Shaw Stockbroking

Colorpak (CKL)
The complete package

BUY

Risk: Medium

Key Information

Price ($ps)	0.58
Target Price ($ps)	0.70
Market Cap ($M)	47
GICS Sector	Materials
52 week Hi-Lo ($ps)	0.73 - 0.48
Daily Vol (M, mth avg)	0.0
Weight of S&P 200 Index (%)	0.00
Cash ($m)	0.0
Debt ($m)	37.5
Gearing (ND/ND+E) (%)	36.7
Forecast Total Return	27.8%

Investment Fundamentals

00-Jan	FY11A	FY12A	FY13E	FY14E
Sales ($m)	125.5	191.7	170.7	172.7
EBITDA ($m)	15.8	16.7	16.5	17.8
Margin (%)	12.6	8.7	9.7	10.3
NPAT ($m)	7.1	7.7	6.5	7.9
EPS (cps)	19.6	-4.0	7.9	9.6
EPS Growth (%)	10.1	8.0	-15.9	21.6
DPS (cps)	3.3	3.3	3.5	4.2
Franking (%)	100	100	100	100

Source: Shaw Stockbroking

Ratio Analysis

00-Jan	FY11A	FY12A	FY13E	FY14E
PE (x)	6.6	6.1	7.3	6.0
PE Rel (x)	0.6	0.5	0.6	0.5
Yield (%)	5.7	5.7	6.0	7.3
ROE (%)	19.3	10.9	9.5	10.9
P/BV (x)	0.6	0.7	0.7	0.6

PE Rel is compared to the Market (Industrials + Resources)

CKL vs S&P/ASX Market Index

Performance	1 Mth	3 Mth	12 Mth
Absolute (CKL)	-0.9%	12.7%	-11.5%
Rel to Market	-6.5%	7.9%	-25.0%

Company Activities

CKL designs and produces folding cartons, paper cups & lids, printed leaflets and other paperboard packaging products for specific end-use markets.

Major Shareholders	Shareholding
Carton Services	31.9%
Perpetual and subsidiaries	14.5%
Investors Mutual	5.5%

Event

Initiation of coverage with a BUY rating, a $0.70 twelve month target price and the expectation of further longer term price appreciation.

Key points

- **Stable, high margin, niche packaging solutions offer better earnings quality than CKL's multiple implies.** CKL is one of two major folding carton manufacturers in Australia. It has dominant industry positions in a number of packaging niches including pharmaceuticals, cosmetics, and other short run low volume products. These high margin specialist niches account for an estimated half of CKL's earnings, insulating the company from the impact of price competition that has affected lower margin sectors of the market.

- **EPS growth to continue.** CKL has a history of achieving above average industry sales growth and margins. This is expected to continue, initially driven by synergies and gross margin improvement from the recently acquired larger low margin Carter Holt Harvey packaging business(CHH). Progress has already been made through price increases, closure of plants and reduced headcount. Earnings are also expected to benefit from more rationale industry pricing and longer term from further industry consolidation.

- **Offshore competition is an overstated risk.** After five years of a relatively high AUD, offshore packaging only accounts for 10% of the Australian market, and is unlikely to threaten CKL's key higher margin product categories, but does cap the ability to pass through price/cost increases; as was experienced with some of its lower margin sales. We believe it has also disproportionately affected the multiple the company trades at.

Rating - BUY

Following share price weakness CKL is now trading on a FY13 PE of 7.3x (XSI 12x's) down from 8.6 x's over recent years, due to reduced margins and increased debt as a result of the CHH acquisition and some concern about the stability of its contracts.

We see the opportunity to buy a well-managed company that the market is currently valuing on temporarily depressed margins and temporarily increased debt levels. We expect EPS up lift (synergies from the CHH acquisition, underlying market growth of 2-3% pa and some limited price increases) and a longer term multiple rerating back to historic multiples.

Just carrying forward its current depressed multiple, onto higher earnings will see CKL trade up to our target price of $0.70. Longer term we believe its earnings profile will permit an increased payout ratio, increasing the dividend yield from 5.7% to 8.2% by FY15 which should support a rerating of its multiple from 7.2 back to historic levels of 8-9x's.

