**RESULTS REPORT**

31 May 2011

XiDeLang Holdings Limited		Market Price:	RM0.405
		Market Capitalisation:	RM178.2m
		Board:	Main Market
Recommendation:	BUY	Sector:	Consumer Products
Target Price:	RM0.56	Stock Code/Name:	5156 / XDL

Analyst: Edmund Tham

KEY FINANCIALS

Key Stock Statistics	2011E
Earnings/Share (sen)	18.8
P/E Ratio (x)	2.2
Dividend/Share (sen)	3.3
NTA/Share (RM)	0.67
Book Value/Share (RM)	0.67
Issued Capital (mil shares)	440.0
52-weeks Share Price (RM)	0.33 – 0.525
Major Shareholder:	%
.HongPeng International Holdings Ltd / Ding PengPeng	60.0

*USD0.10 par value

#1RMB=approximately 0.46RM

Ratios Analysis^	2008	2009	2010	2011E
Book Value/Share (RM)	n.a.	0.43	0.58	0.67
Earnings/Share (sen)	n.a.	17.0	19.8	18.8
Dividend/Share (sen)	n.a.	0.0	3.3	3.3
Div. Payout Ratio (%)	n.a.	0.0	12.6	13.3
P/E Ratio (x)	n.a.	2.4	2.0	2.2
P/Book Value (x)	n.a.	0.9	0.7	0.6
Dividend Yield (%)	n.a.	0.0	8.2	8.2
ROE (%)	n.a.	39.4	34.0	27.9
Net Gearing (or Cash) (x)	n.a.	(0.44)	(0.26)	(0.35)

*2008 figures not available as company was listed in 2009

*2011E figures are our estimates

^based on share base of 400 mil (FY09-10) and 440 mil (FY11E, including recent private placements)

P&L Analysis (RM'mil)	2008	2009	2010	2011E
Year end: Dec 31				
Revenue	275.4	384.9	465.1	496.6
Operating Profit	66.3	97.0	109.2	112.5
Depreciation	(1.0)	(0.5)	(2.0)	(2.2)
Interest Expenses	(1.4)	(2.2)	(2.1)	(2.1)
Pre-tax Profit	65.1	94.8	107.1	110.4
Effective Tax Rate (%)	25.6	28.1	25.9	25.2
Net Profit	48.4	68.2	79.3	82.5
Operating Margin (%)	24.1	25.2	23.5	22.7
Pre-tax Margin (%)	23.6	24.6	23.0	22.2
Net Margin (%)	17.6	17.7	17.1	16.6

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

*RM at time of past reporting

PERFORMANCE – 1Q/FY11

1Q/31 Mar	1Q11	1Q10	yoy %	4Q10	qoq%
Rev (RMm)	93.6	98.5	(5.0)	125.6	(25.5)
PBT (RMm)	24.6	24.0	2.5	27.7	(11.7)
NPAT (RMm)	18.4	17.8	3.4	20.3	(9.2)
EPS (sen)	4.2	4.1	3.4	4.6	(9.2)

*EPS based on 440 million shares

XiDeLang's (XDL) 1Q/FY11 results (quarter ended 31st March 2011) were generally in-line with our earlier expectations.

“Q1 results in-line with expectations”

XDL's 1Q/FY11 revenue of RM93.6 million was 5.0% lower y-o-y versus 1Q/FY10. This was partly due to the Ringgit (RM) that strengthened by 6% against the Renminbi (RMB) during the quarter. In Renminbi terms, XDL's 1Q/FY11 revenue had gained by 1.2% y-o-y.

The group's 1Q/FY11 net profit after tax (NPAT) of RM18.4 million was higher by 3.4% y-o-y versus 1Q/FY10. This was mainly due to the lower selling and distribution, and administrative costs during the quarter.

“Seasonal factors”

XDL's 1Q/FY11 revenue was 25.5% lower q-o-q versus 4Q/FY10. This decrease in revenue was mainly due to the long Chinese New Year break and also other seasonal factors. However, the group's 1Q/FY11 net profit after tax was lower by only 9.2% q-o-q. This was mainly due to the lower selling and distribution, and administrative costs during the quarter.

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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 9.7% (1Q/2011) while in 2010 it grew by 10.3%. During 1Q/2011, China's Business Climate Index was 133.8 while its Entrepreneur Confidence Index was 137.4.

“Growing Consumer Market 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%. Retail sales in China had grown by 17.1% y-o-y (April 2011) and 16.5% (Jan-Apr 2011 period) 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.

“Casual & Leisure sportswear for Youth”

XiDeLang 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 be upgraded into full-fledged concept stores.

“Expansion of production capacity”

XiDeLang had 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. Meanwhile, the group's new R&D centre is expected to be ready by the end of 2011. 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.

VALUATION/CONCLUSION

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. 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 0.71 to the KLCI, XDL (-10.99% YTD) has underperformed the KLCI (+1.58% YTD) this year. Market conditions have also been volatile lately, impacted by the recent political uprisings

Results Report

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in the Middle East/North Africa, sovereign debt issue in Europe and the Tohoku tsunami/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.

“Maintain Buy Call, with lower TP”

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 revised FY11-end **Target Price (TP) of RM0.56**. This TP offers a 39.0% upside from its current market price. Our TP for XDL reflects a P/BV of 0.8 times over its FY11F BV/share. Meanwhile, the Regional Footwear sector’s average P/E and P/BV is 18.5 times and 1.9 times, respectively. We are somewhat concerned of the impact of the appreciation of the Ringgit against the Renminbi, as this would weaken XDL’s results in Ringgit terms.

“Undemanding valuations”

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. This could be partly due to the investing public’s perception of PRC (People’s Republic of China) companies listed in both Malaysia and Singapore.

“Risk Factors”

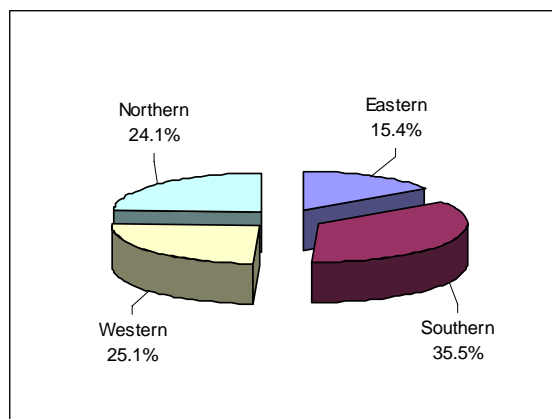
Meanwhile, XiDeLang’ businesses also face possible routine risks such as slower economic growth, higher labour costs, fluctuating raw materials prices (in tandem with rubber and crude oil prices), volatile foreign exchange fluctuations, future changes in PRC-government policies and also stiff competition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

XDL: Share Price



Source: NextView

XDL: Breakdown of 1Q/FY11 PRC Sales by Province/Region



Source: XDL

*These are Sales Regions as defined by XDL

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