

Research Update

Colorpak

Packs away a good result

Sector: Diversified Financials
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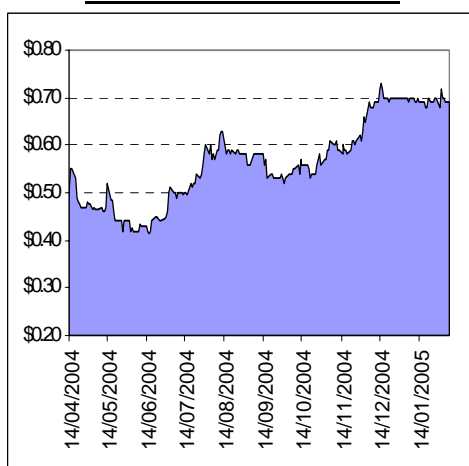
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ASX Code:	CKL
Price:	\$0.69
Valuation:	\$0.69
Recommendation	Hold
Risk Rating:	High
Market Capitalisation:	\$55.5m

12-Month Share Price Chart



Key Numbers

Year 30 June	03A	04A	05E	06E
Revenue (\$m)		49.6	56.7	64.7
Net Profit (\$m)		2.6	3.0	3.6
EPS* (c)		6.4	6.8	7.4
EPS growth (%)		n.a.	6.1	8.4%
P/E Ratio (x)		10.8	10.2	9.4
EBIT		6.7	7.4	8.4
EV/EBIT		12.1	11.3	9.9
EBITDA Margin		21.3	20.2	19.5
NPAT Margin		5.2	5.3	5.5
Dividend (c)		0.0	2.5	3.0
Yield (%)		n.a	3.6	4.3
Franking (%)		n.a	100	100
Current Ratio (x)		1.16	1.63	1.70
Net Debt / Equity (%)		63	59	56
Interest Cover		4.8	5.2	4.7
ROE (%)		6.7	7.5	8.3

* Pre-goodwill amortisation

Recommendation: Hold

Key Points

- CKL posted a 45% increase in 1H 05 NPAT to \$1.6m with corresponding operating revenue up 12.6% to \$27.9m.
- This revenue growth was the primary driver of the increased earnings with EBITDA improving 9.7% to \$5.6m and EBIT up from \$3.1m in the pcp to \$3.7m.
- CKL's EBITDA margins were weaker at 20.1% versus 22.0% in the six months to June 04, with EBIT margins also down, from 14.4% to 13.2%. This was a result of sales growth being primarily generated from new client wins.
- The results only include one month's contribution from the recent Castle Graphics acquisition. We estimate this to have benefited sales by approximately \$0.4m with Castle Graphics having an historical EBITDA margin of 10-11%.
- Operating cash flows were in line with expectations at \$3.6m, highlighting the company's consistent cash generating ability. After allowing for capital expenditure, free cash flows totalled \$3.1m. We expect further capex of \$0.4m in H2 05 and \$4.5m for FY 06 – as a result of both the company relocating its facilities and new equipment purchases.
- In addition to borrowing costs of \$0.945m, CKL repaid \$1.9m in debt. However, it drew down an additional \$2m in financing which relates to the Castle Graphics acquisition.
- We are comfortable with CKL's 1H 05 net interest cover of 5.2x as it is supported by the company's long term client relationships and demonstrated cash generating ability.
- In relation to the introduction of International Financial reporting standards CKL has indicated it will be required to write back \$2.3m in goodwill amortisation - in addition to our forecast \$0.9m 2H 04 amortisation - to retained earnings. We do not expect this to have any effect on the company's existing banking arrangements.
- In light of these 1H 05 results, we have moderately increased our FY 05 revenue from \$56.0m to \$56.7m and forecast pre-amortisation EPS to \$0.0678 cents from \$0.0672 cents. With a forecast 05 p/e multiple of 10.2x, forecast 05 price/earnings growth ratio of 0.59 and forecast dividend yield of 3.6% we believe CKL is fairly valued at current levels. Given the stock is currently trading in line with our valuation of **\$0.69** we retain our **HOLD** recommendation.



1H 05 FEATURES

Carter Holt Harvey Acquisition of Wadepack

CKL's 1H 05 profit result demonstrated solid growth and was in line with our previous estimates.

