

Unappreciated packaging exposure - BUY



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Solid FY08 result

CKL reported FY08 NPAT of A\$6.2m, up 23% on the pcp and inline with our estimates. The strong earnings result was driven by solid growth in sales to the beverage segment, higher capacity utilisation rates and operational efficiencies from the recent capex program - a trend we expect to continue in the near future.

Earnings upgraded by 3-6% for FY09E-11E

We have upgraded our EPS by 2.7% in FY09, 4.1% in FY10 and 6.4% in FY11. Upgrades are due to (1) higher volumes from new capacity and improved operating rates; and (2) higher price growth assumptions, reflecting increased sales to the pharma/healthcare segments and the recovery of raw material costs.

Solid platform to grow despite difficult economic conditions

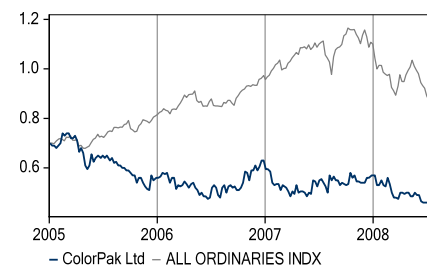
We expect a solid result in 09 and beyond driven by top-line growth, continued focus on high-margin, less economic sensitive segments (pharma / healthcare), operational improvements and capital initiatives. Despite the challenging outlook for the domestic economy over the next 24 months, we believe CKL is well positioned to generate solid growth in earnings and cash flows.

Unappreciated packaging exposure - Buy

Despite difficult trading conditions in Australia due to rising inflationary pressures and a slowing economy, CKL has managed to post a robust result driven by margin expansion and strong organic growth - highlighting the strength of its business model. However, this is not reflected in the share price as the market continues to ignore the intrinsic value of this compelling business. Trading well below its fundamental value (our DCF is \$0.83ps), CKL has corporate appeal and could be prey to the future rationalisation of the Australian carton board market. We maintain our Buy rating and PO of A\$0.75.

Stock Data

Price	A\$0.520
Price Objective	A\$0.750
Date Established	5-Jul-2006
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	A\$0.440-A\$0.620
Mrkt Val / Shares Out (mn)	US\$38 / 80.5
Average Daily Volume	6,555
ML Symbol / Exchange	XBVVF / ASX
Bloomberg / Reuters	CKL AU / CKLAX
ROE (2009E)	12.0%
Net Dbt to Eqty (Jun-2008A)	53.6%
Est. 5-Yr EPS / DPS Growth	6.3% / 8.4%
Free Float	68.0%



Estimates (Jun)

(A\$)	2007A	2008A	2009E	2010E	2011E
Net Profit b/f Abnormals	5.1	6.2	6.8	7.4	8.1
EPS	0.063	0.077	0.084	0.092	0.100
EPS Change (YoY)	12.2%	22.9%	9.4%	8.5%	9.4%
Dividend / Share	0.028	0.030	0.035	0.038	0.043
Free Cash Flow / Share	(0.014)	0.073	0.068	0.081	0.091

Valuation (Jun)

	2007A	2008A	2009E	2010E	2011E
P/E	8.3x	6.7x	6.2x	5.7x	5.2x
Dividend Yield	5.3%	5.8%	6.7%	7.2%	8.2%
EV / EBITDA*	6.0x	5.0x	4.6x	4.2x	3.7x
Free Cash Flow Yield*	-2.8%	14.0%	13.0%	15.7%	17.5%

* For full definitions of *iQmethod*SM measures, see page 11.

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06 August 2008

iQprofileSM Colorpak Ltd.

Key Income Statement Data (Jun)	2007A	2008A	2009E	2010E	2011E
(A\$ Millions)					
Sales	72	79	85	92	96
Operating Expenses	(59)	(64)	(70)	(76)	(80)
EBITDA	13	14	15	16	17
Depreciation & Amortization	(3)	(3)	(3)	(3)	(3)
EBIT	10	11	12	13	14
Net Interest & Other income	(3)	(3)	(2)	(2)	(2)
Associates	NA	NA	NA	NA	NA
Pretax Income	7	9	10	11	12
Tax (expense) / Benefit	(2)	(3)	(3)	(3)	(3)
Net Profit b/f Abnormals	5	6	7	7	8
Non-Recurring Items	0	0	0	0	0
Net Income (Reported)	5	6	7	7	8
Avg F Diluted Shares Outstanding	80	80	80	80	80

