

Cheap no matter how you package it

Equity | Australia | Packaging
04 February 2009



RESEARCH

Mario Maia, CFA >> +61 2 9226 5766
Research Analyst
Merrill Lynch (Australia)
mario_maia@ml.com

Solid 1H09 result despite challenging trading conditions

CKL reported 1H09 NPAT of A\$3.3m, up 3% on the pcp. The positive result was underpinned by a 2% rise in sales with volumes growing across CKL's key segments (pharma, healthcare and beverage). Despite difficult trading conditions in Oz due to rising raw material costs and a slowing economy, CKL has managed to post a respectable result driven by organic growth and margin maintenance - highlighting the strength of its business model.

FY09 earnings to be at least inline with the pcp

CKL expects earnings in FY09 to be at least inline with the pcp. This implies a net profit of at least \$6.2m this financial year. Given the lack of visibility in the current economic climate, CKL is expected to focus on repaying debt and minimising capital expenditure in 09/10. Over the next 12 months, CKL is also seeking to renew 2 major contracts which combined account for 20% of its annual sales.

Earnings reduced on lower volume growth assumptions

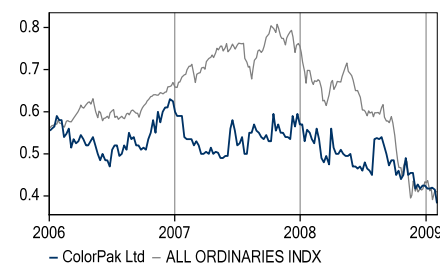
We have lowered our earnings estimates by 6.3% in FY09, 7.1% in FY10 and 6.9% in FY11. Downgrades are primarily due to lower volume growth assumptions and higher raw material costs, which are partially offset by lower interest expense (associated with debt retirement).

Inexpensive no matter how you package it - BUY

Our DCF for CKL is \$0.75ps, which represents a 79% prem. to the current price. Importantly, CKL also looks attractive on different metrics. Applying a mid-cycle PER of 8.5x (30% disc to mkt) to FY09E EPS of 7.8cps, we derive a valuation of A\$0.67ps. Also, were the stock to reach our PO of \$0.70ps in 12mths, CKL would be trading on a fwd PER of 8.6x, which we do not view as demanding. At current levels, the stock is also offering an attractive dividend yield of 6.6% (fully franked).

Stock Data

Price	A\$0.415
Price Objective	A\$0.700
Date Established	4-Feb-2009
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	A\$0.400-A\$0.559
Mrkt Val / Shares Out (mn)	US\$22 / 80.5
Average Daily Volume	2,694
ML Symbol / Exchange	XBVVF / ASX
Bloomberg / Reuters	CKL AU / CKLAX
ROE (2009E)	11.4%
Net Dbt to Eqty (Jun-2008A)	53.6%
Est. 5-Yr EPS / DPS Growth	3.8% / 1.9%
Free Float	68.0%



Estimates (Jun)

(A\$)	2007A	2008A	2009E	2010E	2011E
Net Profit b/f Abnormals	5.1	6.2	6.4	6.7	7.4
EPS	0.063	0.077	0.078	0.081	0.087
EPS Change (YoY)	12.2%	22.9%	1.3%	3.9%	7.6%
Dividend / Share	0.028	0.030	0.028	0.028	0.030
Free Cash Flow / Share	(0.014)	0.073	0.071	0.064	0.069

Valuation (Jun)

	2007A	2008A	2009E	2010E	2011E
P/E	6.6x	5.4x	5.3x	5.1x	4.7x
Dividend Yield	6.6%	7.2%	6.6%	6.6%	7.2%
EV / EBITDA*	5.3x	4.4x	4.3x	3.9x	3.5x
Free Cash Flow Yield*	-3.5%	17.6%	17.3%	15.9%	17.4%

* For full definitions of *iQmethod*SM measures, see page 10.

>> Employed by a non-US affiliate of MLPF&S and is not registered/qualified as a research analyst under the FINRA rules.

Refer to "Other Important Disclosures" for information on certain Merrill Lynch entities that take responsibility for this report in particular jurisdictions.

Merrill Lynch does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Refer to important disclosures on page 11 to 13. Analyst Certification on Page 9. Price Objective Basis/Risk on page 9.

04 February 2009

iQprofileSM Colorpak Ltd.