Refer to disclaimer on last page

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Consolidated P&L (A$m)	FY11	FY12	FY13F	FY14F	FY15F
Operating revenues	**125.5**	**191.7**	**170.7**	**172.7**	**177.0**
Non operating revenues	2.0	3.8	3.0	3.0	3.0
Total revenues	**127.5**	**195.5**	**173.7**	**175.7**	**180.0**
Total operating expenses	**111.7**	**178.7**	**157.3**	**157.9**	**160.5**
EBITDA	**15.8**	**16.7**	**16.5**	**17.8**	**19.4**
Depreciation of assets	-3.1	-4.0	-4.4	-4.5	-4.5
Amortisation goodwill	0.0	0.0	0.0	0.0	0.0
Amortisation other	0.0	0.0	0.0	0.0	0.0
EBIT	**12.7**	**12.8**	**12.1**	**13.3**	**15.0**
Interest charges	-2.5	-3.5	-2.8	-1.5	-0.9
Interest received	0.0	0.0	-0.1	-0.5	-0.9
Share of net profits of assc	0.0	0.0	0.0	0.0	0.0
Profit before tax	**10.2**	**9.3**	**9.3**	**11.3**	**13.2**
Tax	-3.2	-1.6	-2.8	-3.4	-4.0
OEI	0.0	0.0	0.0	0.0	0.0
Normalised NPAT	**7.1**	**7.7**	**6.5**	**7.9**	**9.2**
Significant items (after tax	8.8	-10.9	0.0	0.0	0.0
Reported NPAT	**15.9**	**-3.2**	**6.5**	**7.9**	**9.2**
Cash NPAT	**15.9**	**-3.2**	**6.5**	**7.9**	**9.2**

Key Financials	FY11	FY12	FY13F	FY14F	FY15F
Diluted average shares	81.2	81.5	81.9	81.9	81.9
Reported EPS	19.6	-4.0	7.9	9.6	11.3
Reported EPS (diluted)	19.6	-4.0	7.9	9.6	11.3
Cash EPS (diluted)	8.7	9.4	7.9	9.6	11.3
EPS growth	10%	8%	-16%	22%	17%
PER (x)	**6.6x**	**6.1x**	**7.3x**	**6.0x**	**5.1x**
DPS (cps)	3.3	3.3	3.5	4.2	5.1
Payout ratio (%)	37%	35%	44%	44%	45%
Dividend yield (net)	**5.7%**	**5.7%**	**6.0%**	**7.3%**	**8.8%**
Franking	100%	100%	100%	100%	100%
Dividend yield (gross)	**8.1%**	**8.1%**	**8.6%**	**10.5%**	**12.6%**

Key Operational Financials	FY11	FY12	FY13F	FY14F	FY15F
EBITDA margin (%)	12.6%	8.7%	9.7%	10.3%	11.0%
EBIT margin (%)	10.1%	6.7%	7.1%	7.7%	8.5%
NPAT margin (%)	5.6%	4.0%	3.8%	4.6%	5.2%
Tax rate (%)	30.9%	17.2%	30.3%	30.2%	30.3%
EBITDA growth (%)	8.5%	5.9%	-1.5%	7.7%	9.5%
EBIT growth (%)	9.5%	0.6%	-5.2%	9.8%	12.7%
NPAT growth (%)	147.5%	-120.3%	-300.6%	21.6%	17.4%

Cashflows (A$m)	FY11	FY12	FY13F	FY14F	FY15F
Operating cashflows	2.6	5.5	9.6	11.7	13.4
Investing cashflows	-10.6	-7.6	-4.4	-4.5	-4.5
Financing cashflows	4.8	4.8	-16.5	-18.3	-4.1
Net increase in cash	-3.2	2.7	-11.2	-11.0	4.8
Cash at end of the year	-3.2	-0.4	-11.7	-22.7	-17.8
	-	-	-	-	-

Cash Flow Ratios	FY11	FY12	FY13F	FY14F	FY15F
FCF (OC - CAPEX)	-3	1	5	7	9
FCF (growth pcp %)	#DIV/0!	-130.3%	445.2%	38.4%	23.3%
Total CAPEX spend	-6	-5	-4	-4	-4
Net borrowings	8	8	-13	-15	0

