

The small pack that keeps giving...

Merrill Lynch

A subsidiary of
Bank of America Corporation

Mario Maia, CFA >>
Research Analyst
Merrill Lynch (Australia)
mario.maia@baml.com

+61 2 9226 5766

Another solid, high-quality result

CKL reported FY10 NPAT of A\$6.4m, up 14.1% on the pcp and 1.8% higher than our estimate. The strong result was underpinned by moderate volume growth, sound cost controls and margin expansion. Once again, the robust profit performance has translated into strong cash flows, which allowed CKL to (1) reduce gearing to the lowest level since listing, and (2) declare a special dividend fully franked. As seen in recent years, CKL's result ticked all the boxes not only in terms of earnings quality but also in regards to proper disclosure.

Contract losses pose some risk to sales growth in '11/12...

Astra's decision to move all of its manufacturing capacity abroad could reduce CKL sales by \$7m pa or 8% of group sales. The Astra manufacturing assets will not be completely closed until the end of CY12, which implies a gradual decline in sales. In FY11, we estimate that CKL will lose sales of \$1.7-2m related to Astra.

... but CKL is well placed to find replacement business

While this contract loss is material, we believe that CKL will be able to secure replacement business for some of its vols, particularly as manufacturing activity continues to recover in Australia over the next 12-24 months. In addition, the acquisition of the Remedies business, which should add \$1-2mpa in sales, and additional capital investment should allow CKL not only to replace these lost volumes, but also to generate positive sales growth in FY11.

Cheap no matter how you package it - Buy

Despite a still difficult operating environment, CKL has managed to post a robust FY10 result driven by margin expansion and positive organic growth into a high margin segment - highlighting the strength of its business platform. Trading well below its fundamental value (DCF of \$0.77ps), we think the stock remains a good defensive, high-yield play with corporate appeal. Buy retained with an increased PO of \$0.75ps, which implies an inexpensive FY11E PER multiple of 9.2%.

Estimates (Jun)

(A\$)	2009A	2010A	2011E	2012E	2013E
Net Profit b/f Abnormals	5.6	6.4	6.6	6.8	7.1
EPS	0.069	0.079	0.082	0.084	0.088
EPS Change (YoY)	-11.2%	15.5%	3.3%	3.0%	4.7%
Dividend / Share	0.030	0.043	0.034	0.035	0.035
Free Cash Flow / Share	0.055	0.095	0.065	0.068	0.077

Valuation (Jun)

	2009A	2010A	2011E	2012E	2013E
P/E	7.3x	6.3x	6.1x	5.9x	5.7x
Dividend Yield	6.0%	8.5%	6.7%	7.0%	7.0%
EV / EBITDA*	5.2x	4.4x	4.3x	4.1x	3.8x
Free Cash Flow Yield*	11.1%	19.1%	13.0%	13.8%	15.5%

* For full definitions of *iQmethod*SM measures, see page 10.

Stock Data

Price	A\$0.500
Price Objective	A\$0.750
Date Established	4-Aug-2010
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	A\$0.400-A\$0.530
Mrkt Val / Shares Out (mn)	US\$37 / 80.5
Average Daily Volume	8,442
BofAML Ticker / Exchange	XBVVF / ASX
Bloomberg / Reuters	CKL AU / CKLAX
ROE (2011E)	10.7%
Net Dbt to Eqty (Jun-2010A)	37.6%
Est. 5-Yr EPS / DPS Growth	3.2% / 11.2%
Free Float	68.0%

Key Changes

(A\$)	Previous	Current
2013E EPS	NA	0.09
2013E EBITDA (m)	NA	15.0

>> Employed by a non-US affiliate of MLPF&S and is not registered/qualified as a research analyst under the FINRA rules.

Refer to "Other Important Disclosures" for information on certain Merrill Lynch entities that take responsibility for this report in particular jurisdictions.

Merrill Lynch does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Refer to important disclosures on page 11 to 13. Analyst Certification on Page 9. Price Objective Basis/Risk on page 9. Link to Definitions on page 9.10962415

04 August 2010

iQprofileSM Colorpak Ltd.

Key Income Statement Data (Jun)	2009A	2010A	2011E	2012E	2013E
(A\$ Millions)					
Sales	78	80	82	83	85
Associates & Other Revenue	1	1	1	1	1
Operating Expenses	(65)	(66)	(68)	(69)	(71)
EBITDA	13	15	14	15	15
Depreciation & Amortization	(3)	(3)	(3)	(3)	(3)
EBIT	10	12	11	12	12
Net Interest & Other income	(2)	(2)	(2)	(2)	(2)
Pretax Income	8	9	10	10	10
Tax (expense) / Benefit	(2)	(3)	(3)	(3)	(3)
Outside Equity interest in Npat	0	0	0	0	0
Preference dividends	NA	NA	NA	NA	NA
Net Profit b/f Abnormals	6	6	7	7	7
Non-Recurring Items	0	0	0	0	0
Net Income (Reported)	6	6	7	7	7

Key Cash Flow Statement Data

EBITDA	13	15	14	15	15
Change in Working Capital	1	(2)	0	0	NA
Other C'flow Items before int & tax	0	0	0	0	0
Net Interest Paid	(2)	(2)	(2)	(2)	(2)
Tax Paid	(2)	(1)	(3)	(3)	(3)
Other C'flow from Operations	0	0	0	0	0
Cash Flow from Operations	10	9	9	10	10
Capital Expenditure (PP&E)	(6)	(1)	(4)	(4)	(4)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other C'flow from Investing	0	0	0	0	0
Cash Flow from Investing	(6)	(1)	(4)	(4)	(4)
Shares Issue / (Repurchase)	0	0	0	0	0
Dividend paid	(3)	(3)	(3)	(3)	(3)
Other C'flow from Financing	(3)	(5)	(2)	(2)	0
Cash Flow from Financing	(6)	(7)	(5)	(4)	(3)
Free Cash Flow	4	8	5	6	6
Net Debt	28	23	21	18	16

