

Tox-Free Solutions

Right on the money



Wilson HTM
INVESTMENT GROUP

25 February 2010

\$2.39

BUY

Jacqueline Fernley

02 8247 6661

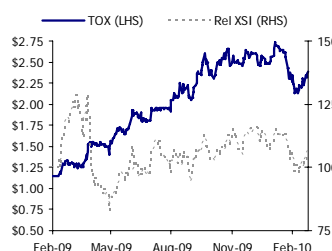
jacqueline.fernley@wilsonhtm.com.au

Roger Samuel

02 8247 6692

Roger.Samuel@wilsonhtm.com.au

Price Performance



Security/Capital Details

ASX Code	TOX
Market Cap	\$212 M
Issued Shares	90.0 M
Avg Mth T'over	2.48 M
12 Mth High – Low	\$2.74 - \$1.25

Key Data/Ratios – FY 2010

EBITDA / Sales	27.0%
EBIT / Sales	17.9%
Net Debt / Equity	11.7%
Interest Cover	8.7 x
ROE	15.6%
EPS Growth	31.4%
PEG Ratio	x
NTA / Share	\$ 0.72
DCF	\$ 2.43
12 Mth Price Target	\$ 3.04

Important Disclosure

Wilson HTM Corporate Finance Ltd acted as Joint Lead Manager and underwriter of the November 2009 placement and advisor in relation to the share purchase plan by Tox-Free Solutions and will earn fees for acting in this capacity.

Recommendation

Finally a result where we don't have to downgrade nor decipher changes in segmental allocation et al. The benefits of the addition of Senior Management to the business are clearly being borne out in more than just the results. We continue to believe that the tender pipeline and the overall thematic around waste management will result in strong earnings for an extended period of time. As such there is no change to our BUY recommendation. Post result our forecasts and target price remain unchanged at \$3.04 which implies a 12-month TSR of 27.2%.

Key Points

- In our mind this result should go some way to providing comfort that Management are in control and will deliver on forecasts. At some stage the market will look forward to FY11 and FY12 and begin to price the growth trajectory of this business. We expect that there will be a number of contract announcements in the ensuing months, which at the very least will support our existing forecasts if not increase them.
- In light of this back drop we regard the recent underperformance of the stock as a perfect buying opportunity. Our 12 month TSR is currently 27% driven off 24 month forward earnings which appropriately captures the growth trajectory of these assets and new contract wins. With the next mining cycle beginning again and broad based economic recovery, the risk associated with delivery of these forecasts is reducing.
- Outlook statement** – Management expects increased volume of waste from manufacturing, mining and construction industries. With the recently awarded RIO and Toll Energy contracts, TOX expects significant growth in earnings in 2H10 and FY11.
- The commentary suggests an earnings split of 40/60 in 1H/2H. "At this point in time TOX is confident of achieving its financial forecasts". Based on the outlook for half yearly split, this implies EBITDA of \$28.7m for the full year, 5% ahead of our current forecast. Whilst we have retained our forecasts at this stage, they will be finalised post Management's road show next week.
- Our valuation metrics have not changed post result. The summary of our valuation tools suggests value in the order of \$2.56 and a price target in 12 months time of \$3.04.

VALUATION SUMMARY	VALUATION	PRICE TARGET
DCF	\$ 2.43	\$ 2.70
PE	\$ 2.67	\$ 3.36
EBITDA MULTIPLE	\$ 2.58	\$ 3.06
AVERAGE	\$ 2.56	\$ 3.04
CAPITAL UPSIDE	7.1%	27.2%

Source: WHTM and Company Accounts

June	NPAT (Rep) \$M	EPS (Norm) c	EPS Growth %	PER x	P/CF x	EV/EBITDA x	DPS c	Div Yld %	Franking %
2009a	7.6	9.9	24.6	24.2	18.8	10.4	0.0	0.0	0
2010e	11.2	13.0	31.4	18.4	12.3	8.2	0.0	0.0	0
2011e	17.4	19.1	47.1	12.5	8.2	5.9	0.0	0.0	0
2012e	20.2	22.1	15.9	10.8	7.2	4.8	0.0	0.0	0

Equities Research – Tox-Free Solutions

Issued by Wilson HTM Ltd ABN 68 010 529 665 - Australian Financial Services Licence No 238375, a participant of ASX Group and should be read in conjunction with the disclosures and disclaimer in this report. Important disclosures regarding companies that are subject of this report and an explanation of recommendations can be found at the end of this document.

Result Detail

Profit and Loss

HALF YEAR RESULT	1H10	1H09	% Change	WHTM Exp	% Change
Sales	46.7	41.5	12.5%	47.8	-2.3%
EBITDA	11.5	10.0	15.0%	11.6	-1.1%
EBITDA Margin	24.6%	24.1%	0.5%	24.3%	0.3%
EBIT	7.1	6.0	19.6%	7.0	1.6%
EBIT Margin	15.3%	14.4%	0.9%	14.7%	0.6%
EBT	5.8	4.0	44.0%	5.9	-1.4%
NPAT (Normalised)	4.0	2.8	43.9%	4.1	-1.4%
NPAT Margin	8.7%	6.8%	1.9%	8.6%	0.1%
NPAT Reported	4.0	2.8	43.9%	4.1	-1.4%
EPS	5.0	3.9	29.3%	5.0	-0.6%

Source: WHTM and Company Accounts

- Strong revenue growth was experienced across all segments except for Liquid Waste, with Group revenue coming in at \$46.7m (up 12.5% on pcp) which is in line with WHTM's expectation of \$47.8m.
- EBITDA came in at \$11.7m, in line with our expectation of \$11.6m and up 13.6% over the pcp. EBITDA margin improved 20 bps from 24.9% to 25.1%.
- No final dividend has been declared.
- Tax rate was ~30%.
- NPAT of \$4.0m was in line with WHTM's forecast of \$4.1m, up 43.9% over the pcp.

