

TOX *Tox Free Solutions Limited*

Buy

Market Overview

Market Indices

- ✓ Major stock indexes were mixed on Monday afternoon as investors paused their recent bets on the economy, though gains for Cisco Systems helped boost the technology sector.
- ✓ The Dow Jones Industrial Average, coming off its best weekly performance since mid-February, finished 0.13% lower. The Nasdaq Composite Index increased 0.25% while the S&P 500 lost 0.02%.
- ✓ Cisco, a component of all three major indexes, climbed 3.4%, ahead of a technology announcement it had set for Tuesday. Traders expect that Cisco will show how it can help telecommunications companies boost their Internet speeds to meet growing user demand.
- ✓ Those hopes helped to drive several telecom giants higher. Sprint Nextel jumped 6.1%. Verizon Communications and AT&T were up more than 1% each.
- ✓ With no major economic releases on the calendar, traders and analysts continued to mull Friday's better-than-anticipated report on US employment and its implications for the broader economy.
- ✓ While the consensus on Wall Street is that a second dose of recession isn't on the way in the US, participants were more sceptical on Monday about whether the recovery would be sufficiently robust to justify new bets on the market.
- ✓ European shares ended slightly lower on Monday after failing to break out of a tight range, with weakness in drug stocks offsetting more signs of support for Greece as it continues to grapple with its debt burden.
- ✓ Asian markets rallied strongly, with resource sector stocks leading a broad-based advance on higher commodity prices.

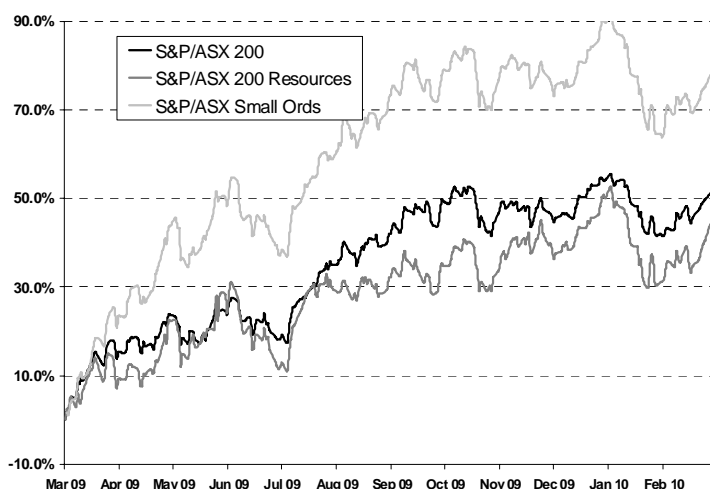
Index	Close	Change	%
All Ord	4,819.6	46.22	0.97
S&P/ASX200	4,807.9	40.62	0.85
Dow Jones	10,552.5	-13.68	-0.13
S&P 500	1,138.5	-0.19	-0.02
NASDAQ	2,334.5	8.14	0.35
FTSE 100	5,606.7	6.96	0.12
Nikki 225	10,585.9	216.96	2.09
Shanghai	3,053.2	22.17	0.73
MSCI World	1,170.5	14.86	1.29

Commodities

Units/\$US	Latest	Change	%
Gold	1,123.50	0.10	0.01
Aluminium	2,201.0	-2.0	-0.09
Copper	7,466.5	-19.0	-0.25
Nickel	22,500.0	-375.0	-1.64
Lead	2,178.0	-18.5	-0.84
Zinc	2,257.0	-33.0	-1.44
Oil	81.81	0.13	0.16

Currency and Fixed Interest

Name	Latest	Change	%
\$US/\$A	0.909	0.000	-0.01
¥/\$A	82.125	0.015	0.02
€/\$A	0.667	0.000	-0.01
\$NZ/\$A	1.297	0.000	-0.01
10 Year Bond	5.56%	0.000	0.00
90 Day Bill	4.25%	0.030	0.71



Tox Free Solutions Limited

TOX

Tuesday 9 March 2010

A leader in a high growth field with barriers to entry, 1H10 and guidance confirm upside

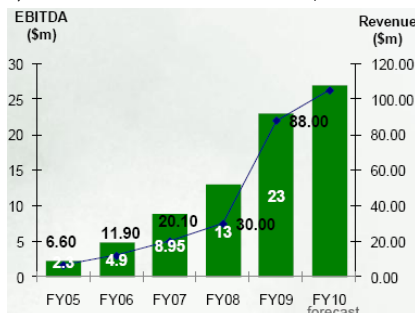
Recommendation: Continue to Buy for strong long-term growth