Key Balance Sheet Data

Cash Equivalents	0	0	0	2	4
Receivables & Inventories	21	23	23	23	25
Property, Plant & Equipment	30	28	29	30	31
Intangibles	46	46	46	46	46
Other assets	1	1	1	1	1
Total Assets	97	97	99	101	106
Payables	8	9	8	8	9
Provisions	3	3	3	3	3
Short term debt & Long term debt	28	23	21	20	20
Other Liabilities	3	3	3	3	3
Total Liabilities	41	37	35	34	34
Total Equity	56	60	64	68	72

iQmethodSM - Bus Performance*

Return on Capital Employed	8.3%	9.4%	9.2%	9.1%	9.0%
Return on Equity	10.0%	11.0%	10.7%	10.4%	10.2%
Operating Margin	13.4%	14.5%	14.0%	13.9%	14.0%
EBITDA Margin	17.0%	18.0%	17.6%	17.5%	17.5%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	1.8x	1.4x	1.4x	1.4x	1.4x
Dividend Payout Ratio	43.8%	53.7%	41.0%	41.6%	39.7%
Tax Rate (Reported)	30.1%	29.9%	30.3%	30.3%	30.3%
Net Debt-to-Equity Ratio	49.4%	37.6%	32.9%	26.7%	21.6%
Interest Cover	4.2x	4.7x	5.9x	6.4x	6.9x

Key Metrics

Franking	100%	100%	100%	100%	100%
----------	------	------	------	------	------

* For full definitions of iQmethodSM measures, see page 10.

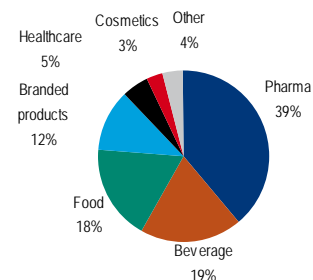
Company Description

Colorpak is a major participant in the A\$600m folding-carton segment of Australia's paper and board packaging industry. The company's products are heavily exposed to the higher margin pharmaceuticals and healthcare industries. The company is based in Melbourne, Australia.

Investment Thesis

Backed by a strong management team, which has a solid track record of sales growth and also own a significant proportion of stock, CKL should enjoy solid sales and earnings growth driven by underlying growth in key markets, continued market share gains and a focus on higher margin segments (pharma). Trading below its fundamental value, the stock has corporate appeal and could be a prey in the ongoing rationalisation of the Australian carton board market.

Chart 1: CKL FY10 Sales by industry served



Source: Merrill Lynch estimates

Stock Data

Price to Book Value 0.6x

Buy retained post strong FY10 result

CKL reported FY10 NPAT of A\$6.4m, up 14.1% on the pcp and 1.8% higher than our estimate. The strong result was underpinned by moderate volume growth, sound cost controls and margin expansion. CKL's EBITDA margin expanded by 80bps, mainly due to improved cost efficiencies and lower imported RM costs. FCF (OCF-Capex) was strong at A\$7.7m, allowing CKL to reduce gearing from 33% to 27%.

Despite contract losses, sales are still expected to continue to grow. While Astra's decision to move all of its manufacturing capacity abroad could reduce CKL sales by \$7m pa by CY12, we believe CKL is well placed to find replacement business for some of its volumes, particularly as manufacturing activity continues to recover in Australia in the next 12-24 months. In addition, the acquisition of the Remedies business, which should add \$1-2mpa in sales, and additional capital investment should allow CKL to replace the lost volumes and also generate positive sales growth in FY11.

Post the 1H10 result, we remain comfortable with our Buy rating and an increased PO of A\$0.75ps. Trading well below its fundamental value (DCF of \$0.77ps), the stock remains a good defensive, high-yield play with corporate appeal. We retain our Buy rating with an increased PO of \$0.75ps, which implies an inexpensive FY11E PER multiple of 9.2%.

FY10 Result at a glance

Below we summarise the key financial highlights from CKL's result:

Table 1: FY10 result at glance

	FY09	FY10	Chg %
Sales Revenue	77.8	80.2	2.6%
EBITDA	13.4	14.6	8.6%
D&A	-3.0	-3.0	-1.3%
EBIT	10.4	11.6	11.4%
Net Interest	-2.5	-2.5	-0.5%
EBT	7.9	9.1	15.1%
Tax Expense	-2.4	-2.7	14.4%
NPAT	5.6	6.4	14.1%
EBITDA Margin	17.4%	18.2%	80bps
EBIT Margin	13.2%	14.3%	110bps
EPS (A\$ cents)	6.94	7.90	13.8%
DPS (A\$ cents)	3.00	4.25	41.7%

