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Eucon Group

Not Rated

Worst likely over

S\$0.125

Stock Code: EUCN.SI
 Reuters: EUCON.SP
 Bloomberg: EUCON.SP
 Event: Results

Another loss in 2Q07. Eucon Holdings posted another weak set of 2Q07 results, in line with management's guidance of a soft quarter. Revenue fell 7% YoY to S\$24.6m, still very much hampered by the poor showing of its laser drilling business. As a result of the low utilization of its laser drillers, which only amounted to around 20% for the quarter, gross profit tumbled 74.4% to S\$2.3m. While other divisions such as Mechanical Drilling and PCB Operations remained profitable, it was not enough to prevent Eucon from slipping into the red to the tune of S\$2.1m from a net profit of S\$4.0m in 2Q06.

Nevertheless, there were encouraging signs of sequential improvement, with revenue up 3.7% while net loss was 1.6% smaller QoQ. For the first half, revenue was down 8% YoY at S\$48.2m and Eucon posted a net loss of S\$4.2m.

Worst is likely over. But management believes the worst is likely over as orders have picked up. Utilization rate for its laser drillers has recovered to 65-70% and should continue to improve further to around 80% going into 4Q07, driven by rekindled interest in smart phones following the launch of the Apple iPhone in June. Utilization for its mechanical drillers has also picked up from the 60% in 2Q07 to around 85-90% currently and should be able to sustain at these levels going into 4Q. Eucon also expects QoQ improvement in utilization rate from its PCB operations from 55-60% currently to 65-70% in 3Q. Hence, Eucon is cautiously optimistic that the momentum could spill over into 1Q or even 2Q next year.

Also moving to beef up capacity. And to ride on the pick up in drilling orders, Eucon will be looking to install another 30 mechanical drillers this quarter in China, adding to its current 126 in use now. Furthermore, Eucon intends to add another 10 laser drillers to its current 71. However, the full impact of this capacity increase is only likely to be felt in 4Q07. Eucon does not intend to expand its PCB capacity at the moment as that was already doubled since the start of the year. Instead, Eucon plans to work closely with customers to secure longer-term business. If everything goes according to plan, Eucon expects to turn around in 3Q07. We do not have rating on the stock.

General Data

Issued Capital (m)	570
Mkt Cap (S\$/US\$m)	71/47
Major Shareholders	Eurotronics (26.9%) Wen Yao Long (24.3%)
Free Float (%)	20.0
NTA per share (S\$)	0.15
Historical PER (x)	10.4
Net Dividend Yield (%)	2.2
Daily Vol 3-mth ('000)	1,400
52Wk High (S\$)	0.260
52Wk Low (S\$)	0.125

Market View

Consensus EPS (cents)	-
Forward PER (x)	-
Number of "BUY"	1
Number of "HOLD"	1
Number of "SELL"	-

Year to 31 Dec	Turnover (S\$m)	EBITDA (S\$m)	Net Profit (S\$m)	EPS (cents)	EPS Growth (%)
FY 04	41.8	20.6	8.3	1.8	-
FY 05	74.7	27.8	12.6	2.2	20.5
FY 06	111.8	32.0	15.3	2.7	21.9

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Eucon's Key Financial Data

Eucon Results Year Ended 31 Dec (S\$ m)	2Q06 (S\$m)	2Q07 (S\$m)	% Chg (YoY)	1Q07 (S\$m)	% Chg (QoQ)
Revenue	26.3	24.6	-6.7%	23.7	3.7%
Gross profit	9.0	2.3	-74.4%	2.5	-7.7%
EBITDA	8.2	2.3	-71.8%	2.7	-15.8%
Depreciation & amortisation	-3.2	-4.0	22.8%	-3.8	4.4%
Operating profit	5.0	-1.7	-133.4%	-1.1	56.4%
Net interest	-0.5	-0.9	66.4%	-0.7	24.8%
Associates	0.0	0.0	nm	0.0	nm
Exceptionals	0.0	0.0	nm	0.0	nm
Pre-tax profit	4.5	-2.0	nm	-2.0	-3.2%
Tax	-0.5	-0.1	-74.9%	-0.1	-20.5%
Minority interests	0.0	-0.1	nm	0.0	nm
Net profit	4.0	-2.1	nm	-2.2	-1.6%

