however, declined 18% due to lower volumes.

EBIT Margin: Group EBIT margin of 16.8%, increased 180bps yoy but was slightly below UBS est. of 17.3%. All divisions reported significant yoy margin improvement, with Solid Waste up 1221bps and Hazardous Waste up 945bps.

Outlook/guidance: Management did not provide specific guidance, but did indicate that they expect 1H10 earnings to represent 40% of the FY10 number. This implies 2H10 EBIT of c$12m.

Balance sheet: Tox Free ended the period with net debt of $8.3m, which was down from $32.9m at the end of Jun-09. Based on the 1H10 results, net debt/equity was 10.0% and EBIT interest cover was 5.7x.

Cashflow: Operating cash flow of $6.4m was below of UBS est. of $8.7m, due to higher tax paid and slightly higher working capital. With capex of $6.1m vs UBS est. of $4.9m, free cash flow of $0.3m was also below UBS est. of $3.8 m.

Table 1: 1H10 result summary

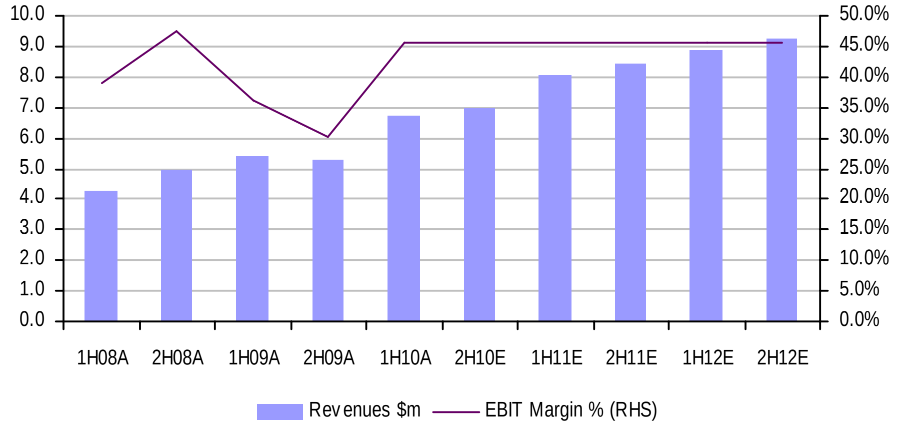
Tox Free Solutions	Units	1H09	1H10	% Change	1H10E	% Change
Revenues	$m	41.7	46.7	12.0	46.3	0.9
EBITDA	$m	10.0	12.1	20.8	12.1	-0.2
Depreciation & Amortisation	$m	-4.0	-4.4	8.3	-4.1	6.4
EBIT	$m	6.0	7.7	29.2	8.0	-3.5
Net Interest Expense	$m	-2.0	-1.4	-30.8	-1.4	-5.2
Tax Expense	$m	-1.2	-1.7	44.5	-2.0	-11.8
Normalised NPAT	$m	3.0	4.6	55.7	4.6	0.0
Normalised EPS	cps	3.8	5.7	48.1	5.8	-1.9
EBIT margin	%	14.3	16.5	15.4	17.3	-4.4
Interest cover	x	3.1	5.7	86.7	5.6	1.7
Operating Cash Flow	$m	6.1	6.4	5.6	8.7	-26.3
Capex	$m	-2.1	-6.1	184.3	-4.9	24.1
Free Cash Flow	$m	3.9	0.3	-91.6	3.8	-91.3
Net Debt	$m	31.7	8.3	-73.9	5.1	63.0
Net Debt/Equity	%	65.2	10.0	-84.6	6.2	62.6

Source: Company data, UBS estimates

Result overview by division

Hazardous Waste: The Hazardous Waste division reported 1H10 revenues of $6.7m, up 24.5% yoy. EBIT margin expanded 945bps to 45.6%, as a result, EBIT of $3.1m grew 57.1% yoy.

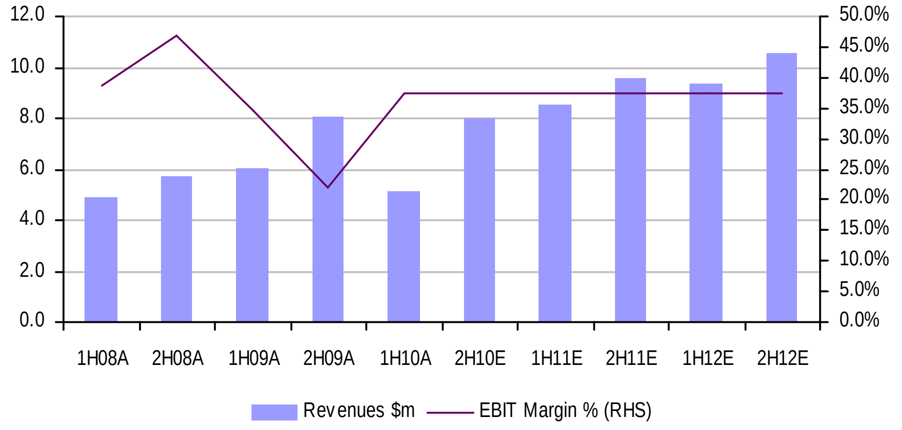
Chart 1: Hazardous Waste Revenues & EBIT Margin 1H08-2H12E