Key Cash Flow Statement Data

EBITDA	13	14	15	16	17
Change in Working Capital	0	(3)	1	0	0
Deferred Taxation Charge	1	1	0	0	0
Other Adjustments, Net	0	0	0	0	0
Cash Flow from Operations	9	8	10	10	11
Capital Expenditure	(10)	(2)	(5)	(4)	(4)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other Cash Inflow / (Outflow)	0	0	0	0	0
Cash Flow from Investing	(8)	(2)	(5)	(4)	(4)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(2)	(2)	(3)	(3)	(3)
Cash Flow from Financing	0	(5)	(3)	(5)	(5)
Free Cash Flow	(1)	6	5	7	7
Net Debt	33	29	27	24	20
Change in Net Debt	NA	NA	NA	NA	NA

Key Balance Sheet Data

Property, Plant & Equipment	28	27	29	30	30
Other Non-Current Assets	0	0	0	0	0
Trade Receivables	13	14	14	15	16
Cash & Equivalents	0	1	4	5	7
Other Current Assets	1	2	2	2	2
Total Assets	97	99	104	108	111
Long-Term Debt	33	30	30	28	26
Other Non-Current Liabilities	0	1	1	1	1
Short-Term Debt	1	1	1	1	1
Other Current Liabilities	2	3	3	3	3
Total Liabilities	46	45	46	45	44
Total Equity	51	55	58	63	68
Total Equity & Liabilities	97	99	104	108	111

iQmethodSM - Bus Performance*

Return on Capital Employed	8.3%	9.3%	9.6%	9.9%	10.2%
Return on Equity	10.2%	11.7%	12.0%	12.2%	12.4%
Operating Margin	13.8%	14.7%	14.4%	14.2%	14.2%
EBITDA Margin	17.6%	18.2%	17.7%	17.5%	17.4%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	1.8x	1.2x	1.5x	1.4x	1.4x
Asset Replacement Ratio	3.6x	0.6x	1.7x	1.2x	1.2x
Tax Rate (Reported)	30.0%	30.2%	30.2%	30.2%	30.3%
Net Debt-to-Equity Ratio	64.8%	53.6%	47.0%	38.1%	29.3%
Interest Cover	3.7x	4.4x	4.8x	5.2x	5.9x

Key Metrics

Franking	100%	100%	100%	100%	100%
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* For full definitions of iQmethodSM measures, see page 11.

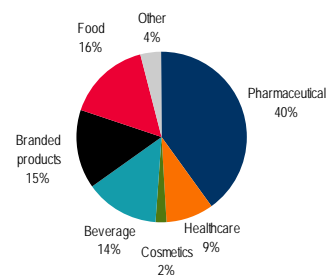
Company Description

Colorpak is a major participant in the A\$600m folding-carton segment of Australia's paper and board packaging industry. The company's products are heavily exposed to the higher margin pharmaceuticals and healthcare industries. The company is based in Melbourne, Australia.

Investment Thesis

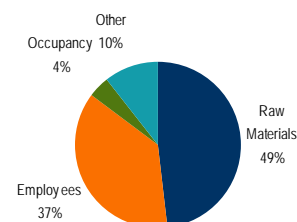
The mid term outlook for CKL is bright. Backed by a strong management team, which has a solid track record of sales growth and also own a significant proportion of stock, CKL should enjoy solid sales and earnings growth driven by underlying growth in key markets, continued market share gains and a focus on higher margin segments (pharma). Trading below its fundamental value, the stock has corporate appeal and could be a prey in the ongoing rationalisation of the Australian carton board market.

Chart 1: CKL revenues by segment



Source: Merrill Lynch estimates

Chart 2: CKL operating cost breakdown



Source: CKL FY08 data

Stock Data

Price to Book Value 0.7x

Strong FY08 result, more to come

Robust FY08 result. CKL reported FY08 NPAT of \$6.2m, up 23% on the pcp and slightly above our estimates of \$6.1m. The strong earnings result was driven by solid growth in sales - primarily to the beverage segment - as well as operational efficiencies from the recent capex program.

Unappreciated packaging exposure. Despite difficult trading conditions in Australia due to a slowing economy and rising inflationary pressures, CKL has managed to post a robust result driven by margin expansion and strong organic growth - highlighting the strength of its business model. However, this is not reflected in the share price as the market continues to ignore the value of this business.

