

# Grange Securities

1 March, 2005

## Colorpak Ltd (CKL.ASX)

Specialised packaging manufacturer, Colorpak, today announced the purchase of a new 6 colour press and die-cutter to meet growing demand for specialised packaging. The cost of the new equipment is A\$5.8m and is to be funded by bank debt. We believe that increased demand for CKL's products has arisen from winning new customers owing to the acquisition of Wadepack by Carter Holt Harvey (CHY.ASX, \$2.12, Not Rated). A review of our forecasts taking account of the plant purchase increases our full year FY05 NPAT estimate by 3.2% to \$3.2m. Our FY06 and FY07 NPAT estimates have also risen by 8.1% and 5.1% respectively. Following the inclusion of increased capital expenditure estimates within our model our twelve-month price target of A\$0.82 remains unchanged.

Recommendation: ..... BUY  
 Risk: .....High  
 Theme: .....Value/Consolidation  
 Share Price: .....A\$0.73  
 Valuation: .....A\$0.82  
 Price range  
 low/high:..... A\$0.415-A\$0.74  
 Shares on issue: ..... 80.5M  
 Market Cap: ..... A\$58.8M

Summary financial parameters					12-mth target price multiples*		
		FY05E	FY06E	FY07E		FY05E	FY06E
Op Rev.	\$M	56.4	64.6	67.7	P/E	12.3	10.7
Change	%	13.7%	14.6%	4.8%	P/E Growth	0.5	0.4
EBITDA	\$M	11.4	12.9	13.2	P/Op Cash Flow	7.7	8.0
Change	%	8.1%	13.4%	2.2%	P/Free Cash Flow	7.3	169.8
Margin	%	20.3%	20.1%	19.6%	EV/EBITDA	8.0	7.4
PAT	\$M	3.2	4.0	4.1	EV/EBITDA/ Growth	1.0	0.5
Change	%	22.7%	27.8%	0.9%			
P/E*	X	10.9	9.6	9.7			
DPS	C	2.5	2.7	2.9			

Sources: Grange Securities Analysis, IRESS, \* Fully Diluted and Pre-Goodwill Amortisation

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Figure 1. Colorpak Ltd Valuation Tables

Estimated \$ Valuation Per Share	WACC %							
		9.5%	10.0%	10.7%	11.0%	11.5%	12.0%	12.5%
FCF Growth Rate %	1.5%	0.89	0.82	0.73	0.70	0.65	0.60	0.56
	2.0%	0.95	0.87	0.77	0.74	0.68	0.63	0.59
	2.5%	1.02	0.93	0.82	0.78	0.72	0.67	0.62
	3.0%	1.10	1.00	0.88	0.84	0.77	0.71	0.66
	3.5%	1.20	1.08	0.95	0.89	0.82	0.75	0.70
	4.0%	1.31	1.17	1.02	0.96	0.88	0.80	0.74

Estimated \$M Enterprise Value	WACC %							
		9.5%	10.0%	10.7%	11.0%	11.5%	12.0%	12.5%
FCF Growth Rate %	1.5%	96.6	90.9	84.0	81.3	77.3	73.6	70.3
	2.0%	101.6	95.2	87.6	84.7	80.2	76.2	72.6
	2.5%	107.3	100.2	91.6	88.4	83.5	79.1	75.2
	3.0%	113.9	105.8	96.2	92.6	87.2	82.3	78.1
	3.5%	121.6	112.3	101.4	97.3	91.3	85.9	81.2
	4.0%	130.7	119.8	107.3	102.7	95.9	90.0	84.8

Implied Terminal EBITDA Multiple X	WACC %							
		9.5%	10.0%	10.7%	11.0%	11.5%	12.0%	12.5%
FCF Growth Rate %	1.5%	5.97	5.50	4.92	4.70	4.37	4.07	3.80
	2.0%	6.41	5.88	5.23	4.99	4.62	4.30	4.00
	2.5%	6.91	6.31	5.59	5.32	4.91	4.55	4.23
	3.0%	7.49	6.80	5.99	5.69	5.23	4.83	4.48
	3.5%	8.16	7.37	6.44	6.10	5.59	5.15	4.75
	4.0%	8.96	8.03	6.97	6.58	6.00	5.50	5.06

