STANDARD
&POOR'S

Euro Holdings

Recommendation: **SELL**

Stock Code: **7208** Bloomberg: **EUHO MK** Price: **MYR0.90** 12-Month Target Price: **MYR0.81** Date: **May 24, 2006**

Board: Second

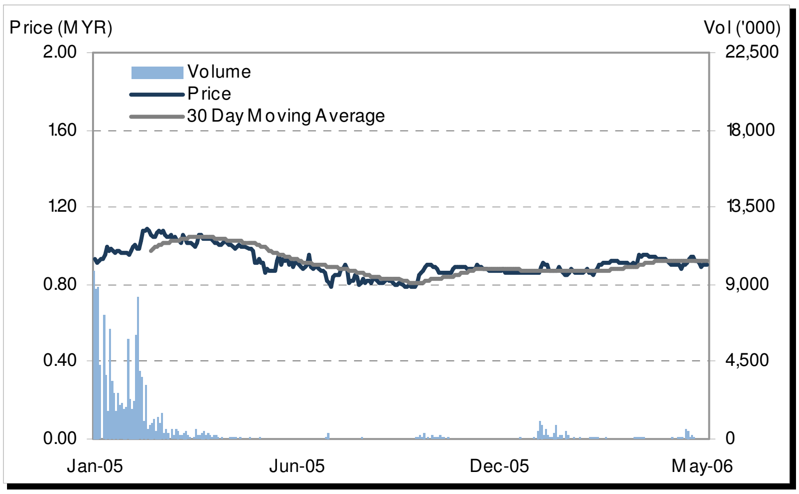
Sector: Consumer Products

GICS: Industrials / Office Services & Supplies

Market Capitalization: MYR72.9 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's 1Q06 results were in line with expectations with its net profit of MYR1.8 mln making up 22.9% of our full-year forecast. Euro's sales tend to be seasonally stronger in the second half of the year.
- 1Q06 revenue rose by 14.2% YoY to MYR21.6 mln as a higher number of overseas projects (especially in India) were secured and completed during the quarter.
- Euro's pre-tax margin for the quarter contracted to 10% from 10.9% in 1Q05 due to cost pressures arising from the hike in oil prices. However, thanks to a lower effective tax rate (1Q06: 17.9% vs. 1Q05: 28.4%) due to the utilization of reinvestment allowances and unabsorbed tax losses, 1Q06 net profit registered a 20.6% YoY growth to MYR1.8 mln.
- No interim dividend was declared during the quarter. We project a gross dividend per share (DPS) of 3.5 sen (3.9% yield) and 4 sen (4.4% yield) for 2006 and 2007 respectively. Our forecast implies a net payout ratio of around 26% (2004: 28%).
- We have fine-tuned some line item assumptions in our model but our net earnings forecast remains relatively unchanged.

Recommendation & Investment Risks

- Our Sell recommendation and 12-month target price at MYR0.81 are unchanged. This implies a potential downside of 10%.
- Our target price is based on a relative valuation method combining PER and P/NTA multiples and adding the 2006 estimated net DPS. Applying an unchanged PER of 9x on 2006 estimated EPS, we obtain a value of MYR0.87. Using a P/NTA of 1x 2005 NTA (unchanged), we obtain a value of MYR0.71. Taking the average of the two values and adding the 2006 estimated net DPS of 2.5 sen, we arrive at our 12-month target price of MYR0.81. Our target price implies a PER of 8.5x 2006 EPS estimate.
- Risks to our recommendation and target price include higher-than-expected earnings that could result from stronger demand for Euro's products, a higher success rate in projects tendered and falling raw material prices leading to some margin expansion.

Key Stock Statistics

FY Dec.	2005	2006F
EPS (sen)	8.9	9.6
PER (x)	10.1	9.4
Dividend/Share (sen)	3.5	3.5
NTA/Share (MYR)	0.71	0.78
Book Value/Share (MYR)	0.71	0.78
Issued Capital (mln shares)	81.0	
52-week Share Price Range (MYR)	0.77 – 0.98	
Major Shareholders:	%	
Lew Fatt Sin	22.3	
Dato' Mohd Haniff bin Abd Aziz	20.6	

Per Share Data

FY Dec.	2003	2004	2005	2006F
Book Value (MYR)	NA	0.61	0.71	0.78
Cash Flow (sen)	NA	11.0	12.4	13.7
Earnings (sen)	NA	7.7	8.9	9.6
Dividend (sen)	NA	0.0	3.5	3.5
Payout Ratio (%)	NA	0.0	28.4	26.3
PER (x)	NA	11.6	10.1	9.4
P/Cash Flow (x)	NA	8.2	7.3	6.6
P/Book Value (x)	NA	1.5	1.3	1.1
Dividend Yield (%)	NA	0.0	3.9	3.9
ROE (%)	NA	NA	15.2	12.8
Net Gearing (%)	NA	0.0	0.0	0.0

All required disclosures appear on the last page of this report. Additional information is available upon request.

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Quarterly Performance

FY Dec. / MYR mln	1Q06	1Q05	% Change
Revenue	21.6	18.9	14.2
Operating Profit (EBIT)	2.3	2.2	3.9
Depreciation	NA	NA	NA
Interest Expense	-0.1	-0.1	-14.4
Pre-tax Profit	2.2	2.1	5.1
Net Profit	1.8	1.5	20.6
Operating Margin (%)	10.6	11.6	-
Pre-tax Margin (%)	10.0	10.9	-
Net Margin (%)	8.2	7.8	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2004	2005	2006F	2007F
Revenue	68.7	88.0	102.1	114.3
Operating Profit (EBIT)	8.8	9.2	10.4	11.8
Depreciation	-2.6	-2.8	-3.4	-3.7
Net Interest Expense	-0.7	-0.4	-0.2	0.0
Pre-tax Profit	8.1	8.8	10.2	11.8
Effective Tax Rate (%)	22.2	18.5	24.0	24.0
Net Profit	6.3	7.2	7.8	9.0
Operating Margin (%)	12.8	10.5	10.2	10.4
Pre-tax Margin (%)	11.7	10.0	10.0	10.3
Net Margin (%)	9.1	8.2	7.6	7.9

Source: Company data, S&P Equity Research

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Glossary

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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