

Recommendation: **HOLD**

Stock Code: 7208 Bloomberg: EUHO MK Price: MYR0.63 12-Month Target Price: MYR0.70 Date: November 30, 2007

Board: Second

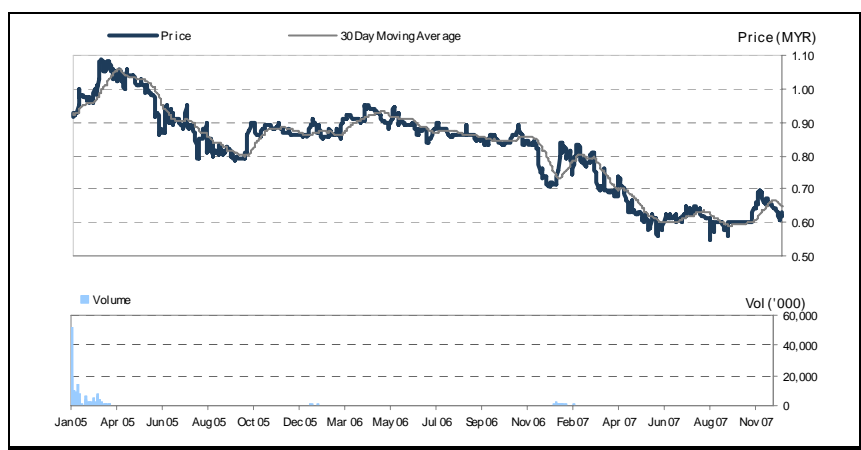
Sector: Consumer Products

GICS: Industrials/Office Services & Supplies

Market Value - Total: MYR51.0 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: Sharon Wong



Results Review & Earnings Outlook

- Euro's 3Q07 results were better than expected with both revenue and margins exceeding our expectations. 3Q07 was an extremely strong quarter for Euro, aided by contribution from major projects.
- 3Q07 revenue rose 34.5% YoY and 27.5% QoQ with strong performance from the export market. On a cumulative basis, 9M07 revenue was up 36.2% YoY on the back of a 40.3% and 34% growth in domestic and export sales respectively.
- Euro raised selling prices (by about 5%) in mid 2007 and the 3Q07 results would reflect the impact of the price increase. However, despite the price increase, gross margin declined QoQ to 24.2% in 3Q07 from 29.1% in 2Q07 due to contribution from major projects with lower margins in the quarter.
- Euro is seeing good demand for its products and it is operating at relatively high utilization rates (averaging 80+% for the year). It is looking to increase its capacity further and the additional capacity is likely to come on stream by 2009.
- We have upped our 2007 net profit forecast by 12% after raising our revenue and margin assumptions, partially offset by an increase in our effective tax rate assumption. Although we have made similar adjustments to our 2008 assumptions, our 2008 net profit forecast is unchanged due to the increase in our tax rate assumption.

Key Stock Statistics

| FY Dec. | 2006 | 2007E |
|---------------------------------|-------------|-------|
| Reported EPS (sen) | 6.9 | 10.6 |
| PER (x) | 9.1 | 6.0 |
| Dividend/Share (sen) | 2.8 | 3.2 |
| NTA/Share (MYR) | 0.76 | 0.84 |
| Book Value/Share (MYR) | 0.76 | 0.84 |
| No. of Outstanding Shares (mln) | 81.0 | |
| 52-week Share Price Range (MYR) | 0.55 - 0.85 | |
| Major Shareholders: | % | |
| Lew Fatt Sin | 22.2 | |
| Dato' Mohd Haniff bin Abd Aziz | 15.0 | |

Recommendation & Investment Risks

- We maintain our Hold recommendation with a higher 12-month target price of MYR0.70 (previously MYR0.68).
- Our valuation method, which is based on a combination of PER and P/NTA multiples, remains unchanged. However, we now attach a 10% discount to reflect the stock's low liquidity as well as earnings risks associated with raw material cost pressures and the appreciation in the Ringgit. We have maintained our target multiples but have rolled forward the valuation period. We now apply a target 7.5x PER multiple to 2008 earnings (previously 2007) and a target P/NTA multiple of 0.8x to 2007 NTA (previously 2006).
- 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 | 0.84 |
| Cash Flow (sen) | 17.2 | 12.5 | 10.3 | 14.3 |
| Reported Earnings (sen) | 13.7 | 9.0 | 6.9 | 10.6 |
| Dividend (sen) | 0.0 | 3.5 | 2.8 | 3.2 |
| Payout Ratio (%) | 0.0 | 28.4 | 29.7 | 22.1 |
| PER (x) | 4.6 | 7.0 | 9.1 | 6.0 |
| P/Cash Flow (x) | 3.7 | 5.0 | 6.1 | 4.4 |
| P/Book Value (x) | 1.0 | 0.9 | 0.8 | 0.7 |
| Dividend Yield (%) | 0.0 | 5.6 | 4.4 | 5.1 |
| ROE (%) | NA | 15.2 | 9.4 | 13.2 |
| 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 | 3Q07 | 3Q06 | % Change |
|---------------------------------|------|------|----------|
| Reported Revenue | 35.8 | 26.6 | 34.5 |
| Reported Operating Profit | 3.8 | 1.3 | >100 |
| Depreciation & Amortization | NA | NA | NA |
| Net Interest Income / (Expense) | NA | NA | NA |
| Reported Pre-tax Profit | 3.6 | 1.1 | >100 |
| Reported Net Profit | 2.9 | 0.8 | >100 |
| Reported Operating Margin (%) | 10.7 | 4.7 | - |
| Reported Pre-tax Margin (%) | 10.1 | 4.3 | - |
| Reported Net Margin (%) | 8.1 | 3.1 | - |

Source: Company data

Profit & Loss

| FY Dec. / MYR mln | 2005 | 2006 | 2007E | 2008E |
|---------------------------------|------|------|-------|-------|
| Reported Revenue | 88.0 | 94.5 | 118.6 | 128.1 |
| Reported Operating Profit | 9.4 | 7.4 | 10.9 | 11.9 |
| Depreciation & Amortization | -2.8 | -2.7 | -3.0 | -3.2 |
| Net Interest Income / (Expense) | -0.4 | -0.3 | -0.5 | -0.4 |
| Reported Pre-tax Profit | 8.8 | 6.9 | 10.3 | 11.3 |
| Effective Tax Rate (%) | 18.5 | 19.3 | 17.0 | 21.0 |
| Reported Net Profit | 7.2 | 5.6 | 8.6 | 8.9 |
| Reported Operating Margin (%) | 10.7 | 7.9 | 9.2 | 9.3 |
| Reported Pre-tax Margin (%) | 10.0 | 7.3 | 8.7 | 8.8 |
| Reported Net Margin (%) | 8.2 | 5.9 | 7.2 | 7.0 |

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.

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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 | 0.70 |
| 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 |