Colorpak Ltd Fully Diluted Reported FY2005E Valuation Multiple Sensitivity	Stock Price								
	\$ 0.90	\$ 0.85	\$ 0.82	\$ 0.80	\$ 0.75	\$ 0.70	\$ 0.65	\$ 0.60	
Price/Earnings	23.0	21.7	20.9	20.4	19.1	17.9	16.6	15.3	
PEG	1.0	1.0	0.9	0.9	0.8	0.8	0.7	0.7	
Price/Operating Cash Flow	8.5	8.0	7.7	7.6	7.1	6.6	6.1	5.7	
Price/Free Cash Flow	8.0	7.6	7.3	7.1	6.7	6.3	5.8	5.4	
EV/EBITDA	8.6	8.2	8.0	7.9	7.5	7.1	6.8	6.4	
EV/EBITDA/Growth	1.1	1.0	1.0	1.0	0.9	0.9	0.8	0.8	
Yield	2.8%	2.9%	3.0%	3.1%	3.3%	3.6%	3.8%	4.2%	

Colorpak Ltd Fully Diluted Reported FY2006E Valuation Multiple Sensitivity	Stock Price								
	\$ 0.90	\$ 0.85	\$ 0.82	\$ 0.80	\$ 0.75	\$ 0.70	\$ 0.65	\$ 0.60	
Price/Earnings	18.0	17.0	16.4	16.0	15.0	14.0	13.0	12.0	
PEG	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.4	
Price/Operating Cash Flow	8.7	8.3	8.0	7.8	7.3	6.8	6.3	5.8	
Price/Free Cash Flow	186.4	176.0	169.8	165.7	155.3	145.0	134.6	124.2	
EV/EBITDA	7.9	7.6	7.4	7.2	6.9	6.6	6.3	6.0	
EV/EBITDA/Growth	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.4	
Yield	3.0%	3.2%	3.3%	3.4%	3.6%	3.8%	4.1%	4.5%	

Colorpak Ltd Fully Diluted & Pre-Goodwill FY2005E Valuation Multiple Sensitivity	Stock Price								
	\$ 0.90	\$ 0.85	\$ 0.82	\$ 0.80	\$ 0.75	\$ 0.70	\$ 0.65	\$ 0.60	
Price/Earnings	13.5	12.7	12.3	12.0	11.2	10.5	9.7	9.0	
PEG	0.6	0.6	0.5	0.5	0.5	0.5	0.4	0.4	
Price/Operating Cash Flow	8.5	8.0	7.7	7.6	7.1	6.6	6.1	5.7	
Price/Free Cash Flow	8.0	7.6	7.3	7.1	6.7	6.3	5.8	5.4	
EV/EBITDA	8.6	8.2	8.0	7.9	7.5	7.1	6.8	6.4	
EV/EBITDA/Growth	1.1	1.0	1.0	1.0	0.9	0.9	0.8	0.8	
Yield	2.8%	2.9%	3.0%	3.1%	3.3%	3.6%	3.8%	4.2%	

Colorpak Ltd Fully Diluted & Pre-Goodwill FY2006E Valuation Multiple Sensitivity	Stock Price								
	\$ 0.90	\$ 0.85	\$ 0.82	\$ 0.80	\$ 0.75	\$ 0.70	\$ 0.65	\$ 0.60	
Price/Earnings	11.8	11.1	10.7	10.5	9.8	9.2	8.5	7.9	
PEG	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	
Price/Operating Cash Flow	8.7	8.3	8.0	7.8	7.3	6.8	6.3	5.8	
Price/Free Cash Flow	186.4	176.0	169.8	165.7	155.3	145.0	134.6	124.2	
EV/EBITDA	7.9	7.6	7.4	7.2	6.9	6.6	6.3	6.0	
EV/EBITDA/Growth	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.4	
Yield	3.0%	3.2%	3.3%	3.4%	3.6%	3.8%	4.1%	4.5%	