Balance Sheet (A$m)	FY11	FY12	FY13F	FY14F	FY15F
Cash	0.0	0.0	-11.7	-22.7	-17.8
Receivables	38.2	31.4	29.3	30.0	30.8
Inventories	30.5	28.2	28.2	28.2	28.2
Plant & equipment	40.6	40.6	40.6	40.6	40.6
Deferred tax assets	3.8	6.4	6.4	6.4	6.4
Intangibles	46.1	46.1	46.1	46.1	46.1
Other assets	1.8	1.4	0.7	0.7	0.7
Assets	**161.1**	**154.1**	**139.7**	**129.4**	**135.0**
	-	-	-	-	-
Payables	25.4	21.6	18.3	18.4	18.9
Provisions	11.7	12.3	12.3	12.3	12.3
Tax liabilities	1.8	0.0	0.0	0.0	0.0
Borrowings	34.2	38.9	26.2	10.8	10.8
Other liabilities	14.8	14.3	14.3	14.3	14.3
Liabilities	**87.8**	**87.1**	**71.1**	**55.9**	**56.4**
	-	-	-	-	-
Net Assets	**73.3**	**67.0**	**68.6**	**73.5**	**78.6**
Net Tangible Assets	**27.1**	**20.9**	**22.5**	**27.4**	**32.5**

Balance Sheet Ratios	FY11	FY12	FY13F	FY14F	FY15F
Period end shares	81.2	81.9	81.9	81.9	81.9
NAV per share	0.9	0.8	0.8	0.9	1.0
ROE (%)	19%	11%	9%	11%	12%
P / NAV (P/BV)	0.6x	0.7x	0.7x	0.6x	0.6x
NTA per share	0.3	0.3	0.3	0.3	0.4
ROTE (%)	52%	32%	30%	32%	31%
P / NTA (x)	1.7x	2.2x	2.1x	1.7x	1.4x

Gearing	FY11	FY12	FY13F	FY14F	FY15F
Net Debt	34.2	38.9	37.9	33.5	28.7
Net Debt / Equity	46.6%	58.1%	54.3%	44.9%	36.0%
Net Debt / (ND+E)	31.8%	36.7%	35.2%	31.0%	26.4%
Int cover (x) (EBITDA)	6.4x	4.7x	5.8x	8.8x	11.2x
Int cover (x) (EBIT)	5.1x	3.6x	4.3x	6.6x	8.6x

Investment view - BUY

CKL ticks a number of key investment boxes; it is well managed, is one of two dominant industry participants (that we see are re-establishing rationale pricing), has a history of earnings growth that is likely to be sustained, and an earnings profile that is substantively better than its multiple suggests. A multiple we believe, following the realisation of synergies from a recent acquisition, is likely to increase back to its historic range.

A well-managed family business with form

CKL is well managed, as is evident in the sales growth and above industry margins that it has consistently achieved, since the Commins' family purchased the business in 1992.

Table: Sales CAGR 15% pa

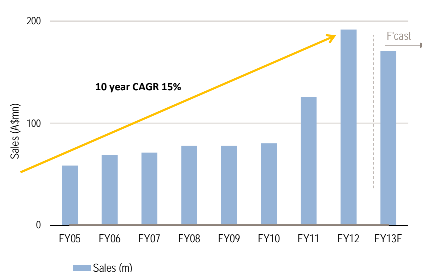
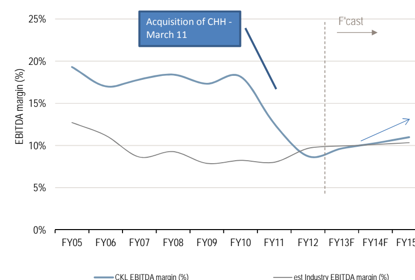


Table: Margin history %



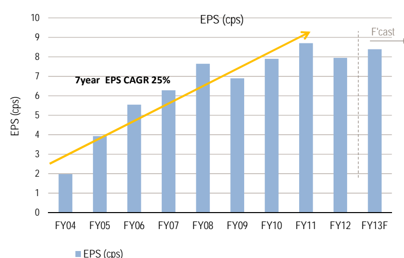
Source: Shaw Stockbroking estimates

Long term EPS growth to be sustained

CKL has delivered an EPS CAGR of 25% over the 7 years to FY11 (the year before the CHH acquisition) derived from organic and acquisition growth as it has continuously improved the groups earnings profile.

Table: 7-year EPS CAGR 25% pa

Table:



Source: Shaw Stockbroking estimates

We see the potential for ongoing EPS growth over the next 12-24 months derived from:

- **Gross Margin improvement** on acquired underperforming CHH contracts. CKL has a history of delivering above industry average margins, while the CHH margins were well below industry averages.

- **Operational synergies from the CHH acquisition,** including plant closure, and staff cuts are underway, while renegotiated supply contracts are expected to deliver further upside over 24 months.

- **Rational pricing.** The Australian packaging industry has been consolidating, and participants are now pricing rationally which should allow gross margin improvement to translate into EPS growth.