Source: Company data, UBS estimates

Liquid Waste: The Liquid Waste division reported 1H10 revenues of $5.1m, down 14.7% yoy. EBIT margin expanded 273bps to 37.5%, however due to the decline in revenue, EBIT of $1.9m declined 8.1% yoy.

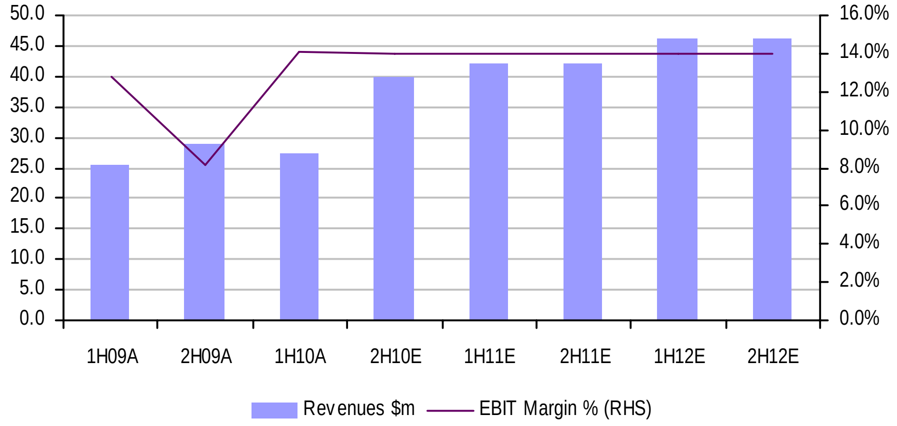
Chart 2: Liquid Waste Revenues & EBIT Margin 1H08-2H12E



Source: Company data, UBS estimates

Industrial Services: The Industrial Services division reported 1H10 revenues of $27.4m, up 7.2 % yoy. EBIT margin expanded 130bps to 14.1%, as a result, EBIT of $3.9m grew 18.1% yoy.

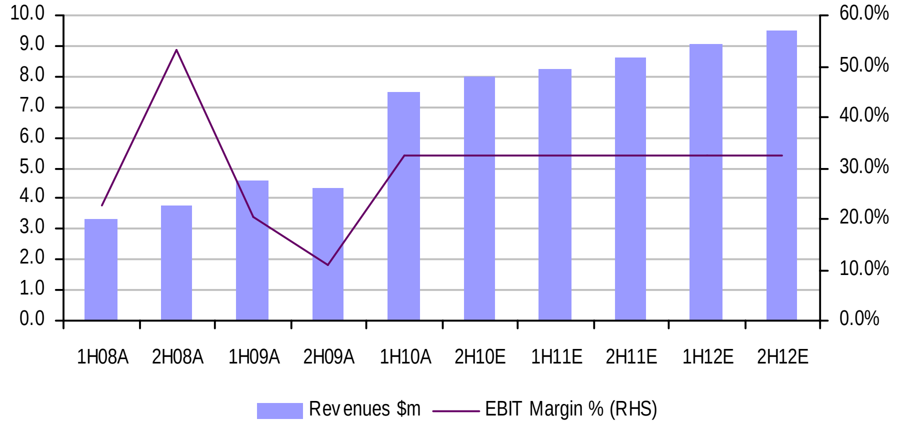
Chart 3: Industrial Services Revenues & EBIT Margin 1H09-2H12E



Source: Company data, UBS estimates

Solid Waste: The Solid Waste division reported 1H10 revenues of $7.5m, up 64.0% yoy. EBIT margin expanded 1221bps to 32.6%, as a result, EBIT of $2.4m leapt 162.4% yoy.

Chart 4: Solid Waste Revenues & EBIT Margin 1H08-2H12E



Source: Company data, UBS estimates

Estimate Revisions

On the back of the 1H10 result, our estimates are essentially unchanged, with FY10-12E EPS revised up c1%, due to lower net interest expense.