Source: Grange Securities Analysis

Figure 2. Colorpak Ltd – Profit and loss statement

		FY 2004 Pro-forma	FY 2004A Statutory	FY 2005E	FY 2006E	FY 2007E	FY 2008E	FY 2009E	
<b>Operating Revenue</b>	<b>\$m</b>	<b>49.6</b>	<b>25.2</b>	<b>56.4</b>	<b>64.6</b>	<b>67.7</b>	<b>73.4</b>	<b>75.2</b>	
<i>Growth</i>	%		-49.1%	13.7%	14.6%	4.8%	8.4%	2.5%	
<i>5-year CAGR</i>	%	8.2%							
<b>Operating Costs</b>	<b>\$m</b>	<b>39.0</b>	<b>19.8</b>	<b>45.0</b>	<b>51.6</b>	<b>54.5</b>	<b>59.3</b>	<b>61.4</b>	
<i>Growth</i>	%		-49.3%	15.2%	14.9%	5.5%	9.0%	3.5%	
<i>5-year CAGR</i>	%	8.7%							
<b>EBITDA</b>	<b>\$m</b>	<b>10.6</b>	<b>5.4</b>	<b>11.4</b>	<b>12.9</b>	<b>13.2</b>	<b>14.0</b>	<b>13.8</b>	
<i>Margin</i>	%	21.3%	21.6%	20.3%	20.1%	19.6%	19.1%	18.4%	
<i>Growth</i>	%		N/A	8.1%	13.4%	2.2%	6.1%	N/A	
<i>5-year CAGR</i>	%	5.9%	20.5%						
Depreciation & Amortisation	\$m	3.9	1.9	3.9	4.0	4.2	4.1	4.0	
<b>EBIT</b>	<b>\$m</b>	<b>6.7</b>	<b>3.5</b>	<b>7.5</b>	<b>9.0</b>	<b>9.0</b>	<b>9.9</b>	<b>9.8</b>	
Interest Costs	\$m	2.2	1.1	2.1	2.3	2.4	2.0	1.7	
Net Profit Before Taxes	\$m	4.5	2.5	5.5	6.7	6.7	7.9	8.1	
(Taxes)/Tax Benefit	\$m	- 2.0 -	- 1.0 -	- 2.3 -	- 2.6 -	- 2.6 -	- 2.9 -	- 3.0	
Net Profit After Tax	\$m	2.6	1.5	3.2	4.0	4.1	4.9	5.1	
Net Significant Items	\$m	-	-	-	-	-	-	-	
<b>Reported Net Profit After Taxes</b>	<b>\$m</b>	<b>2.6</b>	<b>1.5</b>	<b>3.2</b>	<b>4.0</b>	<b>4.1</b>	<b>4.9</b>	<b>5.1</b>	
<i>Margin</i>	%	5.2%	5.8%	5.6%	6.2%	6.0%	6.7%	6.8%	
<i>Growth</i>	%		N/A	22.7%	27.8%	0.9%	21.7%	3.4%	
<i>5-year CAGR</i>	%			12.9%					
Shares on Issue	m	74.0	77.2	80.5	80.5	80.5	80.5	80.5	
Convertibles	m								
Unlisted Options	m								
Total Equity Instruments	m	74.0	77.2	80.5	80.5	80.5	80.5	80.5	
<b>Reported EPS</b>	<b>Cents</b>	<b>3.5</b>	<b>1.9</b>	<b>3.9</b>	<b>5.0</b>	<b>5.1</b>	<b>6.1</b>	<b>6.4</b>	
Reported P/E	X	21.0	38.4	18.6	14.6	14.5	11.9	11.5	
<b>Reported DPS</b>	<b>Cents</b>	<b>N/M</b>	<b>N/M</b>	<b>2.5</b>	<b>2.7</b>	<b>2.9</b>	<b>3.1</b>	<b>3.3</b>	
Reported Yield	%	N/M	N/M	3.4%	3.7%	4.0%	4.3%	4.6%	
Diluted Pre-Goodwill EPS	Cents	6.7	3.4	6.7	7.6	7.6	8.5	8.6	
Diluted Pre-Goodwill P/E	X	10.9	21.4	10.9	9.6	9.7	8.6	8.5	
<b>Ratio Analysis</b>				<b>FY 2004</b>	<b>FY 2005E</b>	<b>FY 2006E</b>	<b>FY 2007E</b>	<b>FY 2008E</b>	<b>FY 2009E</b>
			<b>Pro-forma</b>						
Return on Equity (ROE)*	%		9.8%	13.0%	14.2%	13.5%	14.4%	13.9%	
Return on Assets (ROA)*	%		5.0%	6.1%	6.7%	6.5%	7.1%	6.9%	
Return on Capital Employed (ROCE)*	%		5.6%	8.1%	8.5%	8.5%	9.9%	10.2%	
Return on Equity (ROE)	%		6.7%	7.6%	9.3%	9.0%	10.4%	10.2%	
Return on Assets (ROA)	%		3.4%	3.6%	4.4%	4.3%	5.1%	5.1%	
Return on Capital Employed (ROCE)	%		3.9%	4.7%	5.5%	5.7%	7.1%	7.5%	
Interest Cover (EBITA/Interest)	X		3.6	4.7	4.8	4.7	5.8	6.8	
Gearing (Net Debt/ (Net Debt + Equity))	X		42.4%	37.9%	40.4%	36.6%	31.7%	26.5%	
Net Debt/Book Equity	X		73.6%	60.9%	67.8%	57.8%	46.4%	36.1%	
* = Pre Goodwill									