Key Income Statement Data (Jun)	2007A	2008A	2009E	2010E	2011E
(A\$ Millions)					
Sales	72	79	81	85	90
Operating Expenses	(59)	(64)	(66)	(70)	(74)
EBITDA	13	14	14	15	15
Depreciation & Amortization	(3)	(3)	(3)	(3)	(3)
EBIT	10	11	11	12	12
Net Interest & Other income	(3)	(3)	(2)	(2)	(2)
Associates	NA	NA	NA	NA	NA
Pretax Income	7	9	9	10	11
Tax (expense) / Benefit	(2)	(3)	(3)	(3)	(3)
Net Profit b/f Abnormals	5	6	6	7	7
Non-Recurring Items	0	0	0	0	0
Net Income (Reported)	5	6	6	7	7
Avg F Diluted Shares Outstanding	80	80	81	83	85

Key Cash Flow Statement Data

EBITDA	13	14	14	15	15
Change in Working Capital	0	(3)	2	(1)	(1)
Deferred Taxation Charge	1	1	0	0	0
Other Adjustments, Net	0	0	0	0	0
Cash Flow from Operations	9	8	11	9	10
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)	(2)	(2)
Cash Flow from Financing	0	(5)	(5)	(4)	(4)
Free Cash Flow	(1)	6	6	5	6
Net Debt	33	29	26	23	18
Change in Net Debt	NA	NA	NA	NA	NA

Key Balance Sheet Data

Property, Plant & Equipment	28	27	29	30	31
Other Non-Current Assets	0	0	0	0	0
Trade Receivables	13	14	13	14	15
Cash & Equivalents	0	1	2	3	6
Other Current Assets	1	2	1	1	1
Total Assets	97	99	100	104	108
Long-Term Debt	33	30	28	26	24
Other Non-Current Liabilities	0	1	0	0	0
Short-Term Debt	1	1	0	0	0
Other Current Liabilities	2	3	4	4	4
Total Liabilities	46	45	43	42	41
Total Equity	51	55	57	62	68
Total Equity & Liabilities	97	99	100	104	108

iQmethodSM - Bus Performance*

Return on Capital Employed	8.3%	9.3%	9.2%	9.4%	9.7%
Return on Equity	10.2%	11.7%	11.4%	11.3%	11.4%
Operating Margin	13.8%	14.7%	14.5%	14.0%	14.1%
EBITDA Margin	17.6%	18.2%	17.7%	17.4%	17.3%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	1.8x	1.2x	1.7x	1.4x	1.3x
Asset Replacement Ratio	3.6x	0.6x	1.8x	1.3x	1.3x
Tax Rate (Reported)	30.0%	30.2%	30.2%	30.2%	30.3%
Net Debt-to-Equity Ratio	64.8%	53.6%	45.9%	36.4%	27.0%
Interest Cover	3.7x	4.4x	4.8x	5.3x	6.0x

Key Metrics

Franking	100%	100%	100%	100%	100%
----------	------	------	------	------	------

* For full definitions of iQmethodSM measures, see page 10.

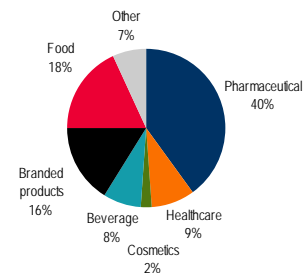
Company Description

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

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: CKL FY07 result

Stock Data

Price to Book Value 0.6x

Buy retained post solid 1H09 result

CKL reported 1H09 NPAT of A\$3.3m, up 3% on the pcp and slightly below our estimates of \$3.5m. The positive result was underpinned by a 2% rise in sales with volumes growing across CKL's key segments (pharma, healthcare and beverage >60% of sale). The result also highlighted a material improvement in CF generation and gearing.

A respectable effort in the current environment. Despite difficult trading conditions in Oz due to rising raw material costs and a slowing economy, CKL has managed to post a respectable result driven by positive organic growth and margin maintenance - highlighting the strength of its business model. In our view, this is not reflected in the share price as the market continues to ignore the intrinsic value of this compelling business.

Post the 1H09 result, we remain comfortable with our Buy recommendation and PO of A\$0.70ps. Our positive view on the stock is based on (1) steady growth outlook - driven by underlying growth in key markets, continued market share gains and a focus on higher margin segments (eg. pharmaceutical); and (2) inexpensive valuation - the stock is trading on a PER of 5.3x FY09E and 44% below our DCF of A\$0.75ps.

Result at a glance

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

- **NPAT:** CKL reported a net profit of A\$3.3m, up 3% on the pcp. The result was driven by higher volume sales across all key segments and margin maintenance (EBITDA margin ~18.3%, inline with the pcp).
- **Revenue drivers:** Sales rose 2% on the pcp with volumes growing across the pharma, healthcare and beverage sectors (~60% of CKL sales). Volumes and revenues have also benefited from improved capacity utilisation ratios and the introduction of new products to larger customers.
- **Cost drivers:** CKL's cost base rose 3% on the pcp, driven by higher raw material costs (up 3.1%) and despite lower employee (-0.6%) and occupancy (-6.6%) costs.
- **Operating cash flow:** OCF was the highlight of the result, coming at \$7.8m – up 92% on the pcp due to a material improvement in working capital. FCF was also strong at \$3.6m. Net capex came at A\$4.2m as the company invested in new machinery (press and cutting machine) and production capabilities to support growth. In the 2H09, capex is expected to be below \$1m.
- **Gearing (D/D+E):** CKL has used some excess cash (\$1.8m) to pay down debt, reducing gearing from 37.4% to 34.7% in the past 12 mths. In the long-term, CKL expects gearing to remain within the 30-50% range. The company is in process of consolidating its debt facilities with NAB and expects all loans to be re-classified as non-current as at 30 Jun 09.
- **Interim dividend:** CKL declared a fully franked div of 1.25cps. The record date is 6 March 09, and the div will be paid on 1 April 09.
- **Outlook:** CKL expects earnings in FY09 to be at least inline with the pcp despite the difficult economic environment in Australia. This implies a net profit of at least \$6.2m this financial year.