Buy retained with a PO of \$0.75ps. Trading at inexpensive multiples and well below our fundamental valuation (DCF \$0.83ps), CKL has corporate appeal and could be prey to the future rationalisation of the Australian carton board market.

Result at a glance

Below we summarise the key financial highlights from today's result:

Table 1: FY08 result snapshot

A\$m	FY07	FY08	Chg %
Sales Revenue	71.0	77.8	9.5%
EBITDA	12.7	14.3	13.0%
D&A	-2.9	-2.9	-0.6%
EBIT	9.8	11.5	17.0%
Net Interest	-2.6	-2.6	-0.7%
EBT	7.2	8.9	23.4%
Tax Expense	-2.2	-2.7	24.4%
NPAT	5.1	6.2	22.9%
EBITDA Margin	17.8%	18.4%	0.6%
EBIT Margin	13.8%	14.7%	0.9%
EPS (A\$ cents)	6.3	7.7	22.9%
DPS (A\$ cents)	2.8	4.0	45.5%

Source: CKL, Merrill Lynch

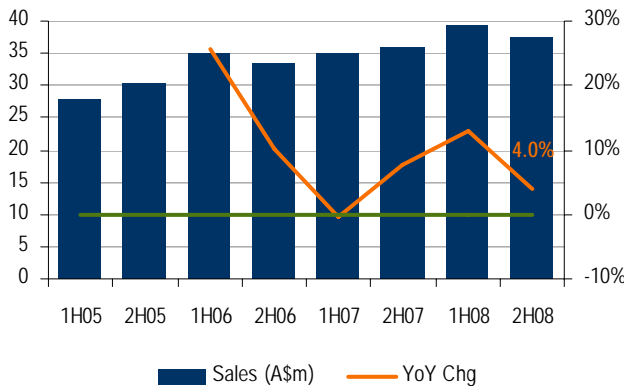
- NPAT:** CKL reported a net profit of A\$6.2m, up 23% on the pcp and 2% ahead of our forecasts of A\$6.1m. The result was driven by higher volume sales and manufacturing efficiencies, which led to some margin expansion.
- Revenue drivers:** Sales rose 9.5% on the pcp and came above our growth forecast of 8.2%. Increased revenues were due to strong trading conditions across the pharmaceutical and beverage segments, higher operating rates and the introduction of new products to larger customers.
- Cost drivers:** CKL's cost base rose 8.8% on the pcp, driven by higher staff (up 14%), occupancy (16%) and other operating costs, including electricity. This was partly minimised by operational efficiencies, which resulted in raw material costs (~49% of costs) rising only 5%.
- Operating cash flow:** The only disappointment from today's result was OCF, which was down 16% despite a 14% rise in operating earnings (NPAT+D&A). This was due to higher taxes and a build up in working capital (mainly inventories) associated with the beverages packaging business.
- Capex:** Net capex came at A\$1.6m, representing only 56% of depreciation. After one year of "capex holiday", capital requirements are expected to rise to \$5m in FY09 as the company invests in new machinery and production capabilities at the Regents Park facility in Sydney.
- Gearing (D/D+E):** CKL has used some excess cash to pay down debt, reducing gearing from 39% to 35% in the past 12 months. At the end of June, 90% of CKL's debt was fixed at "below market" interest rates.
- Final dividend:** CKL declared a fully franked final div of 1.75cps and a special div of 1.00cps, taking the total div for FY08 to 4.00cps (vs 2.75cps in FY07). The record date is 8 Sept 08, and the div will be paid on 6 Oct 08. The company also announced the introduction of a DRP.
- Outlook:** No specific guidance provided, but CKL remains confident that it can generate "good" sales and earnings growth (5-10%) despite the difficult economic environment in Australia. We are currently forecasting NPAT FY09 of A\$6.8m, up 9% on the pcp.

