**INITIATION REPORT**

15 Apr 2011

XiDeLang Holdings Limited		<i>Market Price:</i>	RM0.405
		<i>Market Capitalisation:</i>	RM178.2m
		<i>Board:</i>	Main Market
<i>Recommendation:</i>	BUY	<i>Sector:</i>	Consumer Products
<i>Target Price:</i>	RM0.66	<i>Stock Code/Name:</i>	5156 / XDL

Analyst: Research Team



Source: XiDeLang

BACKGROUND

XiDeLang Holdings Limited (XDL) was incorporated in Bermuda under the Bermuda Companies Act in April 2009 as an exempted company limited by shares. In August 2009, the company was registered in Malaysia as a foreign company.

XDL's history can be traced back to 1993 when HongPeng Footwear started the production and marketing of sports shoes in Jinjiang City, Fujian Province, China. XDL was subsequently listed on in November 2009. The group was the third shoe-sector manufacturer from China (PRC) to list on Bursa Malaysia.

“Sport shoes, apparels and accessories”

The group is principally involved in design, manufacturing and marketing of sport shoes, as well as design and marketing of sports apparel, accessories and equipment. The group's business and manufacturing premises are located in Jinjiang City, Fujian Province in China.

Currently, XiDeLang management team is led by Mr Ding Peng Peng (MD/CEO) and Ms Ding Li Hong (Executive Chairman). They were the founders of HongPeng Footwear back in 1993, and as such have around 18 years of experience in the shoe industry. Ms Ding is particularly active in various Chamber of Commerce and Footwear Association while Mr Ding is also involved in a local Chamber of Commerce.

The “XiDeLang” brand of sports shoes was launched in 1993. Since then, the brand has established a reputation synonymous with trendy, innovative, and quality sports shoes, apparel, accessories and equipment. Over the years, the group had been awarded numerous titles and recognitions, such as “Fujian Famous Brand”, “Well-known Mark of China” and Number 1 spot for “Jinjiang Top 10 Most Growth for Sports & Leisure Brand”.

“Various awards received”

XiDeLang Sports Group was established in 1995 as the owner of XDL's proprietary “XiDeLang” brand. The primary focus of this company is in brand management and product development. A broad range of shoes were developed, for activities such as skateboarding, running, basketball and tennis.

In 1996, HongPeng (Fujian) was established to undertake the manufacturing of sports shoes. Meanwhile, HongPeng Footwear continued its production of sports shoes, with a focus on overseas markets.

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The group's in-house team develop about 2000 shoe designs each year, of which around 500 designs are commercialized. Currently, the product range also includes designs meant for hiking, trekking and casual-wear shoes.

“Expansion into Sports Apparels / Accessories”

In 2005/2006, the group established a complementary line of sports apparel and accessories to leverage on its XiDeLang brand name and extensive distribution network. The group had successfully launched its range of sports apparel and accessories in 2007 while production was outsourced to third party manufacturers.

“Engaged Brand Ambassador”

In 2007, XiDeLang engaged a China artiste named Zhang Jie as its brand ambassador. Zhang Jie is a singer and actor with a strong following from the youth segment. This is based on the group's strategy to market to the “youth market” of consumers between the ages 15-35.

XDL: Core subsidiaries

Company	Incorporation	Description
XinYuanChan	June 2008/ Hong Kong	Investment holding
HongPeng (Fujian)	Nov 1996/ China	(1) and design & marketing of sports apparel, accessories & equipment
HongPeng Footwear	May 1993/ China	Design, manufacture & marketing of sports shoes(1)
XiDeLang Sports Goods	July 1995/ China	Owner of “XiDeLang” brand

Source: XiDeLang

“Extensive Distribution Network”

At the point of listing, XiDeLang had an extensive distribution network of around 2300 retail locations around China, of which around 1320 are concept stores. The group's products are retailed across 25 provinces and municipalities in China via 32 distributors/retailers.

The group's annual manufacturing output has grown from 1.6 million pairs of sports shoes in 1995 to 4.4 million pairs in 2008. The group also actively outsource a portion of its production requirements.