Table 1: 1H FY09 result vs pcp

	1H FY08	1H FY09	Chg %
Sales Revenue	39.5	40.3	2.0%
EBITDA	7.2	7.4	2.1%
D&A	-1.4	-1.4	2.0%
EBIT	5.9	6.0	2.1%
Net Interest	-1.3	-1.2	-4.7%
EBT	4.6	4.8	4.0%
Tax Expense	-1.4	-1.4	5.9%
NPAT	3.2	3.3	3.3%
EBITDA Margin	18.3%	18.3%	0.0%
EBIT Margin	14.8%	14.8%	0.0%
EPS (A\$ cents)	4.0	4.1	2.8%
DPS (A\$ cents)	1.25	1.25	0.0%

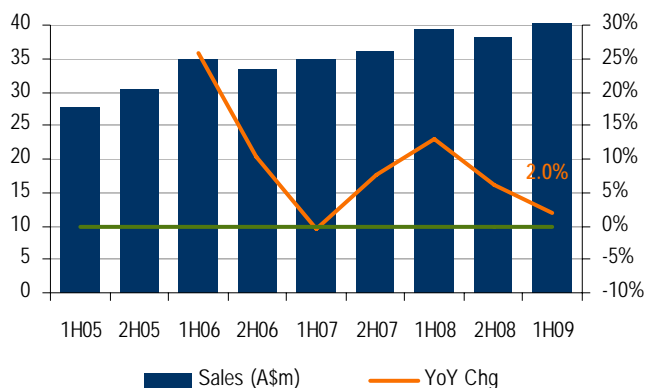
Source: CKL, Banc of America Securities-Merrill Lynch

Highlights

Single-digit sales growth despite challenging conditions

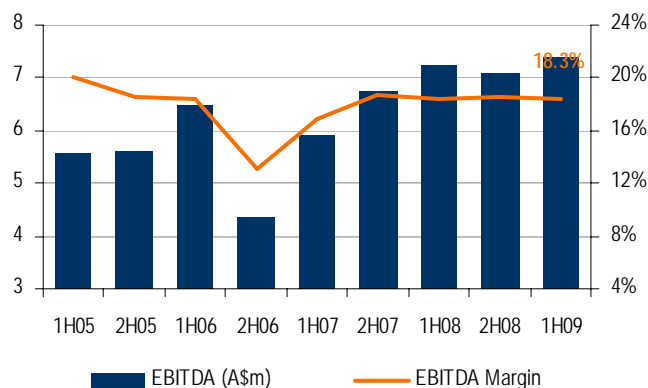
Sales rose 2% vs pcp and 5.2% vs 2H08, driven primarily by continuous volume growth into more defensive, high-margin segments such as pharmaceuticals and healthcare. Sales to the beverage sector also posted some improvement versus 2008. These segments are expected to continue to drive CKL's volumes in the 2H09. Importantly, CKL has renewed 3 of its top 5 customers on new 2-3 yr contracts – these 3 customers account for ~30% of CKL's turnover.

Chart 2: Sales rose 2% in 1H09 driven by pharma/beverage segments



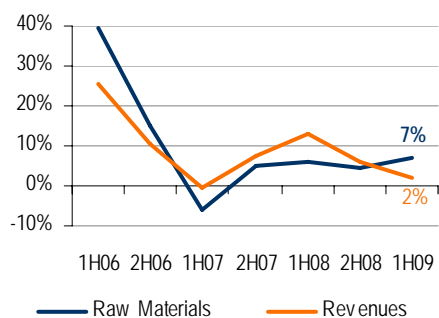
Source: CKL, Banc of America Securities-Merrill Lynch estimates

Chart 3: EBITDA margin remain above 18%



Source: CKL, Banc of America Securities-Merrill Lynch estimates

Chart 4: Revenues vs RM costs - YoY change



Source: CKL, Banc of America Securities-Merrill Lynch estimates

EBITDA margin remains above 18% despite higher RM costs

Operating margins were 18.3% in the 1H09, which is inline with the pcp. In our view, this is a good outcome given that raw material costs (~48% of CKL's cost base) have risen materially in the past 6 months. The key raw material is cartonboard, which is sourced from local manufacturers or imported through local paper merchants. In the past 6 months, RM costs have risen at a faster pace than revenues – that's due to the depreciation of the AUD, which increases the price of imported cartonboard feed. We also understand that AMC, which supplies ~50% of CKL's needs, increased its prices by 5-8% effective 1 Jul 08. Despite higher RM costs, lower employee/ occupancy expenses coupled with operational/administrative efficiencies have allowed CKL to maintain its operating margins in the first 6 months of FY09.

