

Recommendation: **HOLD**

Stock Code: 7208

Bloomberg: EUHO MK

Price: MYR0.60

12-Month Target Price: MYR0.68

Date: September 26, 2007

Board: Second

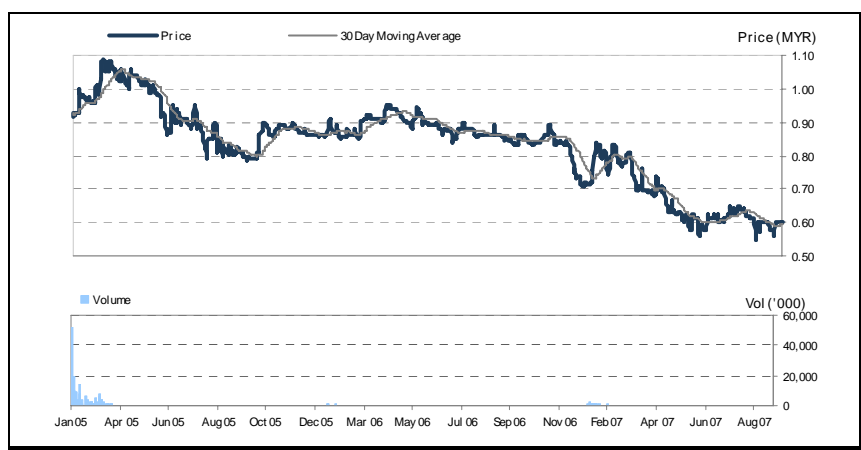
Sector: Consumer Products

GICS: Industrials/Office Services &amp; 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



## Recent Developments

- Euro recently announced that its wholly-owned subsidiary has entered into a distribution agreement with Rosemount Office Systems (Rosemount) where Euro would design, manufacture and supply a range of system furniture and components for Rosemount. This agreement shall be in force for a period of five years and is estimated to be worth around US\$12.5 mln (MYR43 mln) over the term of the agreement.
- Incorporated in the U.S., Rosemount currently has a distribution network of about 700 dealers in North America. In addition, it is also a registered supplier with the US Government, qualifying for both the State and Federal Procurement Programs under the General Services Agency Agreement.
- We do not expect this contract to have a significant impact on Euro's earnings in the immediate term as we believe it would take time for Euro to build up its reputation and for its products to gain acceptance. Over the longer term, however, this contract may help Euro penetrate the North American market further, which would be positive for future earnings.

## Recommendation & Investment Risks

- We maintain our Hold recommendation on Euro and our 12-month target price of MYR0.68. 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, 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.

## Earnings Outlook

- There is no change to our earnings forecast. We continue to project a two-year net profit CAGR of 26.6% for Euro on the back of continued revenue growth and stronger net profit margins (due to recovering operating margins and lower effective tax rates).

### 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	

### 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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**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&amp;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, Desmond Ch'ng or Ching Wah Tam.

**Recommendation and Target Price History**

Date	Recommendation	Target Price
4-Sep-07	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