PERFORMANCE – FY10

4Q/ 31 Dec	4Q10	4Q09	yov %	3Q10	qoq%
Rev (RMm)	125.6	77.1	63.0	125.2	0.3
EBIT (RMm)	28.0	14.8	89.5	30.0	(6.6)
NPAT (RMm)	20.3	10.0	103.8	21.9	(7.3)
EPS (sen)	5.1	2.5	103.8	5.5	(7.3)

*EPS based on 400 million shares

12M/ 31 Dec	FY10	FY09	yov %
Rev (RMm)	465.1	384.9	20.8
EBIT (RMm)	108.9	96.3	13.1
NPAT (RMm)	79.3	68.2	16.3
EPS (sen)	19.8	17.0	16.3

*EPS based on 400 million shares

XDL recorded revenue of RM125.6 million and RM465.1 million respectively, for its 4Q/FY10 and FY10 results. This represented a y-o-y increase of 63.0% and 20.8% respectively.

“Strong y-o-y performance”

The group's net profit after tax (NPAT) for 4Q/FY10 and FY10 was RM20.3 million and RM79.3 million respectively, which was an increase of 103.8% and 16.3% respectively.

The group's positive performance during its FY10 was largely boosted by the improvement in sales of both its HongPeng (Fujian) and HongPeng Footwear subsidiaries.



This was due to increased brand awareness as a result of the group's intense A&P (advertising and promotion) efforts. In addition, the group's continuous research and development (R&D) assist in keeping the group abreast of the rapidly changing fashion trends and consumer taste, with new models being launched periodically. Furthermore, there was strong consumer demand in both the PRC and overseas markets.

XDL recorded roughly the same level of revenue during both its 4Q/FY10 and 3Q/FY10. However, the group's net profit after tax for 4Q/FY10 had dropped by 7.3% as compared to 3Q/FY10. This decrease was mainly due to the lower gross profit achieved during 4Q/FY10. The lower gross profit was due to the higher usage of raw materials, which is typical for autumn/winter shoes and apparels.

OUTLOOK/CORP. UPDATES

Currently, XiDeLang's prospects for the current year appear promising, due to the strong demand for consumer goods in China's domestic market. Recently, the country's leadership has targeted a future economic growth rate of at least 7% per annum. China's economy grew at a pace of 9.8% (4Q/2010) and 10.3% (full year 2010). During 1Q/2011, China's Business Climate Index was 133.8 while its Entrepreneur Confidence Index was 137.4.

“Burgeoning Consumer Demand in China”

For the first 9 months up to 30th September 2010, according to the National Bureau of Statistics of China, the total retail sales of consumer goods had reached an astounding figure of RMB11,102.9 billion, representing a y-o-y growth of 18.3%. In February 2011, retail sales in China had grown by 11.6% y-o-y.

China's middle class segment had increased by 22.1% to 80 million people in January 2007, up from just 65.5 million people in January 2005 and this segment is expected to increase to the huge number of 700 million people by the year 2020. With purchasing power increasing among Chinese consumers, especially among the

emerging middle class, private consumption is seen as a major driver for the growth of the Chinese economy in the future.

The rising affluence in China would also lead to continued growth in consumer expenditure on leisure activities, sporting activities, entertainment and sports shoes/apparels. The PRC government also has various efforts in promoting healthy lifestyle and organisation of major sporting events. All this augurs well for the demand of sports shoes, apparels, accessories and equipments.

“Strategy – Casual & Leisure sportswear for the Youth market”

XiDeLang is focused in its branding and marketing. The group primarily targets the casual and leisure sportswear segment for the youth ages of 15-35 years. The group places a strong emphasis on innovative product designs and high quality standards.

The group's direct-customers are intermediaries such as third parties distributors and retailers, which are all based in the PRC. Some of the distributors may also export XDL's products. The group is also expanding into 2nd-Tier and 3rd-Tier cities and certain provinces (such as Heilongjiang, Jilin and Lianing in the NorthEast) in the PRC. Some retail outlets may also be upgraded into full-fledged concept stores.

During its IPO, XiDeLang mentioned plans to build a production centre with a land area of approximately 70,000 square metres and also an apparel production plant. To the best of our knowledge, the production centre is mostly ready. Upon completion of both the first and second stage of the expansion, XiDeLang expect to have a total built-up area of approximately 150,000 square metres to meet their operational needs. The group's total production capacity is expected to reach around 10 million pairs of shoes per annum.

