

# Grange Securities

7 February, 2005

Recommendation: ..... BUY  
 Risk: ..... High  
 Theme: ..... Value/Consolidation  
 Share Price: ..... A\$0.69  
 Valuation: ..... A\$0.82  
 Price range  
 low/high: ..... A\$0.415-A\$0.74  
 Shares on issue: ..... 80.5M  
 Market Cap: ..... A\$55.5M

## Colorpak Ltd (CKL.ASX)

Specialised packaging manufacturer, Colorpak, today announced its first half results for the period ended 31 December, 2004. The company posted a positive result with both operating revenue and profit in line with prior Grange estimates. Following today's result our full year FY05 NPAT estimate remains unchanged at \$3.1m. Our twelve-month price target of A\$0.82 also remains unchanged.

### Key outcomes of the H1 result include:

- Strong sales revenue of A\$27.8m vs. Grange expectations of A\$26.6m (taking account of one month of Castle Graphics acquisition revenues);
- EBITDA was A\$5.6m – in line with Grange estimates. There was slight margin pressure owing to additional tooling expenses. However this is generally seen as a short term impact on a per customer basis as CKL's customer base grows
- Profit after tax of A\$1.6m was slightly ahead of Grange expectations of A\$1.45m;
- The board has declared a fully franked 1.0 cent interim dividend to be paid on 6 April, 2005;
- Management stated that the outlook for the rest of the year remains "very positive" with recent consumer sector softness not impacting operations. CKL's products are principally used to package non-discretionary items such as food and healthcare products, which are less susceptible to downturns in consumer spending, in our view.

Summary financial parameters						12-mth target price multiples		
		FY04P	FY05E	FY06E	FY07E		FY05E	FY06E
Op Rev.	\$M	49.6	55.9	60.1	61.6	P/E	12.3	11.4
Change	%		12.7	7.5	2.5	P/E Growth	0.5	0.7
EBITDA	\$M	10.6	11.4	12.0	12.0	P/Op Cash Flow	7.9	8.0
Change	%		8.2	5.5	0.0	P/Free Cash Flow	6.9	12.4
Margin	%	21.3	20.4	20.1	19.6	EV/EBITDA	8.0	7.4
PAT	\$M	2.6	3.1	3.7	3.9	EV/EBITDA/Growth	1.0	1.4
Change	%		22.4	16.0	7.9	Yield	3.0%	3.3%
ROE*	%	9.8	13.0	13.4	13.4			
P/E*	X	10.3	10.3	9.6	9.3			

Sources: Grange Securities Analysis, IRESS, \* Pre-Goodwill Amortisation, P=Pro Forma

David Langford

(612) 8259 4849

dlangford@grangesecurities.com.au

www.grangesecurities.com.au

Grange Securities

Figure 1. Colopak Ltd Valuation Tables

Estimated \$ Valuation Per Share	WACC %							
		9.5%	10.0%	10.7%	11.0%	11.5%	12.0%	12.5%
FCF Growth Rate %	1.5%	0.88	0.81	0.74	0.71	0.66	0.62	0.59
	2.0%	0.93	0.86	0.78	0.75	0.70	0.65	0.61
	2.5%	1.00	0.92	0.82	0.79	0.73	0.69	0.64
	3.0%	1.07	0.98	0.88	0.84	0.78	0.72	0.67
	3.5%	1.16	1.06	0.94	0.89	0.82	0.76	0.71
	4.0%	1.27	1.14	1.00	0.95	0.88	0.81	0.75

Estimated \$M Enterprise Value	WACC %							
		9.5%	10.0%	10.7%	11.0%	11.5%	12.0%	12.5%
FCF Growth Rate %	1.5%	95.5	90.4	84.2	81.8	78.2	74.9	72.0
	2.0%	100.1	94.4	87.5	84.9	80.9	77.4	74.1
	2.5%	105.3	98.9	91.2	88.3	84.0	80.0	76.5
	3.0%	111.3	104.0	95.4	92.2	87.3	83.0	79.2
	3.5%	118.4	110.0	100.2	96.6	91.2	86.4	82.1
	4.0%	126.7	116.9	105.7	101.6	95.5	90.1	85.4