Highlights

▪ Double-digit sales growth on strong trading conditions

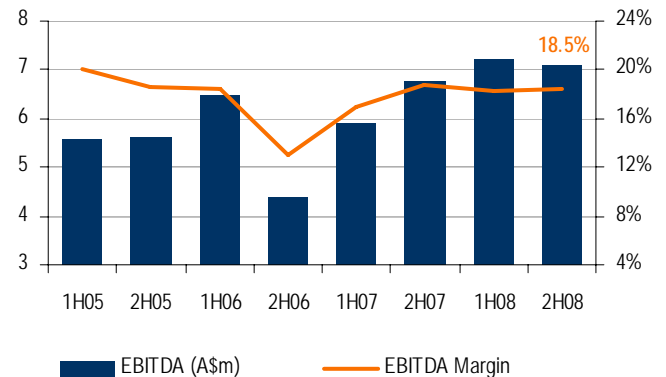
Sales rose 10% vs pcp driven primarily by increased sales to the beverage sector as well as continued volume growth in the higher margin pharmaceutical segment. The top-line also benefited from additional sales flowing from CKL's recent capex program, particularly from the Regents Park operation in NSW. We expect CKL to continue to extract revenue benefits from this capital investment in the next financial year.

Chart 3: Revenue up 10% in FY08 on higher sales to beverages sector



Source: CKL, Merrill Lynch estimates

Chart 4: EBITDA margin remains above 18%



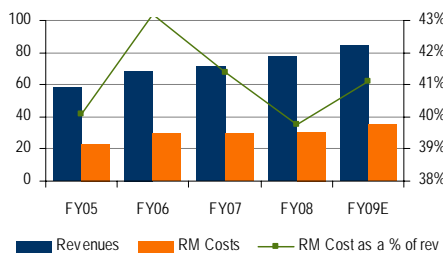
Source: CKL, Merrill Lynch estimates

▪ EBITDA margin expands 60bps to 18.4%

Operating margins expanded from 17.8% in the FY07 to 18.4% in the FY08. This material improvement in margins is due to improved capacity utilization rates across all manufacturing facilities and production efficiencies at the Sydney factory. In our view, this is a respectable outcome given that staff and occupancy costs rose materially in the past 12 months. Electricity expenses also increased considerably (70-80% vs 07) as CKL had to renew its contracts in July 07, when prices were peaking. In FY09 electricity charges are forecast to decline, inline with lower electricity prices in NSW and Victoria.

While we expect margins to remain near current levels (17.5 to 18.5%) in the foreseeable future, we think it's unlikely that CKL will be able to achieve higher margins (>20%) as customers may start pushing for lower prices.

Chart 5: Revenues vs RM costs



Source: CKL, Merrill Lynch estimates

▪ Manufacturing efficiencies reducing raw material costs

Raw materials make up ~49% of CKL's cost base. The key raw material is cartonboard, which is either sourced from local manufacturers or imported. In the past year, RM costs grew at a slower pace than revenues – this is due to operational efficiencies related to its manufacturing facilities in Regents Park. While revenues increased 10% in the FY08 while RM costs rose only 5%. As can be seen on chart 5, raw material costs as a % of revenues declined from ~42% in FY07 to 40% in the FY08.

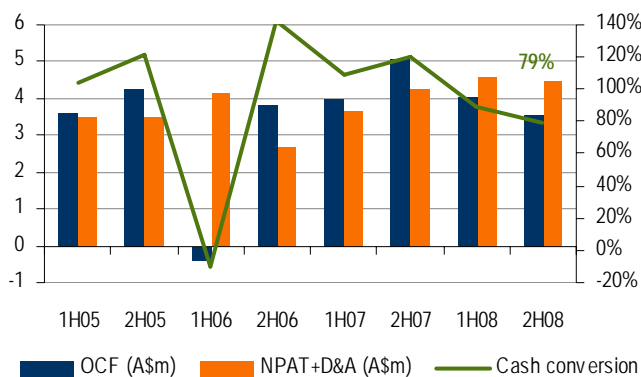
In FY09, we expect RM cost to increase as suppliers raise their prices for cartonboard. We understand that AMC, which supplies 50% of CKL's needs, has increased its prices by 5-8% effective 1 July 08. While CKL has rise and fall clauses for most contracts, overall we expect RM costs as a % of revenues to increase marginally next year - from 40 to 41%, but still below 2007 levels.

OCF below expectations, but working capital build up expected to be partially reversed in FY09

The only disappointment in an otherwise strong result was operating cashflow, which felt 16% despite a 26% rise in operating earnings (NPAT+D&A). This was due to a build up in working capital (mainly inventories) associated with the beverage packaging business.

