

2Q 2006 Result

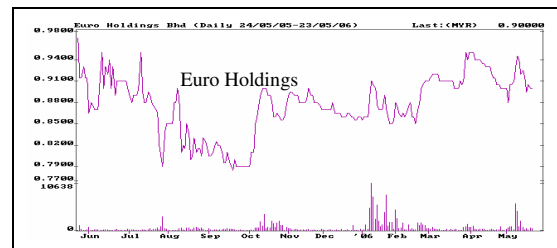
Date: 24 May, 2006

Euro Holdings Berhad <i>Higher Export Sales To India</i>		Price:	RM [0.90]
		Market Capitalisation:	RM [72.9]m
		Board:	Second Board
		Sector:	Manufacturing
Stock Code:	7208	Recommendation:	HOLD

(latest figures)

Key Stock Statistics	2005f	2006f
EPS (est.)	9.0	10.3
P/E (est.)	10.0	8.8
Dividend/Share	3.5	3.5
NTA/Share (sen)	71.4	81.3
Book Value/Share (sen)	71.4	81.3
Issued Capital (mil shares)	81.0	81.0
52-weeks Share Price Range (RM)	0.77-0.98	
Major Shareholders:		%
Dato' Mohd Haniff Abd Aziz		15.0
Low Fatt Sin		22.3
Law Sim Shee		13.3
Teh Hock Toh		9.0

Share Price Chart



1. 1Q 2006 Result Highlights:

Per Share Data	2004	2005	2006f	2007f
Book Value (sen)	61.0	71.4	81.3	93.3
Cash Flow (sen)	(2.4)	6.1	5.4	5.3
Earnings (sen)	13.7	9.0	10.3	12.4
Dividend (sen)	0.0	3.5	3.5	3.5
Payout Ratio (%)	0.0	0.4	0.3	0.3
PER (x)	6.6	10.0	8.8	7.3
P/Cash Flow (x)	n.m.	0.1	0.2	0.2
P/Book Value (x)	1.5	1.3	1.1	1.0
Dividend Yield (%)	0.0	3.9	3.9	3.9
ROE (%)	6.9	12.5	12.6	13.3
Net Gearing (%)	0.0	0.0	0.0	0.0

(RM mil)	1QFY05	1QFY06	% Change
Revenue	18.9	21.6	14.2
Operating Profit	2.2	2.3	3.9
Net Interest Expenses	(0.1)	(0.1)	(14.4)
Associate	0.0	0.0	na
Pre-tax Profit	2.1	2.2	5.1
Net Profit	1.5	1.8	20.6
Operating Margin	12%	11%	
Pre-tax Margin	11%	10%	
Net-Margin	8%	8%	

P&L Analysis (RM mil)	2004	2005	2006f	2007f
Year-end: 31 Dec				
Revenue	26.3	88.0	108.5	131.9
Operating Profit	3.9	6.8	8.6	10.2
Depreciation	(0.7)	2.7	2.9	3.7
Interest Expenses	(0.2)	(0.6)	(0.5)	(0.5)
Pre-tax Profit	3.1	8.9	11.1	13.4
Effective Tax Rate	31.1	18.5	25.0	25.0
Net Profit	2.6	7.2	8.3	10.0
Operating Margin (%)	14.8	7.7	8.0	7.7
Pre-tax Margin (%)	11.6	10.1	10.2	10.1
Net-Margin (%)	9.7	8.2	7.7	7.6

1Q06 results within expectation. Revenue at RM21.6m (-5.8% qoq, +14.2% yoy) has cascaded down to a net profit of RM1.8m (-18.5% qoq, +20.6% yoy). The lower qoq performance was mainly due to seasonal factors. We are not overly concern as the group normally experiences higher sales in the 2H.

The 20.6% yoy improvement in earnings was mainly attributed to: a) stronger export sales particularly from the Indian market. The country is currently the largest overseas market of Euro (accounted for 40% of the group's export sales in FY05); b) lower tax charges arising from the reinvestment allowance and unabsorbed tax losses by certain subsidiaries have helped to cushion the decline in operating profit (EBIT margin dropped from 12% in 1Q05 to 11%) arising from higher raw material costs.

2. Recommendation

Maintain earnings forecast. Earnings growth will continue to come from: a) its overseas markets particularly India in view of the increasing FDI in that country; b) additional capacity by 50% from its new plant, which is expected to commence operations by the end of 2006; and c) aggressive expansion into OEM/ODM office manufacturing. We value Euro at RM0.92 based on 9.0x CY06 EPS. Reiterate **Hold** rating on the stock.

Analyst – Low Yee Huap, CFA ☎ (603) 9280 2175 / low.yee.huap@rhb.com.my

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