

## SHAW STOCKBROKING LIMITED

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### Colorpak Ltd (42c –Hold)

- CKL this week reported an Interim NPAT of \$3.3m, +3% on pcp.
- CKL declared an unchanged 1.25c fully franked interim dividend to be paid on 1 April, books 6 March.
  - The DRP which was introduced in 2008 has been suspended.

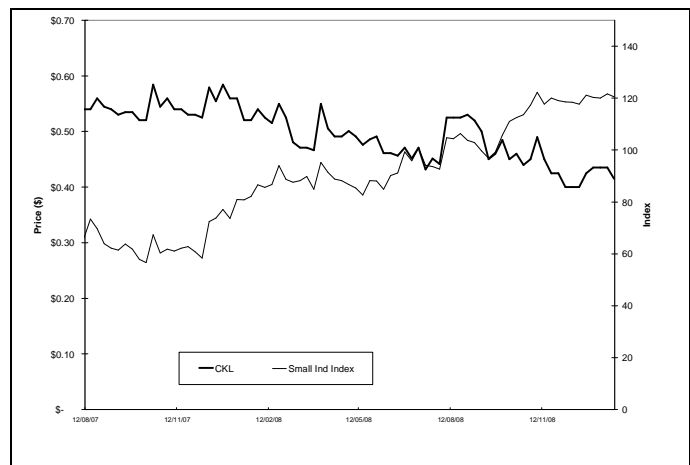
ColorPak Financial Summary	h1 08	h2 08	2008	h1 09	% chg
Sales Revenue	39.5	38.3	77.8	40.3	2.0%
EBITDA	7.3	7.1	14.4	7.4	1.7%
EBITDA Margin	18.4%	18.5%	18.4%	18.3%	
EBIT	5.9	5.6	11.5	6.0	
EBITA Margin	14.9%	14.7%	14.8%	14.9%	0.1%
Net Interest Expense	(1.3)	(1.3)	(2.6)	(1.2)	
Pre tax Profit	4.6	4.3	8.9	4.8	4.0%
Tax Expense	(1.4)	(1.3)	(2.7)	(1.4)	
NPAT	3.21	3.0	6.2	3.3	3.2%

- CKL's revenue growth was consistent with the modest growth in the folding carton market, with no major accounts won or lost. Demand from the beverage and pharmaceutical sectors was resilient. CKL maintain the maintenance of its enhanced share (8.5% at IPO in 2004 to 11.2% as at 6/08) reflects its investment in growth, the strength of its service culture and adding then cross-selling from its specialist flexibles business, (printed foils, laminates and labels).
- The strong trading performance (ie maintenance of operating margins in flat demand environment) largely reflects the improvement in operating performance of its factories (product quality, delivery performance). The operating performance at the greenfield factory at Regents Park (commissioned in 2006) continued to improve with the installation during the period of a new press and cutting machine, which lifted capacity and reduced use of overtime labour. This improvement more than offset the increase in raw material prices and the ongoing proportionate decline of contribution from the higher margin pharmaceutical and healthcare sectors.

#### Investment Fundamentals Market Cap:\$ 32m

		2008	2009	2010
NPAT	\$m	6.2	6.6	7.0
EPS	c	7.7	8.1	8.6
P/E	x	5.4	5.2	4.9
Relative P/E	%	55	56	59
Dividend per Share	c	4.0	3.0	4.0
Yield	%	9.5	7.1	9.5
Franking	%	100%	100%	100%
Normalised eps growth		23.8%	4.8%	5.5%

Source: Shaw Institutional Stockbroking



Source: IRESS

	FY06	FY07	FY08	1h09
EBITDA/Margin%	16.9%	17.5%	18.4%	18.3%

#### Gearing

CKL's net debt was reduced by \$2m (5%) to \$27m and gearing (Net debt/EBITDA) declined to <2x, well under its borrowing covenant of 3x, despite the sizeable capex spend undertaken (\$4.2m versus \$1.4m depreciation charge). The main driver of this was tighter working capital management, particularly achieving a \$2m reduction in trade debtors.

An ongoing reduction in net debt is expected, with capex of <\$2m expected in each of the next 2 years, which should allow net debt to fall below \$20m.

### Earnings Outlook

Unless there is a significant deterioration in trading conditions CKL expect to achieve at least FY08's profitability of \$6.2m ie \$3m required in 2h09. CKL has re-signed three of top 5 customers to contracts with terms of 2 to 3 years and expects the others to be resigned this year.

### Shaw Line

The interim result was in line with our forecast, with the slight improvement in operating margins offsetting a weaker revenue line.

The continued improvement in operating margins again suggests CKL didn't buy contracts to fill the Regents Park plant, when commissioned. Moreover the installation of a new MIS system during FY08 appears to have allowed an improvement in operating efficiency, eg thru greater benchmarking of machine speed and downtime.

We attribute the lack of greater definition to the FY09 guidance to conservatism, given the prospectively weaker demand environment. We understand that although such weakness hasn't emerged to date but CKL's order time visibility isn't long. We have marginally clipped our near-term forecasts incl FY09 to a NPAT of \$6.6m from \$6.8m to reflect that risk. Looking forward we consider the key risk to operating earnings to be an adverse competitive response from Amcor, who continue to lose market share ( 34% in 2004 to current ~25%) or Visy seeking to reverse the market share loss incurred following its acquisition of P and I Industries in 2006. This risk though remains a

double edge sword, particularly if the long talked of merger of AMC and Carter Holt Harvey materialises (combined 50% market share) given customers increasing desire for dual supply and CKL's history of service quality. CKL itself also could become part of further industry consolidation.

CKL's market pricing also assumes little, ie 40% Relative P/E discount, a 7% fully franked dividend yield is on offer and its balance sheet is strong.. That said CKL's lack of market liquidity is a constraint to institutional investment and given the maturity of the market and that achieving 10% pa NPAT growth will require an acquisition, be it taking out one of the independents CKL or stepping out its service offering. As such we are cautious as to CKL's ability to achieve strong market outperformance from here.

**The author has an economic interest in the securities of this company**

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