Management has set itself a target of 10-12% EBITDA margins within 3 years. Shaw forecasts sit below this aspiration at 9%, generating EPS growth of 22% over FY14.

CKL's earnings quality is better than its current multiple implies

With regards to CKL's earnings quality we see:

- It is typically providing packaging for defensive products, such as pharmaceuticals, beverages & food, which we see as providing some cyclical protection;

- Beyond the defensive nature of its underlying products we see a significant difference in the earnings quality of the various niches CKL services. It provides packaging for both high quality niches such as pharmaceutical products and lower quality niches such as fast food products. However the split is favourable, which suggests a better earnings profile than its multiple (2.5x FY12 EBITDA) suggests; and,

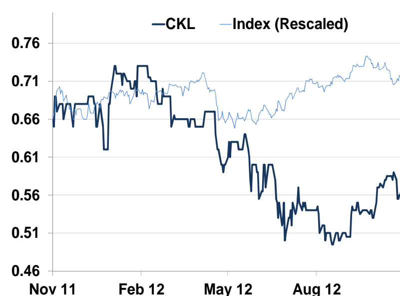
- Rationale pricing & account management. This was the driving factor behind CKL increasing pricing on the low margin accounts it inherited from CHH.

Multiple re-rate back to historic levels

Share price decline following the loss of NZ food contracts has left CKL on a PE multiple of 7.2, a 16% discount to its FY11 multiple.

Table: Share price history

Table: PE relative to XSI



Source: Shaw Stockbroking estimates

CKL is expected to at least carry forward its current depressed multiple onto higher earnings in FY13/14 which would see it trade up to our target price of $0.70, and combined with its dividend yield of 6.0% generates a TSR of 28% and our BUY rating.

Longer term we expect as growth, quality of earnings and a likely increased payout ratio come through, CKL will trade back towards its recent multiples which generates prospects of a share price of around $0.85.

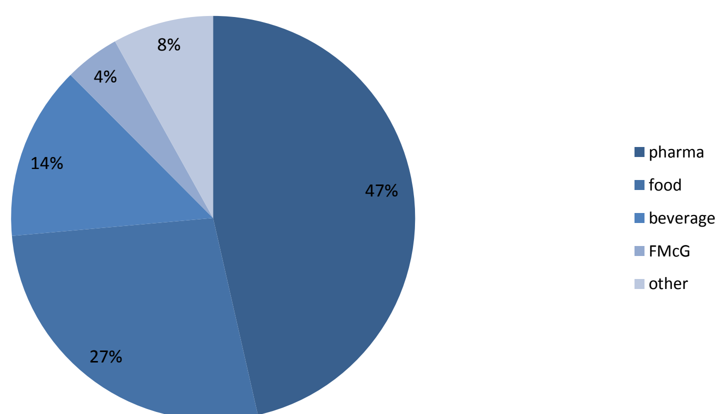
Stable, high margin, niche packaging solutions.

CKL is one of two dominant carton manufacturers in Australia, the other being Amcor (AMC).

It has the dominant industry positions in a number of high quality, high margin niches including pharmaceuticals, cosmetics and other 'short run' product such as premium cups.

These niches, broadly defined as 'short run' packaging account for an estimated half of CKL's earnings, insulating the company from the impact of offshore competition (increasingly an issue due to high AUD) and rising costs that has affected the 'long run' packaging segments.

Table: Earnings by Product Category - Est %



Source: Shaw Stockbroking estimates

CKL's product niches include:

- **Pharmaceuticals,** CKL has 90% market share, there are higher barriers to entry than across commodity packaging (some product is locked in by TGA approvals), it delivers higher margins and the underlying pharmaceutical market is growing at 2-3% pa driven by an aging population. CKL's recently renewed contract with Astra Zeneca, worth up to $34m over the next five years, highlights the quality of this earnings stream;

- **Other 'short run' packaging,** Short run packaging is defined by low volume quick response, high quality, high margin packaging. It includes CKL's cosmetic and paper cup contracts; and,

- Other longer run, low margin packaging such as food and beverages are typically categorised as long run, are lower margin and subject to import competition. This part of the market has not been growing despite underlying product growth of 2-3% pa. reflecting import substitution.

The key point here is the degree of dependability of CKL's contracts compared with the commoditised 'long run' end of the market.

