

2Q 2007 Results

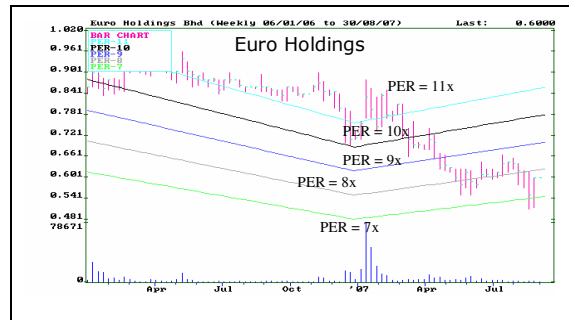
Date: 3 September 2007

Euro Holdings Berhad <i>Achieved Stronger-Than-Expected Performance</i>	Price:	RM 0.60	
	Market Capitalisation:	RM 48.6m	
	Board:	Second Board	
	Sector:	Manufacturing	
Stock Code:	7208	Recommendation:	HOLD

(latest figures)

Key Stock Statistics	2006	2007f
EPS (sen)	6.9	8.1
P/E (x)	8.7	7.4
Dividend/Share	2.8	2.8
NTA/Share (sen)	0.8	0.8
Book Value/Share (sen)	0.8	0.8
Issued Capital (mil shares)	81.0	81.0
52-weeks Share Price Range (RM)	0.51-0.90	
Major Shareholders:	%	
Lew Fatt Sin	22.3	
Dato' Mohd Haniff Abd Aziz	15.0	
Law Sim Shee	13.3	

PE Band Chart



Per Share Data	2006	2007f	2008f	2009f
Book Value (sen)	0.8	0.8	0.9	1.0
Cash Flow (sen)	6.7	10.5	10.7	13.2
Earnings (sen)	6.9	8.1	8.8	9.6
Dividend (sen)	2.8	2.8	2.8	2.8
Payout Ratio (%)	40.7	35.2	32.1	29.5
PER (x)	8.7	7.4	6.8	6.2
P/Cash Flow (x)	9.0	5.7	5.6	4.6
P/Book Value (x)	0.8	0.7	0.7	0.6
Dividend Yield (%)	4.7	4.7	4.7	4.7
ROE (%)	9.1	9.9	10.0	10.0
Net cash/ equity (%)	(2.0)	1.0	3.7	8.6

1. 2Q 2007 Result Highlights :

	2QFY06	2QFY07	% Change
(RM mil)			
Revenue	18.1	28.0	54.6
Operating Profit	1.1	3.2	>+100
Net Interest Expenses	(0.1)	(0.2)	>-100
Associate	0.0	0.0	Na
Pre-tax Profit	1.0	3.0	>+100
Net Profit	0.7	2.5	>+100
Operating Margin (%)	6	11	
Pre-tax Margin (%)	6	11	
Net-Margin (%)	4	9	

P&L Analysis (RM mil)

Year-end: 31 Dec	2006	2007f	2008f	2009f
Revenue	94.5	104.7	117.7	124.3
Operating Profit	7.4	8.7	10.3	11.1
Depreciation	(3.9)	(4.0)	(4.1)	(4.1)
Interest Expenses	(0.5)	(0.8)	(0.8)	(0.7)
Pre-tax Profit	6.9	8.0	9.5	10.4
Effective Tax Rate	(1.4)	(1.4)	(2.4)	(2.6)
Net Profit	5.6	6.5	7.2	7.8
Operating Margin (%)	7.9	8.3	8.8	8.9
Pre-tax Margin (%)	7.3	7.6	8.1	8.3
Net-Margin (%)	5.9	6.2	6.1	6.3

Above expectation. Euro reported a stronger-than-expected 1H07 net profit of RM3.7m (+50.5% yoy) on the back of RM54.6m revenue (+37.3% yoy). This accounted for 65% of our full year forecast. We believe the variance was largely attributed to: a) higher-than-expected domestic sales; b) better margin from project-based contracts completed in 2Q07; c) better capacity utilisation of its new factory 3; d) increase in selling price by about 5% for some project-based contracts since end-May 07; and e) lower-than-expected tax rate of about 13% (versus 22% in 1H06) due to the utilisation of reinvestment allowance.

Upgrade our FY07-09 earnings forecasts to factor in higher-than-expected local sales as well as the increase in selling price. As a result, our FY07-09 net profit forecasts have been upgraded by 13.2-14.6%.

2. Recommendation :

Upgrade to Hold rating. Following the earnings upgrade, our indicative fair value has been raised to RM0.73, based on unchanged 8.3x CY08 EPS. This represents a potential upside of 21.6%, in line with our expected market return. Hence, we are upgrading our rating on the stock to **Hold**.

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Stock Ratings

Outperform = The stock return is expected to exceed the KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the KLCI benchmark by more than five percentage points over the next 6-12 months.

Industry/Sector Ratings

Overweight = Industry expected to outperform the KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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