

Recommendation: **HOLD**

Stock Code: 7208

Bloomberg: EUHO MK

Price: MYR0.58

12-Month Target Price: MYR0.62

Date: June 11, 2007

Board: Second

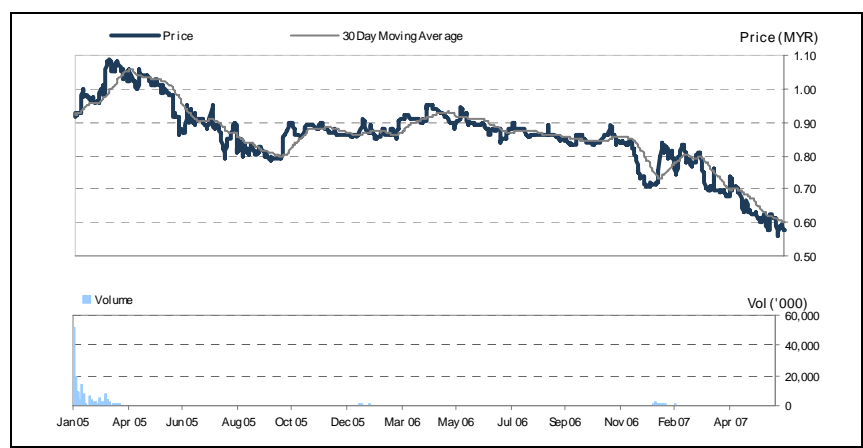
Sector: Consumer Products

GICS: Industrials/Office Services &amp; Supplies

Market Value - Total: MYR47.0 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



## Results Review & Earnings Outlook

- Euro's 1Q07 net profit of MYR1.2 mln (-32.1% YoY) came in below our expectations, making up 16.4% of our 2007 forecast. A weaker-than-expected operating margin (5.7% vs. our original full-year forecast of 8.5%) due to the appreciation of the MYR against the US\$ and start-up costs for its new factory, was the main contributing factor to this deviation.
- 1Q07 revenue climbed 22.8% YoY on the back of stronger domestic and export sales. Euro's export market continued to be the main revenue driver, contributing around 67% of the group's total revenue for the quarter (1Q06: 66%).
- Despite the higher revenue, Euro's net profit fell by 32.1% YoY on account of a squeeze in the operating margin (-4.9%-pt. YoY) due to the above-mentioned reasons, offset by a lower effective rate.
- We have revised our 2007-2008 net profit forecasts lower by 15.9%-17.4% largely after imputing into our model lower operating margins (by 1%-pt.-1.2%-pt.). In tandem with the revision to our earnings forecasts, we have also revised our net dividend per share (DPS) projections lower to 3.2-3.8 sen from 3.8-4.5 sen, which is based on an unchanged net payout ratio of 30%.

## Recommendation & Investment Risks

- We maintain our Hold recommendation but lower our 12-month target price to MYR0.62 (from MYR0.75). This change is on account of the change in our earnings forecasts and 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 7.5x (from 8.5x) and our target P/NTA multiple (on the 2006 NTA/share) to 0.8x (from 0.9x). Our 12-month target price also takes into account the projected 2007 net DPS of 2.3 sen (2.7 sen previously).
- Our target PER and P/NTA multiples are in line with peer average multiples. We have removed the premium that was previously accorded to the target multiples for Euro in light of the recent set of results and to reflect the lower earnings growth and ROEs that we now project.
- 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.

### Key Stock Statistics

FY Dec.	2006	2007E
Reported EPS (sen)	6.9	7.8
PER (x)	8.4	7.4
Dividend/Share (sen)	2.8	3.2
NTA/Share (MYR)	0.76	0.81
Book Value/Share (MYR)	0.76	0.81
No. of Outstanding Shares (mln)	81.0	
52-week Share Price Range (MYR)	0.56 - 0.90	
Major Shareholders:	%	
Lew Fatt Sin	22.2	
Dato' Mohd Haniff bin Abd Aziz	15.0	

### Per Share Data

FY Dec.	2004	2005	2006	2007E
Book Value (MYR)	0.61	0.71	0.76	0.81
Cash Flow (sen)	17.2	12.5	10.3	12.6
Reported Earnings (sen)	13.7	9.0	6.9	7.8
Dividend (sen)	0.0	3.5	2.8	3.2
Payout Ratio (%)	0.0	28.4	29.7	29.9
PER (x)	4.2	6.5	8.4	7.4
P/Cash Flow (x)	3.4	4.6	5.6	4.6
P/Book Value (x)	1.0	0.8	0.8	0.7
Dividend Yield (%)	0.0	6.0	4.8	5.5
ROE (%)	NA	15.2	9.4	9.9
Net Gearing (%)	0.0	0.0	2.0	0.2

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

All required disclosures and analyst certification appear on the last two pages of this report. Additional information is available upon request.

Redistribution or reproduction is prohibited without written permission. Copyright © 2007 The McGraw-Hill Companies, Inc.