Implied Terminal EBITDA Multiple X	WACC %							
		9.5%	10.0%	10.7%	11.0%	11.5%	12.0%	12.5%
FCF Growth Rate %	1.5%	5.49	5.06	4.55	4.35	4.05	3.78	3.54
	2.0%	5.89	5.41	4.84	4.62	4.29	3.99	3.73
	2.5%	6.35	5.81	5.16	4.92	4.55	4.23	3.94
	3.0%	6.88	6.26	5.53	5.26	4.85	4.49	4.17
	3.5%	7.50	6.78	5.95	5.64	5.18	4.78	4.43
	4.0%	8.23	7.39	6.43	6.08	5.56	5.11	4.71

Colopak Ltd Fully Diluted Reported FY2005E Valuation Multiple Sensitivity	Stock Price							
	\$ 0.90	\$ 0.85	\$ 0.82	\$ 0.80	\$ 0.75	\$ 0.70	\$ 0.65	\$ 0.60
Price/Earnings	23.0	21.7	21.0	20.5	19.2	17.9	16.6	15.3
PEG	1.0	1.0	0.9	0.9	0.9	0.8	0.7	0.7
Price/Operating Cash Flow	8.7	8.2	7.9	7.7	7.2	6.7	6.3	5.8
Price/Free Cash Flow	7.5	7.1	6.9	6.7	6.3	5.9	5.4	5.0
EV/EBITDA	8.5	8.2	8.0	7.8	7.5	7.1	6.8	6.4
EV/EBITDA/Growth	1.0	1.0	1.0	1.0	0.9	0.9	0.8	0.8
Yield	2.8%	2.9%	3.0%	3.1%	3.3%	3.6%	3.8%	4.2%

Colopak Ltd Fully Diluted Reported FY2006E Valuation Multiple Sensitivity	Stock Price							
	\$ 0.90	\$ 0.85	\$ 0.82	\$ 0.80	\$ 0.75	\$ 0.70	\$ 0.65	\$ 0.60
Price/Earnings	19.8	18.7	18.1	17.6	16.5	15.4	14.3	13.2
PEG	1.2	1.2	1.1	1.1	1.0	1.0	0.9	0.8
Price/Operating Cash Flow	8.8	8.3	8.0	7.8	7.3	6.8	6.3	5.8
Price/Free Cash Flow	13.6	12.8	12.4	12.1	11.3	10.6	9.8	9.0
EV/EBITDA	8.0	7.6	7.4	7.3	7.0	6.6	6.3	6.0
EV/EBITDA/Growth	1.5	1.4	1.4	1.3	1.3	1.2	1.1	1.1
Yield	3.0%	3.2%	3.3%	3.4%	3.6%	3.8%	4.1%	4.5%

Colopak Ltd Fully Diluted & Pre-Goodwill FY2006E Valuation Multiple Sensitivity	Stock Price							
	\$ 0.90	\$ 0.85	\$ 0.82	\$ 0.80	\$ 0.75	\$ 0.70	\$ 0.65	\$ 0.60
Price/Earnings	13.5	12.7	12.3	12.0	11.2	10.5	9.7	9.0
PEG	0.6	0.6	0.5	0.5	0.5	0.5	0.4	0.4
Price/Operating Cash Flow	8.7	8.2	7.9	7.7	7.2	6.7	6.3	5.8
Price/Free Cash Flow	7.5	7.1	6.9	6.7	6.3	5.9	5.4	5.0
EV/EBITDA	8.5	8.2	8.0	7.8	7.5	7.1	6.8	6.4
EV/EBITDA/Growth	1.0	1.0	1.0	1.0	0.9	0.9	0.8	0.8
Yield	2.8%	2.9%	3.0%	3.1%	3.3%	3.6%	3.8%	4.2%