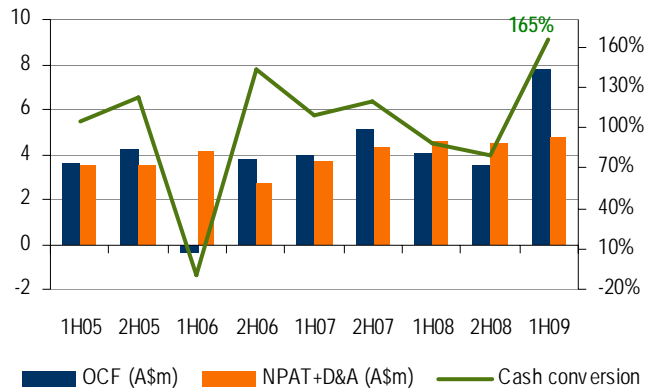
Cash generation improves materially

One of the highlights of the result was operating cashflow, which rose 91% vs the pcp while operating earnings (NPAT+D&A) rose only 3%. The strong cash result benefited from a build up in working capital (mainly inventories) associated with the beverage packaging business in the 2H08, which CKL has now converted into cash. FCF (OCF-Capex) was also strong at \$3.6m.

As can be seen below, in 6 of the past 9 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.

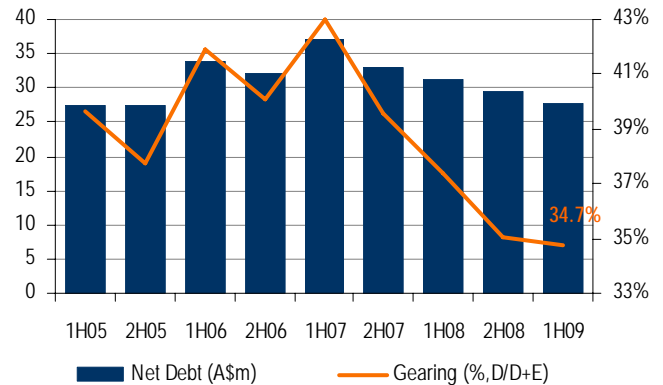
04 February 2009

Chart 5: Cash realisation - OCF vs NPAT+D&A



Source: CKL, Banc of America Securities-Merrill Lynch estimates

Chart 6: Gearing down from 37.4% to 34.7% in the past 12 months



Source: CKL, Banc of America Securities-Merrill Lynch estimates

▪ **Debt retirement pushes gearing below 35%**

CKL's gearing (debt / debt + equity) fell from 37.4% in the 1H08 to 34.7% in the 1H09. Due to CKL's size and concentrated earnings stream, we are encouraged to see gearing falling below 35%. Given the low capex burden forecast for the next 6 months, we expect CKL to continue to pay down debt and reduce gearing below 34%. Under this likely scenario, we will see the interest cover ratio rising from 4.8x in FY09E to 5.3x in FY10E.

Outlook

▪ **FY09 earnings not expected to decline despite difficult trading conditions in Oz**

CKL expects FY09 earnings to be at least inline with the pcp despite the difficult economic environment in Australia. This implies a net profit of at least \$6.2m this financial year. We are forecasting NPAT FY09 of A\$6.37m, up 2.5% on the pcp.

Given the lack of visibility in the current economic climate, CKL is expected to focus on reducing its debt levels and minimizing capital expenditure in the second half of this financial year. Over the next 12 months, CKL will also seeking to renew 2 major supply contracts which combined account for 20% of its annual sales.

Earnings changes

Post the result, we have lowered our earnings estimates by 6.3% in FY09, 7.1% in FY10 and 6.9% in FY11. Downgrades are primarily due to lower volume growth assumptions and higher raw material costs, which are partially offset by lower interest expense (associated with debt retirement).

Table 2: Earnings changes

Year end June		FY09E	FY10E	FY11E
Sales Revenue				
Was	A\$m	84.6	90.6	95.4
Is	A\$m	79.4	83.8	88.3
Change	%	-6.2%	-7.5%	-7.5%
EBITDA				
Was	A\$m	15.1	16.0	16.7
Is	A\$m	14.3	14.8	15.5
Change	%	-5.5%	-7.6%	-7.3%
EBIT				
Was	A\$m	12.2	12.8	13.6
Is	A\$m	11.5	11.8	12.5
Change	%	-6.0%	-8.1%	-8.3%
NPAT				
Was	A\$m	6.8	7.3	8.0
Is	A\$m	6.4	6.8	7.4
Change	%	-6.3%	-7.1%	-6.9%
Normalised EPS				
Was	cps	8.4	8.8	9.5
Is	cps	7.8	8.2	8.8
Change	%	-6.8%	-7.4%	-7.1%

Source: Banc of America Securities-Merrill Lynch estimates

Table 3: CKL DCF valuation

PV of CFs	A\$m	24.5
PV of terminal value	A\$m	55.4
Enterprise Value	A\$m	80.0
Net Debt	A\$m	27.7
Equity Value	A\$m	52.3
Fully diluted ordinary shares	Million	81.3
Equity Value per share	A\$ps	0.64
Franking credits (assign value 40%)	A\$ps	0.11
DCF	A\$ps	0.75

Source: Banc of America Securities-Merrill Lynch estimates

Valuation changes

DCF valuation

Our DCF for CKL has fallen from A\$0.82ps to A\$0.75ps on the back of our earnings downgrades. 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 through-the-cycle multiple for the stock of 8.5x, a 30% discount to the market multiple of 11.5x and a 20% to Amcor (FY09E 10.5x). In our view such a discount is reasonable, given CKL's inherent liquidity/size issues and the cyclical industry it operates in.

