STANDARD & POOR'S

Euro Holdings

Recommendation: **HOLD**

Stock Code: 7208 | Bloomberg: EUHO MK | Price: MYR0.695 | 12-Month Target Price: MYR0.75 | Date: March 20, 2007

Board: Second

Sector: Consumer Products

GICS: Industrials/Office Services & Supplies

Market Value - Total: MYR56.3 mln

Summary: Listed on the Second Board of Bursa Malaysia in Jan. 2005, Euro Holdings (Euro) is principally a manufacturer of office furniture, focusing on office chairs and office system furniture that are sold under the brand names of 'Euro' and 'Euro Chairs'.

Analyst: David Chong, CA

Recent Developments

- Euro's new factory in Rawang, which was completed at the end of 2006, has increased its capacity by about 50% to MYR150 mln worth of orders p.a. The factory is now operational with a current utilization rate of 70%-80%. We understand, however, that the second phase of this expansion has now been pushed back to at least 2008 from 2007. The timing of the next phase would depend on how much further management can stretch Euro's existing capacity by, for example, subcontracting works and adding additional shifts.
- Euro's capital expenditure (capex) budget for the current year is about MYR6 mln-MYR7 mln. This includes capex for maintenance and to increase the amount of automation in its manufacturing process, which would help improve production efficiency and product quality. For 2008, capex is expected to drop to MYR4 mln (mainly maintenance capex), but if management decides to proceed with the second phase of the expansion, about an additional MYR10 mln would be required. Funding for capex would be a mixture of internal funds and debt.
- For raw material prices, we gather that prices have generally been manageable these past few months. Nevertheless, given the strengthening MYR against the US$ (YTD: +3.3% vs. 4Q06), Euro plans to adjust prices upwards by around 2%-3%, from April 2007 onwards.
- We have continued to exclude the second phase of the expansion from our forecasts until the timing is firmed up. We have raised our depreciation and net interest expense forecasts for 2007 and 2008 (to factor in Euro's automation plans), which result in a downward revision of 1.9%-3.1% in our 2007-2008 net profit forecasts.

Recommendation & Investment Risks

- We maintain our Hold recommendation but lower our 12-month target price to MYR0.75 (from MYR0.82), largely on account of a revision in our valuation parameters.
- Our valuation method, which is based on a combination of PER and P/NTA multiples and includes the projected net DPS, remains unchanged. We have lowered our target 2007 PER multiple to 8.5x (from 9x) and our target P/NTA multiple (on the 2006 NTA/share) to 0.9x (from 1x), in line with the recent decline in the sector average multiples. Our 12-month target price also takes into account the projected 2007 net DPS of 2.7 sen (no change).
- Despite the lower multiples that we now ascribe to Euro, these multiples are still above the peer average PER of 7x and peer average trailing P/NTA of 0.7x. We believe a premium valuation for Euro is fair since the group's earnings are predominantly project-based, and it focuses on the mid- to high-end office furniture market segment where competition is generally not as keen as the home furniture market.
- Risks to our recommendation and target price include escalating raw material prices and an appreciating MYR. In addition, future growth would hinge on Euro's ability to continue to secure new projects and replenish its order book.

Earnings Outlook

- We now forecast Euro's net profit to post a 2-year CAGR of 26.8% (from 28.8%).

Key Stock Statistics

FY Dec.	2006	2007E
Reported EPS (sen)	6.9	9.1
PER (x)	10.1	7.6
Dividend/Share (sen)	2.8	3.8
NTA/Share (MYR)	0.76	0.83
Book Value/Share (MYR)	0.76	0.83
No. of Outstanding Shares (mln)	81.0	
52-week Share Price Range (MYR)	0.70 - 0.95	
Major Shareholders:	%	
Lew Fatt Sin	22.3	
Dato' Mohd Haniff bin Abd Aziz	20.6	

Per Share Data

FY Dec.	2004	2005	2006	2007E
Book Value (MYR)	0.61	0.71	0.76	0.83
Cash Flow (sen)	17.2	12.5	NA	13.9
Reported Earnings (sen)	13.7	9.0	6.9	9.1
Dividend (sen)	0.0	3.5	2.8	3.8
Payout Ratio (%)	0.0	28.4	29.7	30.1
PER (x)	5.1	7.7	10.1	7.6
P/Cash Flow (x)	4.0	5.6	NA	5.0
P/Book Value (x)	1.1	1.0	0.9	0.8
Dividend Yield (%)	0.0	5.0	4.0	5.4
ROE (%)	NA	15.2	9.4	11.5
Net Gearing (%)	0.0	0.0	2.0	0.0

* 2004 is for the period from Mar. 24, 2004 to Dec. 31, 2004

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Profit & Loss

FY Dec. / MYR mln	2005	2006	2007E	2008E
Reported Revenue	88.0	94.5	113.4	129.5
Reported Operating Profit	9.4	7.4	9.6	11.4
Depreciation & Amortization	-2.8	NA	-3.9	-4.2
Net Interest Income / (Expense)	-0.4	NA	-0.3	0.0
Reported Pre-tax Profit	8.8	6.9	9.2	11.2
Effective Tax Rate (%)	18.5	19.5	20.0	20.0
Reported Net Profit	7.2	5.6	7.4	9.0
Reported Operating Margin (%)	10.7	7.9	8.5	8.8
Reported Pre-tax Margin (%)	10.0	7.3	8.1	8.6
Reported Net Margin (%)	8.2	5.9	6.5	6.9

Source: Company data, S&P Equity Research

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Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.
Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.
Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.
Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.
Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

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For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Lee Leng Hoe or Ching Wah Tam.

Required Disclosures

Recommendation and Target Price History

Date	Recommendation	Target Price
New	Hold	0.75
28-Feb-07	Hold	0.82
29-Nov-06	Sell	0.80
27-Jun-06	Sell	0.83
27-Feb-06	Sell	0.81
20-Dec-05	Sell	0.78