	1H 05A	1H 04A*	% Change
Sales (\$m)	27.9	24.4	14.5
EBITDA	5.6	5.1	9.7
EBITDA Margin	20%	21%	-4.7
NPAT	1.6	1.1	44.9
NPAT Margin	5.7	4.5	26.7
NPAT (ex-goodwill amortisation)	2.8	2.3	20.3

* H1 04 is normalised

These results were also an improvement on the previous six month period to 30 June 2004 and were driven by both top line sales growth benefiting from CKL winning new customers and the company further integrating itself into its existing client base.

Six Months to	December 04	June 04	% Change
Sales (\$m)	27.9	24.8	12.6
EBITDA	5.6	5.4	3.3
EBITDA Margin	20%	22%	-9%
NPAT	1.6	1.5	8.6
NPAT Margin	5.7%	6%	-5.0
NPAT (ex-goodwill amortisation)	2.8	2.6	5.0

Margins

Although margins contracted, the company is still tracking in line with our estimates. The margin squeeze is a result of the company winning new clients - securing new customers is more expensive than maintaining existing clients.

We expect margins to be further tightened following a greater contribution from Castle Graphics – it only contributed one month's revenues of \$0.4m to this result. This is due to Castle Graphics traditionally operating on lower margins than Colorpak.

Nevertheless, we have forecast the acquisition to make a positive contribution to both revenues and bottom line NPAT in H2 05.

Returns on Equity

In relation to the company's relatively low returns on equity, much of this is due to high amortisation charges. When this expense is removed, returns improve substantially.

Operating Cash Flows and Debt

Operating cash flows were a comfortable \$3.6m. This enabled the company to continue its debt repayment program with Net Debt to Equity falling from 73.6% to 65.5%. With corresponding net interest cover also improving from 4.8x to 5.2x, we are becoming more comfortable with the company's debt profile.

Future Debt & Equity Position

However, we do note that CKL is expected to incur capital expenditure of \$0.4m in H2 05 and \$4.5m for FY 06. This will alter its debt profile, particularly if the company goes ahead with any further acquisitions. Possible equity raisings would ease this.



OUTLOOK

Carter Holt Harvey Acquisition of Wadepack

As we have indicated, we believe CKL will benefit from Carter Holt Harvey's recent acquisition of Wadepack by picking up those clients of Wadepack that are unwilling to work with Carter Holt Harvey. We also expect revenues to improve through both organic growth and the Castle Graphics acquisition.

A potential threat to CKL is the successful integration by Carter Holt Harvey of Wadepack followed by an aggressive expansion strategy. However, CKL is confident that its ability to pick up disgruntled pre-existing Wadepack customers far outweighs this threat.

International Accounting Standards

CKL has indicated it will be required to write back to retained earnings \$2.3m in goodwill amortisation in addition to our forecast \$0.9m in H2 05 as a result of the introduction of International Accounting Standards Impairment of Assets test. We do not expect this change to alter its current debt arrangements.

Future Acquisitions

The company has stated it is eager to participate in future industry consolidation, demonstrating this focus in December 04. With its current debt profile and capital expenditure requirements, we believe the company may need to raise new equity in order to fulfil this ambition although this does depend on the relative size and timing of any deals.

The recent Wadepack acquisition may present a potential challenge to this ambition through potential target company/s expecting more for their business than the business may actually be worth. Given CKL's acquisition criteria, we do not believe they will pay more than they should for new acquisitions which could slow growth by acquisition plans.

CONCLUSION

CKL's satisfactory 1H 05 results indicate the company is well on track to achieve our revised forecast earnings assumptions. We also believe there is upside potential to these numbers as a result of CKL securing new clients that may fall out from the Wadepack acquisition and a better than expected integration of Castle Graphics. With a P/E ratio of 10.2x, forecast EPS growth of 6.0% and dividend yield of 3.6% we believe the current share price accurately reflects our per share valuation of **\$0.69**. As such we retain our **HOLD** recommendation.



