



# Research Report

## Colorpak Limited

*FY 04 results all packaged up*

ASX Code: CKL  
Current Price: \$0.445

28 June 2004  
Sector: Containers & Packaging  
Analyst: Nick Maclean

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**Recommendation: BUY**  
**Risk Rating: High**

### Investment View:

- CKL remains very confident of achieving FY 04 earnings targets outlined to the market in its recent prospectus.
- Management is currently focusing on maintaining its existing client base while securing new contract wins in order to achieve FY 05 earnings and dividend objectives.
- While FY 05 targets are based on the company in its present form, CKL will look at acquisitions if they emerge. However, at present no acquisitions are imminent with the company using its operating cash flow to pay down debt and moderately enhance (by \$0.25m) its equipment base.
- Such debt reduction should lead to a decline in CKL's net debt to equity from 87% to 77% in FY 04. This, combined with the company's comfortable operating cash flows somewhat reduces the issue of CKL's negative net tangible asset position.
- We believe the introduction of International Accounting Standards in FY 05 will not lead to any write downs in CKL's recorded goodwill. This highlights the value inherent in CKL at current price levels based on our prospective EPS multiples.
- We view larger packaging companies such as Amcor and Carter Holt Harvey as unlikely to move into CKL's area of operation due to the high start up costs and technical requirements that would be incurred in establishing a position in this low volume, high value-add segment of the market. This leaves CKL as the technological leader in the folding carton packaging industry.
- The recent weakness in the company's share price can be attributed to general negative sentiment towards both the 'small cap.' sector of the market as well as recent IPO's rather than any shift in CKL's business fundamentals.
- As such our 12-month valuation for CKL remains \$0.60 - representing 35% premium to the current share price.

Financial Summary		Year 30 June	2002	2003	2004E	2005E
ASX Code:	CKL	Revenues \$(m)	47.6	48.7	49.1	52.7
Current Price:	\$0.445	EBITDA \$(m)	9.4	10.5	10.1	11.0
12 month price target:	\$0.60	EBITA \$(m)	7.5	8.8	8.5	9.6
Issued Capital:	77.2 m	NPAT* \$(m)			4.6	5.3
Market Capitalisation	\$34.3 m	EPS* (c)			5.9	6.9
		P/E Ratio* (x)			7.5	6.4
		Dividend (c)			0.0	2.5
		Yield (%)			n.a.	5.6
		Franking (%)			n/a	100

*E = Prospectus estimates / \* Pre-goodwill.*




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**DISCLAIMER**


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**Disclosure of Interest**

Tolhurst Noall Ltd ('Tolhurst Noall') and/or entities and persons connected with it may have an interest in the securities the subject of the recommendations set out in this report. In addition, Tolhurst Noall and/or its agents will receive brokerage on any transaction involving the relevant securities.

The Offer under the prospectus was fully underwritten by Tolhurst Noall for which Tolhurst Noall received:

- an underwriting fee equal to 3.5% of the total Application Monies payable for all the Shares in the Offer; and
- a management fee equal to 1.25% of the total Application Monies payable for all of the Shares in the Offer.

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**Explanation of Tolhurst Noall's Recommendation and Risk Rating system:**

Recommendations are assessments of each Tolhurst Noall Analyst's view of potential total returns over a 1-year period relative to the performance of the All Ordinaries Accumulation Index.

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

**Risk Ratings:**

Risk is a subjective assessment of overall risk within a company including price volatility and earnings variability, external liquidity, and size.

We divide our risk into three categories:

**High:** Company typically has high price volatility and earnings variability, low external liquidity and has a small market capitalisation.

**Medium:** Company typically has moderate price volatility and earnings variability, external liquidity and a medium size market capitalisation.

**Low:** Company typically has low price volatility and earnings variability, high external liquidity and is a large size market capitalisation.

I verify that I, **Nick Maclean**, have prepared this research report accurately and that any financial forecasts and recommendations that are expressed are solely my own personal opinions. In addition, I certify that no part of my compensation is or will be directly or indirectly tied to the specific recommendation or financial forecasts expressed in this report.