

Colorpak

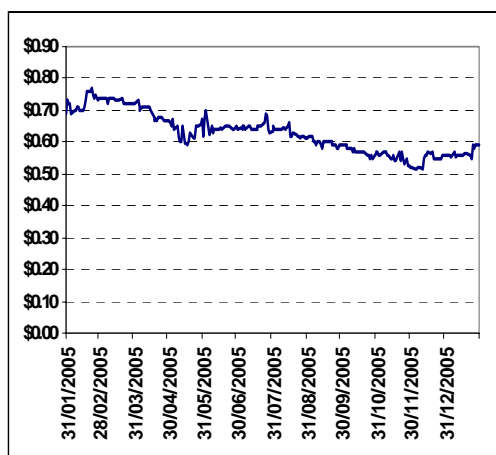
In the box seat to meet our targets

Sector: Materials
Analyst: Nick Maclean

January 31, 2006

ASX Code: CKL
Price: \$0.565
Valuation: \$0.69
Recommendation: Buy
Risk Rating: High
Market Capitalisation: \$46m

12-Month Share Price Chart



Year 30 June	04A	05A	06E	07E
Revenue (\$m)	49.6	58.6	67.6	71.3
Net Profit (\$m)	2.6	3.1	5.7	6.2
EPS* (c)	6.4	6.9	7.1	7.7
EPS growth (%)	n.a.	8.0	2.2	9.3
P/E Ratio (x)	8.8	8.2	8.0	7.3
EBIT	6.7	7.3	10.7	11.0
EV/EBITDA	6.8	6.4	6.3	5.7
EBITDA Margin	21.5	19.5	19.0	19.0
NPAT Margin**	10.1	9.4	9.0	8.7
Dividend (c)	0.0	2.5	2.7	3.3
Yield (%)	n.a.	4.4	4.8	5.8
Franking (%)	n.a.	100	100	100
Debt / Equity (%)	73.6	60.5	70.4	61.1
EBITA/Int. Exp. (x)	4.8	5.0	5.1	5.2
ROE (%)	6.7	6.8	11.6	11.4

* Ex-goodwill amortisation

** Ex-goodwill amortisation & non-recurring items

Recommendation: Buy

Key Points

- CKL's 1H 06 result was in line with our forecast with the company remaining on track to at least meet our FY 06 earnings projections.
- We were pleased with the 26% increase in sales revenue to \$35.1m which was driven by both the contribution from Castle Graphics (acquired December 2004) as well as from existing organic operations. In particular, organic growth was up 16% on the pcp.
- Corresponding NPAT was up 10% to \$3.0m with the company declaring an interim dividend of \$0.01 per share fully franked - in line with our guidance.
- This interim result places CKL squarely on track to meet our FY 06 normalised NPAT target of \$6.0m - \$5.7m when accounting for the non-recurring cost associated with the Sydney site relocation. This should enable the payment of a 2H 06 dividend of \$0.017 taking the FY 06 forecast total to \$0.027 per share.
- Operating cash flows were (\$0.4m). While this was disappointing, we note it was impacted by an \$0.8m cash tax payment from 2005 (non recurring), increased working capital in line with increased revenues and \$0.6m in debtors expected to fall in December which did not come through until January.
- While this cash flow position is not ideal, the company expects \$4.5m in operating cash flow in 2H 06 which will support the remainder of its capex program - designed to increase output capacity. We also note the expected reduction in capex from FY 07.
- Debt levels are in line with our expectations and we continue to target total debt of \$31.3m at FY 06E. On a positive note, 1H 06 EBITA/net interest cover of 5.3x is slightly ahead of our FY 06 forecast of 5.1x.
- CKL has reiterated the outlook statement it gave at the 2005 AGM, forecasting sales growth of 10-15% (TNL estimates 15%) and EPS growth of at least 5% (TNL estimates 2%). The company's guidance includes the abnormal cost associated with the site relocation.
- In light of this interim result and the company's outlook comments, we have retained our existing FY 06 earnings and dividend forecasts. Similarly, we have continued to value CKL using a DCF valuation, cross referencing this with earnings capitalisation techniques. Applying consistent parameters we maintain our per share valuation of \$0.69.
- As such we retain our Buy recommendation.



