12 January, 2005

Colorpak Ltd (CKL.ASX)

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

To consolidate or be consolidated?

We are initiating coverage of specialised packaging manufacturer, Colorpak Ltd ("CKL") with a BUY rating and twelve-month price target of A$0.82. This implies upside of 18.8% to the 11 January, 2005 close of A$0.69. Our core DCF valuation of CKL employs a WACC of 10.7% and terminal free cash flow growth rate of 2.5%p.a.. In addition to capital upside, CKL is expected to offer an FY05E fully franked yield of 3.6%.

Investment positives on CKL's stock include:

- **Experienced & Energetic Management** – The Colorpak senior management team is young and energetic, yet enjoys combined experience of over 90 years in the packaging industry.
- **Committed Customers** – According to CKL management, around 35% of Colorpak's turnover is accounted for by companies that have been CKL customers for more than five years.
- **Consolidation Thematic** – CKL has grown by acquisition in recent times as has its larger competitors such as Carter Holt Harvey (CHY.ASX).
- **Recognised for Quality & Technology** – An independent customer survey undertaken by BIS Shrapnel has ranked Colorpak "No.1" for price/quality/reliability in the past four consecutive years.

Summary financial parameters

		FY04P	FY05E	FY06E	FY07E
Op Rev.	**$M**	49.6	55.9	60.1	61.6
Change	**%**		**12.7**	**7.5**	**2.5**
EBITDA	**$M**	10.6	11.4	12.0	12.0
Change	**%**		**8.2**	**5.5**	**0.0**
Margin	**%**	**21.6**	**20.4**	**20.1**	**19.6**
PAT	**$M**	2.6	3.1	3.7	3.9
Change	**%**		**22.4**	**16.0**	**7.9**
ROE*	**%**	9.8	13.0	13.4	13.4
EPS*	**C**	6.7	6.7	7.2	7.4
P/E*	**X**	10.3	10.3	9.6	9.3
DPS	**C**	N/M	2.5	2.7	2.9

12-mth target price multiples*

	FY05E	FY06E
P/E	12.3	11.4
P/E Growth	0.5	0.7
P/Op Cash Flow	7.9	8.0
P/Free Cash Flow	6.9	12.4
EV/EBITDA	8.0	7.4
EV/EBITDA/Growth	1.0	1.4
Yield	3.0%	3.3%

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

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Grange Securities

1. Summary and investment conclusion

We are initiating coverage of diversified industrial, Colorpak Ltd ("CKL") with a BUY rating and twelve month price target of A$0.82. This implies upside of 18.8% to the 11 January, 2005 close of A$0.69. We have determined our core valuation of CKL through the employment of discounted cash flow (DCF) methodology. Our 12-month target price implies a FY2005 (year ended June 30) fully diluted pre-goodwill reported Price/Earnings ratio of 12.3 times, Enterprise Value to EBITDA ratio of 8.0 times and EV/EBITDA/growth ratio of 1.0. Our core DCF calculations employ a weighted average cost of capital (WACC) of 10.7% and a terminal free cash flow rate of 2.5% in perpetuity. The valuation section of this report includes valuation sensitivity tables that illustrate the impacts of varying discount and terminal free cash flow growth rates. We also detail FY2005E and FY2006E trading multiples associated within a range of prices surrounding the current market price and our core DCF valuation.

In summary, we believe that Colorpak is a company that is characterised by:

- impressive management,
- employment of the latest production technology that represents both a competitive advantage and a barrier to entry;
- focused/niche market approach;
- strong customer relationships;
- brand association with quality and reliability; and
- a consolidating market.

2. Company Overview & Background

2.1 Corporate History

The genesis of CKL occurred when Mr P.T. Huggins established a box manufacturing plant in the Melbourne suburb of South Yarra in the 1920's.The business was renamed Colorpak Containers Pty Ltd in the 1950's.

In 1985, Colorpak was acquired by Walter Commins and three work colleagues who had spent over 20 years working together at Thomas Frame (a former folding carton industry participant). In 1992, the Commins family acquired the interests of the other owners and Alex & Harry Commins joined the operation. A year later, Walter Commin's eldest son Paul also joined Colorpak. Continuing as Managing Director, Walter Commins began a policy of regular investment in the latest generation print and production technology.

In 1995, Colorpak developed a purpose-built folding carton facility in Braeside, Melbourne. Mr Walter Commins retired in 1999 at which time his sons, Alex, Paul and Harry took over as the senior management team.