Divisionals

HALF YEAR RESULT	1H10	1H09	% Change	WHTM Exp	% Change
SALES					
Hazardous Waste	6.7	5.4	24.6%	8.0	-16.0%
Liquid Waste Treatment	5.1	6.0	-14.8%	6.8	-23.9%
Industrial Solutions	27.4	25.5	7.2%	26.0	5.0%
Solid Waste Management	7.5	4.6	64.0%	7.0	6.5%
EBIT					
Hazardous Waste	3.1	1.9	57.1%	3.1	0.3%
Liquid Waste Treatment	1.9	2.1	-8.1%	2.4	-20.1%
Industrial Solutions	3.9	3.3	18.1%	2.9	33.9%
Solid Waste Management	2.4	0.9	162.4%	1.7	46.0%
Unallocated	(4.2)	(2.3)	82.5%	(3.9)	6.5%
EBIT MARGINS					
Hazardous Waste	45.6%	36.2%	9.5%	38.2%	7.4%
Liquid Waste Treatment	37.5%	34.7%	2.7%	35.7%	1.8%
Industrial Solutions	14.1%	12.8%	1.3%	11.1%	3.0%
Solid Waste Management	32.6%	20.3%	12.2%	23.7%	8.8%

Source: WHTM and Company Accounts

Key points to note from Management commentary are as follows:

The Karratha site outperformed budget expectations in all service lines reflecting the strong industrial activity in the region. The facility is now being the biggest contributor to earnings in the Group.

**Hazardous Waste Management**

- Volumes of hazardous waste increased during the period with Brisbane and Karratha being standout performers. Further growth is expected from the Karratha and Port Hedland facilities.
- Brisbane has continued to build its market presence with expansion of services into the Surat and Bowen basin regions of South West Queensland.
- Hazardous waste services at Kwinana facility performed well during the period through the completion of a number of hazardous waste remediation projects using the thermal desorption unit (TDU). There are further hazardous waste remediation projects being tendered which, if granted, will contribute to second half earnings and underpin the site's performance.

Liquid Waste Treatment

- Revenue and EBIT declined over the pcp. Volume of liquid waste declined due to slower economic conditions affecting the manufacturing sector. As conditions improve, TOX expects volume of liquid waste will also increase.

Industrial Solutions

- Both the east coast and west coast operations performed well, especially the Pilbara region driven by the WPL contract. Recently it was awarded contracts with RIO and Toll Energy (Gorgon LNG).
- Significant inroads have been made to align the operations with the core business and corporate strategy. This has included the divestment of non-core assets such as street sweepers. The diversification of the east coast customer base is continuing with increased services now provided to the manufacturing and mining sector under contract, with better returns being achieved. A number of industrial services contracts have recently been awarded that will result in a strong second half performance.

Solid Waste Management

- Growth was due to provision of services to WPL and Toll Energy (Gorgon) under long term contracts. TOX expects further growth with the second stage expansion of the Pilbara Resource Recovery Centre underway.

Total Incident Frequency Rate has fallen by 29.4% compared to the previous period. There were no lost time injuries during the period.

Half Yearly performance

The table on the following page sets out the financial performance of TOX on a half yearly basis

