RHB Research Institute Sdn Bhd
A member of the RHB Group
Company No: 233327 -M

Date: 22 June. 2006

Name of PLCs: **Euro Holdings Berhad** *To Supply Modular Workstations To India*		***Price:***	*RM0.875*
		Market Capitalisation:	*RM70.9m*
		Board:	*Second Board*
		Sector:	*Manufacturing*
Stock Code:	7208	***Recommendation:***	*HOLD*

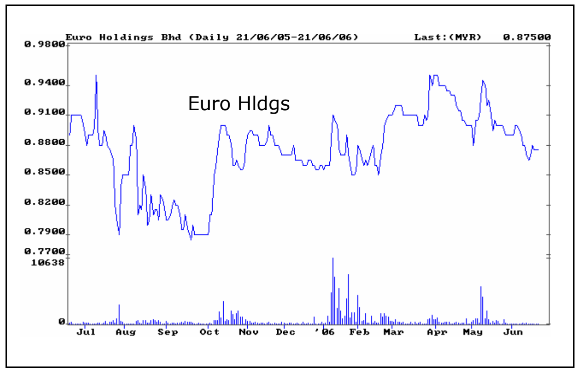
(latest figures)

Key Stock Statistics	2005	2006f
EPS (est.)	9.0	9.4
P/E (est.)	10.0	9.6
Dividend/Share	3.5	3.5
NTA/Share (sen)	71.4	80.4
Book Value/Share (sen)	71.4	80.4
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
Lew Fatt Sin		22.3
Law Sim Shee		13.3
Teh Hock Toh		9.0

Per Share Data	2005	2006f	2007f	2008f
Book Value (sen)	71.4	80.4	90.0	100.6
Cash Flow (sen)	6.1	7.0	8.5	6.3
Earnings (sen)	9.0	9.4	9.9	11.0
Dividend (sen)	3.5	3.5	3.5	3.5
Payout Ratio (%)	0.4	0.4	0.4	0.3
PER (x)	10.0	9.6	9.1	8.2
P/Cash Flow (x)	0.1	0.1	0.1	0.1
P/Book Value (x)	1.3	1.1	1.0	0.9
Dividend Yield (%)	3.9	3.9	3.9	3.9
ROE (%)	12.5	11.7	11.0	10.9
Net Gearing (%)	0.0	0.0	0.0	0.0

P&L Analysis (RM mil)	2005	2006f	2007f	2008f
Year-end: 31 Dec				
Revenue	88.0	101.0	109.6	120.1
Operating Profit	6.8	7.7	7.5	8.6
Depreciation	2.7	2.9	3.7	3.8
Interest Expenses	(0.6)	(0.5)	(0.5)	(0.5)
Pre-tax Profit	8.9	10.2	10.7	11.8
Effective Tax Rate	18.5	25.0	25.0	25.0
Net Profit	7.2	7.6	8.1	8.9
Operating Margin (%)	7.7	7.6	6.9	7.2
Pre-tax Margin (%)	10.1	10.0	9.8	9.9
Net-Margin (%)	8.2	7.5	7.3	7.4

Share Price Chart



Euro's wholly-owned subsidiary, Euro Space Industries (ESI) has signed an agreement with Dellform Marketing Sdn Bhd (Dellform) and Godrej & Boyce Mfg Co Ltd (Godrej) to supply a range of modular workstations to Godrej through Dellform (which is involved in the marketing of office furniture).

Godrej, a household name in India, is principally involved in the manufacturing and marketing of a wide range of consumer durables and industrial products. The company has a furniture division, which is involved in the manufacturing, distribution and marketing of a variety of furniture and interior products including modular furniture, chairs, tables, etc. To achieve better cost efficiency, Godrej is currently outsourcing its production to contract manufacturers which can supply well-designed and high quality office workstations.

Under the Agreement, ESI which works as an Original Design Manufacturer (ODM), will design and supply a range of modular furniture to Godrej. Both Dellform and Godrej will then market, sell and promote this range of furniture in India. This agreement is for 3 years and the renewal is by mutual agreement of all the parties.

We were given to understand that Godrej has to achieve minimum sales of 12,000 workstation sets p.a. under the agreement. This could potentially bring in additional revenue of RM12-24m and gross profit of RM8.6-17.3m p.a. to Euro. YTD, Euro has already received order book of about RM2-3m under this agreement.

We have included the additional revenue from the sales of workstations to Godrej in our earnings forecast. However, to factor in the economic slowdown in 2007, we cut our sales by 7-25% for FY06-08. As a result, our projected net profit dropped by 8-25% for FY06-08.

1. **Recommendation:**

We are maintaining **Hold** rating on the stock as we believe strong export sales to India would aid to cushion the drop in sales to other countries. Export contribution to the group's total sales in FY06 is expected to hit 60-65% (versus 50-55% in FY05). Over the next 2 years, we expect more contracts from India (contributed 40% of Euro's export sales in FY05) as the country's GDP is expected to grow at 7.6% and 7.2% in FY06 and FY07, respectively (based on consensus number). Indicative fair value at RM0.86 is based on 7.5x CY07 EPS.

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