Table 2: FY10-12 Estimate Revisions

Tox Free Solutions	Units	New 2010E	Prev. 2010E	(%) Change	New 2011E	Prev. 2011E	(%) Change	New 2012E	Prev. 2012E	(%) Change
Revenues	A$m	109.7	111.8	-1.9	135.4	134.0	1.1	149.0	142.4	4.6
EBITDA	A$m	27.3	27.3	0.2	33.0	33.0	0.0	36.5	36.4	0.2
EBIT	A$m	19.1	19.1	0.3	24.8	24.8	0.0	27.9	27.9	0.2
Net interest expense	A$m	-2.7	-2.8	-6.1	-2.6	-2.8	-7.7	-2.6	-2.8	-7.7
PBT	A$m	15.9	16.2	-2.1	22.1	21.9	1.0	25.3	25.0	1.1
Tax expense	A$m	-4.8	-4.6	2.7	-6.6	-6.6	1.0	-7.6	-7.5	1.1
Tax rate	%	30.0	28.6	5.0	30.0	30.0	0.0	30.0	30.0	0.0
NPAT (normalised)	A$m	11.7	11.6	0.9	15.5	15.3	1.0	17.7	17.5	1.1
EPS (normalised)	cps	13.8	13.7	0.9	17.2	17.0	1.0	19.7	19.5	1.1
DPS	cps	1.0	2.0	-50.0	1.3	2.6	-47.9	3.0	2.9	1.1

Source: Company data, UBS estimates

Rating and price target

We continue to believe that TOX is well positioned to benefit from capital expenditure and production activity across the northwest of Australia. However, in our opinion the stock looks fairly valued on our current estimates and we maintain our Neutral rating.

Rolling forward our DCF valuation has resulted in our price target increasing 15cps to $2.70. Our price target equals our one year forward DCF valuation of $2.41, which continues to use a WACC of 11% and TGR of 2.5%.

Tox Free Solutions (TOX.AX)

MARKET INFORMATION

Rating:	**Neutral**
Price (as of 25-Feb-10): (A$)	2.37
Price Target (12 months): (A$)	**2.70**
Shares outstanding: (m)	90.4
Market Capital (A$ m):	214.2
Avg. daily turnover (A$ m):	0.4
Year end:	June
Website:	-
Major Shareholders:	-

COMPANY DESCRIPTION

Tox Fee Solutions provides solid, liquid and hazardous waste solutions primarily on the west and east coasts of Australia. Tox also provides industrial maintenance services through its subsidiaries Tox Free Industrial Solutions, Barry Bros Specialised Services and Grime Fighters.

INVESTMENT SUMMARY

(A$ m)	**2009**	**2010E**	**2011E**	**2012E**
Net profit [reported]	7.6	11.7	15.5	17.7
Net profit [adjusted]	7.6	11.7	15.5	17.7
EPS [reported]	0.10	0.14	0.17	0.20
EPS [adjusted, diluted]	**0.10**	**0.14**	**0.17**	**0.20**
EPS Growth (%)	11.5	37.4	24.7	14.3
PER [adjusted]* (x)	**14.9**	**17.2**	**13.8**	**12.0**
Dividend	0.00	0.01	0.01	0.03
Payout ratio, [EPS adj.] (%)	*-*	*7*	*8*	*15*
Dividend Yield [Net]* (%)	**0.0**	**0.4**	**0.6**	**1.2**
Shares [period-avg, basic] (m)	75.5	90.4	90.4	90.4
Book value per share	*0.68*	*1.00*	*1.16*	*1.33*
Price to Book (x)*	*2.2*	*2.4*	*2.0*	*1.8*
Equity Free Cash Flow Yield (%)	*1.4*	*1.4*	*5.5*	*6.5*
Franking (%)	0	100	100	100

KEY RATIOS

	2009	**2010E**	**2011E**	**2012E**
Profitability (%)				
Revenue growth	*162.1*	*24.4*	*23.5*	*10.0*
EBITDA margin	*24.3*	*24.9*	*24.3*	*24.5*
EBIT margin	*15.7*	*17.4*	*18.3*	*18.7*
Effective tax rate	*26.4*	*30.0*	*30.0*	*30.0*
Return on Inv Cap (post-tax)	*15.0*	*14.7*	*17.5*	*19.0*
Return on Equity	*17.5*	*16.2*	*15.9*	*15.8*
Capital Structure				
Net Debt / EBITDA (x)	*0.6*	*0.5*	*0.1*	*0.2*
Net Debt / Common equity (%)	*61.1*	*8.3*	*(3.2)*	*(12.2)*
Net Debt / Core EV (x)*	*0.3*	*0.0*	*(0.0)*	*(0.1)*
Capex / Depreciation (x)	*1.3*	*1.2*	*1.2*	*1.2*
EBIT / Net Interest (x)	*3.9*	*7.1*	*9.4*	*10.6*