The CHH acquisition provides potential margin upside

CKL made the CHH acquisition in March 2011 paying $5m and has since spent $12m rationalising the business in order to return it to profitability. Key points of note include:

- **Rationalisation** has included closing of 2 of CHH's 4 facilities, Reservoir and Villawood, at a combined cost of $12m expensed in FY12. We note Amcor acquired CHH's Smithfield facility and has since closed it. Industry pricing is now expected to benefit from removed capacity and the re-introduction of rational pricing with CHH widely believed to have been responsible for price competition in order to keep its higher capital intensity board manufacturing plant operating at capacity.

- **Headcount reduction.** Largely as a result of the closure of Reservoir and Villawood, headcount has fallen from 820 to 680 without incurring lost production, however new EBA's have been agreed at all plants which will see a 4% labour cost increase.

- **CHH's earnings profile & price increases.** CHH brought CKL an increased exposure to commodity style packaging with the bulk of its $125m of revenue 'long run' packaging. CKL has since pushed through price increases, with a 5% increase on CHH contracts in March 2011 and a 1.5% increase across group sales on 1 July 12. This did lead to the loss of two NZ contracts. Otherwise CKL has started to rebuild the CHH gross margins and reduce its operating costs. In addition it now has a more integrated model with the addition of design and pre pack capabilities; which management believes will help lock in and open up new clients.

- **Sourcing synergies yet to come.** As a result of the acquisition CKL now sources ~$75m pa of paper board from a group of suppliers (CHH, Amcor, & merchants). It is expected that CKL will use its now larger volumes to extract improved purchasing arrangements, particularly compared with the contracts it inherited from CHH. This will possibly lead to a lower inventory requirement, releasing some working capital.

The key point is that CKL has put in place significant changes to rebuild CHH's margins and in the process lift its group margin back towards historic levels. We do not expect margins to be fully restored, as much of CHH's work was lower margin 'long run' packaging.

Industry movement

CKL has seen some contract movement over the last year.

- CKL contract wins include: Astra, OptiPharm and Probiotec.

- CKL has lost two NZ clients that did not wish to accept the 5% price increase put through on all the acquired CHH contracts. The two contracts are understood to have been worth approx. NZ$9m (McDonald's NZ$5m & KFC NZ$4m)

- CKL also lost two contracts in Australia. Cussons closed its Dandenong soap plant and now sources packed finished goods out of Asia. Patties Foods, following the appointment of a new CEO, re tendered its contract.

The key point is that winning and losing contracts is a usual part of business. The movement of manufacturing offshore does represent a threat to CKL, albeit not a new one

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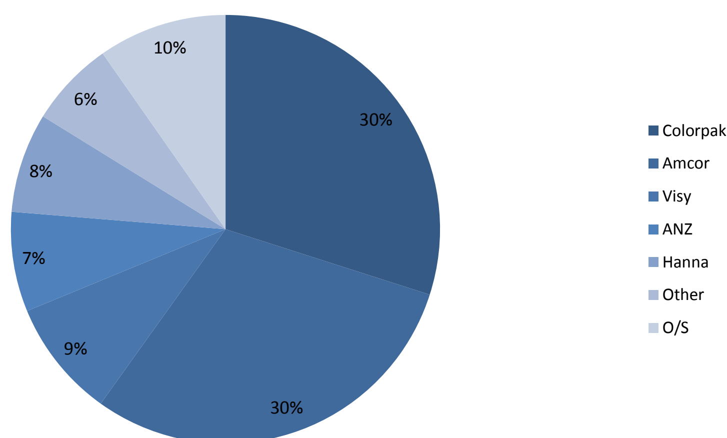
Industry structure has been improving

The folding carton industry is a mature industry growing at low single digit rates. It has experienced significant consolidation and is emerging from a period of strong price competition driven by the strength of AUD and price based competition from CHH as it bought volumes in order to maintain utilisation through its board manufacturing plant.

Industry consolidation is delivering rationale behaviour

The two largest participants have actively rationalised the industry. CKL's acquisitions include: CHH, Remedies, Castle, Pemera. Amcor has contributed with the acquisition of CHH (Smithfield). Further industry consolidation is likely given high costs and underutilised capacity still exists across the industry. Key candidates for rationalising include: Hanna, ANZ and Visy.

Table: Market Share of Industry Participants



Source: Shaw Stockbroking estimates

Evidence of rationale behaviour:

- CKL's closures & push on price.
- We note Amcor is also a paperboard manufacturer, however it has been a more rational participant and after acquiring CHH's Smithfield plant closed it, in order to reduce industry capacity and help restore rational pricing.
- Reduced contract churn.

