

August 24, 2017

INVESTMENT HIGHLIGHTS

- Xinyuan acquired new lands with total area of 795,000 square meters in its existing markets including Zhengzhou, Xi'an and Kunshan and new market Zhuhai that is a critical step for Xinyuan to enter Guangzhou-Hong Kong-Macao Greater Bay area market.
- Even though the Chinese government has imposed some restrictions in the real estate market to combat rising prices, the company managed to deliver a strong result. Contract sales in the second quarter of 2017 increased to \$732.4 million, which is a 54.5% increase compared to \$474.4 million Q2-2016 and 139.8% compared to the Q1-2017.
- Gross profit was \$107.9 million, 22.1% of revenue, compared to a gross profit of US\$77.3 million, 20.5% of revenue, in the second quarter of 2016 and a gross profit of \$62.6 million, 22.3% of revenue, in the first quarter of 2017.
- Xinyuan has completed early redemption of 13% senior notes due 2019, reducing its debt pressure and creating more financial flexibility for project operations. However, it is worth mentioning that it did not affect the company's quarterly dividend and share repurchase to its shareholder.

COMPANY DATA

Date:	08/24/2017
Current Price	\$5.09
52-Week Range	\$4.26-7.06
Target Price Range	\$7-9
Potential Upside	37.25-76.47%
Shares Outstanding (mn)	70.65
Market Cap (\$mn)	358.4
3-Mo. Average Volume	150.70K
Total Cash (\$mn)	1,326
Dividend Yield	0.3%
Short % of Float	7.7%

COMPANY STATISTICS

Revenue(\$mn)	1,699
Net Income(\$mn)	55.5
EV/ Revenue	0.94
Price to Earnings	6.05
Return on Equity	11.36
Return on Assets	4.52

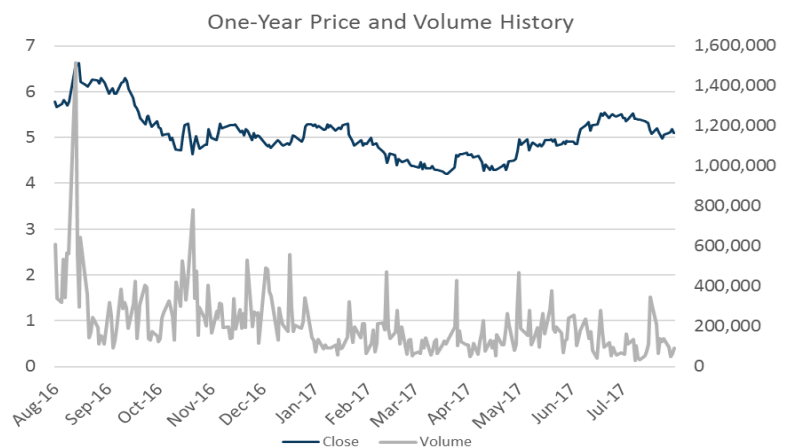
COMPANY OWNERSHIP

Insider Ownership	51.2%
Top 3 Inst. Holders	12.2%

OVERVIEW

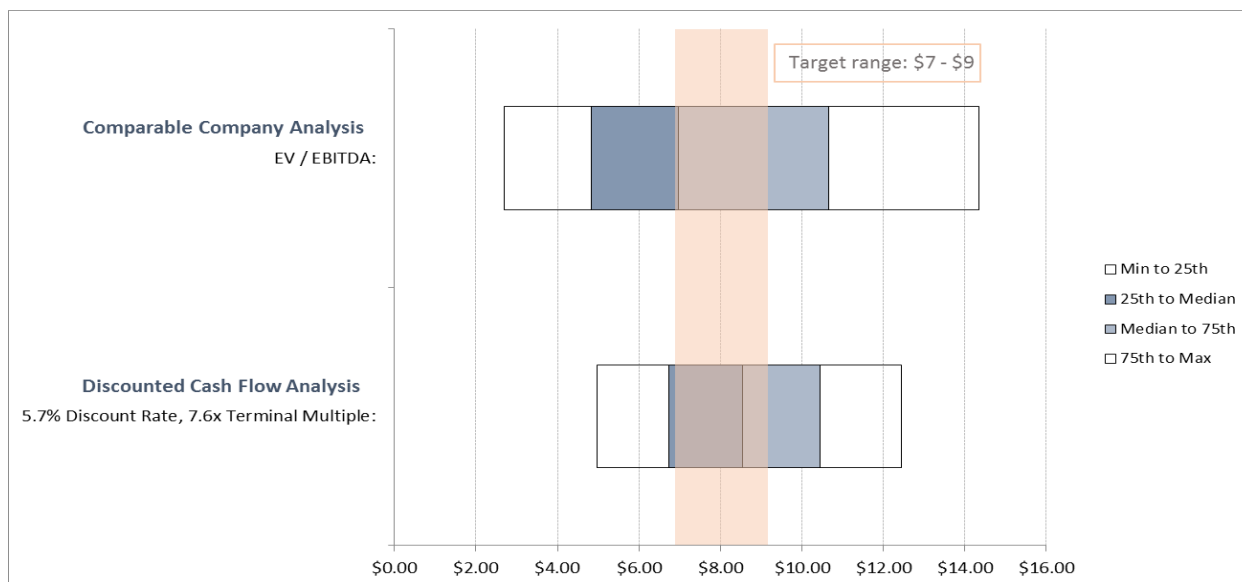
Xinyuan Real Estate develops residential real estate complexes, primarily for middle-income families in China and the United States. In China, Xinyuan has 31 projects in the planning stage or under construction in Tier I and Tier II cities, such as Beijing, Shanghai, Tianjin, Zhengzhou, Jinan, Suzhou, and Xi'an. In the U.S., the company has three residential projects. These projects are the Oosten in Brooklyn, the Hudson Garden in Manhattan, and the RKO in Queens.

