

INVESTMENT HIGHLIGHTS

- During 9M-2017, Xinyuan Real Estate Co., Ltd (XIN) reported an 18.5% y/y growth in total revenues to \$1.3 billion from \$1.1 billion. Revenues in 3Q-2017 grew 8.6% y/y to \$482.4 million from \$444.3 million.
- Contract sales in China decreased 16.1% q/q to \$597.5 million in 3Q-2017 from \$711.8 million in 2Q-2017, due to lower gross floor area (GFA) sales and a fall in average selling price (ASP) per square meter sold.
- Management provided contract sales guidance in the range of RMB4.6 billion (\$695 million) to RMB4.8 billion (\$725 million) for 4Q-2017, which implies full-year contract sales growth of 35%-37%.
- In December, XIN announced the closure of its \$100 million offering in 8.875% senior notes due in 2020, increasing the aggregate principal amount of such notes to \$300 million. XIN could use the proceeds to improve its debt structure, reduce interest expenses and improve its bottom-line.

OVERVIEW

XIN is a real estate developer and property manager that focuses on large-scale residential projects; it operates primarily in China and the US. In China, XIN develops and manages large-scale real estate projects, such as high-rise buildings and multi-layer apartment buildings, in several tier-one and tier-two cities such as Beijing, Shanghai, Zhengzhou, and Jinan. XIN was one of the first real estate developers in China to enter the US market, and it deals in the development of residential properties in three locations – Irvine, California; Reno, Nevada; and Brooklyn, New York.

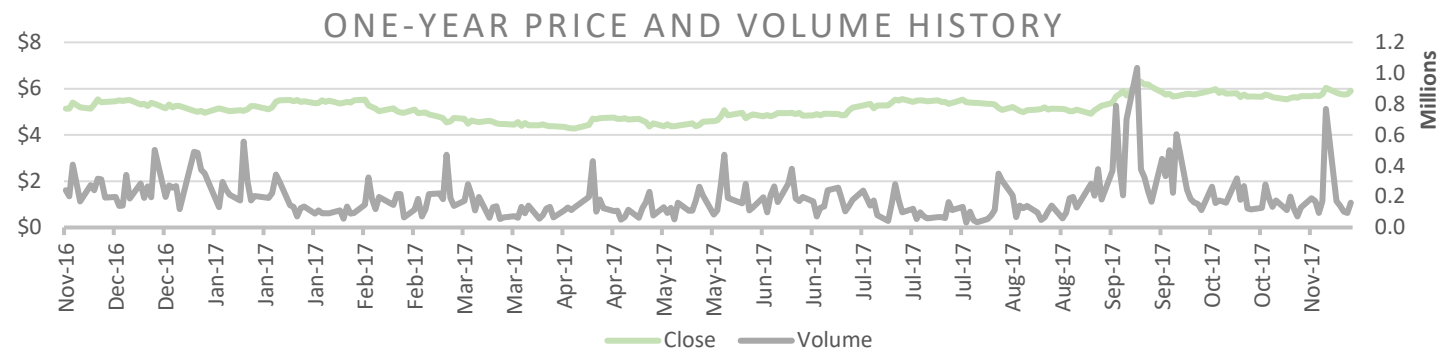
COMPANY DATA

52-week range (\$)	4.26-6.73
Shares outstanding (mn)	64.98
Market cap (\$ mn)	382.1
3M average volume (mn)	0.32
Total cash (\$ mn)	1,187.24
Total debt (\$ mn)	2,492.44
Dividend yield (%)	6.54%
Short interest (%)	0.00%
Insider ownership (%)	51.2%

KEY FINANCIALS (in \$ millions, except EPS)

	FY13A	FY14A	FY15A	FY16A
Revenue	897.7	919.7	1,164.3	1,561.6
EPS	1.70	0.58	0.91	1.06
Net Income	126.4	48.5	66.5	72.9
EBIT	210.6	90.0	96.8	170.7
EBITDA	213.8	97.0	105.5	179.4

SHARE PRICE PERFORMANCE



EARNINGS SUMMARY

XIN reported an 18.5% y/y growth in total revenues to \$1.3 billion in 9M-2017 (period ended September 30, 2017) from \$1.1 billion in 9M-2016. Revenues in 3Q-2017 were up 8.6% y/y to \$482.4 million from \$444.3 million. Total contract sales in the same period increased 15.1% y/y to \$604.5 million from \$525.4 million, driven by higher GFA sales and ASP per square meter sold.