HALF YEARS DATE	FY 2007	1H 2008	2H 2008	FY 2008	1H 2009	2H 2009	FY 2009	1H 2010	2H 2010	FY 2010
PROFIT AND LOSS										
Revenue										
Hazardous Waste	8.23	4.25	4.96	9.21	5.38	5.28	10.66	6.70	9.11	15.81
Liquid Waste Treatment	6.19	4.94	5.71	10.66	6.04	8.07	14.11	5.15	10.98	16.13
Industrial Solutions	3.91	3.29	3.35	6.65	25.51	29.00	54.51	27.35	28.29	55.65
Solid Waste Management	1.69	3.36	3.78	7.14	4.58	4.34	8.91	7.50	6.22	13.73
Total sales revenue	20.01	15.84	17.81	33.65	41.5	46.69	88.20	46.70	54.60	101.31
Other revenue	0.01	0.07	(0.07)	-	0.20	(0.02)	0.18	0.31	(0.13)	0.19
Total Revenue	20.02	15.91	17.74	33.65	41.71	46.67	88.38	47.02	54.48	101.49
<i>Sales Split</i>		47.3%	52.7%		47.2%	52.8%		46.3%	53.7%	
<i>Sales Growth (pcp)</i>	69.5%	100.5%	47.1%	68.2%	162.1%	162.1%	162.1%	12.5%	16.9%	14.9%
Cost of sales	9.10	7.99	8.45	16.43	27.62	22.63	50.25	30.70	27.02	57.72
<i>Gross Profit Margin</i>	54.5%	49.6%	47.4%	51.2%	33.5%	51.5%	43.0%	34.7%	49.5%	43.0%
Occupancy expense	0.21	0.14	0.27	0.41	0.86	0.91	1.77	1.17	0.87	2.03
% to Sales	1.1%	0.9%	1.5%	1.2%	2.1%	1.9%	2.0%	2.5%	1.6%	2.0%
Administrative Expense	1.78	1.29	2.03	3.31	3.23	10.93	14.16	3.65	10.29	13.94
% to Sales	8.9%	8.1%	11.4%	9.8%	7.7%	23.4%	16.1%	7.8%	18.9%	13.7%
Other expenses								40.0%		
% to Sales								17.25	28.75	5.0%
EBITDA	8.92	6.50	6.41	12.91	10.00	11.41	21.41	11.50	15.88	27.38
<i>EBITDA Margin</i>	44.6%	41.1%	36.0%	38.4%	24.1%	24.4%	24.3%	24.6%	29.1%	27.0%
<i>EBITDA Split</i>		50.4%	49.6%		46.7%	53.3%		42.0%	58.0%	
<i>EBITDA Growth (pcp)</i>	82.2%	67.6%	27.1%	44.7%	53.8%	78.1%	65.9%	15.0%	39.2%	27.9%
Depreciation	1.68	1.42	1.42	2.83	4.03	3.54	7.58	4.37	4.85	9.22
EBIT	7.24	5.09	4.99	10.07	5.97	7.87	13.83	7.13	11.03	18.16
<i>EBIT Margin</i>	36.2%	32.1%	28.0%	29.9%	14.4%	16.8%	15.7%	15.3%	20.2%	17.9%
<i>EBIT Split</i>		50.5%	49.5%		43.1%	56.9%		39.3%	60.7%	
<i>EBIT Growth (pcp)</i>	75.0%	67.3%	18.8%	39.1%	17.3%	57.7%	37.3%	19.6%	40.2%	31.3%
Interest received	0.09	-	0.11	0.11	0.12	0.11	0.23	0.15	(0.08)	0.07
Interest paid	0.42	0.61	0.75	1.36	2.07	1.68	3.75	1.50	0.88	2.38
Net Interest (income)/Expense	0.33	0.61	0.64	1.25	1.95	1.58	3.53	1.35	0.96	2.31
Share of Associates	-	-	-	-	-	-	-	-	-	-
EBT	6.91	4.47	4.35	8.82	4.02	6.29	10.31	5.79	10.07	15.85
Tax	0.84	1.39	1.78	3.17	1.20	1.48	2.68	1.74	3.02	4.76
Minorities	-	-	-	-	-	-	-	-	-	-
NPAT (before extraordinary)	6.07	3.09	2.57	5.65	2.81	4.82	7.63	4.05	7.05	11.10
Extraordinary before tax	-	-	-	-	-	-	-	-	-	-
Extraordinary - tax	-	-	-	-	-	-	-	-	-	-
NPAT Reported	6.07	3.09	2.57	5.65	2.81	4.82	7.63	4.05	7.05	11.10
<i>NPAT Margin</i>	30.3%	19.5%	14.4%	16.8%	6.8%	10.3%	8.6%	8.7%	12.9%	11.0%
<i>NPAT Split</i>		54.6%	45.4%		36.9%	63.1%		36.5%	63.5%	
<i>NPAT Growth (pcp)</i>	56.7%	7.1%	-19.4%	-6.8%	-8.8%	87.4%	34.9%	36.5%	46.4%	45.5%

Source: WHTM and Company Accounts

Balance Sheet and Cash Flow

HALF YEAR RESULT	1H10	1H09	% Change	WHTM Exp	% Change
Net Debt	8.3	31.7	-73.9%	16.6	-50.2%
Net Debt/Equity	10.0%	65.2%	-55.2%	20.1%	-10.0%
Working Capital Required	8.3	4.9	70.0%	9.0	-7.5%
% of Sales	17.8%	11.8%	6.0%	18.8%	-1.0%
Operating Cash Flow	6.4	6.1	5.6%	5.2	22.2%
Capex	(6.1)	(2.1)	184.2%	(14.0)	-56.6%

Source: WHTM and Company Accounts

- Operating cash flow came in at \$6.4m, above WHTM's expectation of \$5.2m with a cash conversion of 86.0% (115.7% in the pcp).
- Capex was \$6.1m, below WHTM's expectation of \$14.0m. The difference was

driven by the Gorgon contract being delayed, coupled with longer payment terms. Full year capex is still expected to be \$20M.

CASH RECONCILIATION	FY08	1H09	2H09	FY09	1H10
Operating Cashflow	6.84	6.07	3.75	9.82	6.41
Add: Cash Interest (Net)	(1.52)	(1.94)	(1.69)	(3.63)	(1.35)
Add: Cash Tax Paid	(2.57)	(3.94)	(1.15)	(5.10)	(2.47)
Adjusted Cashflow	10.93	11.95	6.59	18.54	10.23
EBITDA	12.91	10.34	11.07	21.41	11.89
Conversion (Ad Cashflow / EBITDA)	84.7%	115.7%	59.5%	86.6%	86.0%

Source: WHTM and Company Accounts

- Working capital as a % of sales continued to increase 17.8% vs 11.8% in the pcp and 15.5% in 2H09. This is primarily due to the longer payment terms associated with the contracts with larger customers. TOX is focussing on its debtor days for its SME clients by rolling out EFTPOS capabilities across all parts of the business and debtor KPIs to all Operational Managers.