Applying this 8.5x multiple to FY09E EPS of 7.8cps, we derive a valuation for the stock of A\$0.67ps. Importantly, were the stock to reach our price target of A\$0.70ps in 12 months time, CKL would be trading on a forward PER of 8.6x, which we do not view as demanding.

Table 4: CKL PER valuation

	FY07A	FY08E	FY09E
Through-the-cycle PER Multiple	8.5x	8.5x	8.5x
EPS (diluted)	7.8	8.2	8.8
Value per ordinary share	\$0.67	\$0.69	\$0.75

Source: Banc of America Securities-Merrill Lynch estimates

Buy recommendation maintained

Post the 1H09 result, we remain comfortable with our Buy recommendation.

Our positive stance on the stock is premised on CKL's steady growth outlook, strong management team, attractive dividend yield (6.6% fully franked), inexpensive valuation (stock trading at a 44% 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	79.4	83.8	88.3
- change	3.6%	9.5%	2.0%	5.6%	5.3%
EBITDA	12.7	14.3	14.3	14.8	15.5
- change	16.8%	13.0%	-0.2%	3.4%	4.8%
Depreciation	-2.9	-2.9	-2.8	-3.0	-3.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	9.8	11.5	11.5	11.8	12.5
- change	14.9%	17.0%	0.0%	2.5%	6.0%
Net interest	-2.6	-2.6	-2.4	-2.1	-1.8
EBT	7.2	8.9	9.1	9.7	10.6
Tax expense	-2.2	-2.7	-2.8	-2.9	-3.2
NPAT att. to s/hers	5.1	6.2	6.4	6.7	7.4
- change	12.2%	22.9%	2.4%	6.0%	10.0%
Net significant items	0.0	0.0	0.0	0.0	0.0
Reported NPAT	5.1	6.2	6.4	6.7	7.4
Norm EPS	6.3	7.7	7.8	8.1	8.7
EPS change	12.2%	22.9%	1.3%	3.9%	7.6%
PER	6.6	5.4	5.3	5.1	4.7

Source: CKL, Banc of America Securities-Merrill Lynch estimates

Table 6: Ratios

Year ending June (A\$m)	2007A	2008A	2009E	2010E	2011E
Profitability Ratios					
EBIT margin	13.8%	14.7%	14.5%	14.0%	14.1%
NPAT margin	7.1%	8.0%	8.0%	8.0%	8.4%
Effective tax rate	30.0%	30.2%	30.2%	30.2%	30.3%
NOPLAT pre goodwill	6.9	8.0	8.0	8.2	8.7
Invested Capital	91.5	93.1	92.2	95.2	99.1
ROIC (after tax)	7.5%	8.6%	8.7%	8.6%	8.8%
ROIC - WACC	-3.7%	-2.6%	-2.6%	-2.6%	-2.5%
ROE	10.2%	11.7%	11.4%	11.3%	11.4%
ROA	10.3%	11.7%	11.5%	11.5%	11.7%
Gearing / Cashflow Ratios					
Debt / Equity	65%	56%	49%	42%	35%
Debt / Debt+Equity	40%	36%	33%	30%	26%
Debt / EBITDA	2.6x	2.2x	2.0x	1.8x	1.6x
CFO / Debt	27%	25%	39%	35%	41%
EBITDA / Interest	4.8x	5.5x	5.9x	6.6x	7.5x
EBIT / Interest	3.7x	4.4x	4.8x	5.3x	6.0x
Dividend cover	2.3x	2.6x	2.8x	3.0x	2.9x
Gearing (ND/ND+E)	39%	35%	31%	27%	21%
Free cashflow yield	-2.8%	14.0%	13.8%	12.7%	13.9%
Multiples					
EV/EBITDA	5.9x	5.0x	4.8x	4.4x	3.9x
EV/EBIT	7.6x	6.2x	5.9x	5.5x	4.8x