In 1998, Colorpak acquired Foilmasters, a small trade supplier of foil stamping and embossing to the printing industry. This was followed by the acquisition of Hale Fold-pack (now Colorpak Sydney) in 2000. Hale Foldpack was a privately owned family business that had been operating for over 50 years. The acquisition of Hale Foldpack provided Colorpak with a strategic position in the NSW folding carton market. In 2001, Colorpak acquired the Melbourne based competitor Pemara Corporation's folding carton division.

The CKL was registered on 23 December 2003 to acquire the business of Colorpak with effect from 1 January 2004. CKL listed on 15 April, 2004 and recently acquired Castle Graphics for consideration of A$4m comprised of 50% cash and 50% shares.

2.2 The Australian Packaging Market

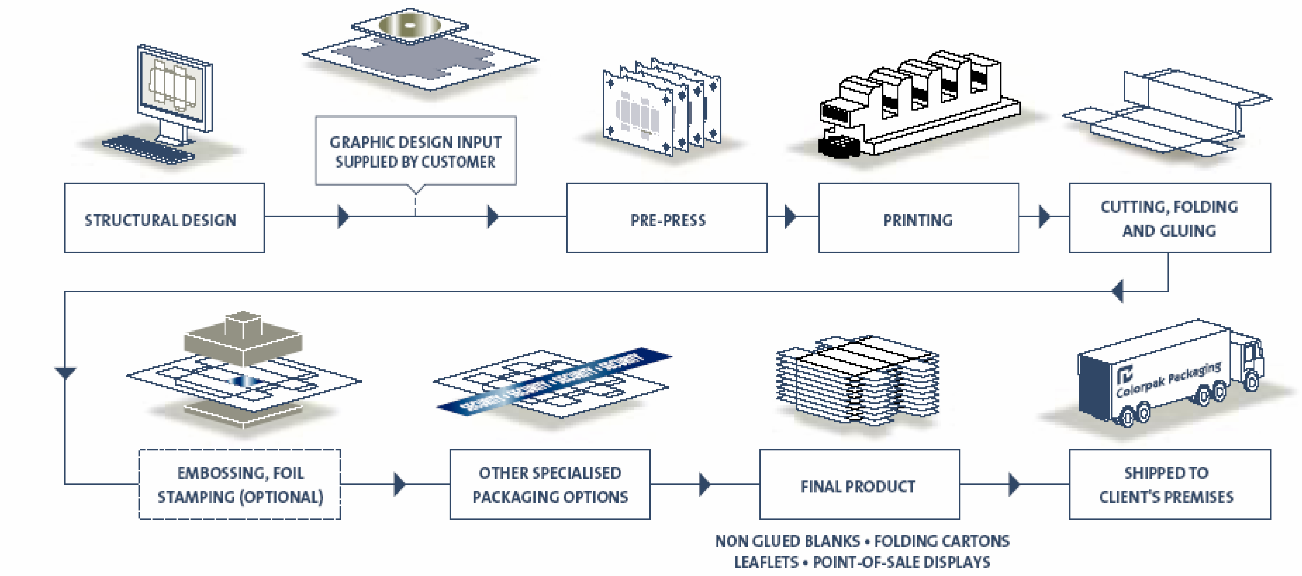
According to BIS Shrapnel, the Australian paper and board packaging industry was estimated to be worth A$3,124 million in 2002/2003. The folding carton packaging industry is one segment of the broader paper and board packaging industry and has been estimated by BIS Shrapnel to be worth A$608 million in 2002/2003. This market has been estimated by BIS Shrapnel to increase to over A$625 million by 2003/2004.

CKL management advise that the Australian folding carton market is dominated by two producers, Amcor Cartons (with around 33.9% market share based on turnover) and Carter Holt Harvey (with around 17.2% market share based on turnover prior to the acquisition of Wadepack). CKL management suggest that Amcor and Carter Holt Harvey mainly focus on the high volume, lower sophistication segment of the market. This provides both with better utilisation of their upstream paperboard manufacturing facilities.

CKL management suggest that the remainder of the folding carton market is fragmented. We believe that Colorpak is currently the third largest folding carton producer in Australia (by turnover following the recent acquisition of Wadepack by Carter Holt Harvey) with around 8.5% market share. Colorpak's focus is on the short production run segment of the market, where it can leverage its advanced technology platform and expertise to develop high value-add, cost effective and innovative packaging solutions for its customers.