Colopak Ltd Fully Diluted & Pre-Goodwill FY2006E Valuation Multiple Sensitivity	Stock Price							
	\$ 0.90	\$ 0.85	\$ 0.82	\$ 0.80	\$ 0.75	\$ 0.70	\$ 0.65	\$ 0.60
Price/Earnings	12.6	11.9	11.4	11.2	10.5	9.8	9.1	8.4
PEG	0.8	0.7	0.7	0.7	0.7	0.6	0.6	0.5
Price/Operating Cash Flow	8.8	8.3	8.0	7.8	7.3	6.8	6.3	5.8
Price/Free Cash Flow	13.6	12.8	12.4	12.1	11.3	10.6	9.8	9.0
EV/EBITDA	8.0	7.6	7.4	7.3	7.0	6.6	6.3	6.0
EV/EBITDA/Growth	1.5	1.4	1.4	1.3	1.3	1.2	1.1	1.1
Yield	3.0%	3.2%	3.3%	3.4%	3.6%	3.8%	4.1%	4.5%

Source: Grange Securities Analysis

Figure 2. Colorpak Ltd – Profit and loss statement

		FY 2004 Pro-forma	FY 2004A Statutory	FY 2005E	FY 2006E	FY 2007E	FY 2008E	FY 2009E
<b>Operating Revenue</b>	<b>\$m</b>	<b>49.6</b>	<b>25.2</b>	<b>55.9</b>	<b>60.1</b>	<b>61.6</b>	<b>63.1</b>	<b>64.7</b>
<i>Growth</i>	%		-49.1%	12.7%	7.5%	2.5%	2.5%	2.5%
<i>5-year CAGR</i>	%	4.9%						
<b>Operating Costs</b>	<b>\$m</b>	<b>39.0</b>	<b>19.8</b>	<b>44.4</b>	<b>48.0</b>	<b>49.5</b>	<b>51.1</b>	<b>52.8</b>
<i>Growth</i>	%		-49.3%	13.9%	8.0%	3.1%	3.1%	3.3%
<i>5-year CAGR</i>	%	5.5%						
<b>EBITDA</b>	<b>\$m</b>	<b>10.6</b>	<b>5.4</b>	<b>11.4</b>	<b>12.0</b>	<b>12.0</b>	<b>12.0</b>	<b>11.9</b>
<i>Margin</i>	%	21.3%	21.6%	20.4%	20.1%	19.6%	19.1%	18.4%
<i>Growth</i>	%		N/A	8.2%	5.5%	N/A	N/A	N/A
<i>5-year CAGR</i>	%	2.6%	17.0%					
Depreciation & Amortisation	\$m	3.9	1.9	3.7	3.9	3.7	3.6	3.5
<b>EBIT</b>	<b>\$m</b>	<b>6.7</b>	<b>3.5</b>	<b>7.7</b>	<b>8.2</b>	<b>8.4</b>	<b>8.4</b>	<b>8.4</b>
Interest Costs	\$m	2.2	1.1	2.3	2.1	1.9	1.6	1.3
Net Profit Before Taxes	\$m	4.5	2.5	5.5	6.1	6.5	6.9	7.2
(Taxes)/Tax Benefit	\$m	- 2.0 -	- 1.0 -	- 2.3 -	- 2.5 -	- 2.6 -	- 2.6 -	- 2.7
Net Profit After Tax	\$m	2.6	1.5	3.1	3.7	3.9	4.2	4.5
Net Significant Items	\$m	-	-	-	-	-	-	-
<b>Reported Net Profit After Taxes</b>	<b>\$m</b>	<b>2.6</b>	<b>1.5</b>	<b>3.1</b>	<b>3.7</b>	<b>3.9</b>	<b>4.2</b>	<b>4.5</b>
<i>Margin</i>	%	5.2%	5.8%	5.6%	6.1%	6.4%	6.7%	6.9%
<i>Growth</i>	%		N/A	22.4%	16.0%	7.9%	7.4%	5.5%
<i>5-year CAGR</i>	%			9.1%				
Shares on Issue	m	74.0	77.2	80.5	80.5	80.5	80.5	80.5
Convertibles	m							
Unlisted Options	m							
Total Equity Instruments	m	74.0	77.2	80.5	80.5	80.5	80.5	80.5
<b>Reported EPS</b>	<b>Cents</b>	<b>3.5</b>	<b>1.9</b>	<b>3.9</b>	<b>4.5</b>	<b>4.9</b>	<b>5.3</b>	<b>5.5</b>
Reported P/E	X	19.9	36.3	17.6	15.2	14.1	13.1	12.4
<b>Reported DPS</b>	<b>Cents</b>	<b>N/M</b>	<b>N/M</b>	<b>2.5</b>	<b>2.7</b>	<b>2.9</b>	<b>3.1</b>	<b>3.3</b>
Reported Yield	%	N/M	N/M	3.6%	3.9%	4.2%	4.5%	4.8%
Diluted Pre-Goodwill EPS	Cents	6.7	3.4	6.7	7.2	7.4	7.6	7.8
Diluted Pre-Goodwill P/E	X	10.3	20.2	10.3	9.6	9.3	9.0	8.8