Source: CKL, Merrill Lynch

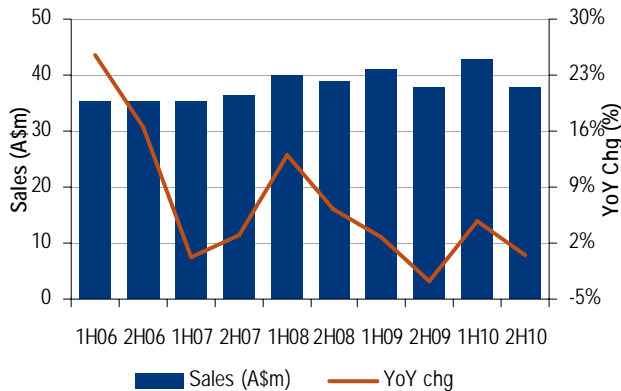
- **NPAT:** CKL reported a net profit of A\$6.4m, up 14.1% on the pcp. The result was driven by modest volume increase, operational efficiencies, the turnaround of the foil operation and margin expansion.
- **Revenue drivers:** Sales rose 2.6% on the pcp with volumes growing from existing customers in the pharma, healthcare and beverage sectors (~60% of CKL sales). CKL reported modest sales growth despite losing a \$1.9m pa cosmetics contract with Proctor & Gamble in late FY09.
- **Cost drivers:** While sales increased by 3%, CKL's cost base increased by only 1.4% in FY10. Despite the growth in volumes, raw material costs fell by 0.17% over pcp mainly due to higher AUD as CKL imports some of its raw materials. Employee costs increased by 0.34%, occupancy rose by 7.4% and other costs increased by 9.9%.
- **Cash flow:** FCF came in at \$7.7m, benefiting from a capex "holiday" and solid earnings growth. Operating cash flow totaled \$9m vs. \$10m on the pcp.
- **Gearing (D/D+E):** CKL has used some excess cash (\$5.1m) to pay down debt, reducing gearing from 33.1% to 27.3% in the past 12 months, which is at the bottom of CKL's target of 25-50%. Interest cover rose from 4.2x to 4.7x.
- **Financial position:** CKL remains well within its bank covenants with Debt/EBITDA at 1.6x (vs. covenant of <3.0x).
- **Final dividend:** CKL declared a fully franked dividend of 1.75cps and a special dividend of 1.00cps. The record date is 09 September 2010.
- **Outlook:** Based on current market conditions, CKL expects modest sales and profit growth in FY11, despite losing the AstraZeneca contract.

Highlights

Organic sales growth more than outweighs contract losses

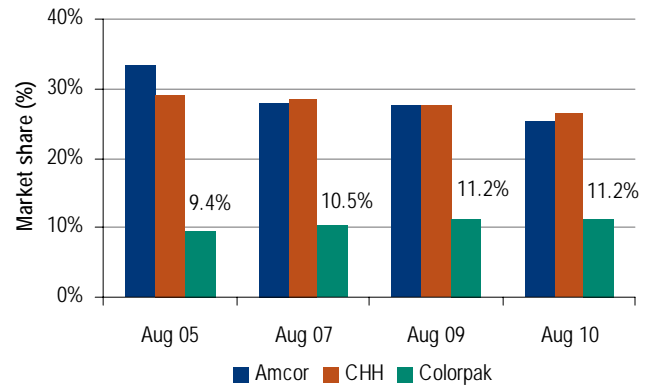
Despite the loss of a \$1.9m contract from Proctor & Gamble in late FY09, CKL's sales improved by 2.6% to \$80.2m. Sales growth was driven by existing customers in the Pharma, Beverage and FMCG segments. Over the past few years, CKL has managed to increase its carton board market share in Australia, while the two larger players continued to lose share. Given improving market conditions, CKL expects modest sales growth in FY11 despite the loss of the Astra sales contract. CKL management is confident that they will find replacement business for the lost contract.

Chart 2: Sales rose 2.6% in FY10 driven by pharma/beverage sectors



Source: CKL, Merrill Lynch estimates

Chart 3: CKL has been winning market share in Australia

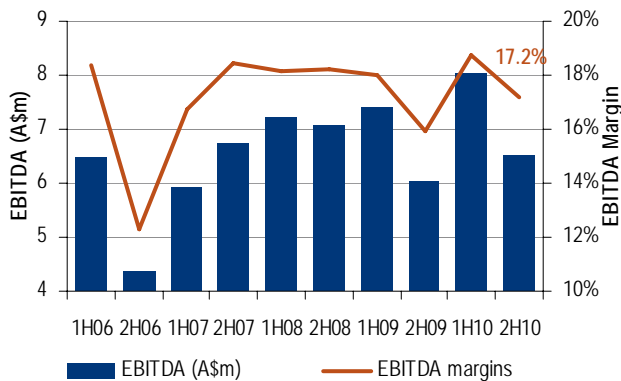


Source: BIS Shrapnel, Colorpak, Merrill Lynch research

FY10 EBITDA margins remain at healthy levels

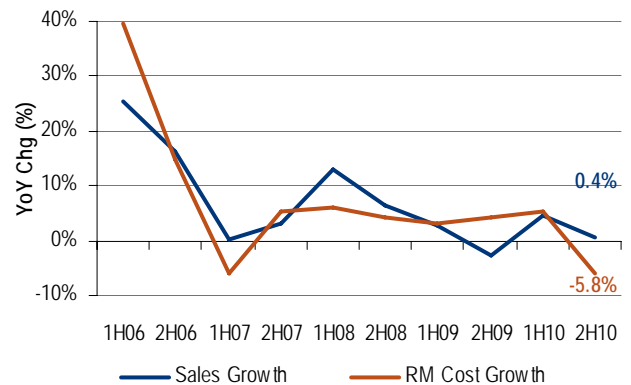
EBITDA margins rose 80bps over pcp to 18.2% in FY10. The expansion in margins can be attributed to an improvement in product mix, operational efficiencies and lower imported RM costs (see comments below). Although EBITDA margins have been near 18% over the past few years, we believe EBITDA margins will revert back to a 16.5-17.5% range going forward due to the competitive nature of this industry.

Chart 4: We expect EBITDA margins to remain within the 16.5-17.5% range going forward



Source: CKL, Merrill Lynch estimates

Chart 5: Revenue vs RM costs - Higher AUD helped reducing the cost of imported board in FY10



Source: CKL, Merrill Lynch estimates

AUD appreciation a positive for raw material imports

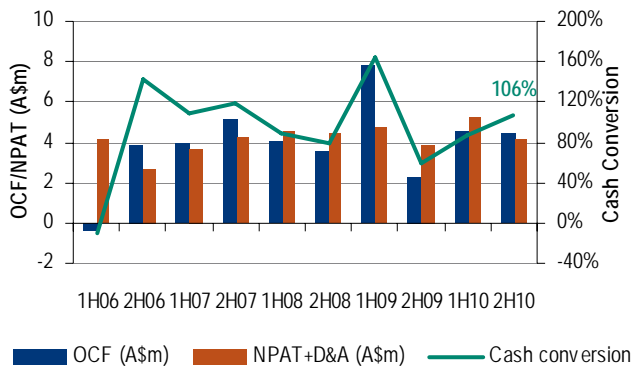
CKL's key raw material is carton board, which is sourced from local manufacturers or imported through local paper merchants. While the cost of board sourced domestically has remained relatively stable, the price of imported carton board feed has fallen on the back of a stronger AUD. Note that the average AUD was 18% higher in FY10 (88c) vs FY09 (74c).

Cash conversion remains at acceptable levels

Despite generating a stronger EBITDA of \$14.3m in FY10 (compared to \$13.4m in FY09), CKL's operating cash flow declined by 11% over pcp. This was primarily driven by a \$2.3m rise in inventories and trade receivables in FY10 compared to a -\$2.7m decline in FY09.

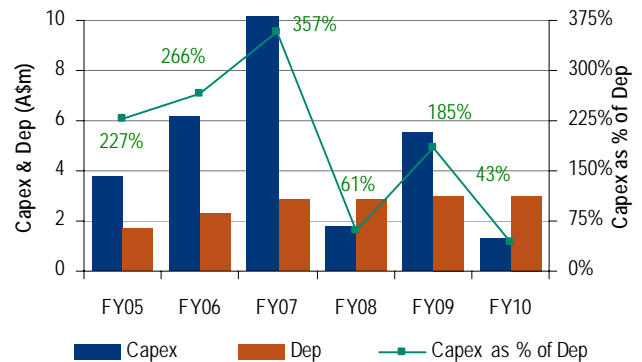
However, the overall free cash flow increased by \$3.2m or 71% in FY10 as investing cash flows were significantly lower when compared to the pcp. Investing cash outflows were higher in FY09 as CKL purchased a new press and die-cutting machine for the Sydney operation taking advantage of the government's investment allowance program.

Chart 6: CKL's cash conversion has continued to improve over the last few halves



Source: CKL, Merrill Lynch estimates

Chart 7: After one year of capex "holiday", CKL's capital investment are projected to rise to ~130% of depreciation in FY11



Source: CKL, Merrill Lynch estimates

Debt retirement pushes gearing to record lows

CKL's gearing (debt / debt + equity) fell from 33% in FY09 to 27.3% in FY10, as CKL repaid \$5.1m or 18.2% of the total debt outstanding. Due to CKL's size and concentrated earnings stream, we are encouraged to see gearing falling towards the bottom of CKL's target range of 25-50%. This bodes well for CKL as it plans to ramp up capex to \$4m in FY11.

Outlook

Modest sales and profit growth

Given the current economic environment and improving market conditions, CKL expects modest sales and profit growth in FY11, despite the loss of the Astra contract. We believe CKL's sales could increase by 2.2% and profitability could improve by 3.4% in FY11.

CKL plans to incur additional capex of \$4m during FY11 primarily to increase CKL's product offerings in an attempt to drive additional sales and profit growth. We estimate that this, coupled with the Remedies acquisition and the improvement in general market conditions, could help CKL report a 3-4%pa growth in profits in the coming years.

CKL confident of replacing AstraZeneca volumes

CKL confirmed that AstraZeneca has now decided to close their entire Australian operations by 2012 calendar year end. We believe this could impact sales by \$7m, of which 25-30% of the impact will be felt in 2011. Despite the loss of this contract, CKL is confident it can find replacement business as market conditions continue to improve. By replacing the Proctor & Gamble volumes in FY10, CKL has demonstrated its ability to replace lost volumes and drive sales higher.

ESG Takeaways

Good quality of earnings and disclosure set CKL apart

In our view CKL has been consistent in its reporting with no one-offs or exceptional items recorded in the past 5 years. In addition CKL also follows best practices when reporting results, with very few changes made to the reporting formats, making it easier for the investment community. Despite being a micro cap, we find CKL's level of disclosure to be among the best in the market.

You don't need to be a large company to have solid corporate governance

Year in and year out, CKL continues to exercise very good corporate governance. CKL management has voluntarily complied with the ASX Corporate Governance Council guidelines as well as its principles and recommendations:

Table 2: List of all the corporate governance principles CKL has complied with

Principle 1: Lay solid foundations for management and oversight	✓
Principle 2: Structure the board to add value	✓
Principle 3: Promote ethical and responsible decision making	✓
Principle 4: Safeguard integrity in financial reporting	✓
Principle 5: Make timely and balanced disclosure	✓
Principle 6: Respect the rights of the shareholder	✓
Principle 7: Recognize and manage risk	✓
Principle 8: Remunerate fairly and responsibly	✓

Source: Company reports, Merrill Lynch Research

Remuneration policy remains tied to company performance

While providing competitive rewards to attract high calibre executives, CKL has also structured a significant portion of the executive remuneration as variable 'at risk'. This portion of the remuneration will only be paid if pre-determined performance benchmarks are met. CKL has also established performance hurdles in relation to the variable executive remuneration, thereby aligning the directors' interests with the company's own.

Earnings changes

We have lowered our EPS by 0.7% in FY11E and 1.9% in FY12E. Downgrades reflect the slower than expected sales growth due to the loss of the AstraZeneca contract. That said, we have increased our margin estimates as CKL continues to drive cost efficiencies and benefit from lower raw material costs (mainly due to higher A\$).

Table 3: Earnings changes

Year end June		FY10E	FY11E	FY12E
Sales Revenue				
Was	A\$m	82.5	84.9	86.9
Is	A\$m	80.8	82.6	83.7
Change	%	-2.0%	-2.8%	-3.6%
EBITDA				
Was	A\$m	14.3	14.4	14.7
Is	A\$m	14.6	14.5	14.6
Change	%	1.8%	0.4%	-0.8%
EBIT				
Was	A\$m	11.39	11.38	11.67
Is	A\$m	11.60	11.43	11.56
Change	%	1.8%	0.5%	-1.0%
NPAT				
Was	A\$m	6.29	6.68	6.97
Is	A\$m	6.41	6.63	6.83
Change	%	2.0%	-0.7%	-1.9%
Normalised EPS				
Was	cps	7.8	8.2	8.6
Is	cps	7.9	8.2	8.4
Change	%	2.0%	-0.7%	-1.9%

Source: Merrill Lynch estimates

Table 4: CKL DCF valuation

PV of CFs	A\$m	17.3
PV of terminal value	A\$m	59.0
Enterprise Value	A\$m	76.3
Net Debt	A\$m	22.8
Equity Value	A\$m	53.6
Fully diluted ordinary shares	Million	81.1
Equity Value per share	A\$ps	0.66
Franking credits	A\$ps	0.10
DCF	A\$ps	0.77

Source: Merrill Lynch estimates

Table 5: CKL PER valuation

	FY10A	FY11E	FY12E
Through-the-cycle PER Multiple	10.0x	10.0x	10.0x
EPS Pre-Goodwill (diluted)	7.9	8.2	8.4
Value per ordinary share	\$0.79	\$0.82	\$0.84

Source: Merrill Lynch estimates

Valuation changes

DCF valuation

Our DCF for CKL rises slightly from \$0.74ps to \$0.77ps and is based on a WACC of 10.5% and a terminal growth rate of 2.5%. Whilst we consider the DCF valuation to be the most appropriate methodology to value this company, we recognise that the stock also looks attractive on different metrics such as PER.

PER valuation

We apply a mid-cycle multiple for the stock of 10x, a 30% discount to the all industrials ex financials of 14.3x. In our view such discount is reasonable, given CKL's inherent liquidity/size issues and the cyclical industry it operates in.

Applying this 10x multiple to FY11E EPS of 8.2cps, we derive a valuation for the stock of A\$0.82ps, a 64% premium to the current share price. Importantly, were the stock to reach our price objective of A\$0.75ps in 12 months' time, CKL would be trading on a FY11E PER of 9.2x, which we do not view as demanding.

Buy rating

Post FY10 result, we remain comfortable with our Buy rating. Our positive stance on the stock is premised on CKL's growth outlook, strong management team, attractive dividend yield (6.7% fully franked FY10), inexpensive valuation (stock trading at a 35% discount to DCF) and corporate appeal.

Financials

Table 6: Statement of Financial Performance

Year ending June (A\$m)	2008A	2009A	2010A	2011E	2012E
Trading revenue	77.8	77.8	80.2	81.9	83.1
- change	9.5%	0.0%	3.0%	2.2%	1.4%
EBITDA	14.3	13.4	14.6	14.5	14.6
- change	13.0%	-6.4%	8.6%	-0.4%	0.8%
Depreciation	-2.9	-3.0	-3.0	-3.1	-3.1
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	11.5	10.4	11.6	11.4	11.6
- change	17.0%	-9.3%	11.4%	-1.4%	1.1%
Net interest	-2.6	-2.5	-2.5	-1.9	-1.8
EBT	8.9	7.9	9.1	9.5	9.8
Tax expense	-2.7	-2.4	-2.7	-2.9	-3.0
NPAT att. to s/hers	6.2	5.6	6.4	6.6	6.8
- change	22.9%	-10.6%	15.5%	3.4%	3.0%
Net significant items	0.0	0.0	0.0	0.0	0.0
Reported NPAT	6.2	5.6	6.4	6.6	6.8
Norm EPS	7.7	6.9	7.9	8.2	8.4
EPS change	22.9%	-11.2%	15.5%	3.3%	3.0%
PER	6.5	7.3	6.3	6.1	5.9

Source: CKL, Merrill Lynch estimates

Table 7: Ratios

Year ending June (A\$m)	2008A	2009A	2010E	2011E	2012E
Profitability Ratios					
EBIT margin	14.7%	13.4%	14.5%	14.0%	13.9%
NPAT margin	8.0%	7.1%	8.0%	8.1%	8.2%
Effective tax rate	30.2%	30.1%	29.9%	30.3%	30.3%
NOPLAT pre goodwill	8.0	7.3	8.1	8.0	8.1
Invested Capital	93.1	91.4	90.4	92.1	94.7
ROIC (after tax)	8.6%	8.0%	9.0%	8.7%	8.5%
ROE	11.7%	10.0%	11.0%	10.7%	10.4%
ROA	11.7%	10.6%	11.9%	11.7%	11.6%
Gearing / Cashflow Ratios					
Debt / Equity	56%	49%	38%	33%	29%
Debt / Debt+Equity	36%	33%	27%	25%	23%
Debt / EBITDA	2.2x	2.1x	1.6x	1.5x	1.4x
EBITDA / Interest	5.5x	5.4x	5.9x	7.5x	8.1x
EBIT / Interest	4.4x	4.2x	4.7x	5.9x	6.4x
Dividend cover	2.6x	2.3x	1.9x	2.4x	2.4x
Gearing (ND/ND+E)	35%	33%	27.31%	25%	21%
Multiples					
EV/EBITDA	4.7x	4.9x	4.1x	4.0x	3.8x
EV/EBIT	5.8x	6.3x	5.2x	5.1x	4.8x

Source: CKL, Merrill Lynch estimates

Price objective basis & risk

Colopak Ltd (XBVVF)

Our DCF for CKL is \$0.77ps, based on a WACC of 10.6% and a terminal growth rate of 2.5%. Whilst we consider the DCF valuation to be the most appropriate methodology to value this company, we recognise that the stock also looks attractive on different metrics such as PER. We apply a mid-cycle multiple for the stock of 10x, a 35% discount to the market multiple of 13x. In our view such discount is reasonable, given CKLs inherent liquidity/size issues and the cyclical industry it operates in.

Applying this 10x multiple to FY11E EPS of 8.2cps, we derive a valuation for the stock of A\$0.82ps. Importantly, were the stock to reach our price objective of A\$0.75ps in 12 months time, CKL would be trading on a 12-mth forward PER of 9.2x, which we do not view as demanding. The risks to our recommendation are product substitution, competition, rising raw material costs, further contract losses, management instability and customer attrition.

Link to Definitions

Basic Materials

Click [here](#) for definitions of commonly used terms.

Analyst Certification

I, Mario Maia, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Australia-Basic Industries Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
BUY				
	Adelaide Brighton	ADBC	ABC AU	Ben Chan, CFA
	Amcor	AMCRF	AMC AU	Mario Maia, CFA
	Bluescope Steel Limited	BLSFF	BSL AU	Ben Chan, CFA
	Colopak Ltd	XBVVF	CKL AU	Mario Maia, CFA
	Fletcher Building Limited	YFLBF	FBU AU	Ben Chan, CFA
	Incitec Pivot Limited	ICPVF	IPL AU	Mario Maia, CFA
	James Hardie Ind	JHIUF	JHX AU	Ben Chan, CFA
	James Hardie-ADR	JHX	JHX US	Ben Chan, CFA
	PaperlinX	PPXLF	PPX AU	Mario Maia, CFA
NEUTRAL				
	Boral Ltd	BOALF	BLD AU	Ben Chan, CFA
	Nufarm Limited	NUFMF	NUF AU	Mario Maia, CFA
	Onesteel Limited	OSTLF	OST AU	Ben Chan, CFA
	Orica	OCLDF	ORI AU	Mario Maia, CFA
	Sims Metal Management Limited	SMUPF	SGM AU	Ben Chan, CFA
UNDERPERFORM				
	Crane Group Ltd	CRAHF	CRG AU	Ben Chan, CFA
	CSR Ltd	CSRLF	CSR AU	Ben Chan, CFA

04 August 2010

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of *iQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

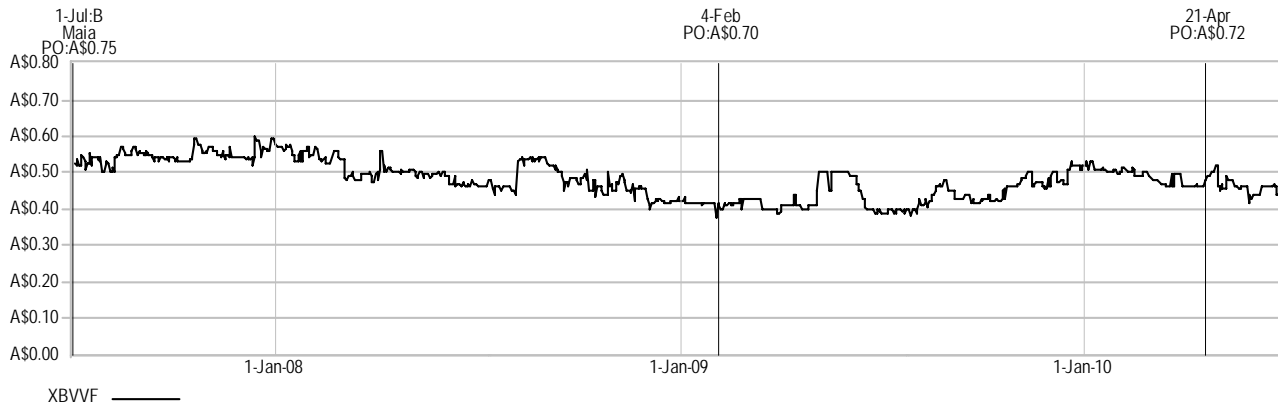
iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Merrill Lynch.

iQprofileSM, *iQmethodSM* are service marks of Merrill Lynch & Co., Inc. *iQdatabase[®]* is a registered service mark of Merrill Lynch & Co., Inc.

04 August 2010

Important Disclosures

XBVVF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

"Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of June 30, 2010 or such later date as indicated. BofAML price charts do not reflect analysts' coverage of the stock at prior firms. Historical price charts relating to companies covered as of December 31, 2008 by former Banc of America Securities LLC (BAS) analysts are available to BAS clients on the BAS website."

Investment Rating Distribution: Packaging Group (as of 01 Jul 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	14	73.68%	Buy	12	85.71%
Neutral	1	5.26%	Neutral	1	100.00%
Sell	4	21.05%	Sell	1	25.00%

Investment Rating Distribution: Global Group (as of 01 Jul 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1922	54.14%	Buy	1042	59.85%
Neutral	874	24.62%	Neutral	496	62.78%
Sell	754	21.24%	Sell	362	51.86%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofAML Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofAML Comment referencing the stock.

In the US, retail sales and/or distribution of this report may be made only in states where these securities are exempt from registration or have been qualified for sale: ColorPak Ltd.

The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of Bank of America Corporation, including profits derived from investment banking revenues.

Other Important Disclosures

BofA Merrill Lynch (BofAML) Research refers to the combined Global Research operations of Merrill Lynch and BAS.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

Merrill Lynch Research policies relating to conflicts of interest are described at <http://www.ml.com/media/43347.pdf>.

"Merrill Lynch" includes Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") and its affiliates, including BofA (defined below). "BofA" refers to Banc of America Securities LLC ("BAS"), Banc of America Securities Limited ("BASL") and their affiliates. Investors should contact their Merrill Lynch or BofA representative if they have questions concerning this report.

Information relating to Non-US affiliates of Merrill Lynch and Distribution of Affiliate Research Reports:

MLPF&S, BAS, and BASL distribute, or may in the future distribute, research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd, Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLPF&S (UK): Merrill Lynch, Pierce, Fenner & Smith Limited; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co, Ltd; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Securities (Taiwan) Ltd.; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): Merrill Lynch CIS Limited, Moscow; Merrill Lynch (Turkey): Merrill Lynch Yatirim Bankasi A.S.; Merrill Lynch (Dubai): Merrill Lynch International, Dubai Branch; MLPF&S (Zürich rep. office): MLPF&S Incorporated Zürich representative office; Merrill Lynch (Spain): Merrill Lynch Capital Markets Espana, S.A.S.V.; Merrill Lynch (Brazil): Banco Merrill Lynch de Investimentos S.A.

This note has been approved for publication in the United Kingdom by Merrill Lynch, Pierce, Fenner & Smith Limited and BASL, which are authorized and regulated by the Financial Services Authority; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co, Ltd and Banc of America Securities – Japan, Inc., registered securities dealers under the Financial Instruments and Exchange Law in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited and Banc of America Securities Asia Limited, which are regulated by the Hong Kong SFC and the Hong Kong Monetary Authority; is issued and distributed in Taiwan by Merrill Lynch Securities (Taiwan) Ltd.; is issued and distributed in India by DSP Merrill Lynch Limited; and is issued and distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank), Merrill Lynch (Singapore) Pte Ltd (Company Registration No.'s F 06872E and 198602883D respectively) and Bank of America Singapore Limited (Merchant Bank). Merrill Lynch International Bank Limited (Merchant Bank), Merrill Lynch (Singapore) Pte Ltd and Bank of America Singapore Limited (Merchant Bank) are regulated by the Monetary Authority of Singapore. Merrill Lynch Equities (Australia) Limited (ABN 65 006 276 795), AFS License 235132 provides this note in Australia in accordance with section 911B of the Corporations Act 2001 and neither it nor any of its affiliates involved in preparing this note is an Authorised Deposit-Taking Institution under the Banking Act 1959 nor regulated by the Australian Prudential Regulation Authority. No approval is required for publication or distribution of this note in Brazil.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-US affiliates. MLPF&S is the distributor of this research report in the US and accepts full responsibility for research reports of its non-US affiliates distributed to MLPF&S clients in the US. Any US person (other than BAS and its respective clients) receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates.

BAS distributes this research report to its clients and accepts responsibility for the distribution of this report in the US to BAS clients. Transactions by US persons that are BAS clients in any security discussed herein must be carried out through BAS.

General Investment Related Disclosures:

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other financial instrument or any derivative related to such securities or instruments (e.g., options, futures, warrants, and contracts for differences). This report is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this report.

Securities and other financial instruments discussed in this report, or recommended, offered or sold by Merrill Lynch, are not insured by the Federal Deposit Insurance Corporation and are not deposits or other obligations of any insured depository institution (including, Bank of America, N.A.). Investments in general and, derivatives, in particular, involve numerous risks, including, among others, market risk, counterparty default risk and liquidity risk. No security, financial instrument or derivative is suitable for all investors. In some cases, securities and other financial instruments may be difficult to value or sell and reliable information about the value or risks related to the security or financial instrument may be difficult to obtain. Investors should note that income from such securities and other financial instruments, if any, may fluctuate and that price or value of such securities and instruments may rise or fall and, in some cases, investors may lose their entire principal investment. Past performance is not necessarily a guide to future performance. Levels and basis for taxation may change.