INVESTMENT FEATURES

Sales Growth

CKL recorded 1H 06 sales growth of 26% to \$35.1m which is in line with our forecasts and places the company on track to meet our FY 06 estimates of 15% sales growth to \$67.3m.

Break down of sales growth

Excluding Castle Graphic's (acquired December 04) circa 10% contribution to group sales, organic sales growth was an impressive 16% versus pcp. This reflects the company's focus on expanding output capacity and was generated from both new customers and existing customers in the Pharmaceutical/Healthcare, Food & Beverage and FMCG sectors.

EBITDA & Margins

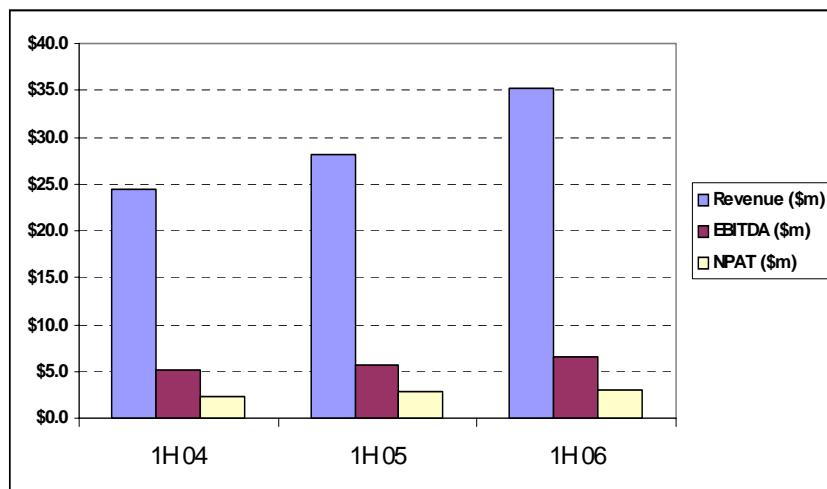
The sales growth translated to increased earnings with EBITDA of \$6.5m up 15%. However, despite the increase, margins fell from 20% to 18.5% due to the contribution from Castle Graphics lower margin business and the increased focus on securing new clients.

Margins were also impacted by \$0.16m in costs associated with a bad debt and legal challenge to CKL's trading name (from a foreign company). We expect margins to stabilise when these costs are removed and as the company accelerates output from its capital expenditure program.

NPAT

Bottom line NPAT was up 10% to \$3.0m and when excluding 1H 05 goodwill amortisation EPS growth totalled 7%. This growth trajectory continues the company's record of underlying sales and earnings appreciation.

Sales & Earnings Comparative Growth



While earnings growth was pleasing, it did not translate to growth in operating cash flows which came in at (\$0.4m) versus \$3.6m in the pcp. This was caused by:

- A cash tax payment of \$0.8m which related to FY 05 tax and hence will not recur in 2H 06.
- Increased working capital requirements in line with increased sales - working capital increased by \$3.2m versus 2H 05.
- \$0.7m in customer receipts due to be paid in December 05 which fell into January 06.



<i>Forecast cash flows</i>	Despite this 1H 06 disappointment, CKL has noted it expects 2H 06 operating cash flows of \$4.5m which supports the further \$3.5m in capital expenditure we expect this half. Despite the large FY 06 capex program, we reiterate our view that FY 07 will see a significant capex reduction as the company consolidates its FY 06 spend.
<i>Debt levels</i>	Debt as at 31 st December 05 of \$33.9m was in line with our expectations. While we are not forecasting a sizeable increase in this debt level, we estimate the company to have access to a further \$2.5m in un-drawn bill facilities while circa \$2.3m from its bank overdraft remains unused.
<i>NTA Positive</i>	As forecast, the company's financial position places it in a NTA per share positive position to the tune of \$0.012.
<i>Earnings targets</i>	While we did not expect the ramp up in working capital for the half, the overall result falls in line with our expectations. As such we have not altered our sales, earnings or dividend forecasts for FY 06 and have also left our FY 07 targets unchanged.

