

Recommendation: **HOLD**

Stock Code: 7208

Bloomberg: EUHO MK

Price: MYR0.60

12-Month Target Price: MYR0.68

Date: September 4, 2007

Board: Second

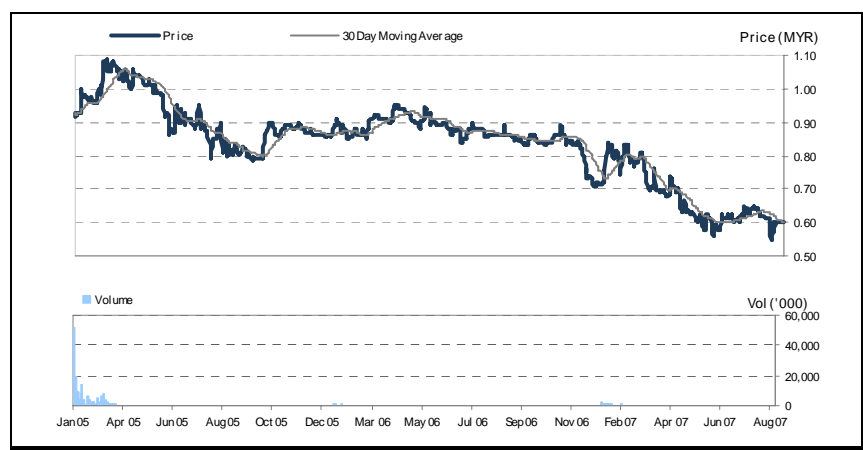
Sector: Consumer Products

GICS: Industrials/Office Services & Supplies

Market Value - Total: MYR48.6 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 reported a stronger-than-expected 2Q07 net profit of MYR2.5 mln (+259.5% YoY), which brought its 1H net profit to MYR3.7 mln (59.1% of our original 2007 net profit forecast). This favorable variance was due to a better-than-expected operating margin (1H07: 8.6% vs. 7.5% projection) and a lower-than-expected effective tax rate (1H07: 13.2% vs. 20% projection).
- Revenue for 2Q07 and 1H07 saw YoY growth rates of 54.6% and 37.3% respectively thanks to stronger demand from the domestic market in 2Q. Meanwhile, the 1H07 operating margin remained flat at 8.6% as a significant improvement in the 2Q operating margin (+5.2%-pts YoY, +5.6%-pts. QoQ) helped offset the earlier weak 1Q margin. This improvement was largely due to better margins from projects completed during the quarter as well as higher capacity utilization rates achieved at its new factory. Together with a lower effective tax rate (1H07: 13.2% vs. 1H06: 22.4%) due to the utilization of reinvestment allowances, Euro's 1H07 net profit surged 50.5% YoY to MYR3.7 mln.
- We have raised our 2007 and 2008 net profit forecasts by 21.4% and 17%, respectively largely after: (i) raising our operating margin projections to 8.5%-8.8% from 7.5%-7.8%; and (ii) lowering our effective tax rate assumption to 15%-17.5% from 20% previously.

Key Stock Statistics

FY Dec.	2006	2007E
Reported EPS (sen)	6.9	9.5
PER (x)	8.7	6.3
Dividend/Share (sen)	2.8	3.2
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)	0.55 - 0.90	
Major Shareholders:	%	
Lew Fatt Sin	22.2	
Dato' Mohd Haniff bin Abd Aziz	15.0	

Recommendation & Investment Risks

- We maintain our Hold recommendation but raise our 12-month target price to MYR0.68 (from MYR0.62). This change is mainly on account of the change in our earnings forecasts. While the potential upside (of 13.3%) to our target price would typically warrant a more aggressive recommendation, we have refrained from doing so after considering the risks associated with the stock's low trading liquidity.
- Our valuation method, which is based on a combination of PER and P/NTA multiples and includes the projected net dividend per share (DPS), remains unchanged. We have maintained our target 2007 PER multiple of 7.5x and our target P/NTA multiple (on the 2006 NTA/share) of 0.8x. Our 12-month target price also takes into account the projected 2007 net DPS of 2.3 sen.
- 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.

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	10.3	14.2
Reported Earnings (sen)	13.7	9.0	6.9	9.5
Dividend (sen)	0.0	3.5	2.8	3.2
Payout Ratio (%)	0.0	28.4	29.7	24.7
PER (x)	4.4	6.7	8.7	6.3
P/Cash Flow (x)	3.5	4.8	5.8	4.2
P/Book Value (x)	1.0	0.8	0.8	0.7
Dividend Yield (%)	0.0	5.8	4.7	5.3
ROE (%)	NA	15.2	9.4	11.9
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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Quarterly Performance

FY Dec. / MYR mln	2007	2006	% Change
Reported Revenue	28.0	18.1	54.6
Reported Operating Profit	3.2	1.1	>100
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	3.0	1.0	>100
Reported Net Profit	2.5	0.7	>100
Reported Operating Margin (%)	11.3	6.1	-
Reported Pre-tax Margin (%)	10.5	5.7	-
Reported Net Margin (%)	9.0	3.9	-

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	9.6	11.4
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	9.0	10.8
Effective Tax Rate (%)	18.5	19.3	15.0	17.5
Reported Net Profit	7.2	5.6	7.7	8.9
Reported Operating Margin (%)	10.7	7.9	8.5	8.8
Reported Pre-tax Margin (%)	10.0	7.3	8.0	8.4
Reported Net Margin (%)	8.2	5.9	6.8	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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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Hold	0.68
11-Jun-07	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