Ratio Analysis		FY 2004 Pro-forma	FY 2005E	FY 2006E	FY 2007E	FY 2008E	FY 2009E
Return on Equity (ROE)*	%	9.8%	13.0%	13.4%	13.4%	13.3%	13.1%
Return on Assets (ROA)*	%	5.0%	6.5%	6.8%	6.9%	7.0%	7.0%
Return on Capital Employed (ROCE)*	%	5.6%	8.1%	8.6%	9.2%	9.7%	10.2%
Return on Equity (ROE)	%	6.7%	7.6%	8.5%	8.8%	9.1%	9.3%
Return on Assets (ROA)	%	3.4%	3.8%	4.3%	4.6%	4.8%	4.9%
Return on Capital Employed (ROCE)	%	3.9%	4.7%	5.5%	6.1%	6.7%	7.3%
Interest Cover (EBIT/Interest)	X	3.6	4.4	5.0	5.5	6.6	8.0
Gearing (Net Debt/ (Net Debt + Equity))	X	42.4%	37.5%	35.6%	31.3%	26.7%	21.8%
Net Debt/Book Equity	X	73.6%	59.9%	55.3%	45.7%	36.4%	27.9%

\* = Pre Goodwill

Source: Grange Securities Analysis

Figure 3. Colorpak Ltd – Statement of cash flows

		FY 2004A	FY 2005E	FY 2006E	FY 2007E	FY 2008E	FY 2009E
<b>Profit After Tax</b>	\$m	1.5	3.1	3.7	3.9	4.2	4.5
<i>Reversal of Non-Cash Items:</i>							
Add: Depn & Amortisation	\$m	1.9	3.7	3.9	3.7	3.6	3.5
Add/Less: Losses/Gains on Disposals/Other	\$m	0.0	-	-	-	-	-
Add/Less: Increases/Decreases in Liabilities	\$m	1.7	2.2	0.8	0.3	0.3	0.3
Less/Add: Increases/Decreases in Assets	\$m	0.6	0.7	0.0	0.5	0.4	0.4
<b>Cash Flow from Operations</b>	\$m	4.4	8.4	8.3	7.4	7.7	7.8
Growth	%						
5 Year CAGR	%						
<i>Investing Cash Flows:</i>							
Capital Expenditure	\$m	0.2	1.0	5.0	1.7	1.7	1.7
Purchases/Sales of Businesses	\$m	3.4	2.0	-	-	-	-
<b>Total Investing Cash Flows</b>	\$m	3.6	3.0	5.0	1.7	1.7	1.7
<i>Financing Cash Flows:</i>							
Change in Debt	\$m	2.9	2.0	-	-	-	-
Change in Equity	\$m	1.3	-	-	-	-	-
Dividends Paid	\$m	-	2.0	2.2	2.3	2.5	2.7
<b>Total Financing Cash Flows</b>	\$m	1.6	0.0	2.2	2.3	2.5	2.7
<b>Net Change in Cash</b>	\$m	0.8	5.4	1.1	3.4	3.5	3.4

