WESTCOMB FINANCIAL GROUP

Eucon Holding Limited

Singapore

22 February 2006

Maintain BUY

Current Price	S$0.155
Target Price	S$0.305
Upside Potential	96.8%

SGX MAS RESEARCH INCENTIVE SCHEME

Results Update

Company ticker

Bloomberg: EUCON SP

Sector

PCB

Company website

www.euconholding.com

Major shareholders

Wen Yao-Long	19.01%
Europtronic Investments	26.90%

Share data

Market cap (S$ m)	88.4
Issued cap (m)	570.0
Free float (%)	26.70%

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Drilling a New Record

Eucon Sees a Strong Rebound in FY05

As expected, Eucon posted a strong recovery in FY05 with earnings growing 353% yoy to hit S$12.6m, approximately 25.0% better than our expectation. Sales rose 141% yoy to reach S$74.7m, 6.7% better than our forecast. Eucon's financial performance exhibits twp distinct characteristics, the cyclicality of the business and the significant operating leverage experienced by the Company. In FY05, the fourth quarter accounted for 41.7% of full year sales and 68.0% of full year net profit.

Quarterly Sales & Net Profit Breakdown

(In S$ mil)	Sales	Breakdown	Net Profit	Breakdown
1Q05	11.7	15.6%	0.1	0.8%
2Q05	11.8	15.8%	0.5	4.0%
3Q05	20.1	26.9%	3.4	27.2%
4Q05	31.2	41.7%	8.5	68.0%
FY05	**74.8**	**100.0%**	**12.5**	**100.0%**
1Q04	8.0	19.1%	1.4	16.9%
2Q04	11.5	27.5%	3.9	47.0%
3Q04	9.4	22.5%	1.1	13.3%
4Q04	12.9	30.9%	1.9	22.9%
FY04	**41.8**	**100.0%**	**8.3**	**100.0%**

Note: FYE is December

Gross profit margin fell to 39.5% in FY05 compared to 44.5% in FY04 while net profit margin fell to 16.9% versus 19.9 in FY04. The decline in gross profit margins was partly due to the change in sales mix with the PCB manufacturing operations accounting for an increased share of FY05 revenues. PCB manufacturing margins are lower than laser drilling margins. Revenue growth in FY05 was driven by the PCB manufacturing segment. EPS was 2.21 cts while NTA per share was 13.9 cts. Eucon has proposed a net dividend per share of 0.5 cts which translates into a dividend yield of 3.23% based on the closing price of S$0.15. Net gearing was relatively unchanged at 0.31x in FY05 versus 0.32x in FY04.

The recovery in the fourth quarter was driven by launch of new mobile handsets as well as higher demand for IT and consumer electronic products including notebooks, game consoles and MP3 players which led to an increased demand for laser drilling services.

On the balance sheet, the cash cycle has worsened to 142 days in FY05 due largely to the 71 days increase in receivables days. Given the longer time taken to collect the receivables in China, the Group has made a provision of S$1.1m in FY05. This relates to a PCB customer in China and we understand that even in the worst case, this provision should be able to cover the outstanding receivable. Should the receivables be collected, there may be a positive impact to the earnings from the write back in FY06.

Cash Cycle Worsened

	FY04	FY05	Chg
Receivables Days	108	180	71
Inventory Days	17	34	17
Payables Days	34	71	37
Cash Cycle	**91**	**143**	**52**