Some barriers to entry, but import competition exists

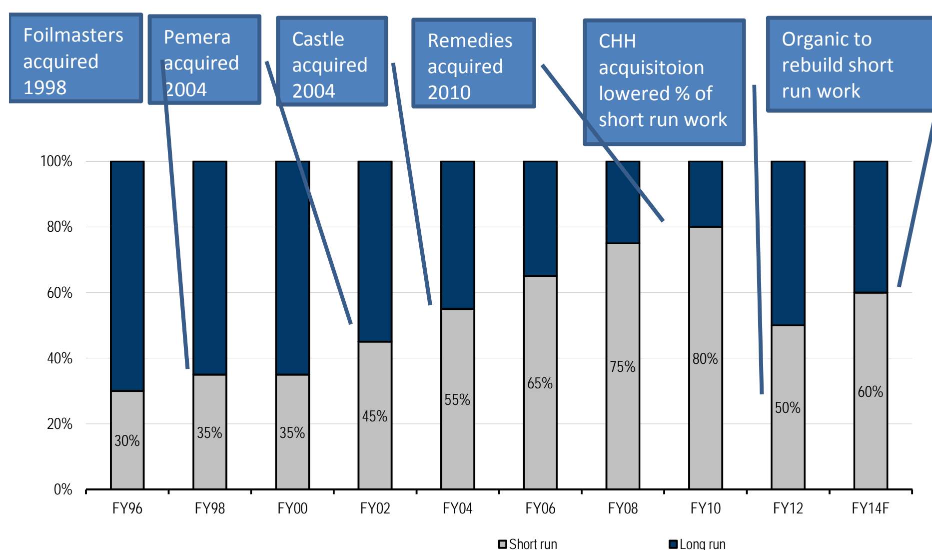
The packaging industry is increasingly capital and knowledge intensive which limits the opportunity for new entrants, however small players do grow and import competition is a threat, particularly to long run orders and in the face of rising prices and economies of scale.

A history of strong management

CKL has been well managed since the Commins' family purchased the business in 1992, as is made evident by:

- **Industry surveys.** CKL has consistently ranked ahead of CHH and Amcor despite previously being a much smaller organisation in the BIS Shrapnel reputation survey of folding carton suppliers;
- **Above industry margins.** Since acquiring the business current management has developed its exposure, both organically and via acquisition, to higher margin product niches. Prior to acquiring CHH, CKL was securing 80% of its earnings from high margin, short run products – up from 30% in 1996;
- **Unprofitable contracts have been culled.** Following the acquisition of CHH, CKL management let go fast food contracts in NZ with McDonalds and KFC that were unprofitable and which could not be pushed up in price;
- **Reduced customer concentration risk.** Following the CHH acquisition CKL has only one customer that accounts for >10% of sales (Coca Cola 13%). It now has a greater diversification of customers.

Table: Development of CKL's earnings profile %



Source: Shaw Stockbroking estimates

Board & Management

Geoff Willis Chairman, B.Comm, MBA, CPA, AICD (Age 64)

Geoff has been Chairman of Colorpak since 12 January 2004 and has a strong commercial and industrial background. He has undertaken a number of senior leadership positions during the past decade and is a member of the Audit, Risk Management, Compliance, Nomination and Remuneration Committees.

Alex Commins Managing Director, B.Bus (Acc) (Age 45)

Alex has been the Managing Director since January 2003. He maintains direct responsibility for Colorpak's strategy development, customer relationships, business development and to drive growth and innovation throughout the business.

Bronwyn Constance Non-executive Director, FCPA, FAICD, FCIS (Age 63)

Bronwyn has a strong industrial and financial background with extensive corporate experience at a senior management level in Australia and overseas.

David Heaney Non-executive Director (Age 68)

David joined Colorpak on 12 January 2004 and has more than 38 years experience in banking and corporate finance.

Ian Wightwick Non-executive Director, Dip.App.Chem., BEc, MAdmin, FAICD (Age 73)

Until his retirement from full time employment in February 2004, Ian was Managing Director and Chief Executive Officer of PaperlinX Limited (PPX), which was demerged from Amcor Limited (AMC) and went public in 2000. His earlier career encompassed over 20 years in the food industry with a period in private practice as a business consultant.

Stephen Nicholls Chief Financial Officer & Company Secretary, BA (Economic and Financial Studies), ACA, ACIS, FAICD (Age 56)

Stephen joined Colorpak in January 2004. Prior to holding this position he held senior financial positions with medium and large commercial organisations in the IT and service industries. Stephen has been a Chartered Accountant for over 30 years.