Source: CKL, Banc of America Securities-Merrill Lynch estimates

Table 7: Statement of Financial Position

Year ending June (A\$m)	2007A	2008A	2009E	2010E	2011E
Cash	0.3	1.5	1.9	3.5	5.7
Receivables	12.8	13.7	13.2	13.9	14.6
Inventories	8.1	9.6	9.3	9.7	10.2
Other	1.2	1.6	0.6	0.6	0.6
Current Assets	22.4	26.4	24.9	27.6	31.1
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	29.4	30.3	31.2
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	75.5	76.4	77.3
Total Assets	96.8	99.5	100.4	104.0	108.4
Accounts Payable	9.2	8.7	9.4	10.0	10.6
Borrowings	0.6	0.6	0.0	0.0	0.0
Provisions	1.8	2.0	1.6	1.6	1.6
Other	0.3	1.1	2.7	2.7	2.7
Current Liabilities	11.8	12.5	13.7	14.3	14.9
Accounts Payable	0.0	0.0	0.0	0.0	0.0
Borrowings	32.8	30.3	28.0	26.0	24.0
Provisions	0.9	0.9	1.2	1.2	1.2
Other	0.5	0.9	0.5	0.5	0.5
Non-Current Liabilities	34.1	32.1	29.7	27.7	25.7
Total Liabilities	45.9	44.5	43.5	42.1	40.6
Net Assets	50.9	55.0	56.9	62.0	67.8
Share Capital	38.9	38.9	39.2	39.2	39.2
Reserves	0.3	0.5	-1.4	-1.4	-1.4
Retained Profits	11.8	15.6	19.1	24.2	30.0
Shareholders' Equity	50.9	55.0	56.9	62.0	67.8
Outside Equity Interests	0.0	0.0	0.0	0.0	0.0
Total Shareholders' Equity	50.9	55.0	56.9	62.0	67.8

Source: CKL, Banc of America Securities-Merrill Lynch estimates

Table 8: Statement of Cashflows

Year ending June (A\$m)	2007A	2008A	2009E	2010E	2011E
EBITDA	12.7	14.3	14.3	14.8	15.5
Working capital	0.1	-2.7	1.6	-0.5	-0.7
Net interest paid	-2.6	-2.5	-2.3	-2.1	-1.8
Tax paid	-1.1	-1.5	-2.7	-2.9	-3.2
Other	0.0	0.0	0.0	0.0	0.0
Operating cashflow	9.1	7.6	10.9	9.2	9.7
Capex	-10.2	-1.7	-5.1	-3.9	-3.9
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	-5.1	-3.9	-3.9
Free cashflow (OCF-Capex)	-1.2	5.9	5.8	5.3	5.8
Equity raisings	0.0	0.0	0.0	0.0	0.0
Dividends paid	-2.2	-2.4	-2.5	-1.7	-1.6
Net borrowings	2.2	-2.4	-2.9	-2.0	-2.0
Other	0.0	0.0	0.0	0.0	0.0
Financing cashflow	0.0	-4.8	-5.4	-3.7	-3.6
Effect of exchange rate	0.0	0.0	0.0	0.0	0.0
Net change in cash	1.2	1.2	0.4	1.6	2.3

Source: CKL, Banc of America Securities-Merrill Lynch estimates

Price objective basis & risk

Colorkpak Ltd (XBVVF)

Our DCF for CKL is \$0.75ps, 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 8.5x, a 30% discount to the market multiple of 11.5x and a 20% discount to Amcor (10.5x). In our view such discount is reasonable, given CKLs inherent liquidity/size issues and the cyclical industry it operates in.

Applying this 8.5x multiple to FY09 EPS of 7.8cps, we derive a valuation for the stock of A\$0.67ps, a 60% premium to the current share price. Importantly, were the stock to reach our price target of A\$0.70ps in 12 months time, CKL would be trading on a forward PER of 8.6x, 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				
	Adelaide Brighton	ADBC	ABC AU	Ben Chan, CFA
	Colorkpak Ltd	XBVVF	CKL AU	Mario Maia, CFA
	Crane Group Ltd	CRAHF	CRG AU	Ben Chan, CFA
	Nufarm Limited	NUFMF	NUF AU	Mario Maia, CFA
NEUTRAL				
	Incitec Pivot Limited	ICPVF	IPL AU	Mario Maia, 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

04 February 2009

*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 Amortization
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

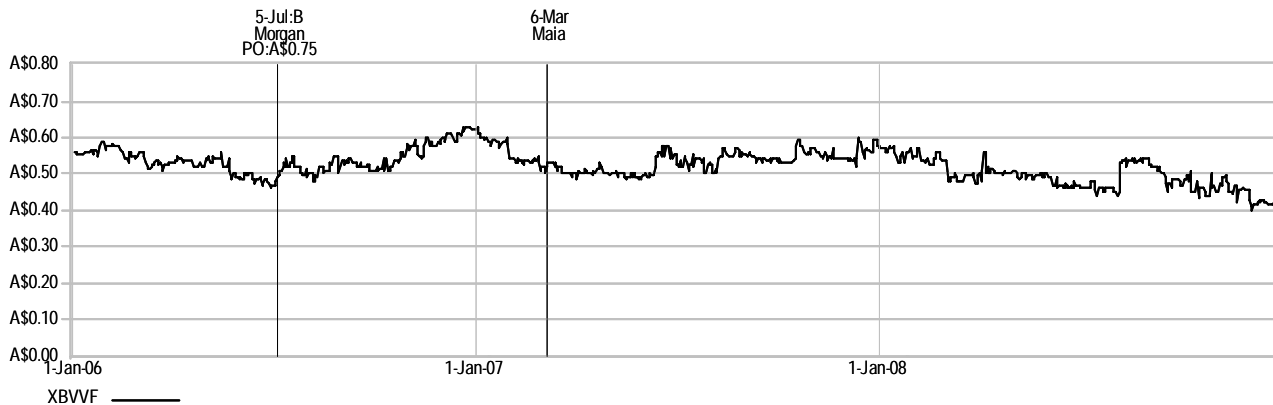
*iQmethod*SM is the set of Banc of America Securities-Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of *iQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by Banc of America Securities-Merrill Lynch.