WORKING CAPITAL RATIOS	FY08	1H09	2H09	FY09	1H10
Days Inventory	0.77	1.02	0.55	0.59	0.94
Days Receivables	93.11	71.88	86.31	91.39	86.06
Days Trade Creditors	38.60	29.91	30.18	31.96	22.02
Working Capital Required	5.10	9.78	14.50	14.50	16.63
Working Capital as a % of sales	15.1%	11.8%	15.5%	16.4%	17.8%

Source: WHTM and Company Accounts

- Net debt came in at \$8.3m, a significant reduction over the pcp due to the equity raising (\$25m). Net debt to equity ratio is now 10% from 65.2% in the pcp.

SOLVENCY MEASURES	FY08	1H09	2H09	FY09	1H10
Net debt	16.88	31.74	32.89	32.89	8.29
Total Debt	18.49	44.43	37.46	37.46	34.46
Net Debt/Equity	51.0%	65.2%	61.1%	61.1%	10.0%
Net Debt /Debt plus Equity	33.8%	39.5%	37.9%	37.9%	9.1%
Net Debt/EBITDA	1.3	3.1	3.0	1.5	0.7
Interest cover	8.1	3.1	5.0	3.9	4.9
Quick ratio	2.4	2.4	2.9	2.9	4.0

Source: WHTM and Company Accounts

Outlook

- Management expects increased volume of waste from manufacturing, mining and construction industries. With the recently awarded RIO and Toll Energy contracts, TOX expects significant growth in earnings in 2H10 and FY11. "At this point in time Tox Free is confident of achieving its financial forecasts".
- RIO contract will commence on 1 March 2010 with TOX currently mobilising equipment and personnel to the Pilbara region. The outcome of 4 large waste management and industrial services contracts is still pending and the company is confident of further success in the near term.

Valuation

Our valuation metrics have not changed post result. We have assigned a 120 relative to the core TOX business given its monopoly positioning, pricing power and resultant high returns on capital. The business has a strong organic growth aided by the mining cycle. With regard to the Barry Bros business we regard this business as a discount business to the market and have assigned a 80 relative. Now that Barry Bros earnings are not disclosed separately we have applied this multiple to the Industrial Services business earnings. The returns on capital of the business are only slightly ahead of cost of capital, the business requires capital to grow and barriers to entry are low. We do believe however that this business will enhance asset utilisation of the core TOX business. The summary of our valuation tools suggests value in the order of \$2.48 and a price target in 12 months time of \$3.04.

VALUATION SUMMARY	VALUATION	PRICE TARGET
DCF	\$ 2.43	\$ 2.70
PE	\$ 2.67	\$ 3.36
EBITDA MULTIPLE	\$ 2.58	\$ 3.06
AVERAGE	\$ 2.56	\$ 3.04
CAPITAL UPSIDE	7.1%	27.2%

VALUATION SUMMARY	FY2010E	FY2011E	share price 12m FWD	share price 24m FWD
EARNINGS SUMMARY				
EBITDA				
TOX CORE	19.89	24.99	23.25	26.69
INDUSTRIAL SERVICES	13.50	16.57	15.53	17.55
CORPORATE/OTHER	(6.00)	(6.20)	(6.13)	(6.40)
NPAT				
TOX CORE	10.28	14.95	13.36	16.38
INDUSTRIAL SERVICES	4.48	6.74	5.97	7.38
CORPORATE/OTHER	(3.67)	(4.29)	(4.08)	(4.53)

Source: WHTM and Company Accounts

BREAK UP VALUATION (PE BASE)	FY2010E	FY2011E	12m FWD	24m FWD
MARKET PE	14.0	11.7	12.6	10.7
TOX CORE PE RELATIVE	1.2	1.2	1.2	1.2
IND SERVICES PE RELATIVE	0.8	0.8	0.8	0.8
CORPORATE PE RELATIVE	1.0	1.0	1.0	1.0
TOX CORE VALUATION	172.3	210.6	202.7	248.6
IND SERVICES VALUATION	50.1	63.3	60.4	74.7
CORPORATE VALUATION	-51.2	-50.4	-51.6	-57.3
TOTAL VALUATION (\$M)	171.1	223.5	211.5	266.0
VALUATION PER SHARE (cps)	2.16	2.82	2.67	3.36
Capital upside (%)	170.3%	253.0%	234.0%	320.1%

Source: WHTM and Company Accounts

BREAK UP VALUATION (EBITDA F	FY2010E	FY2011E	12m FWD	24m FWD
MARKET EBITDA MULTIPLE	7.5	6.5	6.9	6.2
TOX CORE RELATIVE	1.2	1.2	1.2	1.2
IND SERVICES RELATIVE	0.8	0.8	0.8	0.8
CORPORATE RELATIVE	1.0	1.0	1.0	1.0
TOX CORE VALUATION	180.0	196.1	193.3	222.0
IND SERVICES VALUATION	81.4	86.7	86.1	97.3
CORPORATE VALUATION	-45.3	-40.6	-42.5	-44.4
LESS DEBT	32.9	32.9	32.9	32.9
TOTAL VALUATION (\$M)	183.3	209.4	204.0	242.0
VALUATION PER SHARE (cps)	2.32	2.65	2.58	3.06
Capital upside (%)	189.4%	230.7%	222.1%	282.1%