2.3 Colorpak Operations

Figure 1. Colorpak Operating/Process Structure Diagram



Source: Company Information

2.2. Substantial shareholders

According to CKL's FY2004 annual report the company's substantial shareholders includes:

- Carton Services Limited (Commins Family Interests) – 31.7%
- Chimarea Pty Ltd – 9.4%
- MMC Asset Management – 5.1%

2.3. Board members

- **Geoff Willis (Chairman) –** Mr Willis was a member of the Amcor senior management team from 1992 to 1998. He is currently the CEO of Hydro Electric Corporation, Tasmania's state-owned electricity generation business.
- **Alex Commins (Managing Director) –** Mr Commins joined CKL in 1992 and has worked in all aspects of the operations, with particular focus on business development. Prior to joining CKL Mr Commins held accounting roles with industrial companies such as HJ Heinz Company.
- **Paul Commins (Executive Director) –** Mr Commins established his own screen printing business in 1987 and manufactured clothing for brands such as Adidas, Puma and Diadora. He sold this business in 1993 and joined CKL. He holds a Bachelor of Business Degree in Accounting.
- **Tony Dynon (Non-Executive Director) –** Mr Dynon enjoys over 20 years of corporate experience and has held the position of CFO and then Managing Director of Heinz in Australia.
- **David Heaney (Non-Executive Director)** – Mr Heaney holds more than 38 years experience in banking and corporate finance with National Australia Bank.

2.4. Key Management

- **Harry Commins (National Production Manager) –** Mr Commins completed his industry training at Wilke & Co, a large printing operation that is held by News Corporation Ltd. He joined Colorpak in January 1992 in the role of factory manager and later project managed the development of CKL's facilities at Braeside and Dandenong.
- **David Johnson (COO – New South Wales)** – Mr Johnson commenced at CKL as an apprentice printer in 1980. His advancement in the printing aspects of CKL's business was followed by a move to sales in 1999. He was then promoted to running Sydney operations following the acquisition of Hale Foldpack in 2000.
- **Tom Hale (Production Manager** – **New South Wales) –** Mr Hale has 28 years of industry experience and was the production manager of Hale FoldPack for 25 years.
- **Stephen Nicholls (CFO)** – Mr Nicholls is a Chartered Accountant. He enjoys nine years experience in the audit division of Coopers & Lybrand in Australia and the UK. He has also held the position of CFO at IT&e Ltd and Stockford Ltd.

3. Investment positives

- **Focused on Competitive Advantage** – Colorpak specialises in the structural design and production of specialised/short production run folding cartons and packaging for the pharmaceutical and premium branded products markets. Premium branded products include personal care/cosmetics, confectionary, wine/spirits and multimedia items. CKL utilises digital design (computer to printing plate), printing/foiling/varnishing, construction, sorting, leaflet insertion and real-time delivery technologies in order to successfully compete against larger (long run) competitors such as Carter Holt Harvey and Amcor. Colorpak's products are renowned for their visual impact and compete on the basis of a higher level of 'value add'.
- **Experienced & Energetic Management** – The Colorpak senior management team is young and energetic, yet enjoys combined experience of over 90 years in the packaging industry. We were impressed by the detailed hands on knowledge of the packaging industry and the associated dynamics as displayed by CEO – Mr Alex Commins during our investigations surrounding CKL's operations. In addition, we believe that Mr Commins holds a clear view as to the objectives and tactics to be achieved and undertaken to sustain the delivery of incremental shareholder value. Members of the prior 100% owner, the Commins family, currently hold three senior executive positions within CKL. However, the independent Chairman – Mr Geoff Willis enjoys a history of around 16 years of senior management experience with Amcor. Further, senior management employment contracts contain non-compete clauses preventing the establishment, operation and/or management of competitor businesses for a period of five years.
- **Recognised for Quality** – An independent customer survey undertaken by BIS Shrapnel has ranked Colorpak "No.1" in the past four consecutive years based upon reliable delivery; competitive price/value; response time for urgent orders; ability to respond to customer's needs; and general print and carton quality.
- **Committed Customers** – According to CKL management, around 35% of the company's turnover is accounted for by companies that have been CKL customers for more than five years. Further, three of CKL's ten largest customers have been customers for over 15 years. In our view, CKL enjoys a prestigious customer list that includes names such as Cussons, L'Oreal, Sigma, Pfizer, Astra Zeneca and Patties.
- **Leveraging Technology/Barriers to Entry** – Over recent times the packaging industry has seen a move towards consolidation. We believe that this is the result of the significant capital outlays involved in productive capacity and the requirement for integrated product sets, e.g. printing and foiling. Accordingly, we consider that capital requirements (human, technological and financial) limit the attractiveness of the specialised packaging industry for new entrants. Further, as reliability of production and delivery are, in our view, often key competitive differentiators, we believe that the challenge of establishing a sustainable client base is significant.