Page 1 of 4

**Quarterly Performance**

FY Dec. / MYR mln	1Q07	1Q06	% Change
Reported Revenue	26.6	21.6	22.8
Reported Operating Profit	1.5	2.3	-33.2
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	1.3	2.2	-37.8
Reported Net Profit	1.2	1.8	-32.1
Reported Operating Margin (%)	5.7	10.6	-
Reported Pre-tax Margin (%)	5.1	10.0	-
Reported Net Margin (%)	4.6	8.2	-

Source: Company data

**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	8.5	10.1
Depreciation & Amortization	-2.8	-2.7	-3.9	-4.2
Net Interest Income / (Expense)	-0.4	-0.3	-0.4	-0.4
Reported Pre-tax Profit	8.8	6.9	7.9	9.6
Effective Tax Rate (%)	18.5	19.3	20.0	20.0
Reported Net Profit	7.2	5.6	6.3	7.6
Reported Operating Margin (%)	10.7	7.9	7.5	7.8
Reported Pre-tax Margin (%)	10.0	7.3	7.0	7.4
Reported Net Margin (%)	8.2	5.9	5.6	5.9

Source: Company data, S&amp;P Equity Research

**Standard & Poor's Equity Research Services**

Standard & Poor's Equity Research Services U.S. includes Standard & Poor's Investment Advisory Services LLC; Standard & Poor's Equity Research Services Europe includes Standard & Poor's LLC- London and Standard & Poor's AB (Sweden); Standard & Poor's Equity Research Services Asia includes Standard & Poor's LLC's offices in Hong Kong, Singapore and Tokyo, Standard & Poor's Malaysia Sdn Bhd, and Standard & Poor's Information Services (Australia) Pty Ltd.

**Glossary**

**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.

**Required Disclosures**

All of the views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of analyst compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Additional information is available upon request.

**Other Disclosures**

This report has been prepared and issued by Standard & Poor's and/or one of its affiliates. In the United States, research reports are prepared by Standard & Poor's Investment Advisory Services LLC ("SPIAS"). In the United States, research reports are issued by Standard & Poor's ("S&P"), in the United Kingdom by Standard & Poor's LLC ("S&P LLC"), which is authorized and regulated by the Financial Services Authority; in Hong Kong by Standard & Poor's LLC which is regulated by the Hong Kong Securities Futures Commission, in Singapore by Standard & Poor's LLC, which is regulated by the Monetary Authority of Singapore; in Japan by Standard & Poor's LLC, which is regulated by the Kanto Financial Bureau; in Sweden by Standard & Poor's AB ("S&P AB"), in Malaysia by Standard & Poor's Malaysia Sdn Bhd ("S&PM") which is regulated by the Securities Commission, in Australia by Standard & Poor's Information Services (Australia) Pty Ltd ("SPIS") which is regulated by the Australian Securities & Investments Commission and in Korea by SPIAS, which is also registered in Korea as a cross-border investment advisory company.

The research and analytical services performed by SPIAS, S&P LLC, S&P AB, S&PM, SPIS and SPIAS LLC (Korea) are each conducted separately from any other analytical activity of Standard & Poor's.

A reference to a particular investment or security by Standard & Poor's and/or one of its affiliates is not a recommendation to buy, sell, or hold such investment or security, nor is it considered to be investment advice.

**CMDF-Bursa Research Scheme ("CBRS")**

This report has been prepared by S&PM for purposes of CBRS administered by Bursa Malaysia Berhad, independent from any influence from CBRS or the subject company. S&P will receive total compensation of RM15,000 each year for each company covered by it under CBRS. For more information about CBRS, please visit Bursa Malaysia's website at: <http://www.bursamalaysia.com/website/bm/>

**Disclaimers**

This material is based upon information that we consider to be reliable, but neither S&P nor its affiliates warrant its completeness, accuracy or adequacy and it should not be relied upon as such. With respect to reports issued by S&P LLC-Japan and in the case of inconsistencies between the English and Japanese version of a report, the English version prevails. Neither S&P LLC nor S&P guarantees the accuracy of the translation. Assumptions, opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Neither S&P nor its affiliates are responsible for any errors or omissions or for results obtained from the use of this information. Past performance is not necessarily indicative of future results.

This material is not intended as an offer or solicitation for the purchase or sale of any security or other financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue. Prices, values, or income from any securities or investments mentioned in this report may fall against the interests of the investor and the investor may get back less than the amount invested. Where an investment is described as being likely to yield income, please note that the amount of income that the investor will receive from such an investment may fluctuate. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. The information contained in this report does not constitute advice on the tax consequences of making any particular investment decision. This material does not take into account your particular investment objectives, financial situations or needs and is not intended as a recommendation of particular securities, financial instruments or strategies to you. Before acting on any recommendation in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.

For residents of the U.K. This report is only directed at and should only be relied on by persons outside of the United Kingdom or persons who are inside the United Kingdom and who have professional experience in matters relating to investments or who are high net worth persons, as defined in Article 19(5) or Article 49(2) (a) to (d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, respectively.

For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Desmond Ch'ng or Ching Wah Tam.

**Recommendation and Target Price History**

Date	Recommendation	Target Price
New	Hold	0.62
20-Mar-07	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