PROFIT AND LOSS

(A$ m)	**2009**	**2010E**	**2011E**	**2012E**
Revenue	88.2	109.7	135.4	149.0
EBITDA [adjusted]	**21.4**	**27.3**	**33.0**	**36.5**
Depreciation & Amortisation	(7.6)	(8.2)	(8.2)	(8.5)
EBIT [adjusted]	**13.8**	**19.1**	**24.8**	**27.9**
Net interest	(3.5)	(2.7)	(2.6)	(2.6)
Income from associates	0.0	0.0	0.0	0.0
Other non-operating items	0.0	0.0	0.0	0.0
Profit before tax [adj]	**10.4**	**16.5**	**22.1**	**25.3**
Tax on pre-abnormal profit	(2.7)	(4.8)	(6.6)	(7.6)
Minority Interests	0.0	0.0	0.0	0.0
Dividends (preferred)	0.0	0.0	0.0	0.0
Net Profit [adjusted]	**7.6**	**11.7**	**15.5**	**17.7**
Abnormal Gain/(Loss) after Tax	0.0	0.0	0.0	0.0
Net Profit [reported]	**7.6**	**11.7**	**15.5**	**17.7**

PROFIT AND LOSS [HALF YEAR]

(A$ m)	**1H 09**	**2H 09**	**1H 10**	**2H 10E**
Revenue	41.7	46.5	46.7	63.0
EBITDA [adjusted]	**10.0**	**11.4**	**12.1**	**15.5**
Depreciation & Amortisation	(4.0)	(3.5)	(4.4)	(4.1)
EBIT [adjusted]	**6.0**	**7.9**	**7.7**	**11.4**
Net interest	(2.0)	(1.6)	(1.4)	(1.3)
Income from associates	0.0	0.0	0.0	0.0
Other non-operating items	0.0	0.0	0.0	0.0
Profit before tax [adj]	**4.1**	**6.3**	**6.4**	**10.1**
Tax on pre-abnormal profit	(1.2)	(1.5)	(1.7)	(3.0)
Minority Interests	0.0	0.0	0.0	0.0
Dividends (preferred)	0.0	0.0	0.0	0.0
Net Profit [adjusted]	**2.8**	**4.8**	**4.6**	**7.1**
Abnormal Gain/(Loss) after Tax	0.0	0.0	0.0	0.0
Net Profit [reported]	**2.8**	**4.8**	**4.6**	**7.1**

BALANCE SHEET

(A$ m)	**2009**	**2010E**	**2011E**	**2012E**
Cash & equivalents	4.6	27.0	37.8	49.1
Accounts receivable	22.1	29.7	32.4	35.6
Inventory	0.1	0.3	0.4	0.4
Fixed assets	46.7	49.0	50.8	52.2
Intangibles	25.0	25.0	25.0	25.0
Investments	0.0	0.0	0.0	0.0
Other assets	2.8	2.9	2.9	2.9
Total Assets	**101.3**	**133.8**	**149.2**	**165.2**
Accounts payable	7.7	7.7	8.4	9.3
Short & long term debt	37.5	34.5	34.5	34.5
Provisions & other	2.3	1.7	1.9	2.1
Preferred securities	0.0	0.0	0.0	0.0
Total liabs & pref shares	**47.4**	**43.8**	**44.8**	**45.8**
Minorities	0.0	0.0	0.0	0.0
Common equity	53.9	90.1	104.4	119.4
Total liabilities & equity	**101.3**	**133.8**	**149.2**	**165.2**
Net cash / (debt)	**(32.9)**	**(7.5)**	**3.3**	**14.6**

ENTERPRISE VALUE*

(A$ m)	**2009**	**2010E**	**2011E**	**2012E**
Market capital	112.1	214.2	214.2	214.2
Net debt / (cash) [avg]	12.8	12.8	2.1	(9.0)
Estimated share buy backs	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0
Pension provisions	0.0	0.0	0.0	0.0
Total Enterprise Value	**124.9**	**227.0**	**216.3**	**205.2**
(Non-core assets)	0.0	0.0	0.0	0.0
Core Enterprise Value	**124.9**	**227.0**	**216.3**	**205.2**
Core EV Ratios				
EV / Sales	*1.4*	*2.1*	*1.6*	*1.4*
EV / EBITDA	*5.8*	*8.3*	*6.6*	*5.6*
EV / EBIT	*9.0*	*11.9*	*8.7*	*7.3*
EV / OpFCF [post-tax]	*14.2*	*22.2*	*10.3*	*8.5*
EV / Invested Capital	*1.8*	*2.5*	*2.2*	*2.0*