*iQprofile*SM, *iQmethod*SM are service marks of Merrill Lynch & Co., Inc. *iQdatabase*[®] is a registered service mark of Merrill Lynch & Co., Inc.

Important Disclosures

XBVF Price Chart



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

*Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 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 December 31, 2008 or such later date as indicated.

BAS-ML price charts do not reflect analysts' coverage of the stock at prior firms. Historical price charts relating to companies covered as of December 31, 2008 by former Banc of America Securities LLC (BAS) analysts are available to BAS clients on the BAS website."

Investment Rating Distribution: Packaging Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	3	60.00%	Buy	0	0.00%
Neutral	0	0.00%	Neutral	0	0.00%
Sell	2	40.00%	Sell	0	0.00%

Investment Rating Distribution: Global Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1297	38.46%	Buy	314	26.81%
Neutral	859	25.47%	Neutral	210	28.23%
Sell	1216	36.06%	Sell	229	20.71%

* 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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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%

* Ratings dispersions may vary from time to time where BAS-ML Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BAS-ML Comment referencing the stock.

In the US, retail sales and/or distribution of this report may be made only in states where these securities are exempt from registration or have been qualified for sale: ColorPak Ltd.

MLPF&S together with its affiliates beneficially owns one percent or more of the common stock of this company. If this report was issued on or after the 10th day of the month, it reflects the ownership position on the last day of the previous month. Reports issued before the 10th day of a month reflect the ownership position at the end of the second month preceding the date of the report: ColorPak Ltd.

The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of Merrill Lynch, including profits derived from investment banking revenues.

Other Important Disclosures

Merrill Lynch Research policies relating to conflicts of interest are described at <http://www.ml.com/media/43347.pdf>.

"Merrill Lynch" includes Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") and its affiliates, including BofA (defined below). "BofA" refers to Banc of America Securities LLC ("BAS"), Banc of America Securities Limited ("BASL"), Banc of America Investment Services, Inc ("BAI") and their affiliates. Investors should contact their Merrill Lynch or BofA representative if they have questions concerning this report.

Information relating to Non-US affiliates of Merrill Lynch and Distribution of Affiliate Research Reports:

MLPF&S, BAS, BAI, and BASL distribute, or may in the future distribute, research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd, Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLPF&S (UK): Merrill Lynch, Pierce, Fenner & Smith Limited; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co, Ltd; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Securities (Taiwan) Ltd.; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (KL) Sdn. Bhd.: Merrill Lynch (Malaysia); Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): Merrill Lynch CIS Limited, Moscow; Merrill Lynch (Turkey): Merrill Lynch Yatirim Bankasi A.S.; Merrill Lynch (Dubai): Merrill Lynch International Bank Ltd, Dubai Branch; MLPF&S (Zürich rep. office): MLPF&S Incorporated Zürich representative office.

This research report has been approved for publication in the United Kingdom by Merrill Lynch, Pierce, Fenner & Smith Limited and BASL, which are authorized and regulated by the Financial Services Authority; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co, Ltd and Banc of America Securities - Japan, Inc., registered securities dealers under the Financial Instruments and Exchange Law in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited and Banc of America Securities Asia Limited, which are regulated by the Hong Kong SFC and the Hong Kong Monetary Authority; is issued and distributed in Taiwan by Merrill Lynch Securities (Taiwan) Ltd.; is issued and distributed in Malaysia by Merrill Lynch (KL) Sdn. Bhd., a licensed investment adviser regulated by the Malaysian Securities Commission; is issued and distributed in India by DSP Merrill Lynch Limited; and is issued and distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank), Merrill Lynch (Singapore) Pte Ltd (Company Registration No.'s F 06872E and 198602883D respectively) and Bank of America Singapore Limited (Merchant Bank), Merrill Lynch International Bank Limited (Merchant Bank), Merrill Lynch (Singapore) Pte Ltd and Bank of America Singapore Limited (Merchant Bank) are regulated by the Monetary Authority of Singapore. Merrill Lynch Equities (Australia) Limited, (ABN 65 006 276 795), AFS License 235132 and Banc of America Securities Limited (pursuant to the Australian Securities and Investment Commission Class Order 03/1101 under paragraph 911A (2)(1) of the Corporations Act 2001) provide this report in Australia. No approval is required for publication or distribution of this report in Brazil.

Merrill Lynch (Frankfurt) distributes this report in Germany. Merrill Lynch (Frankfurt) is regulated by BaFin.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-US affiliates. MLPF&S is the distributor of this research report in the US and accepts full responsibility for research reports of its non-US affiliates distributed to MLPF&S clients in the US. Any US person (other than BAS, BAI and their respective clients) receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates.