Segmental Revenue	2Q06	2Q07	% YoY	1Q07	% QoQ
Mechanical drilling & Routing	5.1	5.2	2.0%	4.3	20.8%
Laser drilling	3.7	1.9	-48.6%	1.1	79.9%
PCB operations	17.5	17.4	-0.6%	18.3	-5.0%
Total	26.3	24.5	-6.8%	23.7	3.5%

Table 2. Production Capabilities

Subsidiary	Mechanical Drillers	Laser Drillers	Routing Machines	Other Facilities
Shanghai Zeng Kang	45		16	
Shanghai Yaolong	35		17	
Shanghai Zhuo Kai	10	8		Outer-layer PCB Mfg
Shanghai Eu Ya				Inner-layer PCB Mfg
Shanghai Lian Han Xin	36			
LGANG Taiwan		63		
Total	126	71	33	

EARNINGS FORECAST

Year Ended 31 Dec (S\$ m)	FY04	FY05	FY06
Revenue	41.8	74.7	111.8
EBITDA	20.6	27.8	32.0
Depreciation & amortisation	-8.5	-10.9	-13.3
Net interest	-1.4	-1.7	-2.3
Associates	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0
Pre-tax profit	10.6	15.1	16.4
Tax	-2.4	-2.6	-1.1
Minority interests	0.0	0.0	0.0
Net profit	8.3	12.6	15.3
Earnings per share (cents)	1.8	2.2	2.7
Fully diluted earnings per share (cents)	1.8	2.2	2.7

BALANCE SHEET

As at 31 Dec (S\$ m)	FY04	FY05	FY06
Cash	9.0	15.3	20.0
Other current assets	14.9	43.1	50.4
Fixed assets	91.2	90.4	117.3
Other long term assets	5.6	4.5	5.1
Total assets	120.6	153.2	192.8
Current liabilities less debt	15.4	26.8	44.1
Debt	31.3	42.6	52.7
Other long term liabilities	2.8	0.8	5.0
Total liabilities	49.6	70.2	101.8
Shareholders equity	71.0	83.0	91.0
Minority interests	0.0	0.0	0.0
Total equity and liabilities	120.6	153.2	192.8
NTA per share (cents)	12.5	14.6	16.0

CASH FLOW

Year Ended 31 Dec (S\$ m)	FY04	FY05	FY06
Operating profit before working cap. changes	20.2	29.1	32.4
Working capital changes	0.9	-14.7	0.6
Interest and tax	-3.0	-3.5	-4.1
Net cash from operations	18.2	10.9	28.9
Capex	-39.3	-7.2	-21.3
Other investing flows	8.3	2.1	0.0
Investing cash flow	-30.9	-5.0	-21.3
Change in equity	23.8	0.0	0.0
Net change in debt	0.3	11.3	0.0
Dividends paid	-3.4	-2.9	-2.9
Financing cash flow	20.7	8.5	-2.9
Other adjustments	-6.4	-7.9	-0.1
Net cash flow	1.6	6.4	4.6
Cash at beginning of year	7.3	9.0	15.3
Cash at end of year	9.0	15.3	20.0
Key Ratios			
PER (x)	7.1	5.9	4.8
Price/NTA (x)	1.0	0.9	0.8
EV/EBITDA (x)	4.7	3.7	3.3
Dividend yield (%)	3.8	3.8	3.8
ROIC (%)	8.1	10.0	10.7
ROE (%)	11.6	15.2	16.8
Net gearing (%)	44.1	51.4	57.9
PE to growth (x)	na	0.3	0.2

Source: Company data, OIR estimates

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The analyst/analysts who wrote this report holds NIL shares in the above security.

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