In China, contract sales decreased 16.1% q/q to \$597.5 million from \$711.8 million in 2Q-2017, owing to reduced GFA sales and ASP per square meter sold. GFA sales declined 9.8% y/y to 369,500 square meters in 3Q-2017 from 409,700 square meters in 2Q-2017. ASP per square meter sold in China decreased to \$1,616 in 3Q-2017 from \$1,739 in 2Q-2017, due to higher affordable unit sales in the company's product mix in 3Q-2017. XIN commenced pre-sales of two new projects during 3Q-2017, Changsha Mulian Royal Palace, and Zhengzhou International New City II, which together contributed 27.5% and 32.0% of total GFA sales and contract sales, respectively. It also recognized revenues of ~\$7.0 million for its Oosten project in Brooklyn, New York.

Gross profit increased 3.7% y/y to \$108.8 million in 3Q-2017 from \$105.0 million the previous quarter, while gross profit margin narrowed 106 bps y/y to 22.6% from 23.6%, due to an increase in the cost of sales. Operating income grew 13.2% y/y to \$57.9 million from \$51.1 million, owing to lower selling, general and administrative (SG&A) expenses, while operating margin improved 49 bps y/y to 12.0% from 11.5%. However, quarterly SG&A expenses rose, primarily due to advertising expenses related to the launch of new projects in Zhengzhou and Changsha. Net income fell 41% y/y to \$16.5 million from \$28.1 million in 3Q-2017, mainly due to a \$15.9 million loss on debt extinguishment during the quarter. Interest expenses were higher at \$11.4 million compared with \$6.6 million in the year-ago period. Diluted earnings per American depository share (ADS) decreased to \$0.22 from \$0.41, despite XIN repurchasing 421,292 ADSs at a total cost of ~\$2.2 million through its share repurchase program in 3Q-2017.

For 3Q-2017, XIN announced a cash dividend of \$0.10 per ADS to be paid to investors on December 15, 2017. It provided an update on its projects in the US, highlighting that it is continuing the foundation work for its second project in New York. XIN is currently executing the planning and pre-development of its ground-up development project in Flushing, Queens, New York, and is awaiting government approvals. The company also announced a new business segment – construction management service – to utilize its experience and resources in the industry and provide services to companies without any property development expertise.

XIN is looking forward to beginning the pre-sales of its two new projects in Zhengzhou in 4Q-2017. The company has been increasing its land bank during the year, which indicates further development and growth in the coming quarters. Management expects contract sales to be in the range of RMB4.6 billion (\$695 million) to RMB4.8 billion (\$725 million) during 4Q-2017, which implies full-year contract sales growth of 35%-37%.

DEBT OFFERING AND UNWARRANTED PRICE DISCOUNT DESPITE STRONG RALLY

In December, XIN announced the closure of its \$100 million offering in 8.875% senior notes due in 2020, increasing the aggregate principal amount of such notes to \$300 million. Total debt on XIN's balance sheet has increased substantially over the last few years, as the company has preferred to issue debt to finance its real estate projects. In July, XIN completed the redemption of its 13% notes due in 2019. The company could further improve its debt structure by using a portion of the proceeds from its latest debt offering to repay some of its more expensive existing debt, resulting in lower interest expenses in the future. The decrease in interest expenses could result in significant cost savings for XIN and ultimately translate into improvements in its bottom line.