BAS distributes this research report to its clients and to its affiliate BAI and accepts responsibility for the distribution of this report in the US to BAS clients, but not to the clients of BAI. BAI is a registered broker-dealer, member of FINRA and SIPC, and is a non-bank subsidiary of Bank of America, N.A. BAI accepts responsibility for the distribution of this report in the US to BAI clients. Transactions by US persons that are BAS or BAI clients in any security discussed herein must be carried out through BAS and BAI, respectively.

04 February 2009

General Investment Related Disclosures:

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other financial instrument or any derivative related to such securities or instruments (e.g., options, futures, warrants, and contracts for differences). This report is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this report.

Securities and other financial instruments discussed in this report, or recommended, offered or sold by Merrill Lynch, are not insured by the Federal Deposit Insurance Corporation and are not deposits or other obligations of any insured depository institution (including, Bank of America, N.A.). Investments in general and, derivatives, in particular, involve numerous risks, including, among others, market risk, counterparty default risk and liquidity risk. No security, financial instrument or derivative is suitable for all investors. In some cases, securities and other financial instruments may be difficult to value or sell and reliable information about the value or risks related to the security or financial instrument may be difficult to obtain. Investors should note that income from such securities and other financial instruments, if any, may fluctuate and that price or value of such securities and instruments may rise or fall and, in some cases, investors may lose their entire principal investment. Past performance is not necessarily a guide to future performance. Levels and basis for taxation may change.

This report may contain a short-term trading idea or recommendation, which highlights a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Short-term trading ideas and recommendations are different from and do not affect a stock's fundamental equity rating, which reflects both a longer term total return expectation and attractiveness for investment relative to other stocks within its Coverage Cluster. Short-term trading ideas and recommendations may be more or less positive than a stock's fundamental equity rating.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned in this report. Investors in such securities and instruments, including ADRs, effectively assume currency risk.

UK Readers: The protections provided by the U.K. regulatory regime, including the Financial Services Scheme, do not apply in general to business coordinated by Merrill Lynch entities located outside of the United Kingdom. These disclosures should be read in conjunction with the BASL general policy statement on the handling of research conflicts, which is available upon request.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

Merrill Lynch is a regular issuer of traded financial instruments linked to securities that may have been recommended in this report. Merrill Lynch may, at any time, hold a trading position (long or short) in the securities and financial instruments discussed in this report.

Merrill Lynch, through business units other than BAS-ML Research, may have issued and may in the future issue trading ideas or recommendations that are inconsistent with, and reach different conclusions from, the information presented in this report. Such ideas or recommendations reflect the different time frames, assumptions, views and analytical methods of the persons who prepared them, and Merrill Lynch is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this report.

Copyright and General Information regarding Research Reports:

Copyright 2009 Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. iQmethod, iQmethod 2.0, iQprofile, iQtoolkit, iQworks are service marks of Merrill Lynch & Co., Inc. iQanalytics®, iQcustom®, iQdatabase® are registered service marks of Merrill Lynch & Co., Inc. This research report is prepared for the use of Merrill Lynch clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Merrill Lynch. Merrill Lynch research reports are distributed simultaneously to internal and client websites and other portals by Merrill Lynch and are not publicly-available materials. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets) without first obtaining expressed permission from an authorized officer of Merrill Lynch.

Materials prepared by Merrill Lynch research personnel are based on public information. Facts and views presented in this material have not been reviewed by, and may not reflect information known to, professionals in other business areas of Merrill Lynch, including investment banking personnel. To the extent this report discusses any legal proceeding or issues, it has not been prepared as nor is it intended to express any legal conclusion, opinion or advice. Investors should consult their own legal advisers as to issues of law relating to the subject matter of this report. Merrill Lynch research personnel's knowledge of legal proceedings in which any Merrill Lynch entity and/or its directors, officers and employees may be plaintiffs, defendants, co-defendants or co-plaintiffs with or involving companies mentioned in this report is based on public information. Facts and views presented in this material that relate to any such proceedings have not been reviewed by, discussed with, and may not reflect information known to, professionals in other business areas of Merrill Lynch in connection with the legal proceedings or matters relevant to such proceedings.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. None of MLPF&S, any of its affiliates or their research analysts has any authority whatsoever to make any representation or warranty on behalf of the issuer(s). Merrill Lynch policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

The information herein (other than disclosure information relating to Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. This report may contain links to third-party websites. Merrill Lynch is not responsible for the content of any third-party website or any linked content contained in a third-party website. Content contained on such third-party websites is not part of this report and is not incorporated by reference into this report. The inclusion of a link in this report does not imply any endorsement by or any affiliation with Merrill Lynch. Access to any third-party website is at your own risk, and you should always review the terms and privacy policies at third-party websites before submitting any personal information to them. Merrill Lynch is not responsible for such terms and privacy policies and expressly disclaims any liability for them.

Subject to the quiet period applicable under laws of the various jurisdictions in which we distribute research reports and other legal and Merrill Lynch policy-related restrictions on the publication of research reports, fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current.

Neither Merrill Lynch nor any officer or employee of Merrill Lynch accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its contents.