  We believe that CKL also enjoys access to technological and operating benefits gained through its membership of industry groups such as the Global Packaging Alliance and Copapharm Europe.

- **Consolidation Thematic** – Over recent years CKL has undertaken 4 acquisitions that have included Foilmasters and the Hale Foldpack operations in Sydney. We believe that this strategy has been determined in view of customer's demands surrounding product specifications and geographic/delivery parameters. We expect that further consolidation will take place within the Australian packaging industry as evidenced by Carter Holt Harvey's recent acquisition of Wadepak and CKL's purchase of Castle Graphics. Further, the consolidation theme may position CKL as a target owing to its attractive operations and customer base. We also expect that benefits will accrue to CKL owing to contracts that will come up for review owing to acquisitions undertaken by its competitors.
- **Limited demand for incremental capital** – Our analysis and discussions with management indicate that application of incremental capital in the business will be limited to around A$1.0m in FY05E. Capital expenditure is expected to increase to around A$5.0m in FY06E owing to the planned move of Sydney operations to Regent's Park. From FY07E onwards, we expect that capital expenditure will equal depreciation at around A$1.7m p.a.. This estimate ignores the impact of potential acquisitions.
- **Finances** – The CKL balance sheet was geared (Net Debt/Net Debt + Equity) at around 42.4% at the close of FY2004. According to our calculations, interest cover (EBITA/Interest) is expected to stand at 4.4 times by the end of FY05E. However we believe that the cash productivity of the firm is able to result in the level of interest cover improving to 8.0 times by FY2009. Our calculations ignore potential acquisitions and/or further divestments. In addition, our estimates suggest that CKL will deliver an EPS 4-year cumulative annual growth rate ('CAGR') of over 9.1% p.a. from FY05. Further, CKL's pre-goodwill ROE is expected to stand at 13.0% at the close of FY 2005 and is expected to remain steady in the face of margin pressures.
- **Valuation and Yield** – Our DCF valuation of CKL provides an outcome of A$0.82 and employs a WACC of 10.7% and terminal free cash flow growth rate of 2.5%. Our price target implies an FY 2005 fully diluted pre-goodwill P/E multiple of 12.3 times, EV/EBITDA multiple of 8.0 times and EV/EBITDA/growth outcome of 1.0. Our target price implies an FY05E fully franked yield of 3.0%.

4. Investment concerns

- **Non-Annuity Revenue Streams** – Unlike many companies that we recommend from an investment perspective, CKL essentially commences each financial period with a clean order slate. However, we believe that few of CKL's customers are willing to shift their supply arrangements between manufacturers without significant cost or reliability benefits. In our view, this impact is further underwritten by CKL's just-in-time delivery systems.
- **Significant Goodwill/High Gearing –** At the close of FY2004 CKL's gearing ((net debt/(net debt + equity)) stood at 42.4%. Further, over 61% of the company's total asset base is accounted for by intangible assets (goodwill). Whilst management suggest that a write down of goodwill is not likely following the implementation of international accounting standards, a risk remains we believe. From a cash flow perspective, we are comfortable with our estimate of CKL's FY05E interest coverage at 4.4 times.
- **Margins and Large/Well Funded Competitors –**Colorpak undertakes the provision of specialised short-run niche manufacturing in a broader environment that is characterised by large and well capitalised competitors. These operators include Carter Holt Harvey Ltd (CHY.ASX) and Amcor Ltd (AMC.ASX) that have market capitalisations of A$2.6bn and A$6.4bn respectively. In our view, CKL's larger competitors possess the ability to introduce significant pricing pressure into the market when times get tough and customer orders begin to thin. We consider that it is unlikely in the current economic environment that CKL's larger competitors will look to short production run jobs to fill excess capacity. However, following the peak of the current economic cycle, we believe that additional pricing and margin pressure may be imposed upon CKL's operations and finances.
- **Customer Concentration –** We believe that Colorpak has a strong reputation and relationship with many of its customers. Further many of its customers hold long standing supply arrangements with CKL. The CKL prospectus notes however that CKL's largest customer represented around 10.6% of annual revenues in 2003.
- **Customer Consolidation –** An ongoing risk is faced by CKL that its customers may fall prey to M&A activity. In such circumstances a risk exists that packaging contracts may fall to its competitors. In contrast however, the acquisition of Wadepack by Carter Holt Harvey is likely to result in additional customers becoming contestable for CKL, in our view.
- **Industrial Relations –** Our discussions with management indicate that the majority of CKL's Melbourne based work-force is unionised (AMWU). The Sydney based workforce is subject to workplace agreements, we believe. We have been advised that good relations have been maintained between management and CKL's work-force. We believe that CKL has not lost a production day to industrial action since a one-day strike that took place in 2002.
- **Input Cost/Currency Risk** – Our discussions with CKL management indicate that exchange rate impacts on input costs are absorbed by CKL's suppliers owing to contractual 'pass-through' provisions.