Investment Rationale

TOX listed in September 2000, building an integrated facility at Kwinana to service waste streams from the shire and oil & gas, mining and processing industries from the Burrup Peninsula to the Pilbara, a blueprint for like facilities around Australia. The Port Hedland industrial waste incinerator and Kwinana toxic and hazardous waste facility are among very few licensed in Australia. By acquisition, TOX added licensed facilities at Kimberley, Kalgoorlie, Henderson, and Brisbane, then Karratha and, via Barry Bros, operations in eastern States. Barry Bros. did sewer cleaning, high pressure water cleaning, waste water recycling / reclamation, vacuum loading and waste management from three Queensland, two NSW, four Victorian facilities and one in SA. It added \$8m pa to EBITDA in the first year. Plant and equipment was valued at over \$20m. Late in 2008, TOX opened a hazardous waste facility in Sydney and raised \$13m new equity. Early in 2009, TOX won a three-year contract at Woodside's LNG facility, Karratha Supply Base and offshore facilities. TOX has built a very strong customer-focused position in a market set for long-term growth.

Event

- In its tenth successive growth period, TOX's NPAT rose 56% to \$4.6m before share-based payments, on revenue up 12.5% at \$46.7m and EBITDA up 19% to \$12.2m. Cash flow grew 5.6% and EBIT covered interest 5.2 times. Net debt to equity fell to 10% from 61%, with a \$20m November institutional placement and SPP capped at \$5m. Guidance is for H2 on typical 40/60 H1/H2 split: FY10 revenue, EBITDA shown.
- The Gorgon Barrow Island waste management contract with Toll will add \$30m revenue over three years. The Rio waste management and services contract adds \$7.5m pa for 3-years with a 2-year option. The Pilbara operations performed strongly, set to continue. The national procurement strategy is yielding results, while TOX has built its systems and management to allow for further growth.
- Cash at end December was \$26m. Liquid waste volumes fell with the GFC impact on manufacturing, while industrial service margins rose as TOX focused on its client target base. Solid waste showed a strong rise.



Impact

- As the only integrated waste manager in the Pilbara, TOX sees a major pipeline of mining and LNG projects over the next five years. Woodside could add further contracts. Solid waste services are to start in Port Hedland and the Pilbara second stage expansion has begun. Kimberley is ahead of budget. Broome has slackened but looks positive medium-term.
- Awards of \$15m in council municipal contracts are likely over 4-8 years. The Stage 2 Ord River Irrigation Scheme has commenced. Cross-sell and expertise sharing between the TOX and Barry Bros business streams are gaining momentum, with improving efficiencies and facility upgrades.
- TOX joins the S&P/ASX 300 Index on 20 March. Board and management have a 7% stake. The stream of contract awards confirms its reputation.

Recommendation

Continue to Buy as TOX is very well placed for rapid revenue and profit growth.

Snapshot

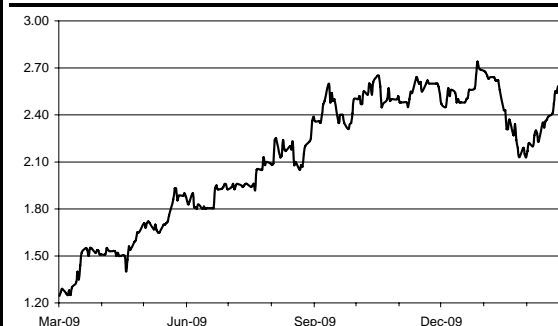
Last Price	\$2.60
Market Cap.	\$237 million
52 Week High	\$2.80
52 Week Low	\$1.21
Sector	Environmental & Facilities Services

Investment Fundamentals

Year-end June	FY08A	FY09A	FY10E	FY11E
NPAT (\$m)	6.2	8.0	11.7	16.8
EPS (c)	8.9	10.3	13.2	17.5
EPS Growth (%)	2.2	15.7	28.2	32.6
PE Ratio (x)	29.2	25.2	19.7	14.9
DPS (c)	0	0	1.0	4.0
Franking (%)	-	-	100	100
Dividend Yield, %	0.0	0.0	0.4	1.5

Source: Intersuisse estimates

Price Chart



Business Description

Tox Free Solutions Limited (TOX) is an integrated waste management and environmental service provider across Australia—industrial and hazardous waste treatment, contaminated site remediation and industrial services; also industrial maintenance services in Kwinana, Port Hedland and Henderson. In August 2008 TOX acquired Barry Bros from Programmed Maintenance Services for \$25m cash, an excellent fit that gave TOX similar albeit less specialist facilities down the East coast of Australia. TOX now operates some 27 facilities nationwide. Services include tank cleaning & degassing, vacuum loading, liquid waste collection & high pressure water jetting services to commercial shipping and land-based clients including mining, industrial and municipal clients. Hazardous waste is a focus and TOX has a full range of EPA licences for handling, disposal and remediation. See www.toxfree.com.au

Analyst: Peter Russell

INTERNATIONAL OVERNIGHT NEWS

Major stock indexes were mixed on Monday afternoon as investors paused their recent bets on the economy, though gains for Cisco Systems helped boost the technology sector.