Source: WHTM and Company Accounts

Profit and Loss

PROFIT AND LOSS	2005	2006	2007	2008	2009	2010	2011	2012
	30-Jun-05	30-Jun-06	30-Jun-07	30-Jun-08	30-Jun-09	30-Jun-10	30-Jun-11	30-Jun-12
Revenue								
Hazardous Waste	1.72	5.60	8.23	9.21	10.66	15.81	18.48	20.40
Liquid Waste Treatment	4.48	5.27	6.19	10.66	14.11	16.13	18.63	20.78
Industrial Solutions	0.41	0.94	3.91	6.65	54.51	55.65	60.50	64.58
Solid Waste Management			1.69	7.14	8.91	13.73	16.72	19.00
Total sales revenue	6.61	11.80	20.01	33.65	88.20	101.31	114.32	124.76
Other revenue	0.09	0.04	0.01	-	0.18	0.19	0.19	0.20
Total Revenue	6.70	11.84	20.02	33.65	88.38	101.49	114.52	124.96
<i>Sales growth</i>	80.9%	78.6%	69.5%	68.2%	162.1%	14.9%	12.8%	9.1%
COGS	3.55	5.72	9.10	16.43	50.25	57.72	65.13	71.08
<i>Gross Profit Margin</i>	46.3%	51.5%	54.5%	51.2%	43.0%	43.0%	43.0%	43.0%
Occupancy	0.09	0.10	0.21	0.41	1.77	2.03	2.29	2.50
<i>% to Sales</i>	1.4%	0.9%	1.1%	1.2%	2.0%	2.0%	2.0%	2.0%
Administrative & Other Expense	0.78	1.11	1.78	3.31	14.16	13.94	11.39	11.91
<i>% to Sales</i>	11.8%	9.4%	8.9%	9.8%	16.1%	13.7%	9.9%	9.5%
EBITDA	2.28	4.90	8.92	12.91	21.41	27.38	35.36	39.12
<i>EBITDA Margin</i>	34.5%	41.5%	44.6%	38.4%	24.3%	27.0%	30.9%	31.4%
<i>EBITDA Growth</i>	668.4%	114.6%	82.2%	44.7%	65.9%	27.9%	29.1%	10.6%
Depreciation	0.84	0.76	1.68	2.83	7.58	9.22	10.24	10.86
EBIT								
Hazardous Waste	(0.66)	1.93	3.96	3.51	4.46	6.21	7.75	8.44
Liquid Waste Treatment	2.01	2.27	2.56	4.64	5.29	6.46	7.87	8.72
Industrial Solutions	(0.68)	(0.11)	1.08	2.28	6.85	7.34	9.73	10.80
Solid Waste Management			0.39	2.77	2.72	4.16	5.97	6.81
Unallocated	0.74	0.05	(0.75)	(3.14)	(5.49)	(6.00)	(6.20)	(6.51)
EBIT	1.42	4.14	7.24	10.07	13.83	18.16	25.12	28.26
<i>EBIT Margin</i>	21.4%	35.0%	36.2%	29.9%	15.7%	17.9%	22.0%	22.6%
<i>EBIT Growth</i>	-273.7%	192.1%	75.0%	39.1%	37.3%	31.3%	38.3%	12.5%
Interest received	-	0.13	0.09	0.11	0.23	0.07	0.36	0.59
Interest paid	0.30	0.10	0.42	1.36	3.75	2.38	0.63	-
Net Interest (income)/Expense	0.30	(0.03)	0.33	1.25	3.53	2.31	0.27	(0.59)
Share of Associates	-	-	-	-	-	-	-	-
EBT	1.12	4.16	6.91	8.82	10.31	15.85	24.85	28.84
Tax	-	0.29	0.84	3.17	2.68	4.76	7.45	8.65
NPAT (before extraordinaries)	1.12	3.87	6.07	5.65	7.63	11.10	17.39	20.19
Extraordinary before tax	-	(0.40)	-	-	-	-	-	-
Extraordinary - tax	-	-	-	-	-	-	-	-
NPAT Reported	1.12	3.47	6.07	5.65	7.63	11.10	17.39	20.19
<i>NPAT Margin</i>	16.9%	32.8%	30.3%	16.8%	8.6%	11.0%	15.2%	16.2%
<i>NPAT Growth</i>	-191.5%	246.9%	56.7%	-6.8%	34.9%	45.5%	56.7%	16.1%