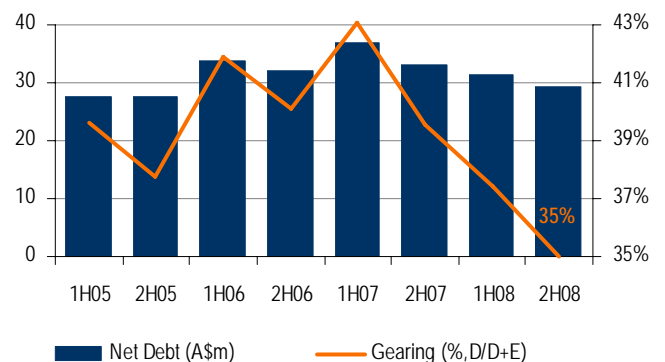
As can be seen below, in 5 of the past 8 halves OCF has substantially outperformed operating earnings (NPAT+D&A), which is a testament to CKL's strong focus on working capital management and its ability to convert earnings into cash. For this reason, despite the disappointing cash conversion this year, we are expecting some of this WC build up to be converted into cash in FY09.

Chart 6: Cash realisation - OCF vs NPAT+D&A



Source: CKL, Merrill Lynch estimates

Chart 7: Gearing down from 43% to 35% in the past 12 months



Source: CKL, Merrill Lynch estimates

On a more positive note, free cash flow was very strong totaling A\$5.9m, a major improvement vs the pcp (A\$1.2m).

Gearing remains at comfortable levels

CKL's gearing (net debt / net debt + equity) fell from 39% in the FY07 to 35% at the end of June 08. Due to CKL's size and concentrated earnings stream, we are encouraged to see gearing at more conservative levels (sub 40%). Despite the (relatively) higher capex burden expected for FY09, we expect gearing to remain near or below 35%. As a result, we see interest cover ratio staying above 4.5x.

Outlook

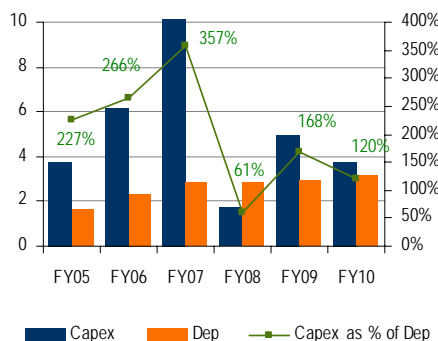
No guidance provided, but outlook looks positive

No specific guidance was provided. However, CKL remains confident that it will continue to generate "good" sales and earnings growth (5-10%) despite the difficult economic environment in Australia. We are currently forecasting NPAT FY09 of A\$6.8m, up 9% on the pcp.

Capital commitments to increase in FY09

After 1 year of "capex holiday", capital commitments are expected to rise in FY09 as CKL invests in new machinery at tis facilities in Regents Park, Sydney. CKL is expected to spent \$5m to purchase new equipment – one new printing press and one cutting machine – to be installed in Sydney. In addition, the company will also upgrade its 8-years old IT infrastructure across all operations. Beyond FY09, CKL expects capex to be roughly inline with depreciation (\$3-3.2m pa). In our model, we have capex near 120% of depreciation, which is more line with the rest of the packaging industry.

Chart 8: Capex vs depreciation



Source: CKL, Merrill Lynch estimates

Earnings changes

We have upgraded our EPS by 2.7% in FY09E, 4.1% in FY10E and 6.4% in FY11E. Upgrades are due to (1) higher volumes from new capacity and improved operating rates; and (2) higher price growth assumptions, reflecting increased sales to the pharma/healthcare segments and the recovery of higher raw material costs, mainly cartonboard.

Table 2: Earnings changes

Year end June		FY09E	FY10E	FY11E
Sales Revenue				
Was	A\$m	81.3	85.7	89.6
Is	A\$m	84.6	90.6	95.4
Change	%	4.0%	5.8%	6.5%
EBITDA				
Was	A\$m	14.8	15.3	15.9
Is	A\$m	15.1	16.0	16.7
Change	%	2.1%	4.3%	5.8%
EBIT				
Was	A\$m	11.7	12.3	12.8
Is	A\$m	12.2	12.8	13.6
Change	%	3.9%	4.7%	6.4%
NPAT				
Was	A\$m	6.6	7.1	7.6
Is	A\$m	6.8	7.4	8.1
Change	%	2.7%	4.1%	6.4%
Normalised EPS				
Was	cps	8.2	8.8	9.4
Is	cps	8.4	9.2	10.0
Change	%	2.7%	4.1%	6.4%