Source: Grange Securities Analysis

Figure 4. Colorpak Ltd – Balance sheet

		FY 2004A	FY 2005E	FY 2006E	FY 2007E	FY 2008E	FY 2009E
<i>Current Assets:</i>							
Cash	\$m	0.0	5.4	6.5	9.9	13.4	16.8
Receivables	\$m	9.5	10.1	10.8	11.1	11.4	11.6
Inventories	\$m	3.4	4.6	3.8	4.0	4.1	4.2
Other	\$m	0.4	0.6	0.6	0.6	0.6	0.6
<b>Total Current Assets</b>	\$m	13.3	20.6	21.7	25.6	29.5	33.3
<i>Non-Current Assets:</i>							
Property Plant & Equipment	\$m	15.2	17.5	20.8	20.8	20.9	20.9
Intangible Assets	\$m	45.6	43.4	41.3	39.3	37.3	35.5
Deferred Tax Assets	\$m	0.5	0.6	0.6	0.6	0.6	0.6
<b>Total Non-Current Assets</b>	\$m	61.4	61.5	62.7	60.7	58.8	57.1
<b>Total Assets</b>	\$m	74.7	82.1	84.4	86.3	88.3	90.4
<i>Current Liabilities:</i>							
Payables	\$m	4.6	5.0	5.4	5.5	5.7	5.8
Interest Bearing Liabilities	\$m	4.1	4.1	4.1	4.1	4.1	4.1
Current Tax Liabilities	\$m	0.9	2.3	2.5	2.6	2.6	2.7
Provisions	\$m	2.0	2.2	2.4	2.5	2.5	2.6
<b>Total Current Liabilities</b>	\$m	11.5	13.6	14.3	14.6	14.9	15.2
<i>Non-Current Liabilities:</i>							
Interest Bearing Liabilities	\$m	24.1	26.1	26.1	26.1	26.1	26.1
Provisions	\$m	0.7	0.8	0.9	0.9	0.9	1.0
<b>Total Non-Current Liabilities</b>	\$m	24.8	27.0	27.0	27.1	27.1	27.1
<b>Total Liabilities</b>	\$m	36.4	40.6	41.4	41.7	42.0	42.3
<b>Net Assets</b>	\$m	38.3	41.5	43.0	44.6	46.3	48.1
<i>Equity:</i>							
Contributed Equity	\$m	36.9	38.9	38.9	38.9	38.9	38.9
Retained Profits	\$m	1.5	2.6	4.1	5.7	7.4	9.2
<b>Total Equity</b>	\$m	38.3	41.5	43.0	44.6	46.3	48.1

Source: Grange Securities Analysis

### Institutional Sales and Dealing

Terry Gray	(613) 8629 0112	Melbourne
Tony Bonello	(612) 8259 4814	Sydney
Bryce Reynolds	(612) 8259 4817	Sydney
Clay Melbourn	(612) 8259 4860	Sydney
Stephen Murphy	(618) 9212 5626	Perth

### Retail - Equities

Marcus Droga	(612) 8259 4859	Sydney
Jan-Per Hole	(612) 8259 4825	Sydney
Kevin Johnson	(618) 9212 5656	Perth
Anthony Wilson	(617) 3229 5177	Brisbane