Source: Grange Securities Analysis

Figure 3. Colorpak Ltd – Statement of cash flows

		FY 2004A	FY 2005E	FY 2006E	FY 2007E	FY 2008E	FY 2009E
<b>Profit After Tax</b>	\$m	1.5	3.2	4.0	4.1	4.9	5.1
<i>Reversal of Non-Cash Items:</i>							
Add: Depn & Amortisation	\$m	1.9	3.9	4.0	4.2	4.1	4.0
Add/Less: Losses/Gains on Disposals/Other	\$m	0.0	-	-	-	-	-
Add/Less: Increases/Decreases in Liabilities	\$m	1.7	2.3	1.5	0.4	1.2	0.3
Less/Add: Increases/Decreases in Assets	\$m	- 0.6	- 0.8	- 1.2	- 0.8	- 1.5	- 0.5
<b>Cash Flow from Operations</b>	\$m	4.4	8.5	8.3	7.9	8.7	8.9
<i>Growth</i>	%						
<i>5 Year CAGR</i>	%						
<b>Investing Cash Flows:</b>							
Capital Expenditure	\$m	- 0.2	- 1.6	- 10.2	- 2.2	- 2.2	- 2.2
Purchases/Sales of Businesses	\$m	- 3.4	- 2.0	-	-	-	-
<b>Total Investing Cash Flows</b>	\$m	- 3.6	- 3.6	- 10.2	- 2.2	- 2.2	- 2.2
<b>Financing Cash Flows:</b>							
Change in Debt	\$m	- 2.9	7.8	-	-	-	-
Change in Equity	\$m	1.3	-	-	-	-	-
Dividends Paid	\$m	-	- 2.0	- 2.2	- 2.3	- 2.5	- 2.7
<b>Total Financing Cash Flows</b>	\$m	- 1.6	5.8	2.2	2.3	2.5	2.7
<b>Net Change in Cash</b>	\$m	- 0.8	10.7	4.1	3.3	4.0	4.0