Source: Merrill Lynch estimates

Table 3: CKL DCF valuation

PV of CFs	A\$m	30.3
PV of terminal value	A\$m	56.4
Enterprise Value	A\$m	86.7
Net Debt	A\$m	30.6
Equity Value	A\$m	56.1
Fully diluted ordinary shares	Million	80.5
Equity Value per share	A\$ps	0.70
Franking credits	A\$ps	0.13
DCF	A\$ps	0.83

Source: Merrill Lynch estimates

Table 4: CKL PER valuation

	FY07A	FY08E	FY08E
Through-the-cycle PER Multiple	10.0x	10.0x	10.0x
EPS Pre-Goodwill (diluted)	7.7	8.4	9.2
Value per ordinary share	\$0.77	\$0.84	\$0.92

Source: Merrill Lynch estimates

Valuation changes

DCF valuation

Our DCF for CKL rose slightly from \$0.82ps to \$0.83ps, with higher earnings estimates being mostly offset by higher capex requirements for FY09. Our DCF is based on a WACC of 11.2% and a terminal growth rate of 2.5%. Whilst we consider the DCF valuation to be the most appropriate methodology to value this company, we recognise that the stock also looks attractive on different metrics such as PER.

PER valuation

We apply a mid-cycle multiple for the stock of 10x, a 50% discount to the market multiple of 15x. In our view such discount is reasonable, given CKL's inherent liquidity/size issues and the cyclical industry it operates in.

Applying this 10x multiple to FY09 EPS of 8.4cps, we derive a valuation for the stock of A\$0.84ps, a 65% premium to the current share price. Importantly, were the stock to reach our price target of A\$0.75ps in 12 months time, CKL would be trading on a forward PER of 8.5x, which we do not view as demanding.

Buy recommendation

Post the FY08 result, we remain comfortable with our Buy recommendation. Our positive stance on the stock is premised on CKL's solid growth outlook, strong management team, attractive dividend yield (7% fully franked FY09), inexpensive valuation (stock trading at a 38% discount to DCF) and corporate appeal.

Financials

Table 5: Statement of Financial Performance

Year ending June (A\$m)	2007A	2008A	2009E	2010E	2011E
Trading revenue	71.0	77.8	84.6	90.6	95.4
- change	3.6%	9.5%	8.7%	7.1%	5.3%
EBITDA	12.7	14.3	15.1	16.0	16.7
- change	16.8%	13.0%	5.4%	5.8%	4.7%
Depreciation	-2.9	-2.9	-2.9	-3.1	-3.1
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	9.8	11.5	12.2	12.8	13.6
- change	14.9%	17.0%	6.0%	5.6%	5.8%
Net interest	-2.6	-2.6	-2.4	-2.3	-2.0
Pre-tax profit	7.2	8.9	9.7	10.6	11.6
Tax expense	-2.2	-2.7	-2.9	-3.2	-3.5
Outside equity interests	0.0	0.0	0.0	0.0	0.0
Net profit att. to s/hers	5.1	6.2	6.8	7.4	8.1
- change	12.2%	22.9%	9.4%	8.5%	9.4%
Net significant items	0.0	0.0	0.0	0.0	0.0
Reported NPAT	5.1	6.2	6.8	7.4	8.1
EPS change	12.2%	22.9%	9.4%	8.5%	9.4%

Source: Merrill Lynch estimates

Table 6: Ratios

Year ending June (A\$m)	2007A	2008A	2009E	2010E	2011E
Profitability Ratios					
EBIT margin	13.8%	14.7%	14.4%	14.2%	14.2%
NPAT margin	7.1%	8.0%	8.0%	8.1%	8.5%
Effective tax rate	30.0%	30.2%	30.2%	30.2%	30.3%
NOPLAT pre goodwill	6.9	8.0	8.5	9.0	9.5
Invested Capital	91.5	93.1	96.5	98.8	101.7
ROIC (after tax)	7.5%	8.6%	8.8%	9.1%	9.3%
ROE	10.2%	11.7%	12.0%	12.2%	12.4%
ROA	10.3%	11.7%	11.9%	12.1%	12.4%
Gearing / Cashflow Ratios					
Debt / Equity	65%	56%	53%	46%	40%
Debt / Debt+Equity	40%	36%	35%	32%	29%
Debt / EBITDA	2.6x	2.2x	2.0x	1.8x	1.6x
CFO / Debt	27%	25%	34%	36%	41%
EBITDA / Interest	4.8x	5.5x	5.9x	6.5x	7.3x
EBIT / Interest	3.7x	4.4x	4.8x	5.2x	5.9x
Dividend cover	2.3x	2.6x	2.4x	2.4x	2.4x
Gearing (ND/ND+E)	39%	35%	32%	28%	23%
Free cashflow yield	-3.2%	16.2%	15.1%	18.1%	20.3%
Multiples					
EV/EBITDA	5.5x	4.6x	4.2x	3.8x	3.3x
EV/EBIT	7.1x	5.7x	5.2x	4.7x	4.1x