During 1Q/2010, the group had issued and placed out 40 million shares of USD0.10 par value to various parties in a private placement programme. The shares were placed out at an issue price of RM0.48 per share.

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“Concerns & Risk Factors”

Meanwhile, XiDeLang’ businesses also face possible risks such as slower economic growth, higher labour costs, fluctuating raw materials prices (in tandem with rubber and crude oil prices), volatile foreign exchange fluctuations, future changes in PRC-government policies and also stiff competition with other rival companies.

VALUATION / CONCLUSION

“Final dividends proposed”

XDL’s Board of Directors had declared a tax exempt final dividend of 1.0 sen per share for its FY10 ended 31st December 2010. Earlier on, the group had paid out an interim dividend of 1.5 sen tax exempt for its FY10. XDL first declared dividends in its FY10 (the group’s first post-listing dividends), as no dividends were declared for its FY09.

The group’s future dividends would be determined by the performance of the group. During the IPO, the group’s management had stated their desire to endeavour to pay out up to 30% of its annual net earnings as dividends. However, as the group’s dividend payout ratio was not that high in its FY10, we expect that the group’s dividend payout ratio to be within the 10-20% range of its annual net earnings for its FY11.

With an adjusted beta (correlation factor) of 0.70 to the KLCI, XDL (-10.99% YTD) has underperformed the KLCI (+0.13% YTD) this year. Market conditions have also been volatile lately, impacted by the recent political uprisings in the Middle East/North Africa, sovereign debt issues in Europe and a major earthquake in Japan. As XDL is not an especially large market-cap stock, this may put a dampener on its market visibility and trading volume.

“Buy Call”

Based on our forecast of XDL’s FY11 EPS and a prudent estimated P/E of 3 times (within its historical range), we set a FY11-end **Target Price (TP) of RM0.66**. This TP offers a 64.1% upside from its current market price. Our TP for XDL reflects a P/BV of 0.85 times over its FY11F BV/share. Meanwhile, the Regional Footwear sector’s average P/E and P/BV is 16.2 times and 1.96 times, respectively.

“Ridiculously low P/E results in high Dividend Yield”

We find that XDL’s FY11F P/E and P/BV valuations are not pricey at all, while it has reasonably high dividend yields and ROEs. The group is also in a net cash position. The group has already started paying dividends post-IPO while its new production facilities are pretty much ready. We nevertheless note that its share price has not appreciated in tandem with its earnings performance.

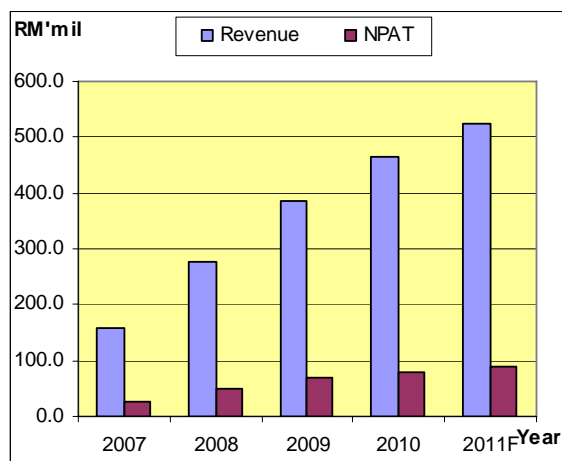
“Public perception needs to be improved”

Upon further examination, we find that the investing public’s perception of PRC (People’s Republic of China) i.e. China-based companies listed in both Malaysia and Singapore are not entirely favourable. Such PRC companies listed in Malaysia and Singapore are normally not especially large-cap, and as such may not be very liquid.

We nevertheless opine that with concerted efforts from various parties, the investing public’s perception on PRC companies listed here can be improved. This would include efforts such as – addressing corporate governance issues, appointing global auditing firms, hiring top PR/IR agencies, arranging site visits and conducting road-shows.