The Dow Jones Industrial Average, which is coming off its best weekly performance since mid-February, finished 13.7 points lower (0.13%) at 10,552.5. The Nasdaq Composite Index increased 5.9 points (0.25%) to 2,332.2. The S&P 500 lost 0.2 points (0.02%) to 1,138.5.

Cisco, a component of all three major indexes, climbed 3.4%, ahead of a technology announcement it had set for Tuesday. Traders expect that Cisco will show how it can help telecommunications companies boost their Internet speeds to meet growing user demand.

Those hopes helped to drive several telecom giants higher. Sprint Nextel jumped 6.1%. Verizon Communications and AT&T were up more than 1% each.

With no major economic releases on the calendar, traders and analysts continued to mull Friday's better-than-anticipated report on US employment and its implications for the broader economy.

While the consensus on Wall Street is that a second dose of recession isn't on the way in the US, participants were more sceptical on Monday about whether the recovery would be sufficiently robust to justify new bets on the market.

Health-care stocks were hurt by the latest developments in Washington. Pfizer was off 0.9% after the Supreme Court agreed to hear an appeal over whether the drug maker's vaccines caused serious illnesses in some children. Investors also paid close attention as President Barack Obama made his latest pitch for health reform, taking insurance companies to task over premium increases.

On a more promising note for the insurers, American International Group agreed to sell its second-largest foreign life-insurance business, American Life Insurance, or Alico, for \$15.5bn in cash and stock to MetLife. AIG rose 3.7%, while MetLife climbed 5.1%.

Elsewhere, UK-based Royal Dutch Shell PLC and China-based PetroChina made a \$3bn joint bid for Australian coal-seam gas producer Arrow Energy. American depository shares of PetroChina rose 1.7%.

American depository shares of Tata Motors dropped 3.5% on reports that Daimler AG is selling a stake in the Indian car maker. Daimler shares edged up 0.4% in New York.

McDonald's rose 2.7% after the fast-food chain said its global same-store sales rose 4.8% in February, more than analysts were expecting.

.US Economic News

In economic news, US labour markets gained strength in February, suggesting job gains are around the corner, according to the Conference Board's employment trends

index, which rose to 93.5 from 93.2 in January. The six-month growth rate of 13.4% is the fastest since 1994.

European and Asian Markets

European shares ended slightly lower on Monday after failing to break out of a tight range, with weakness in drug stocks offsetting more signs of support for Greece as it continues to grapple with its debt burden.

The Stoxx Europe 600 index closed 0.1% lower at 256.87, after moving between small gains and losses through the session.

Among the major regional equity markets, the German DAX index fell 1.45 points to close at 5,875.91 and the French CAC-40 index declined 0.2% to end at 3,903.54. The UK's FTSE 100 index gained 0.1% to settle at 5,606.72.

Further signs of European support for Greece emerged over the weekend, with French President Nicolas Sarkozy stating that a number of countries were ready to rescue the nation if necessary, while German Finance Minister Wolfgang Schaeuble suggested the possibility of creating a European fund modelled on the International Monetary Fund.

Drugmakers were under notable pressure in Europe as product-pipeline worries came back to the fore, with AstraZeneca shares falling 1.4%. The firm said that a Phase II/III trial of its Recentin medicine showed the drug wasn't better than a rival treatment in treating colorectal cancer when used with chemotherapy. AstraZeneca was comparing its drug to Avastin, developed and marketed by Roche. Roche shares fell 0.1% in Swiss trading. It suspended a rheumatoid arthritis treatment in development with Biogen Idec.

Genmab shares slumped 20.4% in Copenhagen after the Danish drug maker said that top-line results from a zalutumumab Phase III study in patients with recurrent or metastatic squamous cell carcinoma of the head and neck who failed standard platinum-based chemotherapy didn't meet its primary endpoint of demonstrating a statistically significant difference in overall survival.

Reporting earnings on Monday, Petrofac shares jumped 4.1%, gaining on 33% growth reported in 2009 net profit to \$354m, eclipsing analyst estimates.

BioMerieux shares rose 4.6%, gaining after the disease diagnostics firm reported 2009 net income rose 14% to EUR148m as sales climbed 10.2% to EUR1.2bn.

Shares of EADS shed early gains to trade down 0.5% ahead of results due out on Tuesday. With an agreement on the A400M military transport plane reached late on Friday, the defence and aerospace giant upped its A400M loss provision by EUR1.8bn before tax for 2009.