Source: CKL, Merrill Lynch estimates

Table 7: Statement of Financial Position

Year ending June (A\$m)	2007A	2008A	2009E	2010E	2011E
Cash	0.3	1.5	3.5	5.0	7.2
Receivables	12.8	13.7	14.1	14.8	15.5
Inventories	8.1	9.6	9.8	10.3	10.7
Other	1.2	1.6	1.6	1.6	1.6
Current Assets	22.4	26.4	29.1	31.8	35.0
Receivables	0.0	0.0	0.0	0.0	0.0
Inventories	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equipment	28.4	27.0	29.0	29.6	30.2
Intangibles	46.1	46.1	46.1	46.1	46.1
Other	0.0	0.0	0.0	0.0	0.0
Non-Current Assets	74.5	73.1	75.1	75.7	76.4
Total Assets	96.8	99.5	104.2	107.6	111.4
Accounts Payable	9.2	8.7	10.0	11.0	12.0
Borrowings	0.6	0.6	0.6	0.6	0.6
Provisions	1.8	2.0	2.0	2.0	2.0
Other	0.3	1.1	1.1	1.1	1.1
Current Liabilities	11.8	12.5	13.8	14.8	15.8
Accounts Payable	0.0	0.0	0.0	0.0	0.0
Borrowings	32.8	30.3	30.3	28.3	26.3
Provisions	0.9	0.9	0.9	0.9	0.9
Other	0.5	0.9	0.9	0.9	0.9
Non-Current Liabilities	34.1	32.1	32.1	30.1	28.1
Total Liabilities	45.9	44.5	45.8	44.9	43.9
Net Assets	50.9	55.0	58.3	62.7	67.5
Share Capital	38.9	38.9	38.9	38.9	38.9
Reserves	0.3	0.5	0.5	0.5	0.5
Retained Profits	11.8	15.6	19.0	23.4	28.2
Shareholders' Equity	50.9	55.0	58.3	62.7	67.5
Outside Equity Interests	0.0	0.0	0.0	0.0	0.0
Total Shareholders' Equity	50.9	55.0	58.3	62.7	67.5

Source: CKL, Merrill Lynch estimates

Table 8: Statement of Cashflows

Year ending June (A\$m)	2007A	2008A	2009E	2010E	2011E
EBITDA	12.7	14.3	15.1	16.0	16.7
Working capital	0.1	-2.7	0.7	-0.2	-0.1
Net interest paid	-2.6	-2.5	-2.4	-2.3	-2.0
Tax paid	-1.1	-1.5	-2.9	-3.2	-3.5
Other	0.0	0.0	0.0	0.0	0.0
Operating cashflow	9.1	7.6	10.4	10.3	11.1
Capex	-10.2	-1.7	-4.9	-3.8	-3.8
Sale of Assets	2.4	0.1	0.0	0.0	0.0
Net investments	0.0	0.0	0.0	0.0	0.0
Acquisitions/Divestments	0.0	0.0	0.0	0.0	0.0
Investing cashflow	-7.9	-1.6	-4.9	-3.8	-3.8
Free cashflow (OCF-Capex)	-1.2	5.9	5.5	6.5	7.3
Equity raisings	0.0	0.0	0.0	0.0	0.0
Dividends paid	-2.2	-2.4	-3.4	-3.0	-3.2
Net borrowings	2.2	-2.4	0.0	-2.0	-2.0
Other	0.0	0.0	0.0	0.0	0.0
Financing cashflow	0.0	-4.8	-3.4	-5.0	-5.2
Effect of exchange rate	0.0	0.0	0.0	0.0	0.0
Net change in cash	1.2	1.2	2.0	1.5	2.1

Source: CKL, Merrill Lynch estimates

Price objective basis & risk

Colopak Ltd (XBVVF)