5. Valuation

Our analysis suggests a 12-month valuation target for CKL of A$0.82 per share. Our price target implies upside of 18.8% from the share's 11 January, 2005 close of A$0.69. Further, our target price equates to an FY 2005 estimated EV/EBITDA multiple of 8.0 times and pre-goodwill P/E multiple of 12.3 times. We consider that it is essential that a number of catalysts or positive news events take place over the coming 12 months in order for the stock to achieve our valuation outcome. Paragraph 5.3 contains a list of what we expect to be the critical catalysts for CKL's stock price.

We have also reviewed FY05E median Thomson Financial consensus P/E estimates for comparable companies including Amcor (AMC.ASX) and Carter Holt Harvey (CHY.ASX). The consensus median FY05E P/E multiple for Amcor currently stands at around 15.4 times. The median consensus FY05E P/E multiple for Carter Holt Harvey currently stands at around 13.4 times.

5.3. Critical catalysts

In our view, the following critical stock specific catalysts will be key to CKL's positive near-term performance:

- Meeting or exceeding organic revenue and EBITDA guidance provided in the CKL prospectus for FY2005;
- Maintenance and expansion of existing customer relationships;
- Preservation of and/or evidence of managed declines in operating margins;
- Containment of capital expenditure within management guidance;
- Successful leverage of the recent acquisition of the Castle Graphics operation and its associated customer base; and
- Execution of further acquisitions upon favourable pricing terms to CKL.

5.3 WACC

Figure 2: WACC—Weighted average cost of capital

Target Capital Structure:	
Debt	40.0%
Equity	60.0%
Total	100.0%
Cost of Debt:	
Australian 10 Year Bond Yield	5.4%
Credit Premium	2.0%
Pre-Tax Cost of Debt	7.4%
Corporate Tax Rate	30.0%
Post-Tax Cost of Debt	5.2%
Cost of Equity:	
Australian 10 Year Bond Yield	5.4%
Market Risk Premium	6.0%
Equity Beta	1.5
Cost of Equity	14.4%
WACC	10.7%

Source: Grange Securities Analysis

Figure 3. Colorpak 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

Colorpak 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%

Colorpak 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%

Colorpak Ltd Fully Diluted & Pre-Goodwill FY2005E 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%