VALUATION & RECOMMENDATION

With our estimates remaining unchanged, we continue to value CKL applying our existing DCF assumptions while using earnings capitalisation techniques to cross reference this valuation.

In particular, our DCF approach assumes:

- WACC of 12.3%
- Revenue growth of 3% post FY 07
- Consistent EBITDA margins of 19% post FY 07
- Terminal growth rate of 3%

This generates a per share valuation of \$0.69. At this level the company would trade on a FY 06E P/E of 9.8x, EV/EBITDA of 7.0x and carry a fully franked yield of 3.9%. We believe this represents fair value.

As such we retain our **Buy recommendation**.



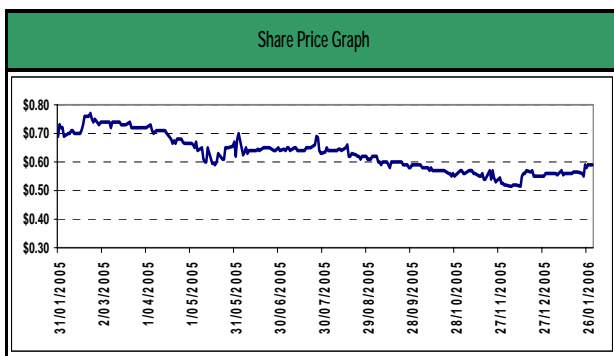
NUMBERS

Summary	2004A	2005A	2006E	2007E
EPS* (c)	6.4	6.9	7.1	7.7
EPS Growth (%)	n.a	8.0%	2.2%	9.3%
P/E Ratio (x)	8.8	8.2	8.0	7.3
CFPS (c)	5.7	9.8	5.5	9.2
Price/CFPS (x)	9.9	5.8	10.3	6.2
DPS (c)	0.0	2.5	2.7	3.3
Dividend Yield (%)	n.a	4.4%	4.8%	5.8%
Franking (%)	n.a	100%	100%	100%
Payout Ratio	n.a	65%	38%	42%

Key Performance Indicators	2004A	2005A	2006E	2007E
Revenue Growth (%)	n.a	18.2%	15.3%	5.4%
EBITDA Growth (%)	n.a	7.2%	12.7%	6.0%
EBIT Growth (%)	n.a	8.6%	47.4%	2.4%
NPAT (pre-amort., incl. non-recurr. Items) Growth (%)	n.a	10.2%	4.0%	9.3%

Key Value Indicators	2004A	2005A	2006E	2007E
EBITDA Margin (%)	21.5%	19.5%	19.0%	19.0%
EBIT Margin (%)	13.7%	12.5%	16.0%	15.4%
NPAT (pre-nonrecurring items & amortisation) Margin (%)	10.1%	9.4%	9.0%	8.7%
EV/EBITDA (x)	6.8	6.4	6.3	5.7
EV/EBIT (x)	10.7	10.0	7.4	7.1

Balance Sheet Analysis	2004A	2005A	2006E	2007E
Price/Book (x)	1.47	1.24	1.15	1.07
Debt (\$m)	(28.2)	(27.5)	(34.5)	(32.3)
Debt / Equity (%)	73.6%	60.5%	70.4%	61.1%
Debt/(Debt + Equity) (%)	42.4%	37.7%	41.3%	37.9%
EBITA/Net Interest (x)	4.8	5.0	5.1	5.2
ROE (%)	6.7%	6.8%	11.6%	11.4%
ROA (%)	9.0%	8.7%	11.3%	11.4%