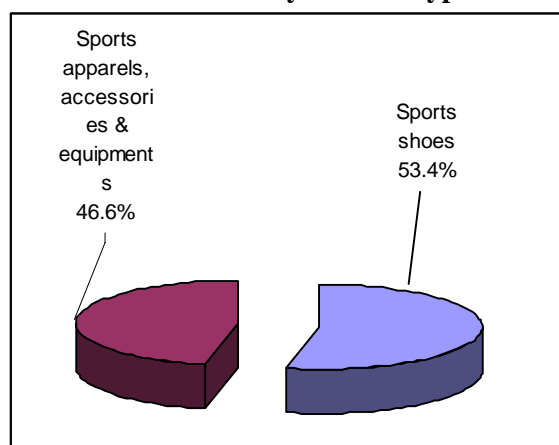
XDL: Share Price


Source: NextView

XDL: Revenue and NPAT trend


Source: XDL

*2011F figures are our estimates

XDL: FY10 Revenue by Product type


Source: XDL

KEY FINANCIALS

Key Stock Statistics	2011F
Earnings/Share (sen)	22.2
P/E Ratio (x)	1.8
Dividend/Share (sen)	3.3
NTA/Share (RM)	0.78
Book Value/Share (RM)	0.78
Issued Capital (mil shares)	400.0
52-weeks Share Price (RM)	0.325 – 0.525
Major Shareholder:	%
.HongPeng International Holdings Ltd	60.0

*USD0.10 par value

Ratios Analysis	2008	2009	2010	2011F
Book Value/Share (RM)	n.a.	0.43	0.58	0.78
Earnings/Share (sen)	n.a.	17.0	19.8	22.2
Dividend/Share (sen)	n.a.	0.0	3.3	3.3
Div. Payout Ratio (%)	n.a.	0.0	12.6	11.3
P/E Ratio (x)	n.a.	2.4	2.0	1.8
P/Book Value (x)	n.a.	0.9	0.7	0.5
Dividend Yield (%)	n.a.	0.0	8.2	8.2
ROE (%)	n.a.	39.4	34.0	28.4
Net Gearing (or Cash) (x)	n.a.	(0.44)	(0.26)	(0.35)

*2008 figures not available as company was listed in 2009

*2011F figures are our estimates

^based on share base of 400 mil (excluding recent private placements)

P&L Analysis (RM'mil)	2008	2009	2010	2011F
Year end: Dec 31				
Revenue	275.4	384.9	465.1	523.0
Operating Profit	66.3	97.0	109.2	123.0
Depreciation	(1.0)	(0.5)	(2.0)	(2.4)
Interest Expenses	(1.4)	(2.2)	(2.1)	(2.4)
Pre-tax Profit	65.1	94.8	107.1	120.6
Effective Tax Rate (%)	25.6	28.1	25.9	26.5
Net Profit	48.4	68.2	79.3	88.6
Operating Margin (%)	24.1	25.2	23.5	23.5
Pre-tax Margin (%)	23.6	24.6	23.0	23.1
Net Margin (%)	17.6	17.7	17.1	16.9

*2008 figures are pro-forma as company was listed in 2009

*2011F figures are our estimates

*RM at time of past reporting

#1RMB=approximately 0.46RM

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SAMPLES OF PRODUCTS:

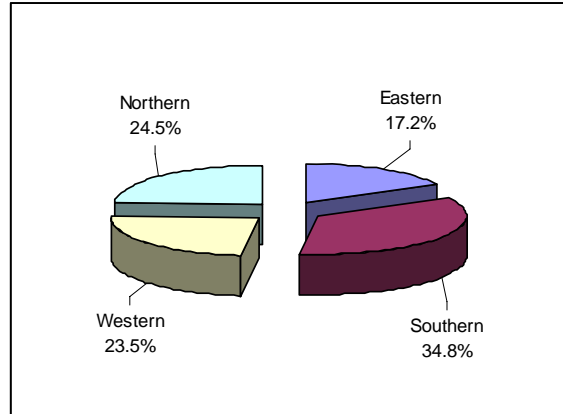
SHOES



APPARELS



XDL: Breakdown of FY10 PRC Sales by Province/Region



Source: XDL

*These are Sales Regions as defined by XDL

XDL: Definition of Sales Regions in PRC

Region	Areas Included
Eastern	Jiangsu, Zhejiang, Shandong, Shanghai
Southern	Fujian, Guangdong, Hubei, Hunan, Jiangxi, Anhui
Western	Sichuan, Guangxi, Guizhou, Yunnan, Chongqing, Gansu, Shaanxi
Northern	Beijing, Hebei, Henan, Heilongjiang, Liaoning, Shanxi, Tianjin

Source: XDL