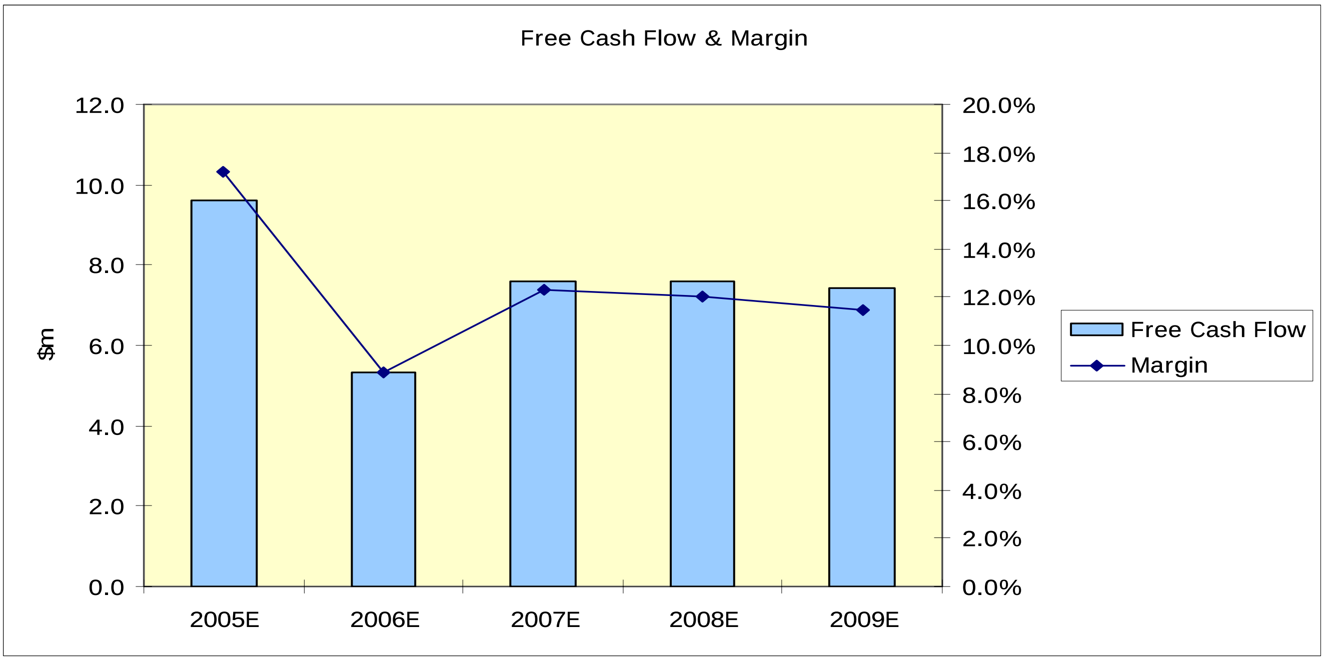
Colorpak Ltd Fully Diluted & Pre-Goodwill FY2006E Valuation Multiple Sensitivity	**Stock Price $ 0.90**	**$ 0.85**	**$ 0.82**	**$ 0.80**	**$ 0.75**	**$ 0.70**	**$ 0.65**	**$ 0.60**
Price/Earnings	12.6	11.9	11.4	11.2	10.5	9.8	9.1	8.4
PEG	0.8	0.7	0.7	0.7	0.7	0.6	0.6	0.5
Price/Operating Cash Flow	8.8	8.3	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