* EPS calculated ex-goodwill amortisation

Profit & Loss Statement (\$M)	2004A	2005A	2006E	2007E
Revenue	49.6	58.6	67.6	71.3
EBITDA	10.6	11.3	12.8	13.5
Depn/Amort.	(3.9)	(4.1)	(2.0)	(2.6)
Total EBIT	6.7	7.3	10.7	11.0
Net Interest Expense	(2.2)	(1.9)	(2.1)	(2.1)
Pre-Tax Profit	4.5	5.4	8.6	8.9
Tax	(2.0)	(2.3)	(2.6)	(2.7)
NPAT (pre-non-recurring items)	2.6	3.1	6.0	6.2
Non-recurring Items (post tax)	0.0	0.0	(0.4)	0.0
NPAT pre-amortisation (incl. non-recurring items)	5.0	5.5	5.7	6.2

Balance Sheet (\$M)	2004A	2005A	2006E	2007E
Cash	0.0	0.0	0.0	0.0
Receivables	9.5	10.9	12.6	13.6
Inventories	3.4	5.2	7.0	7.5
PPE	15.2	19.6	26.0	26.2
Intangibles	45.6	46.1	46.1	46.1
Other Assets	1.2	2.4	3.1	2.6
Total Assets	74.9	84.1	94.9	96.0
Creditors	4.6	5.9	6.1	6.2
Borrowings	28.2	27.5	34.5	32.3
Other Liabilities	3.6	5.3	5.3	4.7
Total Liabilities	36.4	38.6	45.8	43.2
Total Shareholders Equity	38.5	45.5	49.0	52.8

Cashflow Statement (\$M)	2004A	2005A	2006E	2007E
NPAT	1.5	3.1	5.7	6.2
Depreciation + Amortisation	1.9	4.0	2.0	2.6
(Increase)/Decrease in Working Capital	(0.8)	(0.6)	(3.3)	(1.4)
Increase/(decrease) in other	1.8	1.4	0.0	0.0
Net Operating Cash Flow	4.4	7.9	4.4	7.4
Capital Expenditure	(0.3)	(3.8)	(8.5)	(2.7)
Equity (Acquisitions)/disposals	(2.6)	(2.6)	0.0	0.0
Other Disposals	0.1	0.0	0.0	0.0
Other	(0.9)	0.0	0.0	0.0
Net Investing Cash Flows	(3.6)	(6.3)	(8.5)	(2.7)
Cash Dividends	0.0	(0.8)	(2.1)	(2.4)
Equity Issues/(buybacks)	1.3	0.0	0.0	0.0
Net Debt	(2.9)	(0.7)	7.0	(2.3)
Other	0.0	0.0	0.0	0.0
Net Financing Cashflow	(1.6)	(1.5)	4.9	(4.7)
Net Cash Flow	(0.8)	0.0	0.8	(0.0)
Cash at Beginning of Period	0.0	(0.8)	(0.8)	0.0
Cash at End of Period	(0.8)	(0.8)	0.0	0.0

Source: Tolhurst Noall Ltd



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Recommendations are assessments of each Tolhurst Noall Analyst's view of potential total returns over a 1-year period relative to the performance of the All Ordinaries Accumulation Index.

Expected total Return is measured as (capital gain (or loss) + dividend)/purchase price

We have divided our recommendations into five main categories:

Strong Buy: Expected Total Return in excess of 25% over a 1 year period relative to All Ordinaries Accumulation Index

Buy: Expected Total Return between 15% and 25% over a 1 year period relative to All Ordinaries Accumulation Index

Accumulate: Expected Total Return between 5% - 15% over a 1-year period relative to All Ordinaries Accumulation Index

Hold: Expected Total Return between -5% and 5% over a 1 year period relative to All Ordinaries Accumulation Index

Sell: Expected Total Return less than -5% over a 1 year period relative to All Ordinaries Accumulation Index

Risk Ratings:

Risk is a subjective assessment of overall risk within a company including price volatility and earnings variability, external liquidity, and size.

We divide our risk into three categories:

High: Company typically has high price volatility and earnings variability, low external liquidity and has a small market capitalisation.

Medium: Company typically has moderate price volatility and earnings variability, external liquidity and a medium size market capitalisation.

Low: Company typically has low price volatility and earnings variability, high external liquidity and is a large size market capitalisation.

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