Shares of XIN have rallied in 2017, yielding year-to-date returns of 23%. It has significantly underperformed compared with its peers, with the peer average year-to-date return at 129%. Year-to-date returns for the Hang Seng and S&P 500 Indices were 35% and 17%, respectively. We believe XIN's underperformance was due to US investors' overestimation of the impact of regulatory restrictions in China, owing to a lack of understanding of local market conditions. However, investor sentiment has been improving lately, possibly due to a better understanding of local markets. XIN generated returns of 22% over the last three-month period, significantly ahead of peer average returns of 16% and ~6% for the S&P 500 and Hang Seng Indices.

We believe that despite the recent rally, XIN continues to have significant potential upside from current price levels. Its valuation remains attractive compared with its peers, given its growth prospects and potential cost savings from various measures such as debt restructuring.

Comparable Price Return Analysis (%)	1M return	3M return	YTD return	1Yr return	3Yr return
S&P 500	2%	6%	17%	19%	27%
Hang Seng Index	5%	6%	35%	30%	23%
CIFI Holdings (Group) Co. Ltd.	3%	0%	111%	99%	186%
China Aoyuan Property Group Limited	-8%	32%	146%	146%	241%
Greentown China Holdings Ltd.	-8%	-5%	44%	41%	16%
KWG Property Holding Limited	9%	17%	94%	93%	41%
Hangzhou Binjiang Real Estate Group Co., Ltd.	6%	7%	6%	4%	94%
Sunac China Holdings Limited	-1%	64%	499%	557%	436%
Beijing Urban Construction Investment & Development	-3%	-1%	7%	3%	2%
Low	-8%	-5%	6%	3%	2%
High	9%	64%	499%	557%	436%
Mean	0%	16%	129%	135%	145%
Median	-1%	7%	94%	93%	94%
Xinyuan Real Estate	11%	22%	23%	15%	115%

UPDATED VALUATION

With 2017 almost over, we updated our valuation to reflect financial forecasts and relative valuation multiples for 2018. We arrived at a target price range of \$7-\$11 per share, based on a discounted cash flow and comparable company analysis. The latest 2018 revenue and EBITDA forecasts stand at \$1,919 million and \$221 million, respectively, based on our financial model projections.

We compared XIN's valuation multiples with expected EV/EBITDA, price/sales, and price/earnings multiples of comparable companies.

Comparable Company Analysis (USD million)					
	Ticker	Market Cap	EV/EBITDA	P/E	P/sales
CIFI Holdings (Group) Co. Ltd.	SEHK:884	32,564	5.7x	5.7x	0.8x
China Aoyuan Property Group Limited	SEHK:3883	11,456	5.5x	4.1x	0.4x
Greentown China Holdings Limited	SEHK:3900	19,359	12.4x	8.2x	0.5x
KWG Property Holding Limited	SEHK:1813	26,062	9.4x	4.9x	1.3x
Hangzhou Binjiang Real Estate Group Co., Ltd.	SZSE:002244	22,745	5.3x	11.5x	1.0x
Sunac China Holdings Limited	SEHK:1918	149,184	10.0x	12.5x	1.1x
Beijing Urban Construction Investment & Development	SHSE:600266	22,048	14.9x	10.3x	1.2x
Low			5.3x	4.1x	0.4x
High			14.9x	12.5x	1.3x
Mean			9.0x	8.2x	0.9x
Median			9.4x	8.2x	1.0x
Xinyuan Real Estate	XIN	398	7.9x	4.1x	0.2x

Our base-case comparable company analysis results in a target price of \$7.0 per share, representing an upside potential of 14% versus expected EV/EBITDA multiples of selected peer companies. Our bull-case comparable company analysis suggests an expected stock price of \$11.0, representing an upside potential of 79% from the current market price. We obtain a price target range of \$7.0-\$11.0, representing a significant upside potential of 14%-79% from current price levels, based on relative valuations and discounted cash flow methodologies.