6. Financials

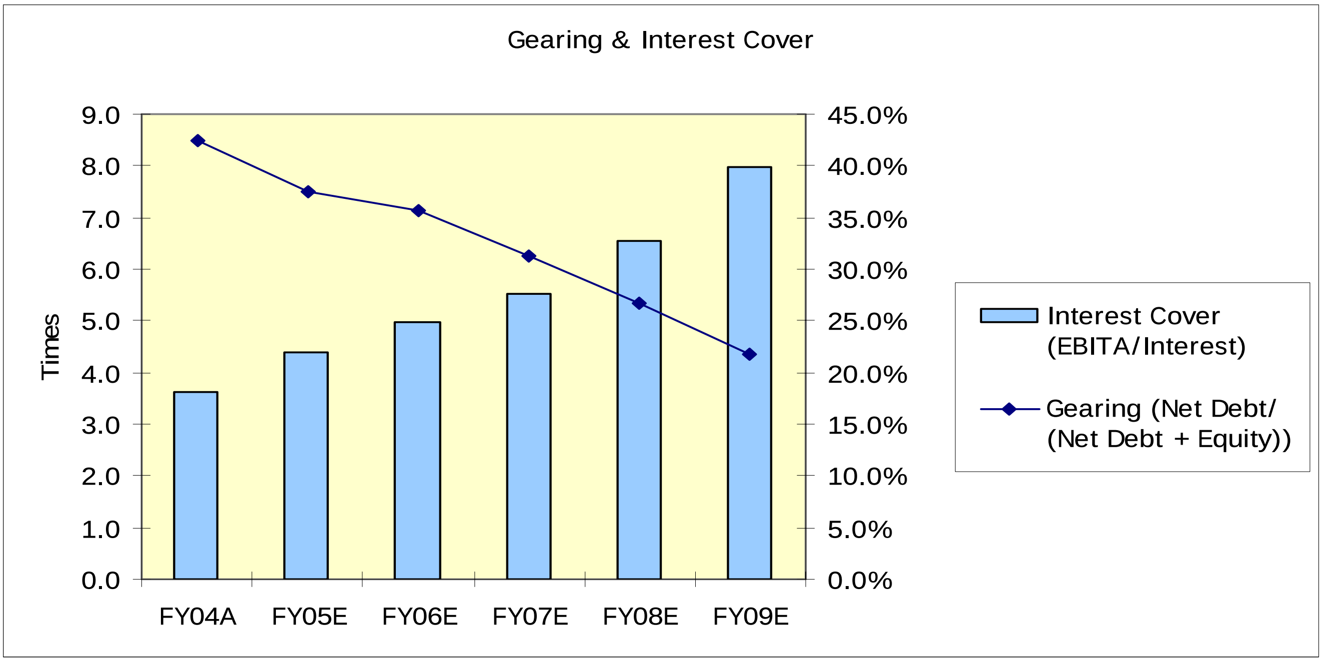
6.1 Financial estimates

Figure 4. Colorpak Ltd - Free cash flows and margin



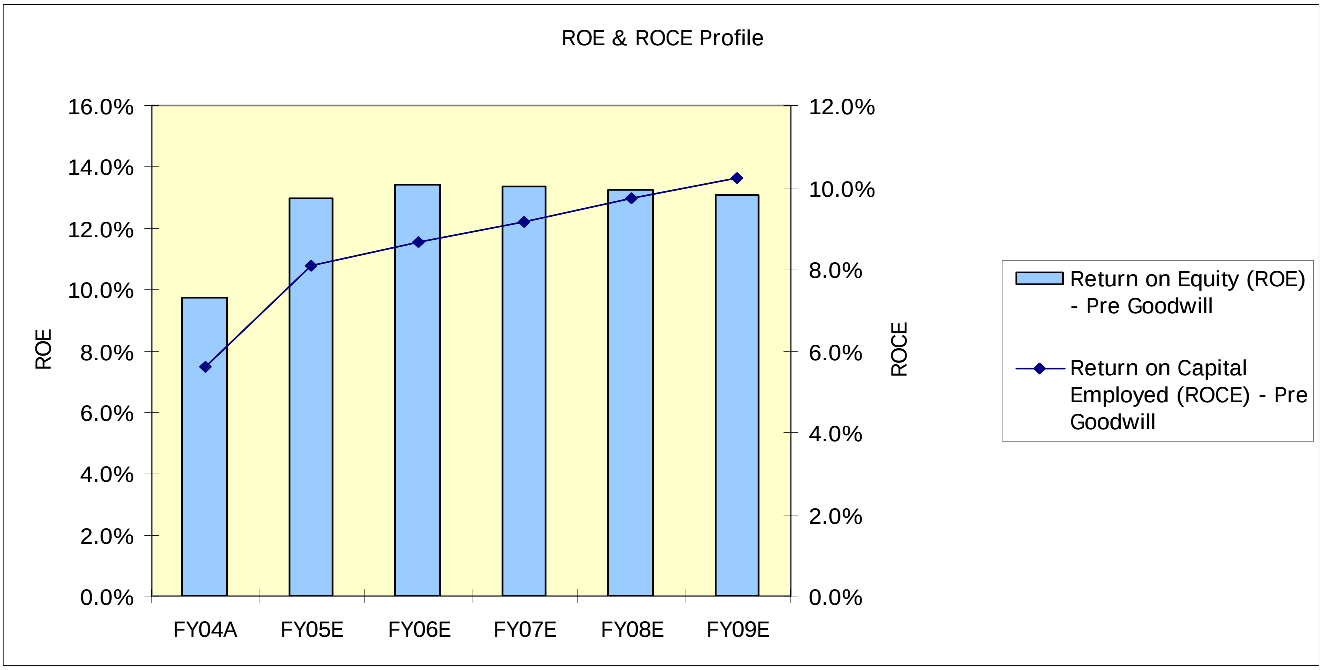
Source: Grange Securities Analysis

Figure 5. Colorpak Ltd – Gearing & Interest Cover



Source: Grange Securities Analysis

Figure 6. Colorpak Ltd - ROA & ROCE Profile



Source: Grange Securities Analysis

Figure 7. Colorpak Ltd – Profit and loss statement

		FY 2004 Pro-forma	FY 2004A Statutory	FY 2005E	FY 2006E	FY 2007E	FY 2008E	FY 2009E
Operating Revenue	**$m**	**49.6**	**25.2**	**55.9**	**60.1**	**61.6**	**63.1**	**64.7**
Growth	*%*		*-49.1%*	*12.7%*	*7.5%*	*2.5%*	*2.5%*	*2.5%*
5-year CAGR	*%*	*4.9%*						
Operating Costs	**$m**	39.0	19.8	44.4	48.0	49.5	51.1	52.8
Growth	*%*		*-49.3%*	*13.9%*	*8.0%*	*3.1%*	*3.1%*	*3.3%*
5-year CAGR	*%*	*5.5%*						
EBITDA	**$m**	**10.6**	**5.4**	**11.4**	**12.0**	**12.0**	**12.0**	**11.9**
Margin	*%*	*21.3%*	*21.6%*	*20.4%*	*20.1%*	*19.6%*	*19.1%*	*18.4%*
Growth	*%*		*N/A*	*8.2%*	*5.5%*	*N/A*	*N/A*	*N/A*
5-year CAGR	*%*	*2.6%*	*17.0%*					
Depreciation & Amortisation	$m	3.9	1.9	3.7	3.9	3.7	3.6	3.5
EBIT	**$m**	**6.7**	**3.5**	**7.7**	**8.2**	**8.4**	**8.4**	**8.4**
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	$m	-	-	-	-	-	-	-
Reported Net Profit After Taxes	**$m**	**2.6**	**1.5**	**3.1**	**3.7**	**3.9**	**4.2**	**4.5**
Margin	*%*	*5.2%*	*5.8%*	*5.6%*	*6.1%*	*6.4%*	*6.7%*	*6.9%*
Growth	*%*		*N/A*	*22.4%*	*16.0%*	*7.9%*	*7.4%*	*5.5%*
5-year CAGR	*%*			*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
Reported EPS	**Cents**	**3.5**	**1.9**	**3.9**	**4.5**	**4.9**	**5.3**	**5.5**
Reported P/E	X	19.9	36.3	17.6	15.2	14.1	13.1	12.4
Reported DPS	**Cents**	N/M	N/M	**2.5**	**2.7**	**2.9**	**3.1**	**3.3**
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 (EBITA/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 8. Colorpak Ltd – Statement of cash flows