Source: WHTM and Company Accounts

Balance Sheet

BALANCE SHEET	2004	2005	2006	2007	2008	2009	2010	2011	2012
	30-Jun-04	30-Jun-05	30-Jun-06	30-Jun-07	30-Jun-08	30-Jun-09	30-Jun-10	30-Jun-11	30-Jun-12
Current Assets									
Cash	0.04	1.48	4.36	2.88	1.60	4.58	4.58	9.46	29.92
Receivables	0.48	1.43	2.47	5.05	8.58	22.08	26.37	29.76	32.47
Inventories	0.09	-	0.01	0.09	0.07	0.14	0.16	0.18	0.20
Other current assets	0.14	0.08	0.15	0.22	0.35	2.02	2.32	2.62	2.85
Total Current Assets	0.74	2.99	6.99	8.23	10.61	28.82	33.42	42.02	65.45
Non Current Assets									
Investments	0.01	0.01	0.01	0.01	0.04	-	-	-	-
PPE	7.61	5.89	7.57	15.31	23.37	46.66	56.93	56.69	55.83
Goodwill	0.60	0.60	2.18	17.24	23.29	25.02	25.02	25.02	25.02
Tax Assets	-	-	-	0.28	0.157	0.790	1.39	1.39	1.39
Brandnames/mastheads	-	-	-	-	-	-	-	-	-
Other non-current assets	0.06	0.06	0.06	0.07	0.002	-	-	-	-
Total Non-Current Assets	8.28	6.56	9.82	32.90	46.86	72.47	83.35	83.11	82.24
Total Assets	9.02	9.55	16.81	41.13	57.47	101.29	116.78	125.12	147.69
Current Liabilities									
Trade creditors	1.68	1.09	2.48	3.39	3.56	7.72	8.88	10.02	10.94
Borrowings	0.92	0.79	0.04	0.04	1.93	3.60	3.60	3.60	3.60
Provisions	0.07	0.10	0.43	1.56	2.29	2.07	2.38	2.69	2.93
Total Current Liabilities	2.67	1.98	2.94	4.98	7.77	13.39	14.86	16.31	17.47
Other Liabilities									
Borrowings	2.09	1.22	0.08	11.55	16.56	33.87	11.78	-	-
Deferred Tax Liabilities	-	-	-	0.11	0.05	0.06	0.06	1.33	2.53
Total Non-Current Liabilities	2.10	1.22	0.08	11.66	16.61	34.03	11.95	1.46	2.68
Total liabilities	4.77	3.20	3.03	16.64	24.37	47.42	26.81	17.77	20.14
Net Assets	4.25	6.35	13.78	24.49	33.09	53.87	89.96	107.36	127.55
Shareholders' Equity									
Equity	16.89	18.95	22.91	27.40	29.29	42.03	67.03	67.03	67.03
Retained earnings	(12.64)	(12.59)	(9.12)	(3.06)	3.19	9.54	20.64	38.03	58.22
FX, Share payments etc reserves	-	-	-	0.15	0.62	2.30	2.30	2.30	2.30
Total shareholders' equity	4.25	6.35	13.78	24.49	33.09	53.87	89.96	107.36	127.55
Checksum	-	-	-	-	-	-	-	-	-

Source: WHTM and Company Accounts

Cash Flow Statement

CASH FLOW	2005	2006	2007	2008	2009	2010	2011	2012
	30-Jun-05	30-Jun-06	30-Jun-07	30-Jun-08	30-Jun-09	30-Jun-10	30-Jun-11	30-Jun-12
Cash flow from operations								
EBIT	1.42	4.14	7.24	10.07	13.83	18.16	25.12	28.26
Interest Charge (Incl Cap leases)	(0.30)	(0.10)	(0.42)	(1.63)	(3.85)	(2.38)	(0.63)	-
Interest on cash balance	-	0.13	0.09	0.11	0.23	0.07	0.36	0.59
Total int rec'd /(paid)	(0.30)	0.03	(0.33)	(1.52)	(3.63)	(2.31)	(0.27)	0.59
Depreciation & Amort	0.87	0.76	1.68	2.83	7.58	9.22	10.24	10.86
Share based payments	-	-	0.15	1.06	0.41	-	-	-
Other (incl share based payts exp)	0.02	(0.33)	(1.03)	(0.35)	7.90			
	2.00	4.60	7.71	12.09	26.09	25.07	35.09	39.71
(Increase)/Decrease in Working Capital	(1.50)	0.36	(1.36)	(3.34)	(9.41)	(3.15)	(2.27)	(1.82)
(Increase)/Decrease in provisions	(0.01)	0.33	0.96	0.78	(0.11)	0.32	0.32	0.26
(Increase)/Decrease in other assets/liabs	0.06	(0.08)	0.06	(0.14)	(1.66)	(0.30)	(0.30)	(0.24)
Tax Paid	(0.01)	(0.01)	(0.00)	(2.57)	(5.10)	(5.36)	(6.18)	(7.45)
Research and Development	-	-	-	-	-	-	-	-
Operating Cash Flow	0.55	5.21	7.37	6.84	9.82	16.59	26.66	30.45
Capital Expenditure - Maintenance	(0.20)	(2.80)	(9.35)	(8.32)	(9.73)	(19.50)	(10.00)	(10.00)
NET GENERATED CASH FLOW	0.35	2.40	(1.98)	(1.48)	0.09	(2.91)	16.66	20.45
Dividends Paid	-	-	-	-	-	-	-	-
RETAINED CASH FLOW	0.35	2.40	(1.98)	(1.48)	0.09	(2.91)	16.66	20.45
Disposals	0.02	-	-	0.03	-	-	-	-
Capital Expenditure - Growth	-	-	-	-	-	-	-	-
Acquisitions	-	-	(15.07)	(6.81)	(10.43)	-	-	-
Other investing cash flows	-	-	(0.39)	-	-	-	-	-
Net Cash Flow For Investing	0.02	-	(15.46)	(6.79)	(10.43)	-	-	-
Equity issued /(bought back)	2.06	2.36	4.49	0.29	12.62	25.00	-	-
Net debt (repaid)/borrowed	(0.60)	(1.90)	11.47	6.70	0.70	(22.09)	(16.66)	(20.45)
Other financing cash flows	-	-	-	-	-	-	-	-
Financing Cash Flows	1.45	0.46	15.96	6.99	13.32	2.91	(16.66)	(20.45)
NET MOVT IN CASH	1.82	2.87	(1.48)	(1.28)	2.97	-	-	-
CASH POSITION								
Opening balance	(0.35)	1.48	4.36	2.88	1.60	4.58	4.58	9.46
Cash in acquisition	-	-	-	-	-	-	-	-
Foreign exchange	-	-	-	-	-	-	-	-
Increase in cash	1.84	2.87	(1.48)	(1.28)	2.97	-	4.89	20.45
Closing balance	1.48	4.36	2.88	1.60	4.58	4.58	9.46	29.92