### Research - Resources

Piers Reynolds	(613) 8629 0116	Melbourne
Peter Jankowski	(613) 8629 0122	Melbourne

### Research - Industrials

David Langford	(612) 8259 4849	Sydney
Ramoun Lazar	(612) 8259 4826	Sydney

### Explanatory Notes

S&P / ASX 300 Resources Statistics Bar Graph – represents the weekly movements of the 55 stocks that make up the S&P / ASX 300 Resources Index. S&P / ASX 200 Resources versus S&P / ASX 200 Weekly (Common Base) – is a relative performance chart starting at a common base of 0% and measuring performance on a weekly basis over a year. If the chart is above the 0% starting point then the S&P / ASX 200 Resources has outperformed the S&P / ASX 200 or vice versa. Commodities Advance Decline Index Weekly – monitors the direction of 10 commodities. Each week Grange Quant takes the difference between the commodities that advanced and the commodities that declined and divide the differential by the sample size of 10. If the majority of our sample is up for a week then the Index would record a positive move. If the majority of our sample is down for the week then the index would record a negative move.

### Rating Classification

<b>Buy</b>	Expected stock return is greater than 10%
<b>Hold</b>	Expected stock return is between -10% to 10%
<b>Sell</b>	Expected stock return is in excess of -10%
<b>Outperform</b>	Expected stock return is in excess of the sector return
<b>Marketperform</b>	Expected stock return is in line with the sector return
<b>Underperform</b>	Expected stock return is in line with the sector return
<b>Short-term</b>	0 to 3 months
<b>Medium-term</b>	3 to 12 months
<b>Long-term</b>	12 months to 5 years
<b>Speculative</b>	High risk and/or low predictability of earnings with the stock expected to move up or down by 50% or more a year

### Disclaimer

Grange Securities Limited ("Grange"), its officers, employees, agents and associates ("Associates") may hold an interest in Colorpak Ltd through participation in the secondary markets and may benefit from any increase in the price or value of them.

In preparing this document the licensee has not taken into account the investment objectives, financial situation and particular needs of any particular investor. Before making an investment decision on the basis of this document the investor needs to consider, with or without the assistance of an advisor, whether the advice is appropriate for them in light of their individual financial circumstances.

Grange believes that the information or advice (including any recommendation) contained in this document is accurate when issued. Grange does not warrant that such information or advice is accurate, reliable, complete or up to date, and, to the fullest extent permitted by law, disclaims all liability of Grange and its Associates for any loss or damage suffered by any person by reason of the use by that person of, or their reliance on, any information contained in this document or any error or defect in this document, whether arising from the negligence of Grange or its Associates or otherwise.

Analyst Independence- The research analyst who prepared this document hereby certifies that the views expressed in this document accurately reflect the analyst's personal views about Colorpak Ltd. The research analyst does not hold an interest in Colorpak Ltd.

Sydney  
Level 33, 264 George St  
Sydney NSW 2000  
GPO Box 83  
Sydney NSW 2001  
Tel 02 8259 4800  
Fax 02 8259 4811

Melbourne  
Level 34, 360 Collins St  
Melbourne VIC 3000  
PO Box 247 Collins St West  
Melbourne VIC 8007  
Tel 03 9670 7100  
Fax 03 9670 7011

Brisbane  
Level 38, 123 Eagle St  
Brisbane QLD 4000  
GPO Box 1893  
Brisbane QLD 4001  
Tel 07 3229 5177  
Fax 07 3229 4738

Perth  
Level 17, 37 St Georges Terrace  
Perth WA 6000  
GPO Box 2521  
Perth WA 6001  
Tel 08 9212 5600  
Fax 08 9226 4192

Grange Securities Limited  
ABN 12 066 797 760  
Market Participant of the  
Australian Stock Exchange  
AFS Licence 246572

[www.grangesecurities.com.au](http://www.grangesecurities.com.au)

**THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK**