Morgans IN ALLIANCE WITH CIMB

Pact Group

PGH AU / PGH.AX

COMPANY NOTE

Market Cap	Avg Daily Turnover	Free Float
US$896.9m	US$6.01m	58.1%
A$1,021m	A$6.65m	294.1 m shares

Current	A$3.47
Target	A$4.31
Up/Downside	24.2%

STOCK RATING

ADD

HOLD

REDUCE

Morgans Analyst(s)

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Pact with upside

Pact Group is the leading supplier of rigid plastics packaging in Australia and New Zealand. It also has an emerging presence in high growth Asian markets. We are attracted to the quality of the business, its exposure to defensive consumer end markets and growth opportunities. Pact is trading at an unwarranted discount to its peers and we initiate coverage with an Add rating and A$4.31 price target.

Leveraged to the fastest growing packaging segment

Pact operates in the fastest growing packaging segment, being rigid plastics packaging. We expect substitution to rigid plastics packaging will continue to drive its growth. Importantly, Pact is the market leader in Australia and New Zealand with an unrivalled national manufacturing footprint. Pact is a defensive business which supplies a wide range of plastic and steel packaging to the food, household cleaning, pharmaceutical, personal care, agricultural, chemical and industrial markets. It has a long term, diversified, blue chip client base. The company's focus on innovation and technology is a competitive advantage and leads to stickier customers, increased sales and higher margins.

Emerging markets presence

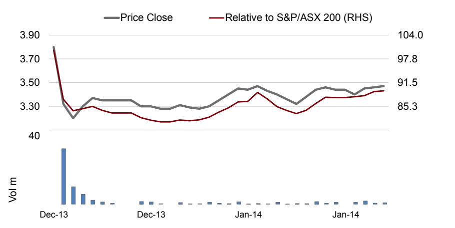
Pact also has an emerging presence in high growth (>8% pa) Asian markets. If Pact acquires Dynapack, Indonesia's leading packaging company, its emerging market revenue will grow to approx. 25% of group revenue from 6% currently.

Expect margin improvement

Pact's growth has been driven by acquisitions, synergy realisation, organic growth, innovation and relentless cost control. In our view, FY15 should demonstrate Pact's business acumen and its ability to improve an acquisition's margins and future earnings accretion.

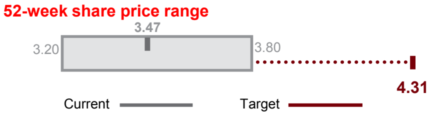
Initiate with an ADD rating

We initiate coverage on Pact with an Add rating. We value Pact at A$4.31. We believe that Pact (FY15 PE of 11.4x) is trading at an unwarranted discount to its packaging peers on 14.1x, given it has the highest EBITDA margins and cashflow conversion. We expect the discount will narrow as the company delivers on its prospectus forecasts. Pact also offers an attractive dividend yield of 6.2%. Near term catalysts include a strong 1H14 result, potential ASX200 index inclusion and accretive acquisitions. Key risks include an inability to pass through rising input costs, greater competition, loss of a major customer and the usual acquisition risks.



Source: Bloomberg

52-week share price range



Financial Summary

	Jun-14F	Jun-15F	Jun-16F	Jun-17F	Jun-18F
Revenue (A$m)	1,152	1,229	1,273	1,319	1,364
Operating EBITDA (A$m)	196.7	211.9	221.8	231.9	241.7
Net Profit (A$m)	25.2	89.8	95.6	101.6	107.4
Normalised EPS (A$)	0.17	0.31	0.33	0.35	0.37
Normalised EPS Growth	63.5%	76.3%	6.6%	6.3%	5.7%
FD Normalised P/E (x)	20.05	11.37	10.67	10.04	9.50
DPS (A$)	0.10	0.21	0.23	0.24	0.26
Dividend Yield	2.74%	6.16%	6.56%	6.97%	7.37%
EV/EBITDA (x)	8.11	7.34	6.85	6.38	5.96
P/FCFE (x)	NA	10.94	10.09	9.47	9.01
Net Gearing	246%	198%	165%	137%	113%
P/BV (x)	4.37	3.78	3.39	3.05	2.77
ROE	(12.1%)	35.6%	33.5%	32.0%	30.5%
% Change In Normalised EPS Estimates					
Normalised EPS/consensus EPS (x)	0.61	0.99	0.98		

SOURCE: MORGANS, COMPANY REPORTS

Our FY14 forecast has been presented on a statutory basis. Pact is trading on a proforma FY14 PE of 12.2x and an annualised dividend yield of 5.5%

Pact Group (PGH) - Financial Summary (A$m)

Statutory profit and loss	2011A	2012A	2013A	2014F	2015F	2016F
Sales	978.6	969.3	1,103.7	1,151.6	1,228.5	1,272.7
Other income	5.2	9.9	8.7	10.1	10.6	11.1
Total Operating Costs	802.1	793.9	924.2	965.0	1,027.2	1,062.0
EBITDA	**181.8**	**185.3**	**188.2**	**196.7**	**211.9**	**221.8**
Depreciation	50.6	52.1	56.9	50.4	53.8	55.4
Amortisation	0.3	0.3	0.2	0.2	0.2	0.2
EBIT	**130.9**	**132.9**	**131.1**	**146.1**	**157.9**	**166.2**
Net Interest Income	76.0	95.8	91.9	72.4	31.2	31.2
Pre-tax Profit	54.9	37.0	39.2	73.7	126.7	135.0
Tax	12.8	11.3	8.0	22.6	36.7	39.1
Underlying Profit	**42.1**	**25.7**	**31.1**	**50.9**	**89.8**	**95.6**
Exceptional items	0.0	0.0	14.0	-25.7	0.0	0.0
Reported Profit	**42.1**	**25.7**	**45.1**	**25.2**	**89.8**	**95.6**

Cash flow statement	2011A	2012A	2013A	2014F	2015F	2016F
EBITDA	181.8	185.3	188.2	196.7	211.9	221.8
Net interest	-30.0	-31.5	-42.4	-55.6	-31.2	-31.2
Tax	-12.0	-17.5	-27.5	-22.4	-36.7	-39.1
Changes in working capital	-4.6	-9.5	-30.1	5.2	-8.2	-6.0
Operating cash flow	**135.2**	**126.8**	**88.2**	**108.0**	**135.7**	**145.5**
Capex	-32.9	-36.7	-43.8	-35.4	-42.4	-44.4
Free Cash Flow	102.2	90.1	44.4	72.6	93.3	101.1
Acquisitions and divestments	-13.6	-7.8	-49.8	84.2	0.0	0.0
Dividends received	1.1	0.3	0.1	0.0	0.0	0.0
Investing cash flows	**-45.4**	**-44.2**	**-93.6**	**48.8**	**-42.4**	**-44.4**
Increase / decrease in Equity	130.0	0.0	0.0	1,296.6	0.0	0.0
Increase / decrease in Debt	-159.6	-67.5	510.7	-1,406.3	0.0	0.0
Dividends paid	-72.0	0.0	-484.3	0.0	-53.1	-64.5
Other financing cash flows	0.0	0.0	0.0	-41.9	0.0	0.0
Financing cash flows	**-101.6**	**-67.5**	**26.4**	**-151.6**	**-53.1**	**-64.5**
Increase/decrease in cash	-11.9	15.1	21.0	5.1	40.2	36.6

Balance Sheet	2011A	2012A	2013A	2014F	2015F	2016F
Assets						
Cash	0.2	2.9	22.9	28.0	68.2	104.9
Debtors	119.6	199.8	253.7	177.1	188.9	195.7
Inventory	84.3	94.1	105.4	114.1	125.9	133.6
Other current assets	0.0	0.0	4.2	3.5	3.5	3.5
Total Current Assets	**204.1**	**296.8**	**386.2**	**322.8**	**386.6**	**437.8**
Fixed Assets	437.6	435.4	492.8	430.9	419.5	408.4
Investments in associates	1.1	1.5	8.8	4.7	4.7	4.7
Goodwill	226.1	227.4	250.0	313.1	313.1	313.1
Intangibles	1.3	1.1	1.1	0.9	0.8	0.6
Other non-current assets	21.6	19.9	81.4	129.9	129.9	129.9
Total Non-Current Assets	**687.7**	**685.2**	**834.0**	**879.5**	**867.9**	**856.7**
TOTAL ASSETS	**891.8**	**982.0**	**1,220.2**	**1,202.3**	**1,254.6**	**1,294.5**
Liabilities						
Short Term Debt	340.5	27.3	7.5	0.3	0.3	0.3
Creditors	139.4	149.2	164.6	238.1	253.5	262.0
Other current liabilities	49.3	43.2	55.4	55.4	55.4	55.4
Total Current Liabilities	**529.1**	**219.7**	**227.4**	**293.8**	**309.2**	**317.7**
Long Term Debt	985.9	1,358.5	2,001.8	602.7	602.7	602.7
Other Non current liabilities	59.9	63.5	75.8	81.2	81.2	81.2
Total Non-Current liabilitie	**1,045.8**	**1,422.1**	**2,077.6**	**683.9**	**683.9**	**683.9**
TOTAL LIABILITIES	**1,574.9**	**1,641.8**	**2,305.0**	**977.7**	**993.1**	**1,001.6**
Equity						
Issued capital	180.0	180.0	180.0	1,476.6	1,476.6	1,476.6
Retained earnings	88.8	114.4	-324.6	-326.9	-290.2	-259.0
Other reserves and FX	-948.5	-950.1	-932.3	-916.2	-916.2	-916.2
Minority interests	0.0	0.1	0.1	0.3	0.5	0.7
TOTAL EQUITY	**-679.7**	**-655.6**	**-1,076.8**	**233.8**	**270.7**	**302.1**

Valuation details			
Share Price	**$3.47**	Market Cap	$1,020.5
Price Target	**$4.31**		
Blended valuation	$4.31		
WACC	9.0%		

Key metrics/ multiples	2012A	2013A	2014F	2015F	2016F
P/E			20.0	11.4	10.7
Dividend Yield			2.7%	6.2%	6.6%
PEG				0.1	1.6
EV/EBITDA			8.1	7.3	6.8

Business unit performance	2012A	2013A	2014F	2015F	2016F
Revenue					
Pact Australia	734.5	810.1	829.5	862.7	888.6
Pact International	234.8	293.6	322.1	365.8	384.1
Total	**969.3**	**1103.7**	**1151.6**	**1228.5**	**1272.7**
EBIT					
Pact Australia	81.9	80.9	83.5	86.9	89.5
Pact International	51.0	50.2	62.6	71.0	76.7
Total	**132.9**	**131.1**	**146.1**	**157.9**	**166.2**
EBIT margin					
Pact Australia	11.1%	10.0%	10.1%	10.1%	10.1%
Pact International	21.7%	17.1%	19.4%	19.4%	20.0%
Total	**13.7%**	**11.9%**	**12.7%**	**12.9%**	**13.1%**

Per share data	2012A	2013A	2014F	2015F	2016F
Diluted shares on issue	n/a	n/a	294.1	294.1	294.1
Reported EPS (A$)	n/a	n/a	8.6	30.5	32.5
Normalised EPS (A$)	n/a	n/a	17.3	30.5	32.5
Dividends per share (A$)	n/a	n/a	9.5	21.4	22.8
Payout ratio	n/a	n/a	54.9%	70.0%	70.0%

Result quality	2012A	2013A	2014F	2015F	2016F
Cash flow conversion	94.9%	84.0%	94.6%	96.1%	97.3%
FCF vs. NPAT	351.3%	98.4%	287.9%	103.9%	105.7%

Gearing	2012A	2013A	2014F	2015F	2016F
Net Debt	1383.0	1986.4	575.0	534.8	498.1
Net Debt / Equity	-211.0%	-184.5%	245.9%	197.5%	164.9%
Net Debt / EBITDA (x)	7.5	10.6	2.9	2.5	2.2
EBIT interest cover (x)	1.4	1.4	2.0	5.1	5.3
Invested Capital	717.9	879.6	814.0	797.3	794.3
Enterprise Value	n/a	n/a	1595.5	1555.3	1518.7

Growth ratios	2012A	2013A	2014F	2015F	2016F
Sales	-1.0%	13.9%	4.3%	6.7%	3.6%
Operating costs	-1.0%	16.4%	4.4%	6.4%	3.4%
EBITDA	2.0%	1.5%	4.5%	7.7%	4.7%
EBIT	1.5%	-1.3%	11.4%	8.1%	5.2%
NPAT	-39.1%	21.3%	63.5%	76.3%	6.6%
EPS growth	n/a	n/a	63.5%	76.3%	6.6%
DPS growth	n/a	n/a	n/a	124.9%	6.6%
Operating cash flow	-6.2%	-30.5%	22.4%	25.7%	7.2%

Margin analysis	2012A	2013A	2014F	2015F	2016F
EBITDA Margin	19.1%	17.1%	17.1%	17.2%	17.4%
EBIT margin	13.7%	11.9%	12.7%	12.9%	13.1%
NPAT margin	2.6%	2.8%	4.4%	7.3%	7.5%
ROE	-3.9%	-2.9%	21.8%	33.2%	31.7%
ROIC	18.5%	14.9%	17.9%	19.8%	20.9%

SOURCES: MORGANS, COMPANY REPORTS

Our FY11A to FY14 forecasts have been presented on a statutory basis. Pact is trading on a proforma FY14 PE of 12.2x and an annualised dividend yield of 5.5%

Pact Group initiation of coverage

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Pact is the leading supplier of rigid plastics packaging in Australia and New Zealand. Pact primarily services customers in consumer oriented end markets. It supplies a wide range of plastic and steel packaging to the food, household cleaning, pharmaceutical, personal care and agricultural, chemical and industrial markets. The company also has an emerging presence in rigid plastics packaging in Asia (currently only 6% of revenue). However, Pact has a sizable acquisition opportunity in this market.

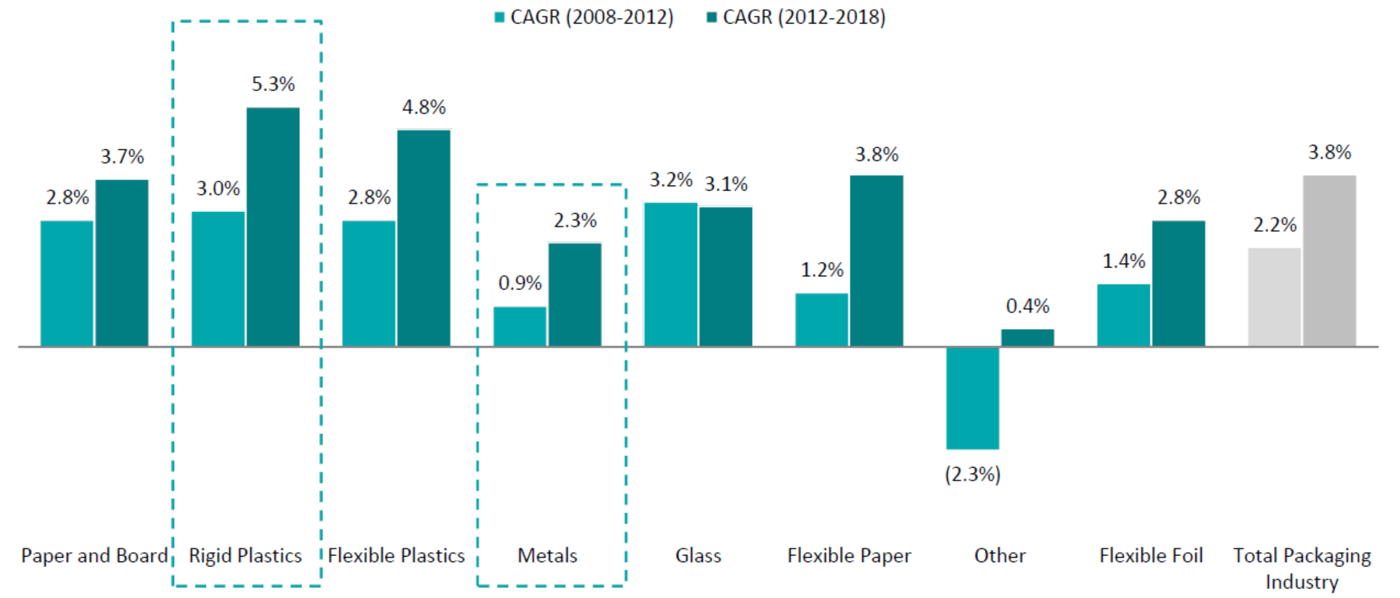
INVESTMENT THESIS

We initiate coverage on Pact with an Add recommendation and A$4.31 target price. We are attracted to Pact's defensive and growth characteristics. We believe that Pact (FY15 PE of 11.4x) is trading at an unwarranted discount to its packaging peers on 14.1x, given the company operates in the fastest growing packaging substrate and has the industry's highest EBITDA margins and cashflow conversion. We expect that this discount will narrow as the company delivers on its forecasts. Pact also offers investors an attractive dividend yield.

INVESTMENT HIGHLIGHTS

- **An established business with a successful track record** - Pact was established in 2002. Since this time, the business has grown considerably and expanded offshore with much success.
- Pact is the **market leader** of rigid plastics packaging in Australian and New Zealand. Pact has about a 40% market share in Australia. Pact is also a leading manufacturer of industrial metals packaging in Australia and New Zealand. This market leadership allows Pact to achieve scale benefits in areas such as procurement and manufacturing efficiencies.
- **Operates in the fastest growing packaging segment globally**, being rigid plastics packaging. Substitution to rigid plastics packaging away from glass, flexible plastics and metals is expected to continue.

Chart 1: Global packaging segment revenue growth – led by rigid plastics which is Pact's key substrate



SOURCE: Smithers Pira, "The Future of Global Packaging to 2018", Vlad Savinov

- **Exposure to defensive end markets** with the majority of sales going to consumer markets **and to high growth Asian markets** (China, Thailand, Philippines). Despite the higher risk profile, emerging markets offer good margins and excellent returns. These markets are targeted by customers, as packaging spend accelerates as wealth increases. Beyond a growing middle class, a presence in Asia will allow Pact to benefit from an increasing portion of supermarket retail sales rather than independent retailers and other traditional markets as they sell more packaged product.

- **Long term, diversified, blue chip client base**. The majority of Pact's customers are well known household brands that are used in everyday life.
- Pact's **focus on innovation and R&D is a competitive advantage**. To remain competitive and attract the end customer, Pact's customers demand more advanced, differentiated and environmentally friendly packaging solutions. Over the years, Pact has heavily invested in product R&D and innovation. It is important and leads to stickier customers, increased sales and higher margins. Pact has won key industry awards for its innovation.
- **Owns world-class manufacturing operations**. Pact has 62 manufacturing plants across Australia (39), New Zealand (18) and Asia (5).
- **Barriers to entry exist.** It would be difficult to replicate Pact's broad manufacturing footprint. There is also significant capital spend, time and technology/R&D required to produce Pact's products.
- Pact is a **low cost producer**. Management has a relentless focus on operational efficiency. It cost leadership position is a result of achieving economies of scale, procurement benefits, manufacturing efficiencies and from its investment in innovation/technology.
- **Over the last 10 years, sales and EBITDA have grown at an CAGR of 16.5% and 18.6%** respectively. Pact's growth has been driven by acquisitions, synergy realisation, organic growth, innovation, relentless cost control, the optimisation of its manufacturing footprint and increased substitution into the rigid plastics market.
- **Pact has industry leading EBITDA margins and cashflow conversion**. Its strong cashflow will allow the company to fund its growth and payout 65-75% of profit in dividends.
- **Generates one of the highest ROE in the listed packaging sector**. Based on our forecasts, Pact's FY15F ROE is 33.2% compared to an average of 23.5% across the listed packaging sector.
- **Successful acquisition track record** – Pact has completed and successfully integrated 34 acquisitions since 2002.
- **Growth opportunities exist** – Growth opportunities exist both internationally and domestically through organic growth and acquisitions. Pact currently has a large pipeline of acquisition opportunities, with the largest one being Dynapack (Indonesia's leading packaging company).
- **Impressive Board and management team** – Pact's founder and Non-Executive Chairman, Raphael Geminder, has extensive packaging experience. He also has a lot of 'skin in the game' given he owns just under 40% of the business. Pact's management team average more than 25 years of industry experience per person.

CATALYSTS FOR SHARE PRICE APPRECIATION

- Rising investor demand for defensive stocks in a volatile equity market.
- Earnings surprising on the upside. Pact reports its 1H14 result on 26 March.
- Material new contract wins.
- Increasing its exposure to the high growth emerging markets should be a catalyst for a PE rerating.
- Announcing accretive acquisitions. If Pact is successful in acquiring Dynapack, its emerging market revenue rises to 25%. Remember that Pact's Founder and Chairman, Raphael Geminder, wants to transform Pact into a A$5bn enterprise over the next five years, with operations in Australia, New Zealand, Asia, Europe and the US.
- ASX200 index inclusion. There is a possibility that Pact may be included in the ASX200 in the March round.

POTENTIAL RISKS/ISSUES TO CONSIDER

- Related party transactions associated with Pact's Founder, Chairman and major shareholder, Raphael Geminder. Geminder Holdings and its associated entities will be party to a number of related party arrangements with Pact, including further acquisition opportunities, supply agreements, property leases, property acquisition options and leaseback arrangements with Pact and support services arrangements. More specifically:
    - As part of the IPO process, Geminder Holdings sold three businesses to Pact. Pact also has an option over the next 12 months to acquire Dynapack which is 50% owned by Geminder Holdings.
    - 17 of Pact's manufacturing plants and one office are leased from Geminder Holdings or an associated entity.
    - Pact has entered into a call option and leaseback arrangement with Geminder Holdings under which, at any time prior to expiry of the option on 20 December 2016, Geminder Holdings may acquire the China Premises at 30 June 2013 book value (which may be less than market value) provided the China Premise is leased back to Pact on arm's length commercial terms.
    - Pact currently sources a limited range of goods and services under arrangements with Visy Group including certain electricity, gas and information technology services. However, new arrangements independent of the Visy Group will be established and operational by the end of March 2014.
    - Raphael Geminder owns approx. 51% of Pro-Pac Packaging (ASX: PPG). PPG is the exclusive supplier of raw materials such as flexible film packaging, flexible plastic bags and tapes to Pact for an initial term that expires on 1 October 2016.
    - Pact also obtains printed plastic in mould labels, printed paper, board fins and other printed paper labels from P'Auer Pty Ltd, an entity controlled by Raphael Geminder. The agreement is for an initial fixed term of five years, and then rolls over or renews automatically for a further three year term unless terminated upon six months' written notice. P'Auer and Pact have also entered into a "Transitional Services and Support Agreement". Under this agreement, Pact is required to ensure that it possesses sufficient facilities, resources and appropriately skilled and experienced personnel to provide IT

and administrative services to P'Auer for a transitional period of up to two years post IPO.

  - Geminder Holdings and Pact have entered into a "Transitional Services and Support Agreement". Essentially, Geminder Holdings and Pact will continue to share common premises and services post IPO for a transitional period of up to two years.

- Stock overhang with Geminder Holdings owning 39.8% of Pact. The concentration of this shareholding could see the founder exert significant influence over the outcome of matters relating to Pact, including the election of Directors and the consideration of material Board decisions, such as transactions. In addition, it could also act as a deterrent to potential corporate activity.

- Pact's earnings growth profile has been more subdued in recent years due to a more challenging consumer environment.

- Relatively high gearing levels, although we note that Pact is well within its banking covenants and that the company generates strong cashflow to service its debt.

- Input price volatility (particularly resin prices) could impact margins if they can't be passed through to customers in a timely fashion. Resin prices are correlated with crude oil and are priced in USD/t. Although a number of customer contracts contain a price review mechanism allowing product cost to be adjusted for the cost of raw materials, there is a risk that customers will seek to renegotiate these provisions during the term of the existing contracts or on renewal. Furthermore, the pass-throughs are also usually conducted on a quarterly basis so there can be a lag impact on the cost recovery, thus impacting margins.

- Loss of a major customer and/or adverse contract renegotiations. The loss of a major customer could impact the company's earnings, while an adverse contract negotiation could squeeze margins. Some of Pact's sites predominantly service only one customer, the loss of which could result in the closure of a site.

- A decrease in demand from the industries Pact supplies product to. The demand for Pact's products can be impacted by climatic conditions, seasonality of foods, increased focus on the sale of private label products, unpredictable changes in consumer preferences, the volume of products exported in drums and barrels by customers in the industrial sector, the level of activity in the housing and commercial building sectors and national and international economic conditions. Customer demand for Pact's products can also be impacted by FX movements. We note that Pact's contracts are not based on minimum volumes and there are no take or pay contracts.

- Increased competition and product substitution. Pact operates in a highly competitive market. Competition is based on price, service, product selection, quality and innovation. Pact expects to continue to experience price competition in all product lines and sectors. Pacts competitors include privately and publicly held entities and range from local, regional to international companies. Not only does Pact compete against other packaging companies, it also competes against alternative packaging products such as glass and paper which may be used as a substitute for Pact's products. There is competition from local and imported products and customers and potential customers electing to manufacture products supplied by Pact in-house or offshore. We note that Pact is more focused on segments were there is less import competition.

- The normal acquisition risks of paying too much, poor integration and execution, not realising the expected synergies and new business risk.

We believe most of these risks have been mitigated by management's experience and focus on delivery.

- New market risk and expanding offshore - Expansion offshore comes with inherently more risk due to the lack of brand awareness in the region, a lack of scale and a more limited understanding of the market. In addition, Thailand and the Philippines, have from time to time experienced severe political and social instability, including acts of political violence. These countries also have been subject to a number of terrorist attacks and other destabilising events, which have led to economic and social volatility. Some of the countries in which Pact is expanding including China, Singapore, Thailand and the Philippines have experienced outbreaks of communicable diseases. An outbreak of contagious disease could interrupt the operations or the services or operations of Pact's suppliers and customers, which could adversely affect Pact's business.
- Exchange rate risk. A significant percentage of Pact's sales revenue is generated in New Zealand dollars (NZD). A falling AUD is positive for Pact's New Zealand earnings on translation. Pact also sources a significant proportion of raw materials (eg. resins) in US dollars (USD). A falling AUD therefore reduces Pact's purchasing power of USD inputs. However, Pact does pass on movements in input costs in most cases. Pact does not hedge against adverse movements in the AUD/NZD or other exchange rates (except the USD).
- Product risk – the risk of product liability and product recalls.
- Pact's relationships with key intellectual property licensors and technology partners may deteriorate or intellectual property or technology owned or used by Pact may be subject to challenge.
- Key man risk - given the experience of the Chairman, CEO and CFO in successfully building the business.
- Lack of track record as a listed company.

MORGANS VALUATION

We value Pact at A$4.31 per share. Methods used to arrive at our valuation include comparable company analysis of PE and EV/EBITDA multiples and a DCF. Central to our valuation, is the forecast provided by Pact for FY14. We include a DCF valuation given the company's relatively stable cashflows and to capture some of the medium to longer term upside.

Table 1: Morgans blended valuation

	Weighting	Valuation
PE basis valuation (15.5x FY14F)	33.3%	1294.3
EV/EBITDA basis (8.0x FY14F)	33.3%	1191.6
DCF valuation	33.3%	1317.1
Blended valuation		**1267.5**
Valuation/share (A$)		**4.31**

SOURCES: MORGANS

DCF valuation

Our DCF valuation is A$4.48 per share. We apply a WACC of 9.0% and 2.5% terminal growth rate. Our valuation is most sensitive to our industry growth rate assumptions, expectation of margin improvement, working capital and capex forecasts.

Table 2: DCF valuation

Total enterprise value (A$m)	**1895.1**
Comprised of:	
- Explicit cash flows (A$m)	941.2
- Terminal cash flows (A$m)	832.0
- Imputation values (A$m)	121.9
Less Debt (A$m)	575.0
Less Minority Interests (A$m)	3.1
Equity valuation (A$m)	**1317.1**
Per share (A$)	**4.48**
Implied FY14 EV/EBITDA (x)	9.4
Implied FY14 PE (x)	15.8
WACC	**9.00%**
Market risk premium	6.00%
Risk free rate	5.25%
Target gearing (D/D+E)	60%
Equity beta (x)	1.59

SOURCES: MORGANS

COMPCO ANALYSIS

In the following table, we have compared Pact to other ASX and globally listed packaging companies. On average, the global packaging companies are trading on an FY14 PE of 15.8x and EV/EBITDA of 8.2x. On a PE basis, Pact (proforma FY14 PE of 12.2x) is trading at a significant discount to its peers. We believe that the extent of this discount is unwarranted given the company is leveraged to the strongest industry fundamentals and has the highest EBITDA margins and cashflow conversion of its peer group. We recognise that Pact's growth profile is lower than its peers and its gearing is also a lot higher than many in the industry.

Amcor (AMC) and Orora (ORA) are Pact's key comparables on ASX. Amcor is currently trading on an FY14 PE of 16.8x and EV/EBITDA of 9.6x, while Orora is trading on an FY14 PE of 15.6x and EV/EBITDA of 7.7x. Pact obviously deserves to trade at a discount to Amcor given its global leadership position and outstanding track record of delivering strong shareholder returns over the last few years. We believe that Pact deserves to trade at a premium to Orora due to its exposure to the higher growth rigid packaging segment, its success with innovative packaging products and its industry leading EBITDA margins and cashflow conversion. While Orora has a much stronger growth profile than Pact over the next couple of years due to the ramp-up of its Botany Mill and other self-help measures, we highlight that its end markets have a lower growth rate, excess capacity and are more competitive.

Other smaller ASX listed packaging companies include Pro-Pac Packaging (PPG) and Colorpak Limited (CKL). These companies have a market cap of only A$99.9m and A$69.3m respectively and are not formally covered. They also both operate in different product segments.

Table 3: Compco analysis

Company	Code	Mkt Cap ($m)	PE (x) 2014	PE (x) 2015	EV/EBITDA (x) 2014	EV/EBITDA (x) 2015	EPS growth 2014	EPS growth 2015	EBITDA margin 2014	EBITDA margin 2015	ROE 2014	ROE 2015	Net Debt / Equity 2014	Net Debt / Equity 2015
Berry Plastics Group, Inc.	BERY	3040.6	18.8	15.4	7.7	7.0	22.3%	22.1%	16.6%	17.2%	-70.0%	187.8%	-1906.6%	-1739.1%
Sonoco Products Company	SON	4841.8	16.6	15.5	7.9	7.6	11.5%	6.6%	12.6%	12.8%	14.8%	14.5%	59.0%	52.3%
Aptargroup, Inc.	ATR	4827.2	20.8	18.5	9.0	8.3	14.4%	12.6%	18.6%	18.9%	12.9%	13.2%	8.2%	5.1%
Silgan Holdings Inc.	SLGN	3329.5	14.5	13.4	8.1	7.7	16.7%	8.6%	13.9%	14.0%	26.9%	21.8%	214.7%	202.9%
Ball Corporation	BLL	8520.0	14.6	13.5	8.8	8.6	9.8%	8.6%	13.8%	14.0%	38.3%	36.5%	233.3%	224.1%
Rexam PLC	REX	7368.1	12.7	11.8	7.8	7.3	8.1%	7.2%	15.3%	15.6%	14.4%	13.8%	55.2%	46.4%
Crown Holdings, Inc.	CCK	6476.2	11.9	10.7	8.0	7.3	14.8%	11.0%	12.6%	13.3%	107.1%	57.2%	3163.8%	3022.5%
RPC Group Plc	RPC	1874.8	16.0	13.5	8.7	7.5	27.5%	20.1%	13.6%	14.1%	21.0%	22.0%	118.5%	106.6%
Amcor Ltd	AMC	12802.9	16.8	15.4	9.6	9.1	22.8%	9.0%	13.4%	14.3%	29.7%	33.1%	91.8%	85.9%
Orora Ltd.	ORA	1580.8	15.6	13.0	7.7	6.8	38.5%	20.0%	9.4%	10.0%	7.5%	8.7%	52.0%	47.7%
Greif	GEF	2535.1	16.0	13.9	7.2	6.8	16.3%	15.7%	8.4%	8.2%	11.1%	13.9%	84.5%	87.3%
Average			**15.8**	**14.1**	**8.2**	**7.6**	**18.4%**	**12.9%**	**13.5%**	**13.9%**	**28.4%**	**23.5%**	**197.7%**	**194.7%**

SOURCES: CAPITAL IQ

*We present FY14 for Pact on a proforma basis

COMPANY OVERVIEW

Market leader in Australia and New Zealand with a growing presence in emerging markets

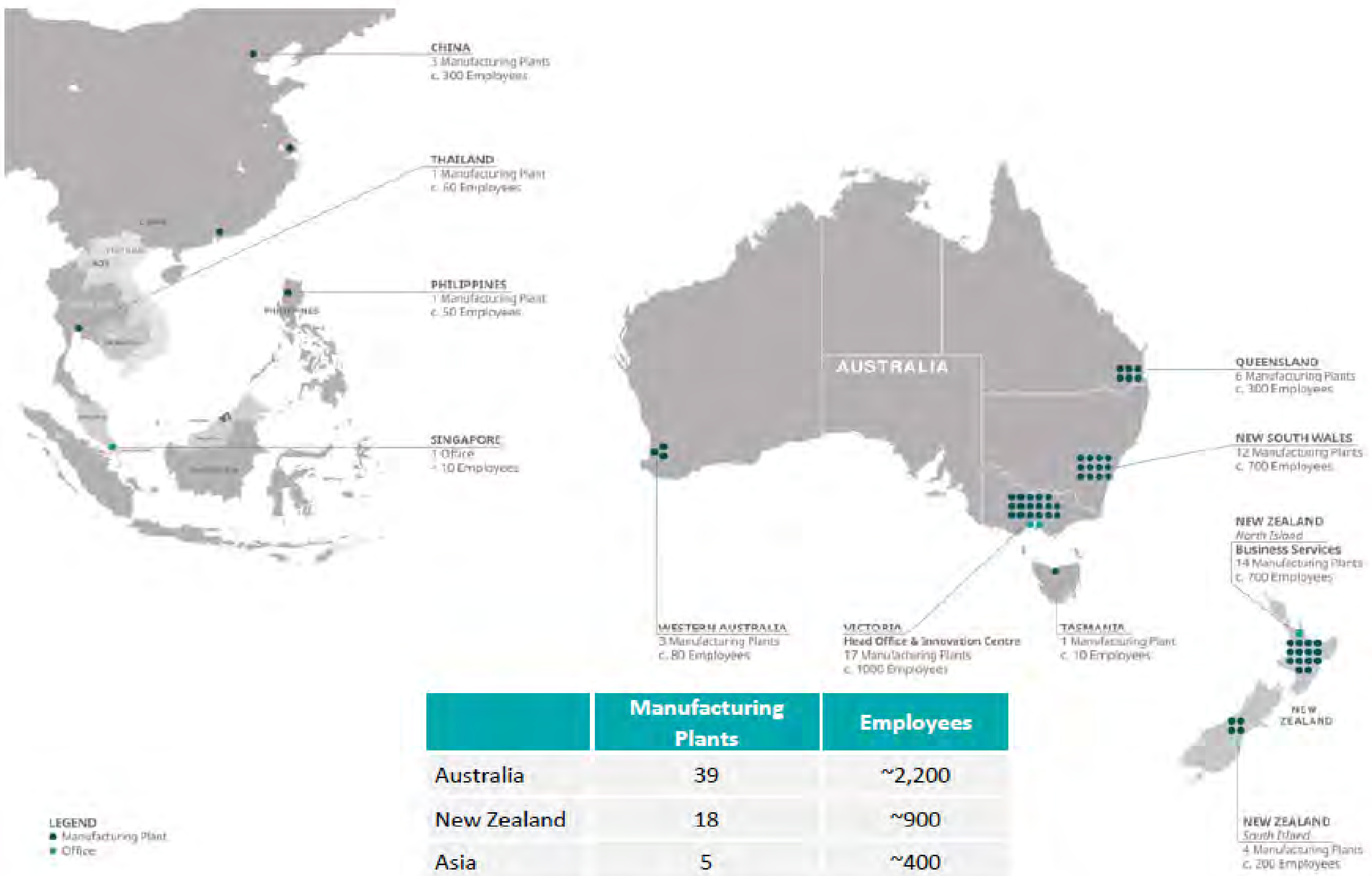
Pact is the leading supplier of rigid plastics packaging in Australian and New Zealand. It also has an emerging presence in rigid plastics packaging in Asia, being China, the Philippines and Thailand.

World class manufacturing assets

Pact was established in 2002 with 15 manufacturing plants. Today, it operates 62 manufacturing plants and has an unrivalled national footprint in Australia. Pact also has a centralised procurement office in Singapore which allows it to access lower cost international raw materials. Pact's manufacturing operations primarily involve plastic moulding including blow moulding, injection and compression moulding and automated assembly processes of plastic packaging and components.

No single facility contributed more than 5% of the company's FY13 sales revenue. The majority of Pact's manufacturing plants are strategically located close to its key customers' sites and generally in densely populated areas. This is an important factor as it maintains a 'sticky' customer relationship, results in reduced freight costs and security of supply. The majority of Pact's facilities are leased on arm's length commercial terms. The plants usually run 24 hours a day, five days per week. However during periods of high demand, this timeframe can extend to the weekends. Each plant has its own plant manager who is responsible for the plant's own P&L. At a group level, plant performance is regularly monitored and benchmarked against each other.

Figure 1: Pact Group's manufacturing footprint



	Manufacturing Plants	Employees
Australia	39	~2,200
New Zealand	18	~900
Asia	5	~400
Total	**62**	**~3,500**

SOURCE: PACT GROUP

Pact makes packaging products for everyday items

Pact essentially converts plastic resin and steel into rigid plastics and metals packaging and related products for the consumer and industrial sectors. Across the business, Pact has more than 6,600 moulds across approx. 22,000 SKUs. An individual mould can take between 6-12 months to produce. Pact produces more than 8bn product units annually.

Pact's key consumer packaging products include milk, water, juice and detergent bottles, ice cream containers, butter margarine tubs, meat trays, fruit packaging trays, bakery containers and a variety of closures. The consumer products are relatively stable volume products.

Although a much smaller part of its business, Pact is also a leader in industrial metals packaging in Australia and New Zealand. The metals packaging sector supplies a range of packaging solutions made from steel, tinplate and aluminium. Servicing the industrial, agricultural, construction and other similar end use markets, Pact's key products include lubricant bottles, plastic and steel drums, paint pails, shipping pallets and materials handling containers.

Figure 2: Pact's products

SOURCE: PACT GROUP

Long term, blue chip customer base

Pact primarily services customers in consumer oriented end markets. It supplies a wide range of plastic and steel packaging to the food, household cleaning, pharmaceutical, personal care and agricultural, chemical and industrial markets. Pact's top 20 customers represented approx. 42% of FY13 pro forma revenue, with no one customer contributing greater than 10% of total revenue. On average, Pact's top 10 customers have had relationships with its businesses for greater than 10 years. In total, Pact has approx. 4,200 customers.

Pact's customer contracts do not generally require its customers to purchase a set volume at a specific amount, meaning that the contracts are not take or pay.

Customer contracts may include a price review mechanism to enable some form of adjustment for movements in key input costs and may also allow Pact to be reimbursed for any unrecovered process and product set up costs upon contract expiry or termination. Pact has a proven track record of working with customers to pass through certain movements in input costs.

Pact also provides a range of sustainability, recycling and environmental services to assist its customers in reducing the environmental impact of their product packaging and related processes. According to Smithers Pira, these factors along with innovation are important services demanded by customers.

Figure 3: Pact's broad range of customers

SOURCE: PACT GROUP

Pact leads the industry in innovation and technology

Pact has a strong focus on product innovation. It utilises the latest available packaging technologies and solutions. In our view, Pact leads the industry in terms of innovation and investment in R&D and technology. In fact, it has won a number of the industry's most prestigious awards. In 2013, Pact was named one of Australia's most innovative companies by the BRW Innovation Awards. Pact has its own in-house team at Inpact Innovation (Inpact). Investment in innovation and R&D, enhances Pact's existing product designs and manufacturing processes.

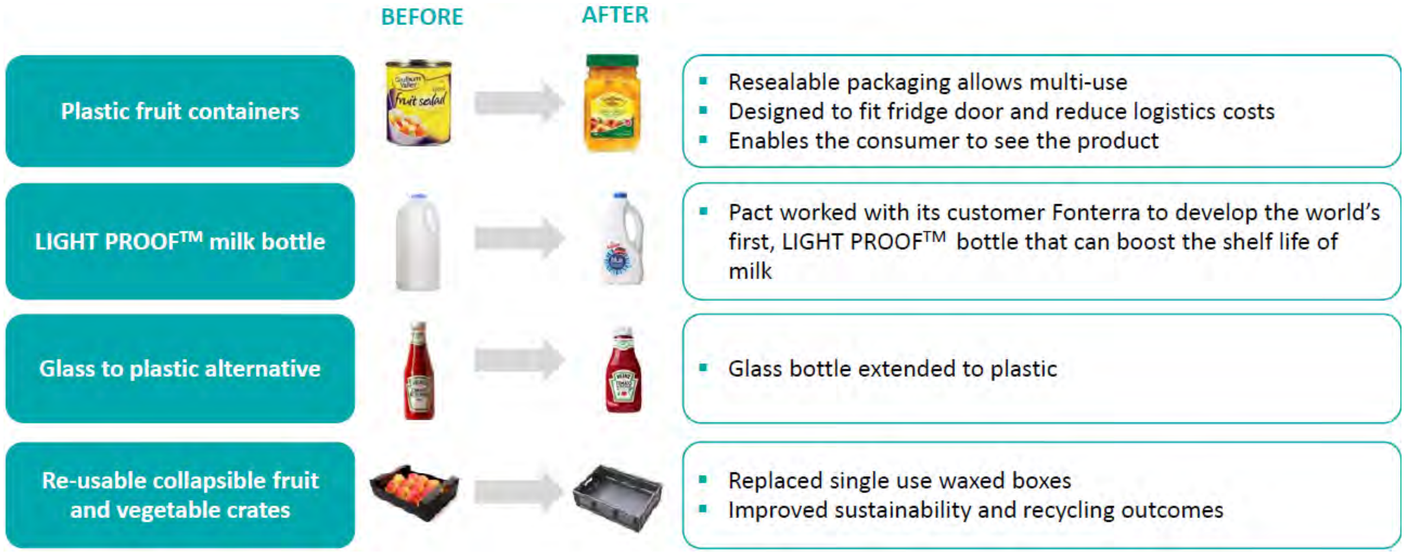
Pact usually partners with technology leaders as opposed to developing the technology in house. Over the years, the company has established global alliances with technology leaders. Its key technology licences are generally exclusive to itself in Australia and New Zealand. Pact's alliances provide it with speed to market of proven R&D/technologies. Pact currently maintains approx. 400 registered designs, 300 registered patents and patent applications and 300 registered trademarks. No single patent is considered material to Pact financially.

Smithers Pira stated that product substitution into rigid plastics has been partly driven by innovation and customer demands for more attractive, modern packaging as well as improved technical performance. Customers increasingly demand more attractive modern packaging as a way to differentiate products in the market. Smithers Pira stated that numerous new product innovations have enhanced the performance characteristics of rigid plastics packaging solutions. For instance, advances in technology and design have facilitated lighter weight containers, more effective tamper-evidence in closure systems and new barrier and gas scavenging technologies for use in oxygen-sensitive food products. These new innovations, combined with rigid plastics recyclability, impact resistance and more economic transportation have driven the increasing market share of rigid plastics within the packaging industry.

The Infini-branded bottle which Pact manufacturers is the lightest milk bottle in the Australian and New Zealand market. According to the company, it is 22% lighter than comparable bottles, but is still made of strong high density polyethylene resin. It is durable and recyclable. Pact's Light Proof-brand bottle is a triple-layer HDPE product that protects milk from sunlight and supermarket refrigerator lights. This is important as light drains milk of vitamins and other nutrients. Fonterra introduced the 100% light-proof bottle in New Zealand under its Anchor brand in 2013 and it was reported to have lifted its milk sales by 2.5%. These bottles are now being shown to Australian companies with the possible introduction into the Australian milk market during 2014. Inpact Innovation has also designed HDPE paint pails with easy peel and reseal lids, base grips for pouring and no gullies around the top of the pails. The pails have efficient pallet configuration, reduced weight and increased stacking strength.

Smithers Pira also highlighted that the demand for more sophisticated packaging has been driven by producers of branded consumer products who are facing greater competition from private label and house branded supermarket products. To differentiate and maintain the appeal of their branded products, some producers are investing in more modern, innovative and attractive packaging. These packaging solutions include enhanced graphics and performance features which require more sophisticated design and production capabilities and access to intellectual property, technology and manufacturing know-how. Similarly, supermarket house branded products are increasingly using rigid plastics packaging to enhance appearance to compete more effectively with branded products.

Figure 4: Examples of Pact's new product innovation either in-house or via its global alliances



SOURCES: PACT GROUP

Company history and IPO acquisitions

Pact was established in 2002 by Raphael Geminder. The business was originally formed after acquiring certain assets from Visy Industries. Before Visy, these assets were previously part of Southcorp's packaging business unit. Over the years, Pact has expanded nationally and offshore, via its own organic expansion plans and by acquisition. It entered the high growth Asian market in 2007.

Table 4: Pact Group's abridged company history

Date	Event
2002-2003	Pact was formed through the acquisition of a rigid plastics and steel packaging company focused on industrial markets.
2004-2005	Pact acquired a plastic consumer packaging company in Australia.
2006	Pact acquired a plastic consumer packaging company in New Zealand.
2007	Pact established a plastic consumer packaging operation in the Philippines.
2008	Pact established a regional procurement office in Singapore. Having a centralised Asian procurement centre enables Pact to have access to lower cost international raw material suppliers.
2009-2010	Pact acquired a leading consumer goods plastics packaging company in Australia. It also established a greenfield closures manufacturing plant in Thailand.
2011	Pact acquired the largest private dairy bottle manufacturer in Australia.
2012	Pact acquired a large rigid plastics packaging and material handling company in Australia, New Zealand and Asia.
2013	Consolidation of the operations through acquisitions at listing.

SOURCE: PACT GROUP

As part of the IPO process, Pact acquired businesses with packaging operations located in China, the Philippines, Singapore and Australia. These acquisitions were either previously or partially owned by Pact, Geminder Holdings, or related entities of Geminder Holdings. More specifically, the acquisitions included:

(1) Viscount China – 100% acquisition of three manufacturing plants in China. This business was previously owned by Geminder Holdings. Pact's consideration of A$18m was in the form of a cash payment.

(2) Ruffgar – 100% acquisition of Ruffgar for a combination of cash and Pact scrip (3.27m shares to Geminder Holdings and 3.27m shares to Gaja). Ruffgar was 50% owned by Geminder Holdings and 50% owned by Gaja (Gary Wolman). Ruffgar consists of:

- Plastop Asia – has one manufacturing plant in the Philippines. This business was established in 2007; and
- Weener Plastop – was a 50/50% joint venture with Ruffgar and Weener. The business is integrated with Plastop Asia. Weener Plastop was also established in 2007. Weener will continue to own 50% of this business moving forward.

(3) Cinqplast – acquisition of the remaining 49% interest in Cinqplast from S&J Capital to bring Pact's ownership to 100%. Consideration was a combination of cash and Pact scrip (3.05m shares). Cinqplast has two manufacturing plants in NSW, Australia. Geminder Holdings initially acquired an interest in the business in 2005.

(4) Asia Peak – has one office in Singapore which is the procurement office for Pact Group. This business was previously owned by Raphael Geminder. Pact acquired the business for cash consideration of A$0.5m.

We understand that these acquisitions were purchased at multiples similar to the IPO multiple (pre-synergies).

Pact recently listed on ASX

Pact listed on the ASX on 17 December 2013. Pact raised A$648.8m through the IPO process. The offer comprised of 170.7m new shares at A$3.80 per share. The purpose of the offer was to raise funds to:

- Repay debt;
- Repay a promissory note owed to Geminder Holdings;
- Part fund the acquisitions; and
- Pay for the expenses associated with the offer.

Prior to the IPO, Pact issued 10 shares to Geminder Holdings for A$255m cash and partially redeemed the Promissory Note from the proceeds from an issue of shares to Geminder Holdings. Post listing on ASX, A$564.9m of the proceeds of the offer was paid by Pact to Geminder Holdings in full satisfaction of the remaining balance of the Promissory Note, which has now been extinguished.

The Geminder family owns 39.8% of Pact post the IPO from 100% previously. Rachael Geminder is restricted from dealing in Pact shares until after the company reports its FY14 result. The acquisition vendors Gaja (owns 3.27m shares) and S&J Capital (owns 3.05m shares) are also subject to the same escrow restrictions. The freefloat of the company is therefore 58.1%.

Table 5: Sources and uses of IPO funds

Sources of Funds	A$m	%	Use of Funds	A$m	%
Drawdown of syndicated facility	605.7	40%	Repay Existing Term Loan Facility	895.9	59%
Cash proceeds received for issue of Shares by Pact	648.8	43%	Repay Promissory Note to Geminder Holdings	564.9	38%
Issue of Shares to Geminder Holdings for cash	255.0	17%	Cash payments to vendors under the Acquisitions	48.7	3%
Total sources	**1,509.5**	**100%**	**Total uses**	**1,509.50**	**100%**

SOURCE: PACT GROUP

Board and management

Pact's Board of Directors consists of five members. The Board has a mix of executive directors with intimate knowledge of the business through their years of experience and three independent directors with experience on boards of numerous listed companies.

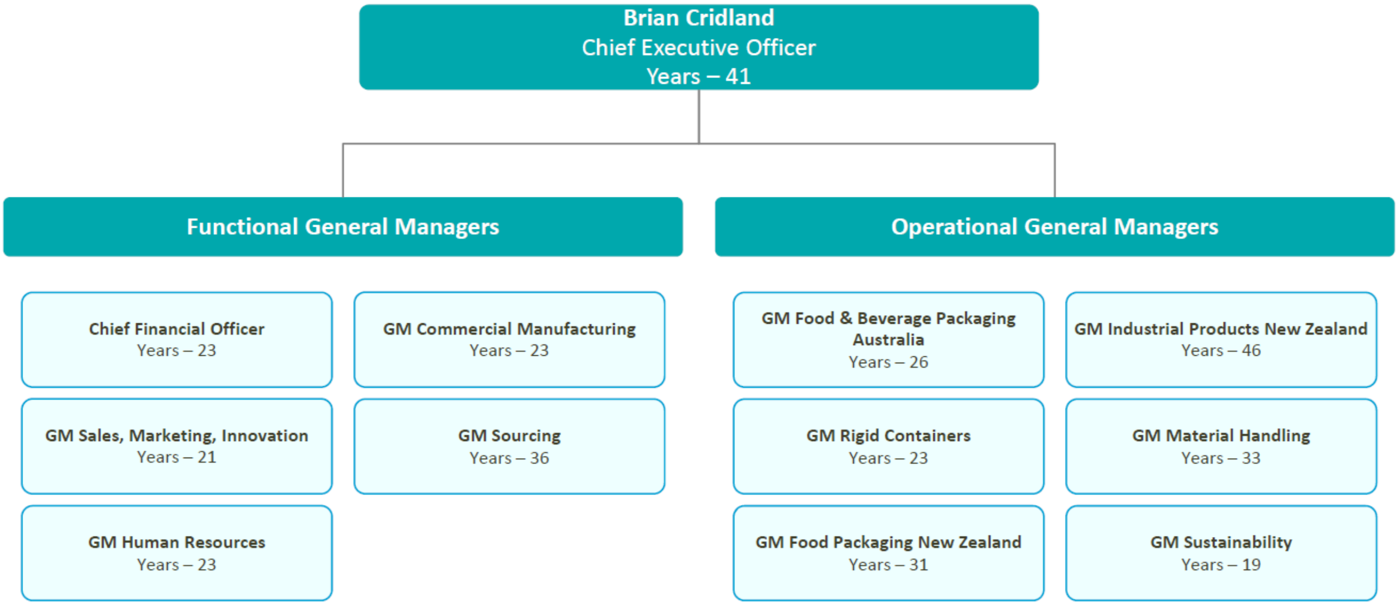
Table 6: Pact Group Board of Directors

Board Member	Position	Description
Raphael Geminder	Non-Executive Chairman	Raphael Geminder founded Pact in 2002. Prior to founding Pact, Raphael was the co-founder and Chairman of Visy Recycling, growing it into the largest recycling company in Australia. Raphael was appointed Victoria's first Honorary Consul to the Republic of South Africa in July 2006. He also holds a number of other advisory and Board positions. Raphael holds a Masters of Business Administration in Finance from Syracuse University, New York. He is currently a director of the Carlton Football Club and several other private companies.
Brian Cridland	Chief Executive Officer	Brian Cridland is the Chief Executive Officer of Pact and has held that role with Pact since inception in 2002. Brian has been in the manufacturing industry for 41 years. He previously held senior roles including General Manager Visypak, Managing Director Rexel Australia, Managing Director GEC Australia, General Manager Rigid Packaging Southcorp and many senior roles in Rheem Australia Limited and other companies. Brian holds a Bachelor of Chemical Engineering and a Bachelor of Commerce from the University of Queensland.
Lyndsey Cattermole	Non-Executive Director	Lyndsey founded Aspect Computing Pty Limited, the largest Australian software and services company, going on to be a major company in Australian ICT with 1,300 employees. She remained as the Managing Director from 1974 to 2003, before selling the business to KAZ Group Limited, where she served as a Director from 2001 to 2004. Lyndsey has also held many board and other membership positions on a range of government, advisory, association and not for profit committees, including the Committee for Melbourne, the Australian Information Industries Association, the Victorian Premier's Round Table and the Woman's and Children's Health Care Network. Lyndsey holds a Bachelor of Science from the University of Melbourne and is a Fellow of the Australian Computer Society. Lyndsey is currently a Non-Executive Director of Treasury Wine Estates Limited and Tatts Group Limited. She also holds directorships with the Victorian Major Events Company, Melbourne Rebels Rugby Union Limited and several other private companies. Lyndsey's former directorships include Non-Executive Director of Foster's Group Limited (1999 – 2011) and Non-Executive Director of KAZ Group Limited (2001 – 2004).
Anthony (Tony) Hodgson	Non-Executive Director	Tony Hodgson was the co-founder and former Senior Partner of the chartered accounting firm Ferrier Hodgson from which he retired in 2000 after 24 years. Tony still serves as a consultant to BRIFerrier. Tony has extensive experience serving on various board committees including Audit, Nomination, Risk and Compliance committees. Tony holds a Certificate of Commerce, is a Fellow of the Institute of Chartered Accountants in Australia and a Fellow of the Australian Institute of Company Directors. Tony is a Member of the Advisory Council of J.P. Morgan, a Non-Executive Director and Chair of the Audit & Risk Committee of Racing NSW and a Non-Executive Director of the Waubra Foundation. Tony was previously Deputy Chairman and Chair of the Audit & Risk Committee of Tabcorp Holdings Limited (1994 – 2009), Non-Executive Director and Chair of the Audit & Risk Committee of Coles Group Limited (2003 – 2007), Non-Executive Director and Chair of the Audit & Risk Committee HSBC Bank Australia Limited (2001 – 2005) and Chairman of the Melbourne Port Corporation (1996 – 2001).
Peter Margin	Non-Executive Director	Peter has many years of leadership experience in major Australian and international food companies. His most recent role was Chief Executive Officer of Goodman Fielder Limited and before that Peter was Chief Executive Officer and Chief Operating Officer of National Foods Limited. Peter has also held senior management roles in Simplot Australia Limited, Pacific Brands Limited (formerly known as Pacific Dunlop Limited), East Asiatic Company and HJ Heinz Company Australia Limited. Peter holds a Bachelor of Science from the University of New South Wales and a Master of Business Administration from Monash University. Peter is currently a Non-Executive Director of Bega Cheese Limited, PMP Limited, Nufarm Limited and of Ricegrowers Limited. Peter has previously been an Executive Director of Goodman Fielder Limited (2005 – 2011) and Chief Executive Officer and Chief Operating Officer of National Foods Ltd (1997 – 2005).

SOURCES: PACT GROUP

Pact's senior management team comes from a background of packaging/manufacturing expertise. The team has more than 25 years of industry experience per person. Both Pact's CEO and CFO have been with the company since its inception in 2002 and have been integral to its success. The team manages approx. 3,500 employees (2,200 in Australia, 900 in New Zealand and 400 in Asia). The workforce is managed by centralised human resources functions in Australia and New Zealand. The majority of the company's sites operate under enterprise bargaining agreements.

Figure 5: Key management



SOURCE: PACT GROUP

Growth opportunities

Pact's growth strategy revolves around the following factors:

- Continuing to invest in innovation and technology. A more innovative packaging offering can lead to a sticker customer base and increased customer substitution from other packaging substrates into rigid plastics. It will also ensure that Pact continues to meet customer demands for more advanced, differentiated packaging solutions that satisfy high environmental standards.

- Increasing sales to new and existing customers. Pact has identified A$750m of new revenue opportunities that it will look to take advantage of over the next few years in Australia and New Zealand. This growth will be achieved through new product development, cross selling and taking market share from its competitors in a market that remains fragmented.

- Relentless pursuit for lowest cost manufacturing and the supply of its products. The company has a low cost focus. Investing in technologies, further improves efficiencies. Pact's centralised Asian procurement office is helping drive down its cost base through better purchasing economies. Pact also benefits from locating its plants strategically close to its customers and in some cases co-locating on its customer's existing site. This reduces freight costs.

- Greenfield manufacturing expansion.

- Margin expansion from applying Pact's business acumen to recent lower margin acquisitions. Acquisitions benefit from the scale benefits that Pact's regional procurement office in Singapore can achieve. Within a short period of time, Pact usually undertakes back office changes, implements its standardised SAP approach and restructures head office and looks at site consolidation where necessary. Pact also helps acquired businesses to improve their product innovation and technology.

- Further acquisitions and realising integration benefits. Pact currently has a strong pipeline of identified acquisition opportunities in existing and new packaging products, services and geographies (particularly Asia). In the past, Pact has paid on average between 5-7x EBITDA (pre-synergies). The average payback period has been 3-4 years. Small bolt-on acquisitions can be funded from the company's strong cashflow and debt facility. Larger acquisitions may require new equity being issued.

Raphael Geminder has been quoted many times in the press saying that his aspirational target is to transform Pact into a A$5bn enterprise over the next five years, with operations in Australia, New Zealand, Asia, Europe and the US.

Option to acquire Dynapack

Pact has the exclusive opportunity to acquire Dynapack at any time up to 12 months after listing on ASX. The acquisition would fast track Pact's expansion in Asia. Dynapack is the leading supplier of rigid plastics packaging and related products and services in Indonesia. It has 17 manufacturing plants located across Indonesia, Malaysia, Thailand and Vietnam. Dynapack was founded in 1961. The company is currently 50% owned by Geminder Holdings and 50% owned by the Hambali family. Geminder Holdings acquired its interest in Dynapack in 2011.

Given it would be a related party transaction, the potential acquisition of Dynpack would be subject to independent director's approval, an independent expert's report on the acquisition, Pact shareholder approval (excluding Geminder Holdings) and any necessary regulatory approvals. The acquisition would facilitate the objective of Geminder Holdings to consolidate all of its similar packaging interests within Pact Group.

For the 12 months ended 30 June 2013, Dynapack had sales revenue of A$235m. We understand that Dynapack has margins which are lower than Pact. We believe that Pact will fund this acquisition through a combination of cash, debt and scrip.

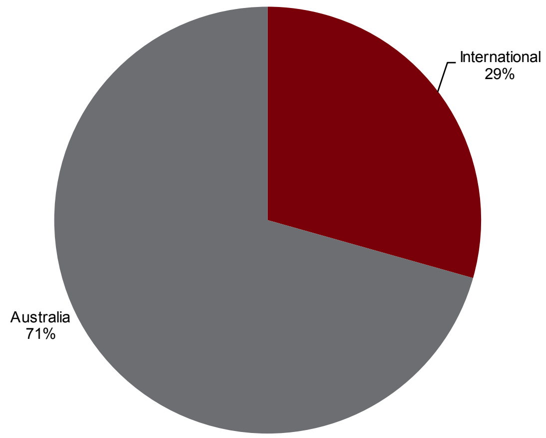
Business units

Pact segments its accounts under two operating areas:

- Pact Australia; and
- Pact International.

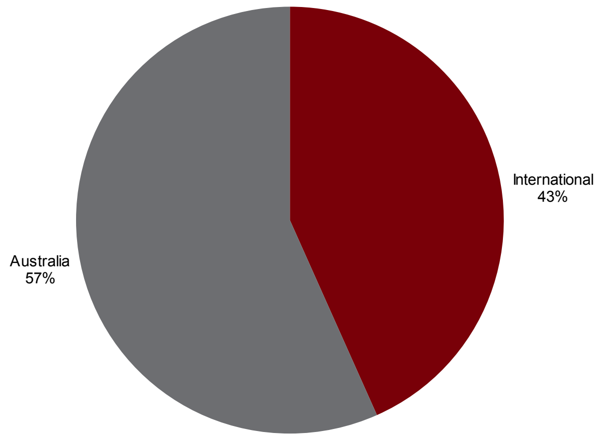
We review each of these segments in more detail below.

Chart 2: Proforma FY14 revenue per business unit



SOURCES: PACT GROUP

Chart 3: Proforma FY14 EBIT per business unit



SOURCES: PACT GROUP

Pact Australia

Pact Australia manufactures a wide range of packaging products with 39 manufacturing plants across the country. Pact is the leading supplier of rigid plastics packaging in Australia, with approx. 40% market share.

According to Smithers Pira, Australian rigid plastics demand is forecast to grow by a CAGR of 4.0% from 2012 – 2018. Pact Australia's recent results have been impacted by a subdued consumer environment. On a proforma basis, Pact is forecasting relatively flat revenue growth in FY14. However, EBIT is expected to grow by 3% due to a reduction in depreciation expense following a review of the assets useful lives.

Table 7: Pact Australia's financial performance (A$m)

Statutory Results	FY11A	FY12A	FY13A	Morgans FY14F	FY13A including Acquisitions	FY14F proforma	Morgans FY15F	Morgans FY16F	Morgans FY17F
Pact Australia									
Operating Revenue	775.0	734.5	810.1	829.5	843.1	845.6	862.7	888.6	915.2
Growth		-5.2%	10.3%	2.4%		0.3%	4.0%	3.0%	3.0%
EBIT	**86.5**	**81.9**	**80.9**	**83.5**	**82.0**	**84.5**	**86.9**	**89.5**	**92.2**
Growth		-5.4%	-1.1%	3.2%		3.0%	4.1%	3.0%	3.0%
EBIT margin	11.2%	11.1%	10.0%	10.1%	9.7%	10.0%	10.1%	10.1%	10.1%

SOURCES: MORGANS, COMPANY REPORTS

Pact International

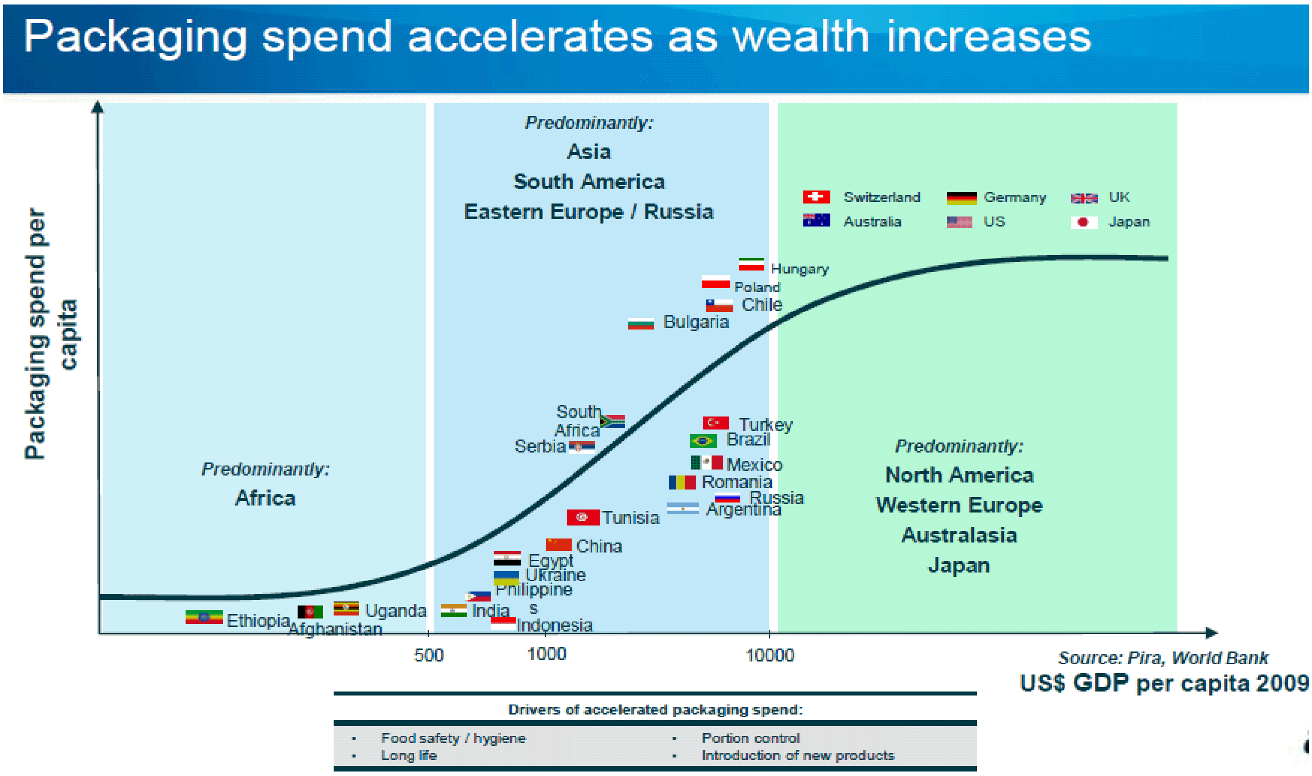
Pact International manufactures a wide range of packaging products with 23 manufacturing plants in New Zealand and the higher growth markets of China, the Philippines and Thailand. Pact is the leading supplier of rigid plastics packaging in New Zealand.

Pact entered Asia in 2007 through the establishment of a plastic consumer packaging operation in the Philippines. Since that time, it has grown its presence in the region through establishment of a Singapore procurement office in 2008, a plastic closures manufacturing plant in Thailand in 2008, and the acquisition of three rigid plastics packaging manufacturing plants in China in 2012.

Pact currently has five manufacturing plants in Asia. Pact's Asian operations represent only 6% of revenue or A$70.8m (FY14F). In the future, Asian growth will come from acquisitions, moving into new territories and into new substrates with the support of existing customers. Pact has a sizable acquisition opportunity in this market, in Dynapack, Indonesia's largest rigid plastics packaging company. If Pact is successful in acquiring Dynapack, its emerging revenue would rise to about 25%.

The total Asian packaging market is worth US$280bn and the rigid plastics packaging market is valued at US$58bn. According to Smithers Pira, rigid plastics packaging demand is expected to grow at a 8.4% CAGR over 2012 to 2018. Despite the higher risk profile, emerging markets offer good margins and excellent returns. These markets are targeted by customers, as packaging spend accelerates as wealth increases. Beyond a growing middle class, Pact will also benefit from an increasing portion of supermarket retail sales rather than independent retailers and more traditional markets.

Chart 4: Packaging spend accelerates as wealth increases



SOURCE: AMCOR

On a proforma basis, Pact is forecasting 11% revenue growth in FY14. EBIT is expected to grow by 19% due to a reduction in depreciation expense following a review of the assets useful lives. Pact's International operations should benefit from a falling AUD on earnings on translation.

Table 8: Pact International's financial performance (A$m)

Statutory Results	FY11A	FY12A	FY13A	Morgans FY14F	FY13A including Acquisitions	FY14F proforma	Morgans FY15F	Morgans FY16F	Morgans FY17F
Pact International									
Operating Revenue	203.6	234.8	293.6	322.1	316.8	351.7	365.8	384.1	403.3
Growth		15.3%	25.0%	9.7%		11.0%	13.6%	5.0%	5.0%
EBIT	**44.3**	**51.0**	**50.2**	**62.6**	**54.2**	**64.6**	**71.0**	**76.7**	**82.4**
Growth		15.0%	-1.6%	24.8%		19.2%	13.4%	8.0%	7.5%
EBIT margin	21.8%	21.7%	17.1%	19.4%	17.1%	18.4%	19.4%	20.0%	20.4%

SOURCES: MORGANS, COMPANY REPORTS

FINANCIAL SUMMARY

Over the last 10 years, Pact's sales and EBITDA have grown at a CAGR of 16.5% and 18.6% respectively. Pact's growth has been driven by acquisitions, synergy realisation, organic growth, innovation, relentless cost control, the optimisation of its manufacturing footprint and increased substitution into the rigid plastics market. However, the company's earnings growth has been more subdued in recent years due to softer market and trading conditions for its customers in Australia and New Zealand. This has led to lower volumes. Pact has industry leading EBITDA margins and cashflow conversion.

Pact has provided us with financial history and forecasts from FY11A to FY14F. The company has a 30 June financial year end. It is important to highlight that Pact's FY14 underlying NPAT forecast of A$83.5m is a proforma number. This means that guidance is based on a full 12-months of the IPO acquisitions and the new capital structure. In reality, FY14 will only include six months of the acquisitions and the new capital structure, with materially lower debt levels and consequently lower net interest expense. The FY13 result has also been presented on both a statutory and proforma basis.

Table 9: Pact Group financial summary (A$m)

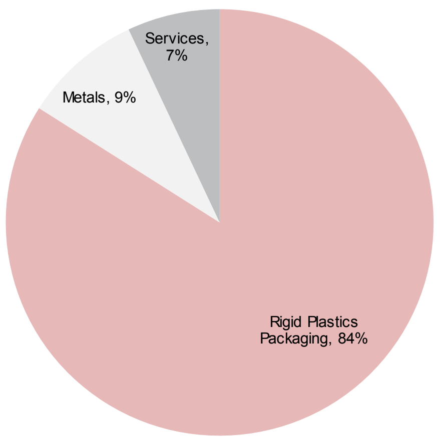
Statutory Results	FY11A	FY12A	FY13A	Morgans FY14F	FY13A proforma	FY14F proforma	Morgans FY15F	Morgans FY16F	Morgans FY17F
Operating Revenue	978.6	969.3	1103.7	1151.6	1159.9	1197.3	1228.5	1272.7	1318.5
Growth		-1.0%	13.9%	4.3%		3.2%	6.7%	3.6%	3.6%
EBITDA	**181.8**	**185.3**	**188.2**	**196.7**	**196.1**	**201.9**	**211.9**	**221.8**	**231.9**
Growth		2.0%	1.5%	4.5%		3.0%	7.7%	4.7%	4.6%
EBITDA margin	18.6%	19.1%	17.1%	17.1%	16.9%	16.9%	17.2%	17.4%	17.6%
D&A	50.9	52.5	57.1	50.6	59.9	52.8	54.0	55.6	57.2
EBIT	130.9	132.9	131.1	146.1	136.2	149.1	157.9	166.2	174.6
Growth		1.5%	-1.3%	11.4%		9.5%	8.1%	5.2%	5.1%
EBIT margin	13.4%	13.7%	11.9%	12.7%	11.7%	12.5%	12.9%	13.1%	13.2%
Net Interest	76.0	95.8	91.9	72.4	n/a	31.2	31.2	31.2	31.2
Underlying NPAT	**42.1**	**25.7**	**31.1**	**50.9**	**n/a**	**83.5**	**89.8**	**95.6**	**101.6**
Growth		-39.1%	21.3%	63.5%		n/a	76.3%	6.6%	6.3%

SOURCES: MORGANS, PACT GROUP

*Proforma numbers for FY13 and FY14 include the IPO acquisitions. FY14 includes Pact's new capital structure.

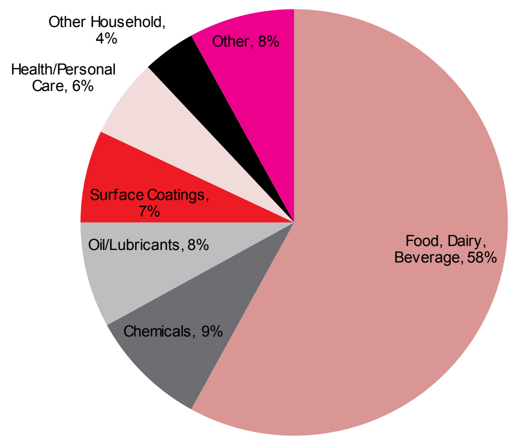
Revenue drivers

Chart 5: Pact's FY14 revenue by Substrate



SOURCE: PACT GROUP

Chart 6: Pact's FY14 revenue by End Market



SOURCE: PACT GROUP

Pact's sales revenue represents revenue from the sale of packaging and other products and services to customers. Sales revenue generally moves in line with input cost movements. 84% of Pact's revenue comes from rigid plastics packaging, 9% from metals packaging and 7% from services. Approx. 68% of

Pact's sales revenue is derived from the food, dairy and beverage, health and personal care and other household consumables end markets. These consumer products generally have low volatility in annual customer demand.

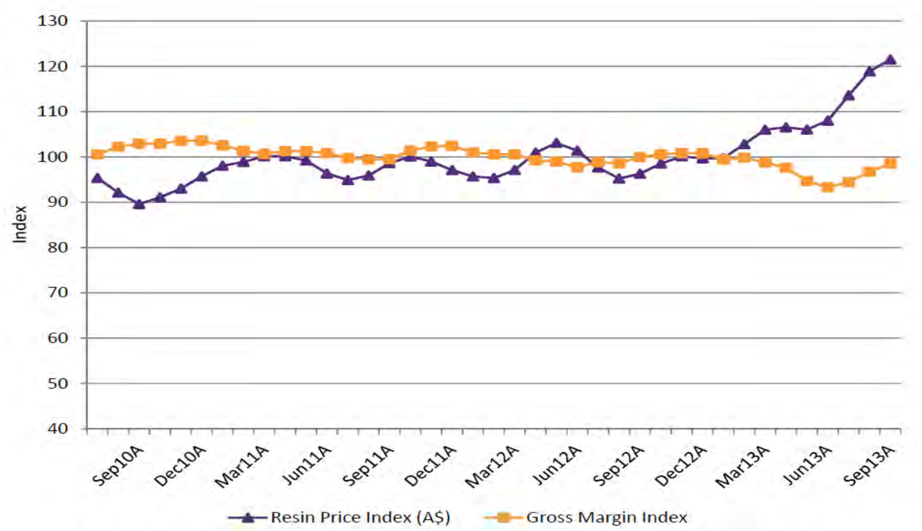
During FY11 to FY13, Pact completed five acquisitions. Pact's FY13 sales revenue grew strongly due to acquisitions and increased volumes post the commissioning of a new thin wall injection moulding facility. Proforma FY14 sales revenue will also benefit from the acquisitions and additional volume growth from contracted customers sales relating to the new thin wall injection moulding facility.

Expenses

Pact's largest cost item is plastic resin. We believe that resin can make up to 40% of the cost of making a package. Plastic resins fluctuate in price due to demand and supply factors and changes in the price of natural gas, crude oil and other petrochemical intermediates from which resins are produced. Resin prices are denominated in USD and fluctuations in AUD/USD or NZD/USD exchange rates may also impact the cost of resin purchased by Pact. As the following chart demonstrates, Pact has managed the volatility of resin prices well over time given its gross margins have remained essentially flat. Pact has done this by implementing pass throughs with its contracts where possible.

Steel is another key input for Pact's metals packaging business. Rising costs for labour, electricity, freight and water are key cost pressures that all manufactures face. During FY11 to FY13, Pact's employee costs as a percentage of total revenue remained constant in the range of 24% to 25%. Cost pressures are somewhat mitigated by Pact's relentless focus on prudent cost control.

Chart 7: Pact's gross margin percentage vs resin price index – FY11 to Sept 2013

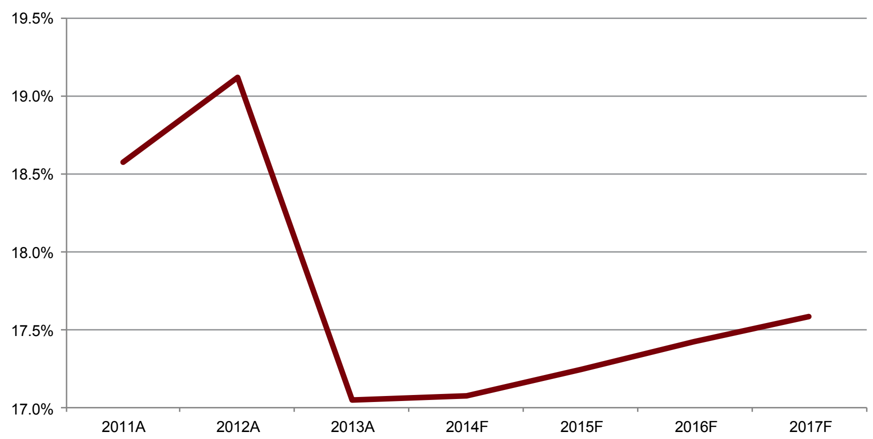


SOURCE: PACT GROUP

EBITDA margins

As can be seen from the chart below, Pact's EBITDA margin over the past few years has been volatile. The margin fell in FY13 due to the acquisition of lower margin businesses. Importantly, management believes that it can increase the company's margins by applying its business acumen to acquisitions. Our forecasts assume that margins improve however we don't forecast them to return to the levels seen in FY12. The company's margins are highly leveraged to growth from its higher margin International operations.

Chart 8: EBITDA margin



SOURCES: MORGANS, COMPANY REPORTS

Depreciation and amortisation (D&A) expense

Pact's D&A is largely all depreciation expense. Pact's property, plant and equipment is depreciated over its useful life. Pact amortises its patents, trademarks and licences over a finite period of time. Pact's depreciation expense grew in FY12 and FY13 due to the acquisitions and following an increased level of capex spend to support its growth. However, depreciation is forecast to reduce in FY14 as a result of a periodic review of the company's asset useful lives and a reduction in fixed assets as a result of historical business reorganisation programs and asset disposals which occurred in FY13.

Net interest expense

In FY14 and beyond, Pact will benefit from lower debt levels and lower interest rates under its new and more favourable debt package. Its average interest rate in FY14 is 4.8%. The prospectus proforma forecast net interest expense has been adjusted by A$41.2m to reflect Pact's future capital structure. It is important to note that the statutory forecast net interest expense includes A$19.2m of interest expense associated with the Promissory Note.

Tax rate

In the past, Pact has benefited from R&D tax benefits. Moving forward, Pact's tax rate is expected be approx. 29%. In Australia, Pact is taxed at 30%, while the corporate tax rate in New Zealand is 28%.

Recent results

FY12 result – Sales revenue fell 1% due to softer market and trading conditions for customers in Australia contributing to lower volumes and lower average selling prices for rigid plastic packaging products as lower input costs were passed through to customers. However, these negative factors were somewhat offset by the addition of an acquisition and increased demand from customers in the New Zealand dairy sector. EBITDA increased 2.0% and the EBITDA margin was 19.1% (from 18.6%) due to the realisation of integration benefits and efficiency gains from recent acquisitions. The NZD/AUD exchange rate movement also positively impacted the translation of New Zealand earnings. EBIT growth of 1.5% was slightly less than EBITDA growth due to higher D&A expense associated with acquisitions and higher plant and equipment values.

FY13 result (statutory) – Sales revenue growth of 13.9% largely reflected acquisitions. Revenue also benefited from the commissioning of a new thin wall injection moulding facility to support a major customer and increased sale prices as higher input costs were recovered from customers. The drop in the EBITDA margin was due to the acquisition of much lower margin businesses. EBIT fell 1.3% on the pcp due a A$4.6m increase in D&A expense from increased capex spend in recent years and the acquisitions.

Outlook

IPO acquisitions – A full year of the acquisitions are forecast to contribute a NPBT of A$3.6m.

Prospectus FY14 earnings guidance – In FY14, the Director's are forecasting an underlying proforma NPAT of A$83.5m. This is based on proforma revenue growth of 3.2% and EBITDA growth of 3.0%. The growth in earnings reflects the FY13 acquisitions and additional volume growth from contracted customer sales relating to the new thin wall injection moulding facility in Victoria. EBITDA growth is forecast at a slightly lower rate than revenue growth due to net customer movements. EBIT growth of 9.5% will benefit from lower D&A expense due to the review of asset useful lives in FY13 and asset disposals. Pact's underlying statutory NPAT guidance is A$50.9m. Statutory reported NPAT of A$25.2m will be impacted by significant items of A$25.7m after tax. These significant items represent business reorganisation programs, gain on business acquisitions and disposals, mark to market on swaps and the existing term loan facility, holding company recharges and other company costs.

Morgans forecasts – We present our FY14 forecast on a statutory basis. Our forecast is in line with guidance. Therefore, our FY15 forecast reflects a full 12 months of Pact's new capital structure post the IPO and the IPO acquisitions. FY15 should also benefit from margin expansion as management applies Pact's business acumen to recent acquisitions. The upside to our FY15 forecast is the acquisition of Dynapack.

1H14 result – Pact is expected to release its interim result on 26 February. The company has not provided earnings guidance however we understand that its earnings are seasonally skewed to the first half. Pact's biggest months are October and November. We forecast a proforma underlying NPAT of A$45.0m. Our statutory underlying NPAT forecast is A$17.5m.

Sensitivity analysis

Pact has conducted a sensitivity analysis on its FY14 proforma NPAT forecast. As can be seen from the table below, Pact's earnings are most sensitive to a change in its selling prices, interest rates and resin prices. It should be noted that this analysis treats each assumption in isolation.

Table 10: Sensitivity analysis to FY14 proforma NPAT

Assumption	Increase/decrease	Impact on consolidated pro forma NPAT attributable to shareholders for FY2014
Change in sales prices	+/– 1%	$8.5 million/$(8.5) million
Change in salaries and wages expense	+/– 1%	$(2.1) million/$2.1 million
Change in resin prices	+/– 1%	$(2.4) million/$2.4 million
Change in metal prices	+/– 1%	$(0.3) million/$0.3 million
Change in A$:NZ$	+/– 1c	$(0.3) million/$0.3 million
Change in A$:US$	+/– 1c	$1.9 million/$(2.0) million
Change in NZ$:US$	+/– 1c	$0.7 million/$(0.7) million
Change in interest rates	+/– 100 basis points	$(4.6) million/$4.5 million

SOURCE: PACT GROUP

FY14 guidance has used the following currency assumptions. Pact is currently benefiting from the strong NZD. However, we believe this is being offset by the fall in the AUD against the USD which is causing AUD resin prices to rise. We expect that Pact is increasing its selling prices to offset this impact.

Table 11: Pact's FX assumptions

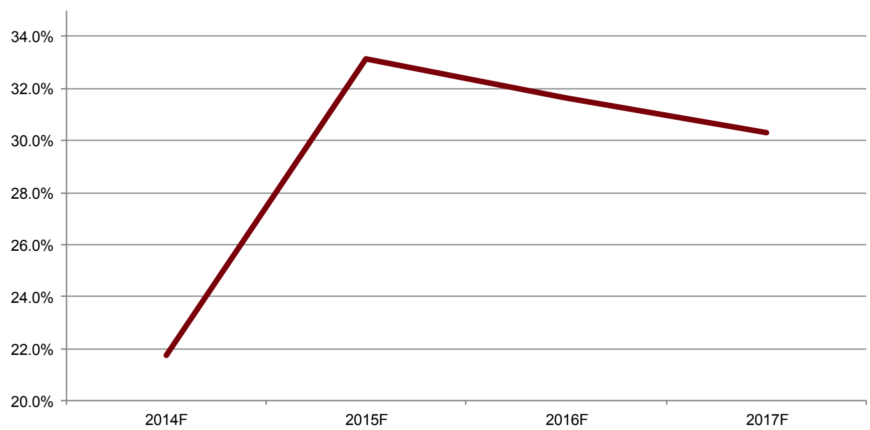
(Year ended 30 June)	FY2013 (actual average)	FY2014
AUD/NZD	1.2456	1.1377
AUD/USD	1.0221	0.9254
NZD/USD	0.8205	0.8133
AUD/THB	31.11	29.14
AUD/PHP	42.36	40.11
AUD/CNY	6.3723	5.6963
AUD/SGD	1.2658	1.1616

SOURCE: PACT GROUP

Return on Equity (ROE)

We forecast Pact's ROE to rise to 33.2% in FY15 from 21.8% in FY14 (statutory forecast). However our ROE forecast falls marginally from FY16.

Chart 9: ROE



SOURCES: MORGANS, COMPANY REPORTS

Dividend policy

Pact will pay a final dividend in FY14 of 9.5cps. The Board is targeting 65% franking as the company has overseas operations. From FY15 onwards, Pact will payout 65-75% of NPAT in dividends. We have assumed a payout ratio of 70% in our modelling of the company.

Balance sheet commentary

Property Plant and Equipment (PPE) is shown at cost less accumulated depreciation. Pact's building services and plant and equipment are depreciated using a 10-15 and 3-20 year life for accounting purposes. Goodwill of A$313.1m relates to the acquisitions the company has made since 2002. Other large assets include receivables and inventory. On a seasonal basis, inventories are typically larger in the first half.

Given the seasonality of the business, Pact's debt levels peak in the first half as it builds stocks. Debt then reduces in the second half as stock is sold and inventory levels consequently reduce.

Pact's new debt facilities include A$590m tranche, NZ$180m tranche and a working capital facility of A$75m. The company has headroom of approx. A$145m under its new bank facilities. The term of the new facilities are between three and five years, while the working capital facility has the usual 12 month term with an annual renewal.

Like most companies in the packaging industry, gearing is much higher than the average industrial company. Given packaging companies generate strong FCF, they can comfortably service high debt levels. We forecast Pact's statutory net debt to finish FY14 at A$575m or ND/E of 246.2%. This ratio should fall under 200% in FY15. Pact's bank covenants stipulate that net debt to EBITDA cannot exceed 3.5x and EBITDA interest cover can't be less than 3.5x. Pact's proforma FY14 net debt to EBITDA forecast is 3.0x and EBITDA interest cover is comfortable at 6.5x.

Pact's total equity position was negative from FY11 to FY13 following the reorganisation of its holding structure in 2001. The accounting treatment of the reorganisation resulted in the recognition of a common control reserve of A$942m. In addition, Pact paid a special dividend of A$400m in 2013 which was funded by a new Term Loan B facility.

Cashflow commentary

Pact generates strong cashflow. It has traditionally converted 75-85% of EBITDA into cashflow. It centralised procurement in Asia has assisted it to access lower cost international raw material suppliers. Pact's strong cashflow will allow it to pay down debt and fund its growth strategy.

Working capital generally builds up in the first half in line with increased production volumes, before reducing in the second half. Thus, Pact's operating cashflow is the strongest in the second half as the inventory is sold. Net working capital is forecast to fall in FY14 as a result of targeted working capital reduction initiatives, particularly relating to businesses acquired during FY13.

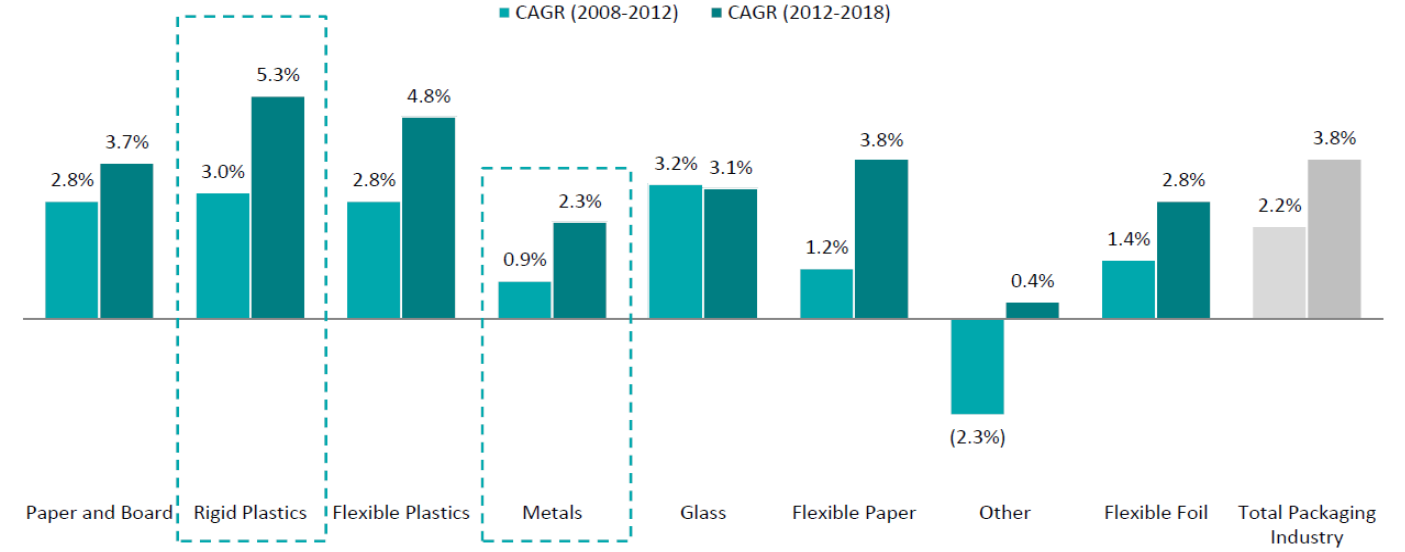
Pact's annual capex spend has traditionally been approx. 20% of EBITDA. All of the company's key capital projects are subject to strict approval protocols and targeted return hurdles. Capex spend is forecast to fall in FY14 due to the completion of a number of projects in FY13 including the new thin walled injection moulding facility in Victoria and completion of a major project with a key dairy customer in New Zealand. Management said that a number of planned capex projects in FY14 relate to specific customer opportunities to support contracted revenue growth.

APPENDIX – RIGID PLASTICS PACKAGING INDUSTRY

Packaging demand in a particular country, generally moves in line with population growth and GDP growth. Pact has made the smart decision of focusing on the rigid plastics packaging industry which is the fastest growing substrate and is replacing other packaging segments.

Smithers Pira noted that rigid plastics packaging has increased its share of the overall packaging market by replacing traditional glass, metals and paper packaging. For example, there has been a notable trend away from the use of glass containers in preserved food and beverage products and the increasing use of plastic as a viable alternative to metal cans and pails. This substitution trend is expected to continue.

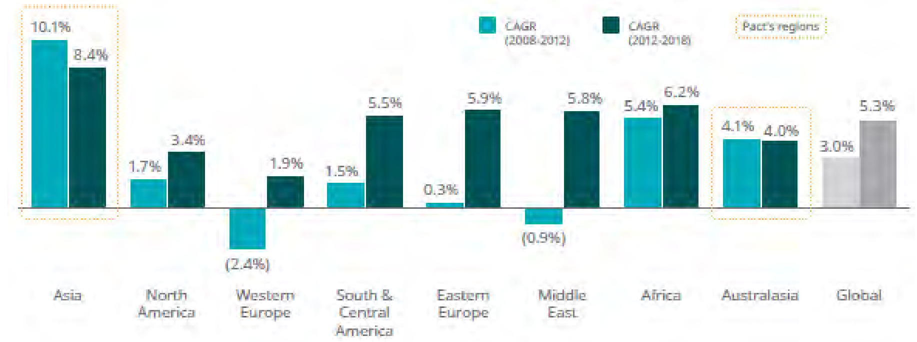
Chart 10: Global packaging segment revenue growth – led by rigid plastics which is Pact's key substrate



SOURCE: Smithers Pira, "The Future of Global Packaging to 2018", Vlad Savinov

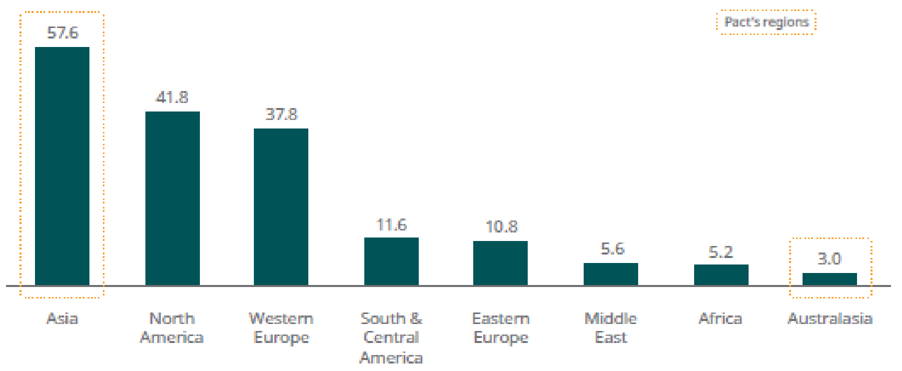
According to Smithers Pira, rigid plastics is forecast to be the fastest growing segment of the global packaging market, with a demand CAGR of 5.3% from 2012 – 2018. In Australia and New Zealand, rigid plastics demand is expected to grow at 4.0% CAGR over the same period. Asia was the fastest growing region from 2008 – 2012 with a 10.1% CAGR. Over 2012 – 2018, rigid plastics packaging revenue in Asia is forecast to grow at a 8.4% CAGR. China is the second largest packaging market in the world behind the US. Rigid plastics packaging in China is forecast to grow at 12.1% revenue CAGR over 2012 – 2018. As expected, the more developed/mature markets of North America and Western Europe are expected to grow revenues at rates lower than the global average.

Chart 11: Global rigid plastics packaging revenue growth by region



SOURCES: Smithers Pira, "The Future of Global Packaging to 2018", Vlad Savinov.
Note: Australasia includes Australia, New Zealand and other smaller Pacific islands

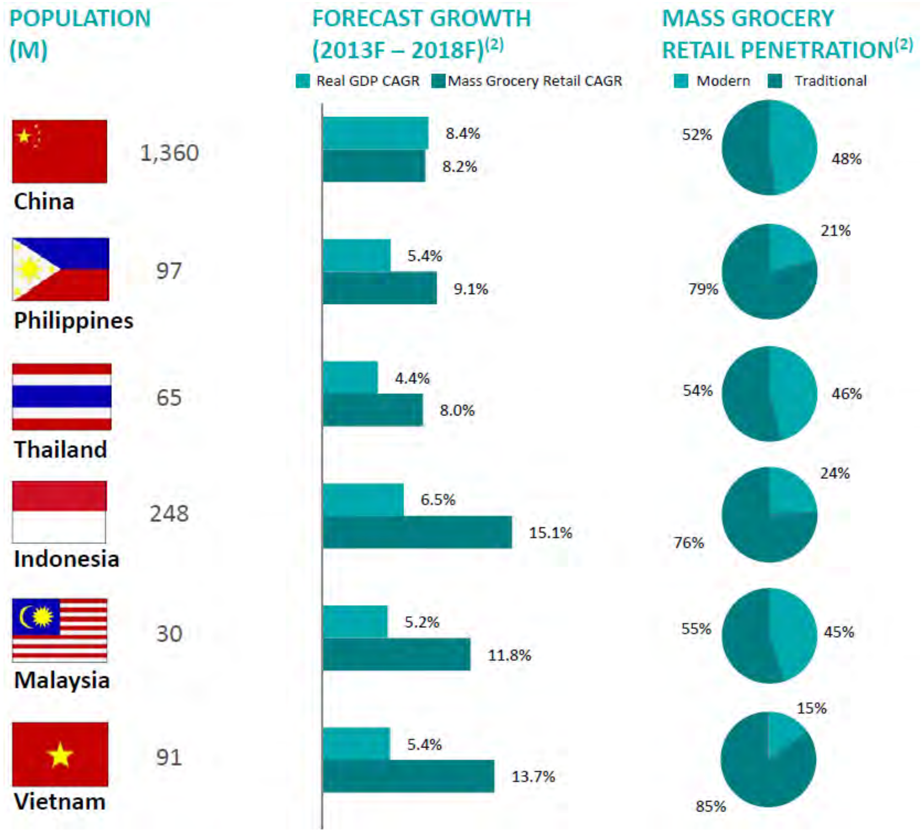
Chart 12: 2012 global rigid plastics packaging revenue by region (US$bn)



SOURCES: Smithers Pira, "The Future of Global Packaging to 2018", Vlad Savinov.
Note: Australasia includes Australia, New Zealand and other smaller Pacific islands

The strong growth in Asia is driven by strong GDP growth, increasing wealth and a growing middle class, increased consumption, demand for a more westernised diet (favours more packaged products) and urbanisation. There are also outdoor markets being replaced by Mass Grocery Retail (MGR) formats including convenience stores, mini-marts and supermarkets.

Chart 13: High growth emerging markets - additional growth as traditional retail is replaced by mass grocery retail formats



SOURCES: International Monetary Fund, World Economic Outlook Database, Business Monitor International, Indonesia Food & Drink Report Q3 2013, China Food & Drink Report, Q4 2013, Vietnam Food & Drink Report, Q4 2013, Malaysia Food & Drink Report Q4 2013, Philippines Food & Drink Report 2013, Thailand Food & Drink Report, Q3 2013

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REGULATORY DISCLOSURES

PGH: Morgans was a co-manager in the Pact Group IPO and received fees in this regard.

RECOMMENDATION STRUCTURE

For a full explanation of the recommendation structure, refer to our website at https://www.morgans.com.au/research_disclaimer.

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