SHARE PRICE PERFORMANCE



UPDATED VALUATION

Updated Scenario



Sources: JGR Capital Partners, FactSet, and Xinyuan's filings

In our **Updated Scenario**, we have updated Xinyuan's **target price range to \$7-\$9**, based on our financial models. We have adjusted the company's expected revenue given the solid result presented in the second quarter of 2017. Our projected revenue for 2017 is \$1,745 million, whereas the projection for EBITDA has been adjusted to \$215 million.

In our **Base Case Comparable Company Analysis**, we have compared Xinyuan's 2017 expected EV/EBITDA multiple with the expected multiples of its competitors. This leads to a median stock price of **\$7**, which is an upside of 37.25% on current stock price. Considering the minimum and maximum multiples, the stock price would be between \$2.69 and \$14.34. Likewise, in our **Bull Case Scenario**, the expected stock price is **\$9**, representing a 76.47% increase in the current price.

Comparable Company Analysis (\$ in millions)				
Company Name: Xinyuan Real Estate	Ticker	Market Cap	EV/EBITDA	
CIFI Holdings (Group) Co. Ltd.	SEHK:884	3,991	6.5x	
China Aoyuan Property Group Limited	SEHK:3883	1,035	4.0x	
Greentown China Holdings Limited	SEHK:3900	2,657	11.4x	
KWG Property Holding Limited	SEHK:1813	2,174	11.4x	
Hangzhou Binjiang Real Estate Group Co.,Ltd	SZSE:002244	3,129	9.3x	
Sunac China Holdings Limited	SEHK:1918	9,261	21.3x	
Low		439	4.0x	
High		9261	21.3x	
Mean		3311	10.7x	
Median		2893	10.4x	
Xinyuan Real Estate	XIN	358	7.57x	

Source: JGR Capital Partners, FactSet, and Xinyuan's filings

Additionally, we have run a **Discounted Cash Flow Analysis**, which led us to a valuation of **\$8.55** for the stock price, which is an upside of 67.65% on current stock price. Key inputs are a WACC of 5.7% and an exit EV/EBITDA multiple of 7.57x. Meanwhile, the sensitivity analysis, displayed below, suggests a price range of \$4.97-12.44.

Discounted Cash Flow Analysis (\$ in THOUSANDS)								
Xinyuan Real Estate (XIN)								
	Historical			Projected				
	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	919,744	1,164,324	1,561,625	1,745,209	1,919,730	2,054,111	2,156,817	2,264,657
Cost of Goods Sold	677,582	891,334	1,203,636	1,343,811	1,497,389	1,602,207	1,703,885	1,811,726
Gross Profit	242,162	272,990	357,989	401,398	422,341	451,904	452,931	452,931
Operating Expenses	145,116	167,455	178,628	197,456	214,430	225,458	235,350	243,846
EBIT	90,048	96,783	170,673	203,942	207,910	226,447	217,581	209,085
Income Tax Expense	30,558	52,511	86,248	94,307	96,142	104,713	100,614	96,685
EBITDA	97,046	105,535	179,361	215,978	221,149	240,612	232,456	224,703
Capital Expenditures	18,700	39,100	6,500	33,159	36,475	39,028	40,980	43,028
Depreciation and Amortization	6,998	8,752	8,688	12,036	13,239	14,166	14,874	15,618
Change in Working Capital	0	-348,837	-154,094	-34,904	-38,395	-41,082	-43,136	-45,293
Unlevered Free Cash Flow	47,788	362,761	240,707	123,416	126,927	137,953	133,999	130,283

Sources: JGR Capital Partners, FactSet, and Xinyuan's filings

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	13.80	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	13.80	
5.2%	3.80	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	11.80	
6.7%	2.49	3.73	4.97	6.21	7.45	8.69	9.93	11.17	
7.2%	2.08	3.29	4.50	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	

Sources: JGR Capital Partners, FactSet, and Xinyuan's filings

Considering both methodologies, we have set our target price range at **\$7-\$9**, which represents a 37.25-76.47% upside. This price places the company in a position where it is not only fairly valued in comparison with its competitors, but also conservative regarding expected revenues.

COMPANY DESCRIPTION

Xinyuan is a Chinese real estate developer that focuses on developing residential real estate in Chinese cities. Since its inception, the company has completed 41 projects and successfully sold 97% of its condos. This compares favorably to China's historical housing vacancy rate of 15%.¹ The company focuses on Tier I and Tier II cities, with 31 projects split between the two tiers. These projects represent approximately

¹ IPE Real Estate "Residential China: A tale of tier cities", April 2016

5,918,000 square meters in gross floor area. Generally, there are four tiers of cities in China. Tier I cities are the most developed, have the largest populations, and tend to be directly run by the Chinese government.² Examples include Beijing, Shanghai, and Shenzhen. Tier II cities are the second most developed and are often provincial capitals. Examples include Zhengzhou, Jinan, Suzhou, and Xi'an.

Xinyuan has also expanded into the U.S. market in recent years, with residential buildings throughout the boroughs of New York City. Specifically, in New York, the company has developments in Williamsburg, Brooklyn, Hell's Kitchen, Manhattan, and Flushing, Queens. The Williamsburg project, the Oosten, is entirely residential. The same holds true for the Queen's development, RKO. The Manhattan development is also primarily residential, with a grocery store on the first floor.

² South China Morning Post, China's tiered City System Explained, July 6 2016

COMPANY INFORMATION

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