Source: Grange Securities Analysis

Figure 4. Colorpak Ltd – Balance sheet

		FY 2004A	FY 2005E	FY 2006E	FY 2007E	FY 2008E	FY 2009E
<b>Current Assets:</b>							
Cash	\$m	0.0	10.7	6.6	10.0	14.0	18.0
Receivables	\$m	9.5	10.1	11.6	12.2	13.2	13.5
Inventories	\$m	3.4	4.6	4.2	4.4	4.8	4.9
Other	\$m	0.4	0.6	0.6	0.7	0.7	0.8
<b>Total Current Assets</b>	\$m	13.3	26.1	23.1	27.2	32.7	37.2
<b>Non-Current Assets:</b>							
Property Plant & Equipment	\$m	15.2	18.0	26.3	26.4	26.4	26.4
Intangible Assets	\$m	45.6	43.4	41.3	39.3	37.3	35.5
Deferred Tax Assets	\$m	0.5	0.6	0.6	0.7	0.7	0.8
<b>Total Non-Current Assets</b>	\$m	61.4	61.9	68.2	66.3	64.4	62.7
<b>Total Assets</b>	\$m	74.7	88.0	91.3	93.5	97.1	99.8
<b>Current Liabilities:</b>							
Payables	\$m	4.6	5.1	5.8	6.1	6.6	6.8
Interest Bearing Liabilities	\$m	4.1	4.1	4.1	4.1	4.1	4.1
Current Tax Liabilities	\$m	0.9	2.3	2.6	2.6	2.9	3.0
Provisions	\$m	2.0	2.3	2.6	2.7	2.9	3.0
<b>Total Current Liabilities</b>	\$m	11.5	13.7	15.1	15.5	16.5	16.8
<b>Non-Current Liabilities:</b>							
Interest Bearing Liabilities	\$m	24.1	31.9	31.9	31.9	31.9	31.9
Provisions	\$m	0.7	0.8	1.0	1.0	1.1	1.1
<b>Total Non-Current Liabilities</b>	\$m	24.8	32.8	32.9	33.0	33.0	33.1
<b>Total Liabilities</b>	\$m	36.4	46.5	48.0	48.4	49.6	49.9
<b>Net Assets</b>	\$m	38.3	41.5	43.3	45.1	47.5	50.0
<b>Equity:</b>							
Contributed Equity	\$m	36.9	38.9	38.9	38.9	38.9	38.9
Retained Profits	\$m	1.5	2.6	4.5	6.2	8.7	11.1
<b>Total Equity</b>	\$m	38.3	41.5	43.3	45.1	47.5	50.0

Source: Grange Securities Analysis

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### Explanatory Notes

S&P / ASX 300 Resources Statistics Bar Graph – represents the weekly movements of the 55 stocks that make up the S&P / ASX 300 Resources Index. S&P / ASX 200 Resources versus S&P / ASX 200 Weekly (Common Base) – is a relative performance chart starting at a common base of 0% and measuring performance on a weekly basis over a year. If the chart is above the 0% starting point then the S&P / ASX 200 Resources has outperformed the S&P / ASX 200 or vice versa. Commodities Advance Decline Index Weekly – monitors the direction of 10 commodities. Each week Grange Quant takes the difference between the commodities that advanced and the commodities that declined and divide the differential by the sample size of 10. If the majority of our sample is up for a week then the Index would record a positive move. If the majority of our sample is down for the week then the index would record a negative move.

### Rating Classification

<b>Buy</b>	Expected stock return is greater than 10%
<b>Hold</b>	Expected stock return is between -10% to 10%
<b>Sell</b>	Expected stock return is in excess of -10%
<b>Outperform</b>	Expected stock return is in excess of the sector return
<b>Marketperform</b>	Expected stock return is in line with the sector return
<b>Underperform</b>	Expected stock return is in line with the sector return
<b>Short-term</b>	0 to 3 months
<b>Medium-term</b>	3 to 12 months
<b>Long-term</b>	12 months to 5 years
<b>Speculative</b>	High risk and/or low predictability of earnings with the stock expected to move up or down by 50% or more a year

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