		FY 2004A	FY 2005E	FY 2006E	FY 2007E	FY 2008E	FY 2009E
Profit After Tax	$m	1.5	3.1	3.7	3.9	4.2	4.5
Reversal of Non-Cash Items:							
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
Cash Flow from Operations	$m	4.4	8.4	8.3	7.4	7.7	7.8
Growth	%						
5 Year CAGR	%						
Investing Cash Flows:							
Capital Expenditure	$m	-0.2	-1.0	-5.0	-1.7	-1.7	-1.7
Purchases/Sales of Businesses	$m	-3.4	-2.0	-	-	-	-
Total Investing Cash Flows	$m	-3.6	-3.0	-5.0	-1.7	-1.7	-1.7
Financing Cash Flows:							
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
Total Financing Cash Flows	$m	-1.6	-0.0	-2.2	-2.3	-2.5	-2.7
Net Change in Cash	$m	-0.8	5.4	1.1	3.4	3.5	3.4

Source: Grange Securities Analysis

Figure 9. Colorpak Ltd – Balance sheet

		FY 2004A	FY 2005E	FY 2006E	FY 2007E	FY 2008E	FY 2009E
Current Assets:							
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
Total Current Assets	$m	13.3	20.6	21.7	25.6	29.5	33.3
Non-Current Assets:							
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
Total Non-Current Assets	$m	61.4	61.5	62.7	60.7	58.8	57.1
Total Assets	$m	74.7	82.1	84.4	86.3	88.3	90.4
Current Liabilities:							
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
Total Current Liabilities	$m	11.5	13.6	14.3	14.6	14.9	15.2
Non-Current Liabilities:							
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
Total Non-Current Liabilities	$m	24.8	27.0	27.0	27.1	27.1	27.1
Total Liabilities	$m	36.4	40.6	41.4	41.7	42.0	42.3
Net Assets	$m	38.3	41.5	43.0	44.6	46.3	48.1
Equity:							
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
Total Equity	$m	38.3	41.5	43.0	44.6	46.3	48.1

Source: Grange Securities Analysis

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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 vica 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

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

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