NUMBERS

Summary	2003A	2004A	2005E	2006E	Profit & Loss Statement (\$M)	2003A	2004A	2005E	2006E
EPS* (c)	na	64	68	74	Total Revenue	na	496	565	644
EPS Growth (%)	na	na	6.1%	8.4%	Expenses	na	(39.0)	(22.5)	(51.8)
PE Ratio (x)	na	108	10.2	9.4	EBITDA	na	106	11.4	126
CFPS (c)	na	5.7	6.7	6.8	Depn/Amort.	na	(3.9)	(4.0)	(4.2)
Price/CFPS (x)	na	12.1	10.2	10.1	Total EBIT	na	6.7	7.4	8.4
DPS (c)	na	0.0	2.5	3.0	Net Interest Expense	na	(2.2)	(2.1)	(2.3)
Dividend Yield (%)	na	na	3.6%	4.3%	Pre-Tax Profit	na	4.5	5.3	6.1
Franking (%)	na	na	100%	100%	Tax	na	(2.0)	(2.3)	(2.5)
Key Performance Indicators	2003A	2004A	2005E	2006E	NPAT	na	2.6	3.0	3.5
Revenue Growth (%)	na	na	13.9%	14.0%	Abnormals after tax	na	0.0	0.0	0.0
EBITDA Growth (%)	na	na	8.0%	10.1%	NPAT (post abnormals)	na	2.6	3.0	3.5
EBIT Growth (%)	na	na	10.2%	13.4%	Balance Sheet (\$M)	2003A	2004A	2005E	2006E
NPBT Growth (%)	na	na	16.3%	15.0%	Cash	na	0.0	0.8	0.4
NPAT Growth (%)	na	na	15.2%	18.6%	Receivables	na	9.5	10.8	14.1
Key Value Indicators	2003A	2004A	2005E	2006E	Inventories	na	3.9	4.4	4.4
EBITDA/Sales (%)	na	21.3%	20.2%	19.5%	PPE	na	15.2	16.6	19.4
EBIT/Sales (%)	na	13.5%	13.1%	13.0%	Intangibles	na	45.6	40.9	38.5
NPAT/Sales (%)	na	5.2%	5.3%	5.5%	Other Assets	na	0.5	(0.1)	0.4
EV/EBITDA (x)	na	7.7	7.3	6.6	Total Assets	na	74.7	73.4	77.3
EV/EBIT (x)	na	12.1	11.3	9.9	Debtors	na	4.6	4.6	6.0
Balance Sheet Analysis	2003A	2004A	2005E	2006E	Borrowings	na	28.2	28.1	27.6
NIA Per Share (c)	na	(10.10)	(1.58)	5.10	Other Liabilities	na	3.6	1.1	1.1
Net Debt (\$m)	na	(28.2)	(27.3)	(27.2)	Total Liabilities	na	36.4	33.8	34.7
Net debt / equity (%)	na	63.0%	58.7%	54.3%	Total Shareholders Equity	na	38.3	39.6	42.6
Net Debt/(net debt + equity) (%)	na	38.6%	37.0%	35.2%	Cashflow Statement (\$M)	2003A	2004A	2005E	2006E
Interest Cover (x)	na	4.8	5.2	4.7	NPAT	na	1.5	3.0	3.5
ROE (%)	na	6.7%	7.5%	8.3%	Depreciation + Amortisation	na	1.9	4.0	4.2
Share Price Chart					(Increase)/Decrease in Working Capital	na	(0.8)	(1.8)	(2.4)
					(Profit)/Loss on Asset Sales	na	0.0	0.0	0.0
					(Increase)/decrease in other assets	na	0.0	0.0	0.0
					Increase/(decrease) in provisions	na	1.6	0.0	0.0
					Increase/(decrease) in other	na	0.2	0.2	0.2
					Net Operating Cash Flow	na	4.4	5.4	5.5
					Capital Expenditure	na	(0.3)	(1.0)	(4.5)
					Equity (Acquisitions)/disposals	na	(2.6)	(2.0)	0.0
					Disposals	na	0.1	0.0	0.0
					Other	na	(0.9)	0.0	0.0
					Net Expansion	na	(3.6)	(3.0)	(4.5)
					Cash Dividends	na	0.0	(0.8)	(2.4)
					Equity Issues/(buybacks)	na	1.3	2.0	0.0
					Repayments	na	(2.9)	0.0	0.0
					Drawdown	na	0.0	(2.0)	1.0
					Other	na	0.0	0.0	0.0
					Net Financing Cashflow	na	(1.6)	(0.8)	(1.4)
					Net Cash Flow	na	(0.8)	1.6	(0.4)
					Cash at Beginning of Period	na	0.0	(0.8)	0.8
					Cash at End of Period	na	(0.8)	0.8	0.4

*EPS calculated pre goodwill amortisation

Source: Taloust Neal Ltd



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

We have divided our recommendations into four 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

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