DIVISIONAL BREAKDOWN

(A$ m)	**2009**	**2010E**	**2011E**	**2012E**
Total Revenue	**88.2**	**109.7**	**135.4**	**149.0**
EBIT	**13.8**	**19.1**	**24.8**	**27.9**

CASH FLOW

(A$ m)	**2009**	**2010E**	**2011E**	**2012E**
Operating income [EBIT, UBS]	13.8	19.1	24.8	27.9
Depreciation & Amortisation	7.6	8.2	8.2	8.5
Net change in working capital	(2.9)	(7.5)	(2.0)	(2.4)
Other (operating)	0.0	0.0	0.0	0.0
Pre-tax op cash flow	**18.5**	**19.8**	**31.0**	**34.0**
Interest (paid) / received	(3.6)	(2.7)	(2.6)	(2.6)
Tax paid	(5.1)	(5.5)	(6.6)	(7.6)
Other	0.0	0.0	0.0	0.0
Operating cash flow	**9.8**	**11.6**	**21.7**	**23.8**
Capital expenditure	(9.7)	(9.6)	(10.0)	(10.0)
Free cash flow	**0.1**	**2.0**	**11.7**	**13.8**
Net (acquisitions) / disposals	(10.4)	0.0	0.0	0.0
Dividends paid (Common)	0.0	0.0	(0.9)	(2.5)
Shares issued/(repurchased)	12.6	24.3	0.0	0.0

*Source: UBS estimates, * Historical valuations are based on an average share price for the period. Current & future valuations are based on a share price of A$2.37 on 25-Feb-2010*

Tox Free Solutions Limited

Tox Fee Solutions provides solid, liquid and hazardous waste solutions primarily on the west and east coasts of Australia. Tox also provides industrial maintenance services through its subsidiaries Tox Free Industrial Solutions, Barry Bros Specialised Services and Grime Fighters.

Statement of Risk

Risks include: competitive pressures, regulatory changes, acquisition and integration risk, loss of key management and breach of environmental regulations.

Analyst Certification

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	**Buy**	48%	40%
Neutral	**Hold/Neutral**	40%	35%
Sell	**Sell**	13%	26%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	**Buy**	less than 1%	17%
Sell	**Sell**	less than 1%	67%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2009.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Tox Free Solutions Limited[5]	TOX.AX	Neutral	N/A	A$2.36	24 Feb 2010

Source: UBS. All prices as of local market close.
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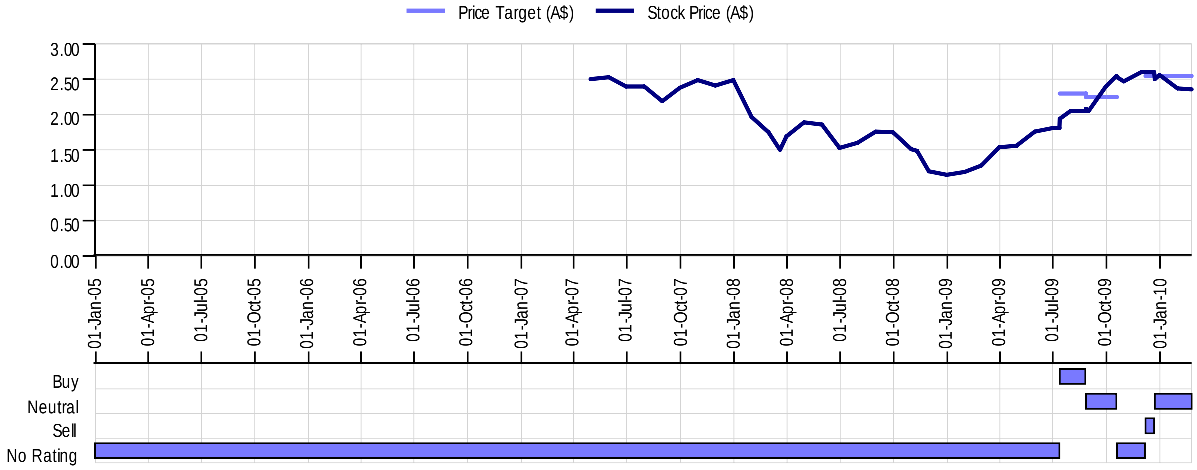
Tox Free Solutions Limited (A$)



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