Asian markets rallied strongly, with resource sector stocks leading a broad-based advance on higher commodity prices.

Japan's Nikkei Stock Average of 225 companies ended up 2.1% at 10,585.92, Hong Kong's Hang Seng Index advanced 2.0% and China's Shanghai Composite climbed 0.7%.

New Zealand shares ended slightly higher on Monday, palling in comparison to other markets in the region. The NZX-50 Index closed up 0.3%, or 8.17 points, at 3,222.82, its highest level since Jan. 21.

Commodities

Base metals on the London Metal Exchange were mixed, paring early gains as the euro lost some of its strength against the US dollar, while China's current reluctance to buy is proving a barrier to sustainable rallies, traders and analysts said.

Currencies

No news today.

AUSTRALIAN OVERNIGHT NEWS

Australian Markets

Local stocks may drift between gains and losses today on mixed offshore leads.

Ahead of the local open the March SPI futures were 7 points higher at 4,809.

Companies in the News

BHP (BHP)

BHP Billiton has succeeded in pricing a large portion of its coking coal with a range of international customers on a quarterly basis. The company said it has reached an agreement with customers in Europe, China, India and Japan, as part of its commitment to achieve market clearing prices across all of its bulk commodities. Japan's major steelmakers agreed to a 55% hike in price for the April-June quarter, marking a significant step away from the annual benchmark system. Japanese steel mills will buy coking coal from the BHP Mitsubishi Alliance at US\$200/mt, up from last year's benchmark price of US\$129/mt. BHP increased \$1.01 (2.38%) to \$43.51.

Suncorp (SUN) and IAG (IAG)

Suncorp-Metway said it expects the number of insurance claims from severe weather events in Victoria and Queensland in recent days to continue to rise, noting it is too early to estimate their cost. A spokesman said the firm has received around 6,000 claims from policyholders across all its insurance brands, including GIO, AAMI and APIA, in both states. "As of Sunday, we had about 5000 claims coming out of Melbourne. We do expect that number to increase as people return from the long weekend," said the spokesman, adding there has been "about 1,000" claims lodged from policyholders across southern Queensland where there has been widespread flooding. He said it is too early to estimate the costs to the firm from either event, as they focus on putting extra claims assessors into affected areas to process the claims as quickly as possible. A spokesman for Insurance Australia Group (IAG) said it is "still too early," to

comment on the impact of bad weather. SUN fell 15 cents (1.73%) to \$8.54 and IAG fell 8 cents (1.97%) to \$3.98.

Arrow Energy (AOE)

PetroChina launched a bid with Royal Dutch Shell for Arrow Energy. Royal Dutch Shell and PetroChina are offering to pay around \$3.26bn in cash for Arrow Energy. Shareholders are being offered \$4.45 a share, representing a 28% premium from Arrow's last closing price of \$3.48. Arrow said shareholders would also get one share in a new entity that would comprise its international business for each existing Arrow share. Arrow's board has recommended shareholders take no action on the offer. It is unclear how large a role PetroChina is playing in the joint bid. The offer is currently non-binding and conditional. A spokesman for Shell confirmed the bid is only for Arrow's Australian assets and wouldn't speculate if the company would be prepared to invest beyond its current 10% interest in Arrow's offshore business. AOE shot up \$1.63 (46.84%) to \$5.11.

Western Areas (WSA)

Western Areas said it has made a new nickel sulfide discovery at its Sandstone joint venture with Troy Resources in Western Australia. A drill result has returned spot values of 1.0% to 1.5% nickel for disseminated sulfides and up to 9.5% nickel for the vein sulfides. "While the drilling at Sandstone is still at a very early stage, the results are already considered to be very encouraging," Western Areas said. WSA rose 6 cents (1.24%) to \$4.91.

Charter Hall Retail (CQR)

Charter Hall Retail said it acquired two retail properties in Australia for \$69.8m following its recent restructure. The trust said it bought the Manuka Terrace shopping centre in Canberra and the Mile End Homemaker Centre in Adelaide, at an average yield of 9.5% before acquisition costs, using existing cash reserves and debt capacity. The REIT expects the properties to be accretive to earnings in the first year following the purchase. CQR remained unchanged at \$0.59..

Australian Economic News

No news today.



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General Advice

These notes represent a brief snapshot of some corporate news and quick reactions to that news and do not purport to be comprehensive. The recommendations are of a general nature and are based on a consideration of the securities alone, and as such are conditional and must not be relied upon without advice from a securities adviser as to the appropriateness to you given your individual investment objectives, financial situation and particular needs. Whilst this document is based on information and assessments that are current at the date of publication, Intersuisse has no obligation to provide revised assessments in the event of changed circumstances.

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