



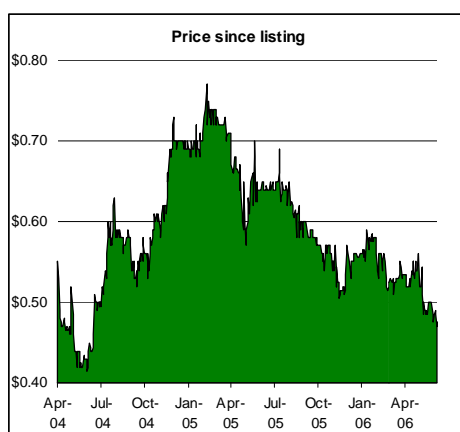
## Colorpak

Revised FY06 forecast by company & site visit

Sector: Materials  
Analyst: Colin Mackie

June 23, 2006

ASX Code: CKL  
Price: \$0.485  
Valuation: \$0.650  
Recommendation: Buy  
Risk Rating: High  
Market Capitalisation: \$39m



Year 30 June	05A	06E revised	07E revised
Revenue (\$m)	58.6	69.0	71.0
Net Profit (\$m)	3.1	4.6	5.1
EPS* (c)	6.9	5.7	6.6
EPS growth (%)	8.0	(17.3)	15.2
P/E Ratio (x)	7.0	8.5	7.4
EBIT	7.3	8.8	10.9
EBITDA	11.3	11.1	13.7
EBITDA Margin	19.5	16.1	19.0
NPAT Margin**	9.4	6.7	7.4
Dividend (c)	2.5	2.75	2.75
Yield (%)	4.5	5.7	5.7
Franking (%)	100	100	100
Yield (%) fully franked	7.5	8.3	8.3
Net Debt / Equity (%)	61	72	63
Debt / Debt + Equity %	38	42	39
EBITA/Int. Exp. (x)	5.0	4.0	5.6
ROE (%)	8.7	9.4	11.6

\* Pre-goodwill amortisation

\*\* Pre-amortisation & non-recurring items

## Recommendation: Buy

### Key Points

- CKL issued a revised forecast for the year to June 06.
- Revenues will be above company guidance, \$69m versus \$67m. The business continues its 20 year tradition of year on year revenue growth.
- The revised NPAT of \$4.6m is \$1.1m below previous guidance of \$5.7m. This is due to two non-recurring factors.
- 1] The planned Sydney relocation to Regent Park was delayed by 3 months. This required work to be transferred to Melbourne and resulted in extra one-off operating costs. These are above the \$0.4M relocation cost already factored in for FY06.
- 2] A strategic review of Castle Graphics' foil and self adhesive leaflet business, which had not been performing to expectations, will result in its integration into the new Regent Park facility and will result in additional restructuring costs. The restructure will reduce fixed costs and improve manufacturing efficiencies while maintaining the existing product range.
- Importantly these two sets of costs should be specific charges against the 2006 result.
- The operational and financial base for CKL is now set. Normalised operations will resume in FY 07 and see the benefits flow to the bottom line.
- CKL anticipate continued revenue growth in both NSW and Victoria in FY07. The high volume beverage and niche pharmaceutical markets are where CKL currently generates profitable business.
- The business is fundamentally very sound. It generates good cashflow. Recent capex and expansion plans are largely complete and set to deliver earnings growth.
- We have not lowered our FY 07E earnings. Our valuation is \$0.65 per share. With the share price trading at a discount to this valuation and on attractive forecast multiples we recommend a 'Buy'.

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## INVESTMENT FEATURES

*FY06 disappoints at the last minute but FY 07 on track*

Set against the backdrop of a large expansionary drive and site relocation, CKL has encountered 2 non-recurring factors that required us to lower our FY 06 forecasts but not our FY 07 forecast.

Year 30 June	06E	06E revised	% change
Revenue (\$m)	67.6	69.0	+2.1
Net Profit (\$m)	5.7	4.6	-19.3
EPS* (c)	7.1	5.7	-19.7
Dividend (c)	2.70	2.75	+1.9
Yield (%)	4.9	5.7	+16.3

From our site visit we noted the new die cutting machine and 6 colour printing press are operating at expected capacity. We expect another 6-colour printing press to become operational early in the September quarter at Regents Park.

*Attractive Earnings Multiples*

CKL is currently trading on an attractive FY 06E P/E of 8.5x and on FY 07E of 7.4x. FY07E EPS growth is 15.2%.

*Attractive fully franked dividend yield of 8.3%*

Operating cash flows are expected to remain strong. CKL DPS guidance for FY 06 is \$0.0275 and we expect this to be maintained for FY 07. While this may prove conservative, we have done so to account for the company's focus on managing its debt profile. This generates a fully franked FY 06E yield of 8.1%.

*Maintain FY 07 estimates*

In light of 'solid trading conditions' advice from the company, we maintain our FY 07E sales growth assumptions leading to an increase in total revenue to \$71m.

Our target FY 07E NPAT has been lowered to the bottom of the company's guidance range, 5.1m to \$5.4m. We forecast FY 07 EPS growth under normalised conditions to be 10%. We have maintained our FY 07E DPS at FY06E levels in light of CKL's debt level and their desire to lower this.

We believe the operational issues of 2H06 are one-off. The financial pain should be limited to FY 06. There is no point shutting the gate after the horse has bolted.

*The potential going forward*

Moving forward the operation of the company should maintain its revenue growth, and return to solid double digit EBITDA margins.

Cashflows from operations are expected to remain robust through 2007 enabling dividend payout.

Management information systems have been improved.

Input costs (board) have increased marginally but are being passed on to customers. Of these the largest is labour which has risen 4% on new EBAs.

Debt levels are high and the company will investigate ways to best lower them.

As the number 3 player, the company is always on the look out for growth opportunities. There are a number of players CKL is keeping an eye on. CKL believes a combination of the smaller players could challenge for greater market share.

The current 'short term timing delay' to earnings should not detract from what is otherwise now a better positioned business.

The current share price reflects a cheap entry to steady earnings with very reasonable growth potential and a solid dividend yield.

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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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This report has been reviewed by my peers.

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