Source: WHTM and Company Accounts

Tox-Free Solutions (TOX : \$2.39)

INVESTMENT FUNDAMENTALS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EPS Reported (c)	7.9	9.9	13.0	19.1	22.1
EPS Normalised (c)	7.9	9.9	13.0	19.1	22.1
EPS Growth (%)	N/A	24.6%	31.4%	47.1%	15.9%
PER Normalised (x)	30.2	24.2	18.4	12.5	10.8
DPS (c)	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	0%

VALUATION DATA

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EV / EBITA (x)	18.3	16.1	12.4	8.3	6.7
EV / EBITDA (x)	14.3	10.4	8.2	5.9	4.8
CFPS (c)	9.6	12.7	19.4	29.2	33.4
Price / CF	24.9	18.8	12.3	8.2	7.2
Book Value / Share (\$)	0.5	0.7	1.0	1.2	1.4
Price / Book (x)	5.0	3.5	2.4	2.0	1.7

PROFIT & LOSS (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Sales Revenue	33.7	88.2	101.3	114.3	124.8
EBITDA	12.9	21.4	27.4	35.4	39.1
Depreciation	2.8	7.6	9.2	10.2	10.9
EBITA	10.1	13.8	18.2	25.1	28.3
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	10.1	13.8	18.2	25.1	28.3
Net Interest Expense	1.2	3.5	2.1	0.3	-0.6
Pre-tax Profit	8.8	10.3	16.1	24.9	28.8
Tax	3.2	2.7	4.8	7.5	8.7
Tax rate (%)	35.9%	26.0%	30.0%	30.0%	30.0%
Minorities / pref divs	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0
Net Profit	5.7	7.6	11.2	17.4	20.2
Abn's / Extraord's	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	5.7	7.6	11.2	17.4	20.2
Revenue Growth (%)	N/A	162.1%	14.9%	12.9%	9.1%
EBIT Growth (%)	N/A	37.3%	31.3%	38.3%	12.5%
NPAT Growth (%)	N/A	34.9%	47.4%	54.8%	16.0%

PROFITABILITY RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EBIT / Sales (%)	29.9%	15.7%	17.9%	22.0%	22.6%
ROA (%)	N/A	18.1%	17.4%	22.1%	24.2%
ROE (%)	N/A	17.5%	15.6%	17.6%	17.1%
ROFE (%)	N/A	20.2%	19.4%	24.9%	27.8%

INTERIMS (\$m)

Half Yr	Dec 08	Jun 09	Dec 09	Jun 10	Dec 10
Yr Ending June	1H A	2H A	1H E	2H E	1H E
Sales Revenue	41.5	46.7	46.7	54.6	54.1
EBIT	6.0	7.9	7.1	11.0	8.5
Net Profit	2.8	4.8	4.0	7.2	5.9
EBIT / Sales (%)	14.4%	16.8%	15.3%	20.2%	15.7%

BALANCE SHEET (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Cash	1.6	4.6	4.6	9.6	30.1
Receivables	8.6	22.1	26.4	29.8	32.5
Inventories	0.1	0.1	0.2	0.2	0.2
Other	0.4	2.0	2.3	2.6	2.9
Current Assets	10.6	28.8	33.4	42.2	65.6
Net PPE	23.4	46.7	56.9	56.7	55.8
Investments	0.0	0.0	0.0	0.0	0.0
Intangibles	23.3	25.0	25.0	25.0	25.0
Other	0.2	0.8	1.3	1.3	1.3
Non-current Assets	46.9	72.5	83.3	83.0	82.2
Total Assets	57.5	101.3	116.7	125.2	147.8
Current Payables	3.6	7.7	8.9	10.0	10.9
Current Debt	1.9	3.6	3.6	3.6	3.6
Non-Current Debt	16.6	33.9	11.6	0.0	0.0
Provisions	2.3	2.2	2.6	4.1	5.5
Other	0.0	0.0	0.0	0.0	0.0
Total Liabilities	24.4	47.4	26.6	17.7	20.1
Equity	29.3	42.0	67.0	67.0	67.0
Reserves	0.6	2.3	2.3	2.3	2.3
Retained Profits	3.2	9.5	20.8	38.2	58.4
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	33.1	53.9	90.1	107.5	127.7
Total Funds Employed	50.0	86.7	100.7	101.5	101.2