Based on Year End Data & 365 Days

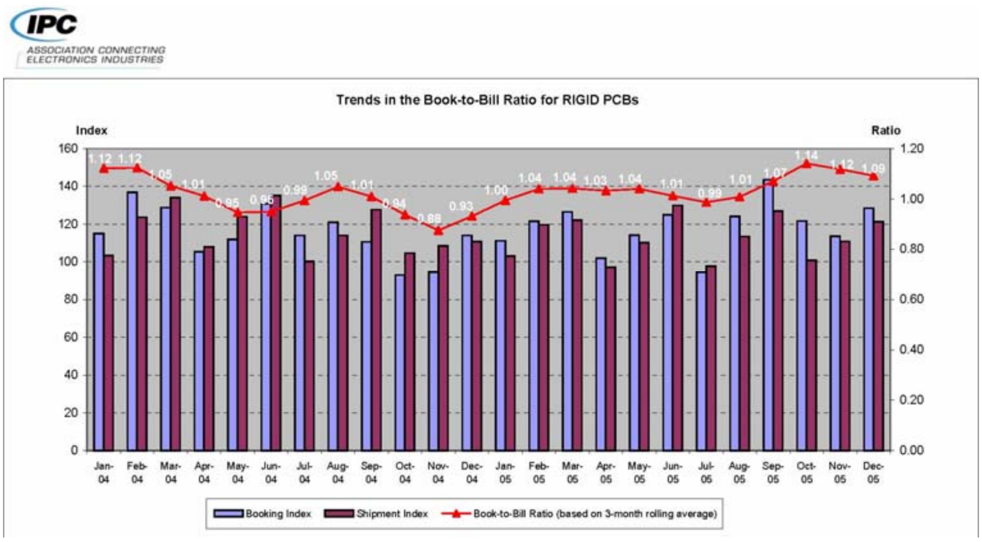
FY06 Outlook

Eucon believes that the outlook for the electronics industry in1H06 remains robust due to continued strong demand for mobile handsets and IOT related products. The Company's laser drilling operations were fully utilised in 2H05. Eucon expects to remain profitable in FY06.

Based on the current indications from its customers, demand for laser drilling services and PCB manufacturing should exceed the Group's current capacity. This is due to strong demand for hand-phones as well as new PCB products launched by the customers.

Rising Book-to-Bill Ratio

Eucon's earnings recovery in the fourth quarter mirrors the rise in the rigid PCB boo-to-bill ratio as reported by IPC. The book-to-bill ratio fell to 0.99 in July 2005 before recovering in August 2005 to more than 1.00. Subsequently, the book-to-bill ratio stayed above 1.00 for the rest of the year.



Source: www.ipc.org

Key Customers

The Group's top customers are Cosmotech Co Ltd, a Korean Company (sales are clinched via a sales representative on a commission basis), Circuittech (BVI) Ltd, Nan Ya Printed Circuit Board, Unitech Printed Circuit Board and Unimicron Technology Corp. In the laser drilling segment, the key customers are Unitech Printed Circuit Board, Unimicron Technology Corp and Nan Ya Printed Circuit Board.

Key Risks

- Eucon is in a business that requires a fast turnaround time in relation to customers' demand. As such, there is no firm order book to rely on. Due to the nature of its business, the Group's earnings have been lumpy, especially in FY05 when the fourth quarter accounted for 67.5% of full-year net profit. As such, there is a risk that earnings will once again be hit if the orders dry up as the Group has significant operating leverage and laser drilling utilisation rates holds the key to profitability. With the setting up of the PCB plant in China, some of these risks will be mitigated.

- Capex is another area of concern. Currently, Eucon's net gearing stands at 0.31x. The Company's capex plan calls for S$20m to further expand the PCB operations in China and an estimated S$37.6m to increase the laser drilling capacity from the current installed base of roughly 47 machines to 94. In total the capex need amounts to S$57.6m. The capex for the China expansion is tentatively scheduled to be expended in 3Q06 and 4Q06. If demand is not as strong as anticipated, the capex spending pattern could shift to S$10m in 4Q06 and S$10m in 1H07. As for the laser drilling machines, the Group should be gradually adding this capacity in the course of twelve months. The funding needs for the laser drilling machines will in part be reliant on generous credit terms given by the suppliers.

  If we take a simplifying assumption of S$57.6m in addition to the debt outstanding as at end FY05, the net gearing will rise to 1.00x. If sales orders fail to materialise, earnings could be badly hurt. On the other side of the coin, if sales orders materialise, earnings could experience a significant jump as each of the new laser drilling machines have double the drilling capacity of the existing models of machines.