Relative Valuation (USD million)	Bull	Base
Cash and cash equivalents	1,187	
Debt	2,492	
Net debt	1,305	
Minority interests	61	
XIN 2018E		
EBITDA	221	
No. of shares (million)	65	
Peer average multiple (x)	9.4x	8.2x
Derived EV	2,083	1,822
Market cap	717	456
Target price (USD)	11.0	7.0

Our discounted cash flow analysis leads to a target price of \$9.85 per share, with an upside potential of 61% from current price levels. Our key inputs include a calculated weighted average cost of capital (WACC) of 5.7% and an exit EV/EBITDA multiple of 8.1x.

Sensitivity Analysis									
Weighted average cost of capital	Exit multiple								
	5.6x	6.1x	6.6x	7.1x	7.6x	8.1x	8.6x	9.1x	
3.7%	5.22	6.65	8.08	9.51	10.94	12.37	13.8	15.23	
4.2%	4.74	6.13	7.53	8.92	10.32	11.71	13.11	14.51	
4.7%	4.26	5.63	6.99	8.35	9.71	11.08	12.44	13.8	
5.2%	3.8	5.13	6.46	7.79	9.13	10.46	11.79	13.12	
5.7%	3.35	4.65	5.95	7.25	8.55	9.85	11.15	12.45	
6.2%	2.92	4.19	5.46	6.73	7.99	9.26	10.53	11.8	
6.7%	2.49	3.73	4.97	6.21	7.45	8.69	9.93	11.17	
7.2%	2.08	3.29	4.5	5.71	6.92	8.13	9.34	10.56	
7.7%	1.67	2.86	4.04	5.22	6.41	7.59	8.77	9.96	

EXHIBITS

<i>USD ('000 \$)</i>	<i>3 Months Ended</i>	
Income Statement	30-Sep-17	30-Sep-16
Total revenue	482,373	444,278
Total costs of revenue	(373,532)	(339,322)
Gross profit	108,841	104,956
Operating Expenses:		
Selling and distribution expenses	(18,890)	(19,233)
General and administrative expenses	(32,085)	(34,584)
Total Operating Expenses	(50,975)	(53,817)
Operating income	57,866	51,139
Other Income (Expenses):		
Interest income	5,454	2,116
Interest expense	(11,418)	(6,558)
Net realized gain on short-term investments	1,017	1,392
Unrealized gain on short-term investments	2,434	91
Other expense	(3)	(27)
Loss on extinguishment of debt	(15,880)	0
Exchange loss	(189)	(37)
Share of (loss)/gain of equity investees	(386)	412
Income from operations before income taxes	38,895	48,528
Income taxes	(22,366)	(20,481)
Net income	16,529	28,047
Net (income)/loss attributable to non-controlling interest	(2,453)	157
Net income attributable to Xinyuan Real Estate Co., Ltd. shareholders	14,076	28,204
Diluted Earnings per ADS	0.22	0.41
ADS used in computation (Diluted)	65,347	69,329
Balance Sheet	30-Sep-17	30-Jun-17
Cash	1,187,244	1,275,126
Accounts receivable	53,294	27,669
Other Current Assets	3,379,048	3,242,608
Current Assets	4,619,586	4,545,403
Property and Equipment, Net	32,783	33,154
Deferred Tax Assets	50,722	50,190
Real estate properties held for lease, net	187,280	191,021
Other Non-Current Assets	119,289	87,100
Non-Current Assets	390,074	361,465
Total Assets	5,009,660	4,906,868
Accounts payable and notes payable	472,000	482,028
Short Term Debt	1,416,372	1,187,275
Customer deposits	318,973	173,326
Other Current Assets	501,213	444,029
Current Liabilities	2,708,558	2,286,658
Long-term debt	1,076,066	1,460,508
Other Non-Current Liabilities	214,447	208,024
Non-Current Liabilities	1,290,513	1,668,532
Total Liabilities	3,999,071	3,955,190
Total Xinyuan Real Estate Co., Ltd. shareholders' equity	949,642	918,322
Non-controlling interest	60,947	33,356
Total Liabilities and Stockholders' Equity	5,009,660	4,906,868

Source: Xinyuan Real Estate Co., Ltd., November 10, 2017, Press Release

JGR CAPITAL INFORMATION

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