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Net Debt (Cash) (\$m)	16.9	32.9	10.6	-6.0	-26.5
Net Debt / Equity (%)	51.0%	61.0%	11.7%	-5.6%	-20.7%
Interest Cover (x)	8.1	3.9	8.7	98.9	-47.9
Debt / CashFlow (x)	2.7	3.8	0.9	0.1	0.1

CASHFLOW (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
EBIT	10.1	13.8	18.2	25.1	28.3
Dep'n and Amort'n	2.8	7.6	9.2	10.2	10.9
Net Int Rec'd (Paid)	-1.5	-3.6	-2.1	-0.3	0.6
Tax Paid	-2.6	-5.1	-5.4	-6.3	-7.5
Dec / (Inc) W'kg Cap	-3.3	-9.4	-3.1	-2.3	-1.8
Other	0.6	6.6	-0.3	-0.3	-0.2
Operating Cash Flow	6.8	9.8	16.8	26.6	30.5
Capital Expenditure	-8.3	-9.7	-19.5	-10.0	-10.0
Asset Sales	0.0	0.0	0.0	0.0	0.0
Investments	-6.8	-10.4	0.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	-15.1	-20.2	-19.5	-10.0	-10.0
Equity Raised	0.3	12.6	25.0	0.0	0.0
Inc / (Dec) in Loans	6.7	0.7	-22.3	-16.6	-20.5
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	7.0	13.3	2.7	-16.6	-20.5
Net Cash Flow	-1.3	3.0	0.0	0.0	0.0



Recommendation Structure

BUY: Total return +10% or more over a 12 month period

HOLD: Total return expected to be between +10% to -10% over a 12-month period

SELL: Total return expected to be -10% or more over a 12 month period

TOTAL RETURN OR TSR = capital growth in share price + expected dividend yield in that period

Other definitions

CS Coverage Suspended. Wilson HTM Ltd has suspended coverage of this company.

NR Not Rated. The recommendation has been suspended temporarily. Such suspension is in line with Wilson HTM Investment Group Ltd policies in circumstances where Wilson HTM Corporate Finance Ltd is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations.

Disclaimer

Whilst Wilson HTM Ltd believes the information contained in this communication is based on reliable information, no warranty is given as to its accuracy and persons relying on this information do so at their own risk. To the extent permitted by law Wilson HTM Ltd disclaims all liability to any person relying on the information contained in this communication in respect of any loss or damage (including consequential loss or damage) however caused, which may be suffered or arise directly or indirectly in respect of such information. Any projections contained in this communication are estimates only. Such projections are subject to market influences and contingent upon matters outside the control of Wilson HTM Ltd and therefore may not be realised in the future.

The advice contained in this document is general advice. It has been prepared without taking account of any person's objectives, financial situation or needs and because of that, any person should, before acting on the advice, consider the appropriateness of the advice, having regard to the client's objectives, financial situation and needs. Those acting upon such information without first consulting one of Wilson HTM Ltd investment advisors do so entirely at their own risk. This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever. If the advice relates to the acquisition, or possible acquisition, of a particular financial product – the client should obtain a Product Disclosure Statement relating to the product and consider the Statement before making any decision about whether to acquire the product. This communication is not to be disclosed in whole or part or used by any other party without Wilson HTM Ltd's prior written consent.

Disclosure of Interest. Tox-Free Solutions

The Directors of Wilson HTM Ltd advise that at the date of this report they and their associates have relevant interests in Tox-Free Solutions. They also advise that Wilson HTM Ltd and Wilson HTM Corporate Finance Ltd A.B.N. 65 057 547 323 and their associates have received and may receive commissions or fees from Tox-Free Solutions in relation to advice or dealings in securities. Some or all of Wilson HTM Ltd authorised representatives may be remunerated wholly or partly by way of commission.

In producing research reports, members of Wilson HTM Ltd Research may attend site visits and other meetings hosted by the issuers the subject of its research reports. In some instances the costs of such site visits or meetings may be met in part or in whole by the issuers concerned if Wilson HTM Ltd considers it is appropriate and reasonable in the specific circumstances relating to the site visit or meeting.

Regulatory Disclosures

Wilson HTM Corporate Finance Ltd acted as Joint Lead Manager and underwriter of the November 2009 placement and advisor in relation to the share purchase plan by Tox-Free Solutions and will earn fees for acting in this capacity.

Wilson HTM Investment Group Ltd and its related bodies corporate trades or may trade as principal in the securities that are subject of the research report.

Wilson HTM Corporate Finance Ltd has received compensation for corporate advisory services from this company, its subsidiaries or affiliates during the previous 12 months.

BRISBANE
Ph: 07 3212 1333
Fax: 07 3212 1399

SYDNEY
Ph: 02 8247 6600
Fax: 02 8247 6601

MELBOURNE
Ph: 03 9640 3888
Fax: 03 9640 3800

GOLD COAST
Ph: 07 5509 5500
Fax: 07 5509 5599

DALBY
Ph: 07 4660 8000
Fax: 07 4660 4169

HERVEY BAY
Ph: 07 4197 1600
Fax: 07 4197 1699

TOWNSVILLE
Ph: 07 4725 5787
Fax: 07 4725 5104

GEELONG
Ph: 03 5225 1500
Fax: 03 5225 1599

Our web site: www.wilsonhtm.com.au