

Xian Leng Holdings

Recommendation: **STRONG SELL**

Stock Code: 7121

Bloomberg: XLH MK

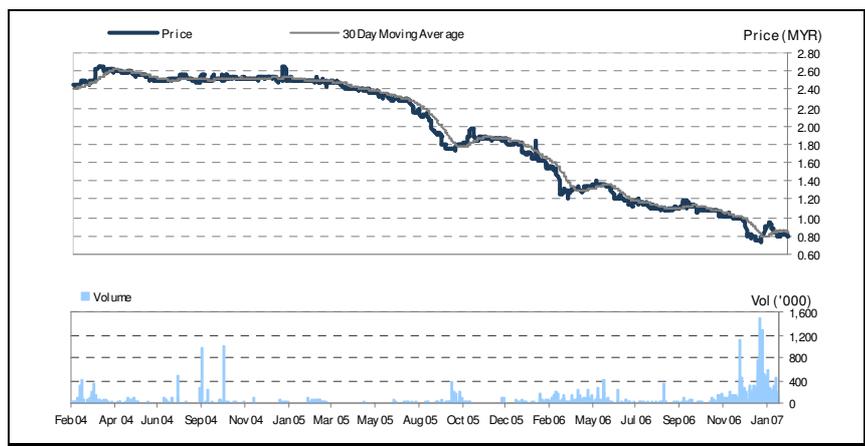
Price: MYR0.805

12-Month Target Price: MYR0.60

Date: February 15, 2007

Board: Main**Sector:** Consumer Products**GICS:** Consumer Staples/Agricultural Products**Market Value - Total:** MYR58.5 mln

Summary: Xian Leng Holdings (XL) is involved in the commercial captive breeding of the Asian Arowana and other ornamental fish, as well as the trading of related aquarium accessories.

Analyst: Alexander Chia, ACA**Recent Developments**

- A recent discussion with management confirmed that Arowana fish prices remain depressed, as they have been for the past five reporting quarters as a result of aggressive pricing maneuvers by smaller fish farms.
- As a result of the weak price environment, management has decided to hold back from selling their higher quality Arowana fishes in the hope for a price recovery going forward. While this move has adversely affected reported margins, the retention of the better quality fish means higher prices and margins in the future when they are later sold at a more mature stage. XL's efficient cost structure and high quality Arowana brood stock should continue to help keep operating and maintenance costs under control. As a result, a future price recovery could result in XL enjoying expanded margins.
- Given the uncertainty over the extent and duration of the downturn, XL intends to develop new markets such as Japan by participating in ornamental fish shows and advertising in related trade journals. Management also intends to build the XL brand name to be synonymous with high quality Arowana fish.

Recommendation & Investment Risks

- We are reiterating our Strong Sell recommendation and 12-month target price of MYR0.60. The implied downside is 26%.
- Our valuation methodology remains unchanged with the target price being derived from ascribing a target PER of 9x to our FY08 earnings estimate and adding our forecast FY07 net DPS of 1.4 sen.
- The distinct lack of visibility in pricing and industry sales data will be a stumbling block to higher valuations for XL, in our opinion.
- The company recently began a share buy-back program, having accumulated 255,000 treasury shares as at the date of this report.
- Risks to our recommendation and target price include a quicker-than-expected recovery of prices for Arowana fish that could improve revenues and margins. A more aggressive share buy-back program could help sustain XL's share price.

Earnings Outlook

- We are maintaining our FY07 and FY08 earnings forecasts.

Key Stock Statistics

FY Jan.	2006	2007E
Reported EPS (sen)	20.8	7.8
PER (x)	3.9	10.3
Dividend/Share (sen)	4.5	2.0
NTA/Share (MYR)	1.90	1.95
Book Value/Share (MYR)	1.90	1.95
No. of Outstanding Shares (mln)	72.7	
52-week Share Price Range (MYR)	0.74 - 1.56	
Major Shareholders:	%	
Ng Huan Tong	23.3	
Lim Wan Hong	23.3	
Employees Provident Fund Board	7.8	

Per Share Data

FY Jan.	2004	2005	2006	2007E
Book Value (MYR)	1.53	1.74	1.90	1.95
Cash Flow (sen)	34.0	36.9	36.0	25.9
Reported Earnings (sen)	22.9	23.9	20.8	7.8
Dividend (sen)	3.0	4.5	4.5	2.0
Payout Ratio (%)	13.1	18.9	15.6	18.5
PER (x)	3.5	3.4	3.9	10.3
P/Cash Flow (x)	2.4	2.2	2.2	3.1
P/Book Value (x)	0.5	0.5	0.4	0.4
Dividend Yield (%)	3.7	5.6	5.6	2.5
ROE (%)	16.1	14.6	11.4	4.0
Net Gearing (%)	11.9	10.4	18.4	11.9

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Profit & Loss

FY Jan. / MYR mln	2005	2006	2007E	2008E
Reported Revenue	49.2	45.4	36.1	38.0
Reported Operating Profit	25.5	22.2	10.5	9.0
Depreciation & Amortization	-9.4	-11.1	-13.2	-16.0
Net Interest Income / (Expense)	-1.2	-1.6	-2.3	-2.4
Reported Pre-tax Profit	24.4	20.6	8.2	6.6
Effective Tax Rate (%)	28.9	26.4	31.0	28.0
Reported Net Profit	17.3	15.1	5.7	4.7
Reported Operating Margin (%)	51.9	48.9	29.0	23.6
Reported Pre-tax Margin (%)	49.6	45.3	22.7	17.4
Reported Net Margin (%)	35.2	33.3	15.7	12.5

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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For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Lee Leng Hoe or Ching Wah Tam.

Recommendation and Target Price History

Date	Recommendation	Target Price
5-Jan-07	Strong Sell	0.60
3-Oct-06	Hold	1.12
3-Jul-06	Hold	1.27
4-Apr-06	Sell	1.17
9-Jan-06	Buy	2.00