Share Register

The Commins family is the largest shareholder at 32%. Other substantial owners include Perpetual (14.5%) and IML (5.5%).

Shaw Financial forecasts

- We are expecting CKL's revenue to decline in FY13 by ~10% as the loss of two New Zealand fast food contracts in FY12 has a full 12 month impact. Beyond FY13 while the AUD remains high and prior to further industry consolidation, we expect low single digit revenue growth. At full utilisation management believes the plants could generate c$240m - $250m of revenues p.a. this is probably unlikely in the near term.

- EBITDA margins are expected to increase in FY13 despite the impact of lost sales, reflecting synergies from the CHH contract. CHH's paper board contract is locked in until March 2013 at which point we expect improved supply arrangements to be negotiated. Margins are not however expected to be fully restored to historic levels, as much of the work acquired with CHH was lower margin 'long run' packaging. CKL management has set itself a target of 10 -12% EBITDA margins within 3 years. Shaw forecasts sit in the middle of this aspiration at 11%.

- Plant rationalisation – CKL closed two plants in FY12 at a cost of $12m, which was reflected in the FY12 accounts. No further costs are expected in FY13, although cash flow impacts will remain through to FY15.

- CKL's payout ratio is expected to increase. The increase in free cash flow is expected to enable debt to be paid down followed by an increase in payout.

Table: Shaw P&L forecasts

Consolidated P&L (A$m)	FY11	FY12	FY13F	FY14F	FY15F
Operating revenues	**125.5**	**191.7**	**170.7**	**172.7**	**177.0**
Non operating revenues	2.0	3.8	3.0	3.0	3.0
Total revenues	**127.5**	**195.5**	**173.7**	**175.7**	**180.0**
Total operating expenses	**111.7**	**178.7**	**157.3**	**157.9**	**160.5**
EBITDA	**15.8**	**16.7**	**16.5**	**17.8**	**19.4**
Depreciation of assets	-3.1	-4.0	-4.4	-4.5	-4.5
Amortisation goodwill	0.0	0.0	0.0	0.0	0.0
Amortisation other	0.0	0.0	0.0	0.0	0.0
EBIT	**12.7**	**12.8**	**12.1**	**13.3**	**15.0**
Interest charges	-2.5	-3.5	-2.8	-1.5	-0.9
Interest received	0.0	0.0	-0.1	-0.5	-0.9
Share of net profits of assc	0.0	0.0	0.0	0.0	0.0
Profit before tax	**10.2**	**9.3**	**9.3**	**11.3**	**13.2**
Tax	-3.2	-1.6	-2.8	-3.4	-4.0
OEI	0.0	0.0	0.0	0.0	0.0
Normalised NPAT	**7.1**	**7.7**	**6.5**	**7.9**	**9.2**
Significant items (after tax	8.8	-10.9	0.0	0.0	0.0
Reported NPAT	**15.9**	**-3.2**	**6.5**	**7.9**	**9.2**
Cash NPAT	**15.9**	**-3.2**	**6.5**	**7.9**	**9.2**

Source: Shaw Stockbroking estimates

Cash Flow

- Capex is expected to be relatively low over the next three years given CKL's under utilised capacity, relatively new equipment and an intention to pay down debt.
- Working capital could be reduced if CKL is able to carry less board inventory as part of its new supply contract.
- Unfavourable contracts, leases and restructuring costs accounted for in the P&L in FY12 will impact on operating cash flow over prospective years:-$3.7m in FY13, -$3.6m in FY14e & -$2m in FY15e.

Table: CKL Cashflow

Cashflows (A$m)	FY11	FY12	FY13F	FY14F	FY15F
Operating cashflows	2.6	5.5	9.6	11.7	13.4
Investing cashflows	-10.6	-7.6	-4.4	-4.5	-4.5
Financing cashflows	4.8	4.8	-16.5	-18.3	-4.1
Net increase in cash	-3.2	2.7	-11.2	-11.0	4.8
Cash at end of the year	-3.2	-0.4	-11.7	-22.7	-17.8

Source: Shaw Stockbroking estimates

Balance Sheet

- Debt reduction is expected; management has stated it is a priority.
- Existing debt facilities agreed until Sept 2013; No bill facilities mature within 12 months. $50mn committed bill, cash advance & trade finance facilities + $2.9mn OD;
- Financial ratios are all well within bank covenants.