- Europtronic, a capacitor distributor and manufacturer listed on the SGX continues to hold a 26.9% stake in Eucon. At the IPO of Eucon, Europtronic sold 22.0m shares at the IPO price of S$0.20. Europtronic's average cost per Eucon share is roughly 7.34 cts. As such, if the share price continues its recovery on the back of potential record earnings for Eucon, Europtronic may sell more shares since the Group is a financial investor in Eucon as the two companies are in totally different business. However, this may not occur as Eucon is now a key earnings contributor to Europtronic's bottomline.

Recommendation

Our revised EPS for Eucon is 3.81 cts. As Eucon is now riding the PCB up cycle, we raise our target price to S$0.305 based on 8.0x FY06 earnings which is the current sector average of a basket of PCB-related stocks listed on the SGX. Maintain **BUY**. Eucon has also proposed a tax free 0.5 cts dividend per share which translates into a yield of 3.23% based on the closing price of S$0.155. **Investors should however be aware that there is earnings risk. Just as Eucon could experience a record year and even outperform our FY06 forecasts due to the current tight capacity for laser drilling, the flip side of the coin is that if end demand were to taper off, orders will be cancelled and we would have to downgrade Eucon's earnings if this occurs. If a downturn does occur, Eucon will be badly hit as the group is planning to double its fixed asset investments in laser drilling.**

Forecast & Valuation

FYE : Dec (S$ '000)	2003	2004	2005	2006F	2007F
Revenue	29,654	41,820	74,740	111,617	132,064
Net Profit	10,035	8,256	12,579	21,711	25,798
EPS (Cts)	2.28	1.72	2.21	3.81	4.53
EPS Growth	772.61%	-24.72%	28.53%	72.60%	18.83%
NTA Per Share (Cts)	9.11	11.76	13.87	17.18	21.70
Sales per share (cts)	6.74	8.70	13.11	19.58	23.17
Dividend per share (cts)		0.50	0.50	0.00	0.00
PER (x)	6.80	9.03	7.02	4.07	3.42
PEG	0.01	nm	0.25	0.06	0.18
Price/Sales Per share	2.30	1.78	1.18	0.79	0.67
Price/Book value	1.70	1.32	1.12	0.90	0.71
Dividend yield	0.00%	3.23%	3.23%	0.00%	0.00%

Valuation of SGX-listed PCB Related Companies

Company	Market Cap (S$ mil)	Prospective PER (x) 2006	2007
Multi-Chem Ltd	85.50	8.57	8.89
Jadason Enterprises	84.37	7.37	5.83
Elec & Eltek International Ltd	806.88	7.98	8.31
	Average	**7.97**	**7.68**

Source: Bloomberg, 22 February 2006

What It Does

Eucon's roots can be traced back to 1988 when the Company was formed by the current Chairman and CEO, Mr. Wen Yao-Long. Today, Eucon is an integrated PCB solution provider for PCB manufacturers in China and Taiwan. Its outsourcing services are

- PCB manufacturing;
- laser drilling;
- mechanical drilling; and
- routing

The Group's wholly-owned subsidiaries are located in Taiwan and Shanghai. Its customers are leading Taiwanese PCB manufacturers. Eucon is particularly strong in laser drilling services. From laser and mechanical drilling services, the Group has enhanced its attractiveness as an outsourced partner by adding on PCB manufacturing including mass lamination services. The Group's capabilities and capacity are as follow:-

	Taiwan Zeng Kang	Shanghai Zeng Kang	Shanghai Yaolong	Shanghai Zhuo Kai	Shanghai Eu Ya
Investment	S$10.4m	S$13.7m	S$10.6m	S$20.9m	S$7.7m
Prodn area	1,464 m2	2,273 m2	1,264 m2	6,400 m2	7,769 m2
Laser Drilling	45	-	-	6	-
Mechanical drilling	-	44	29	10	-
Routing machines	-	12	11	-	-
Other facilities	-	-	-	Outer-layer PCB mfg	Inner-layer PCB mfg, mass lamination

Source: Eucon fact sheet

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Westcomb Securities Pte Ltd Rating System

Buy : >15% upside over the next 12 months

Trading Buy : + 10% to + 15% range over the next 3 months

Hold : +/- 15% range over the next 12 months

Trading Sell : - 10% to - 15% range over the next 3 months

Sell : >15% downside over the next 12 months

Disclaimer

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