This report may contain a short-term trading idea or recommendation, which highlights a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Short-term trading ideas and recommendations are different from and do not affect a stock's fundamental equity rating, which reflects both a longer term total return expectation and attractiveness for investment relative to other stocks within its Coverage Cluster. Short-term trading ideas and recommendations may be more or less positive than a stock's fundamental equity rating.

BofA Merrill Lynch is aware that the implementation of the ideas expressed in this report may depend upon an investor's ability to "short" securities or other financial instruments and that such action may be limited by regulations prohibiting or restricting "shortselling" in many jurisdictions. Investors are urged to seek advice regarding the applicability of such regulations prior to executing any short idea contained in this report.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned in this report. Investors in such securities and instruments, including ADRs, effectively assume currency risk.

UK Readers: The protections provided by the U.K. regulatory regime, including the Financial Services Scheme, do not apply in general to business coordinated by Merrill Lynch entities located outside of the United Kingdom. These disclosures should be read in conjunction with the BASL general policy statement on the handling of research conflicts, which is available upon request.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

Merrill Lynch is a regular issuer of traded financial instruments linked to securities that may have been recommended in this report. Merrill Lynch may, at any time, hold a trading position (long or short) in the securities and financial instruments discussed in this report.

Merrill Lynch, through business units other than BofAML Research, may have issued and may in the future issue trading ideas or recommendations that are inconsistent with, and reach different conclusions from, the information presented in this report. Such ideas or recommendations reflect the different time frames, assumptions, views and analytical methods of the persons who prepared them, and Merrill Lynch is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this report.

In the event that the recipient received this report pursuant to a contract between the recipient and MLPF&S for the provision of research services for a separate fee, and in connection therewith MLPF&S may be deemed to be acting as an investment adviser, such status relates, if at all, solely to the person with whom MLPF&S has contracted directly and does not extend beyond the delivery of this report (unless otherwise agreed specifically in writing by MLPF&S). MLPF&S is and continues to act solely as a broker-dealer in connection with the execution of any transactions, including transactions in any securities mentioned in this report.

Copyright and General Information regarding Research Reports:

Copyright 2010 Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. iQmethod, iQmethod 2.0, iQprofile, iQtoolkit, iQworks are service marks of Merrill Lynch & Co., Inc. iQanalytics®, iQcustom®, iQdatabase® are registered service marks of Merrill Lynch & Co., Inc. This research report is prepared for the use of Merrill Lynch clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Merrill Lynch. Merrill Lynch research reports are distributed simultaneously to internal and client websites and other portals by Merrill Lynch and are not publicly-available materials. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets) without first obtaining expressed permission from an authorized officer of Merrill Lynch.

Materials prepared by Merrill Lynch research personnel are based on public information. Facts and views presented in this material have not been reviewed by, and may not reflect information known to, professionals in other business areas of Merrill Lynch, including investment banking personnel. Merrill Lynch has established information barriers between BofAML Research and certain business groups. As a result, Merrill Lynch does not disclose certain client relationships with, or compensation received from, such companies in research reports.

To the extent this report discusses any legal proceeding or issues, it has not been prepared as nor is it intended to express any legal conclusion, opinion or advice. Investors should consult their own legal advisers as to issues of law relating to the subject matter of this report. Merrill Lynch research personnel's knowledge of legal proceedings in which any Merrill Lynch entity and/or its directors, officers and employees may be plaintiffs, defendants, co-defendants or co-plaintiffs with or involving companies mentioned in this report is based on public information. Facts and views presented in this material that relate to any such proceedings have not been reviewed by, discussed with, and may not reflect information known to, professionals in other business areas of Merrill Lynch in connection with the legal proceedings or matters relevant to such proceedings.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. None of MLPF&S, any of its affiliates or their research analysts has any authority whatsoever to make any representation or warranty on behalf of the issuer(s). Merrill Lynch policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

The information herein (other than disclosure information relating to Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. This report may contain links to third-party websites. Merrill Lynch is not responsible for the content of any third-party website or any linked content contained in a third-party website. Content contained on such third-party websites is not part of this report and is not incorporated by reference into this report. The inclusion of a link in this report does not imply any endorsement by or any affiliation with Merrill Lynch. Access to any third-party website is at your own risk, and you should always review the terms and privacy policies at third-party websites before submitting any personal information to them. Merrill Lynch is not responsible for such terms and privacy policies and expressly disclaims any liability for them.

Subject to the quiet period applicable under laws of the various jurisdictions in which we distribute research reports and other legal and Merrill Lynch policy-related restrictions on the publication of research reports, fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current.

Certain outstanding reports may contain discussions and/or investment opinions relating to securities, financial instruments and/or issuers that are no longer current. Always refer to the most recent research report relating to a company or issuer prior to making an investment decision.

In some cases, a company or issuer may be classified as Restricted or may be Under Review or Extended Review. In each case, investors should consider any investment opinion relating to such company or issuer (or its security and/or financial instruments) to be suspended or withdrawn and should not rely on the analyses and investment opinion(s) pertaining to such issuer (or its securities and/or financial instruments) nor should the analyses or opinion(s) be considered a solicitation of any kind. Sales persons and financial advisors affiliated with BAS, MLPF&S or any of their affiliates may not solicit purchases of securities or financial instruments that are Restricted or Under Review and may only solicit securities under Extended Review in accordance with firm policies.

Neither Merrill Lynch nor any officer or employee of Merrill Lynch accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its contents.