Table: CKL Balance Sheet

Balance Sheet (A$m)	FY11	FY12	FY13F	FY14F	FY15F
Cash	0.0	0.0	-11.7	-22.7	-17.8
Receivables	38.2	31.4	29.3	30.0	30.8
Inventories	30.5	28.2	28.2	28.2	28.2
Plant & equipment	40.6	40.6	40.6	40.6	40.6
Deferred tax assets	3.8	6.4	6.4	6.4	6.4
Intangibles	46.1	46.1	46.1	46.1	46.1
Other assets	1.8	1.4	0.7	0.7	0.7
Assets	**161.1**	**154.1**	**139.7**	**129.4**	**135.0**
	-	-	-	-	-
Payables	25.4	21.6	18.3	18.4	18.9
Provisions	11.7	12.3	12.3	12.3	12.3
Tax liabilities	1.8	0.0	0.0	0.0	0.0
Borrowings	34.2	38.9	26.2	10.8	10.8
Other liabilities	14.8	14.3	14.3	14.3	14.3
Liabilities	**87.8**	**87.1**	**71.1**	**55.9**	**56.4**
	-	-	-	-	-
Net Assets	**73.3**	**67.0**	**68.6**	**73.5**	**78.6**
Net Tangible Assets	**27.1**	**20.9**	**22.5**	**27.4**	**32.5**

Source: Shaw Stockbroking estimates

Risks

We see a number of risks but believe they are over stated by the multiple CKL is currently trading on. Risks include:

- **Cyclical impact on consumer products.** Cyclical factors are likely to have some impact upon a number of the product categories that CKL services. We regard this as a relatively insignificant risk.

- **Import competition.** The greatest risk should be to short run work where the labour content is relatively higher however that has not been the case because short run packaging also requires client confidence in supply chain management. Consequently, long run work where domestic carton manufacturers have more ability to match price has been the only segment to feel some, but limited, impact.

- **Rising prices.** Increased costs is a threat to CKL given the limited room to pass cost increases on as a result of the threat of offshore competition. However CKL management has been confronted by this problem for a number of years and has consistently pushed through price increases and driven its own margins higher.

Valuation

We have used three valuation methodologies to value CKL, all point to substantial upside. We have selected our sum of the parts EBITDA valuation as the basis for our 12 month target price, but discuss the other valuation methodologies as well.

Table: Shaw 12 month rolled forward valuation

Methodology	Valuation ($)
DCF valuation	0.92
PER	0.78
SOP - EBITDA multiple	0.70
Average	0.79

Source: Shaw Stockbroking estimates

Sum of the parts EBITDA valuation (0.70cpc): our preferred 12 month TP

We believe our EBITDA valuation, despite being the lowest of our three valuations, reflects best on the value inherent in CKL's different product niches.

Table: Shaw EBITDA valuation

	Multiple	Implied val $mn	Comment
Pharmaceuticals	4.0	33.1	90% mkt share, some of product locked in by TGA, higher margin, mkt growing at 2-3% pa. We applied half XSI ave multiple
Food	2.5	12.0	Other categories are commoditised lower margin with greater comp. We have applied CKL's current group multiple to these categories
Beverage	2.5	6.2	
FMcG	2.5	1.9	
Other	2.5	3.6	
mkt cap	3.18	56.73	
Valuation (cps)		**$0.70**	

Source: Shaw Stockbroking estimates

DCF valuation

Our DCF valuation

Table: Shaw DCF assumptions

Tax Rate	30.0%	Shares on issue - dil	81.9
Risk Free Rate	5.3%	Share price	A$0.59
Debt Premium	2.6%	Market Value of Equity	A$48m
After-tax Market Risk Premium	6.0%	Fair Value of Net Debt	A$39m
Equity Beta	1.5	Required Equity Return	14.3%
Adj. Terminal Growth	2.5%	Net Debt/Enterprise Value	0.0%
Franking Percentage	100.0%	WACC	14.3%

Source: Shaw Stockbroking estimates

Table: Shaw DCF valuation

	A$m	A$ per share
NPV - years 1 to 10	46.7	$0.57
NPV - terminal	53.3	$0.65
Surplus/assoc assets	0.0	$0.00
Enterprise value	100.0	$1.22
Debt and prefs	(38.9)	($0.48)

(less options)		
Equity valuation - current DCF	**61.0**	**$0.75**
Franking		$0.09
Value including franking		**$0.83**
DCF roll fwd		0.95
less dividends		-0.03
12 month Rolled forward DCFvaluation		**0.92**

Source: Shaw Stockbroking estimates

Shaw Stockbroking

Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market.

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