Our DCF for CKL is \$0.83ps, based on a WACC of 11.2% and a terminal growth rate of 2.5%. Whilst we consider the DCF valuation to be the most appropriate methodology to value this company, we recognise that the stock also looks attractive on different metrics such as PER. We apply a mid-cycle multiple for the stock of 10x, a 50% discount to the market multiple of 15x. In our view such discount is reasonable, given CKLs inherent liquidity/size issues and the cyclical industry it operates in. Applying this 10x multiple to FY09 EPS of 8.4cps, we derive a valuation for the stock of A\$0.84ps, a 65% premium to the current share price. Importantly, were the stock to reach our price target of A\$0.75ps in 12 months time, CKL would be trading on a forward PER of 8.5x, which we do not view as demanding. The risks to our recommendation are product substitution, competition, rising raw material costs, management instability and customer attrition.

Analyst Certification

I, Mario Maia, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers.

I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Australia-Basic Industries Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
BUY				
	Colopak Ltd	XBVVF	CKL AU	Mario Maia, CFA
	Crane Group Ltd	CRAHF	CRG AU	Ben Chan, CFA
	Incitec Pivot Limited	ICPVF	IPL AU	Mario Maia, CFA
	Nufarm Limited	NUFMF	NUF AU	Mario Maia, CFA
NEUTRAL				
	Adelaide Brighton	ADBCf	ABC AU	Ben Chan, CFA
	James Hardie Ind	JHIUF	JHX AU	Ben Chan, CFA
	James Hardie-ADR	JHX	JHX US	Ben Chan, CFA
	Orica	OCLDF	ORI AU	Mario Maia, CFA
UNDERPERFORM				
	Amcor	AMCRF	AMC AU	Mario Maia, CFA
	Boral Ltd	BOALF	BLD AU	Ben Chan, CFA
	CSR Ltd	CSRLF	CSR AU	Ben Chan, CFA
	PaperlinX	PPXLF	PPX AU	Mario Maia, CFA

***iQmethod*SM Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

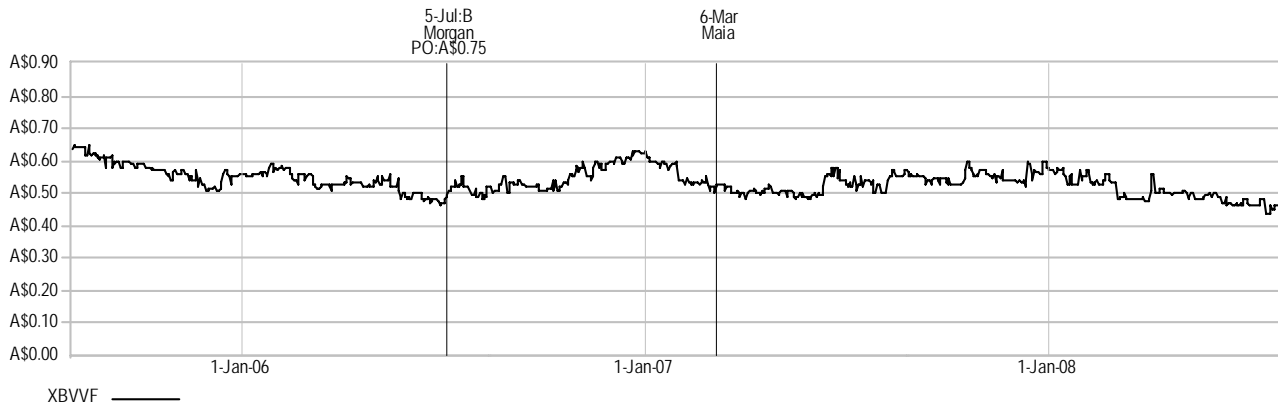
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Important Disclosures

XBVVF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

Prior to July 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of July 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of July 31, 2008 or such later date as indicated.

Investment Rating Distribution: Packaging Group (as of 01 Jul 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	4	44.44%	Buy	0	0.00%
Neutral	1	11.11%	Neutral	0	0.00%
Sell	4	44.44%	Sell	1	25.00%

Investment Rating Distribution: Global Group (as of 01 Jul 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1664	47.42%	Buy	441	29.46%
Neutral	803	22.88%	Neutral	224	31.46%
Sell	1042	29.70%	Sell	217	22.84%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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