

INVESTMENT HIGHLIGHTS

- Xinyuan Real Estate Co. (XIN) has a strong presence in Tier I cities – such as Beijing, Shanghai, and Shenzhen – and Tier II cities – such as Zhengzhou, Jinan, Suzhou, and Xi’an – in China, with more than 80% of its revenue coming from Tier II cities. This diversification is beneficial for the company, as Tier I cities have been subjected to regulatory scrutiny, with the government introducing several restrictions to counter rising real estate prices.
- The company remains undervalued versus peers. XIN trades at an 8.1x forward EV/EBITDA multiple, compared with the peer average of 9.8x. It currently trades at a forward price-to-earnings multiple of 6.9x – which is at a significant discount versus the peer average of 8.9x.
- XIN recently paid its 22nd consecutive quarterly dividend and has a current dividend yield of 6.81%. The ongoing \$40 million share repurchase program, along with the full redemption of the outstanding \$200 million senior notes in early July 2017, shows the company’s consistent value creation.

COMPANY DATA

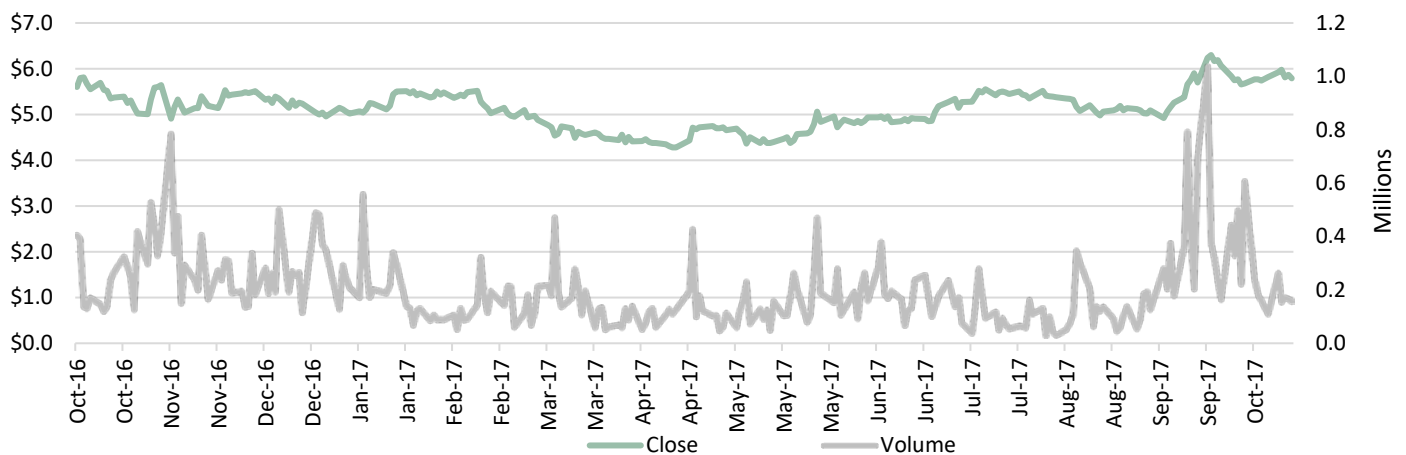
52-week range (\$)	4.26 - 6.38
Shares outstanding (mn)	70.65
Market cap (\$mn)	376.90
3-mo. average volume (mn)	0.21
12-mo. price range (\$)	7.00 - 10.00
Total cash (\$mn)	1,276.82
Total debt (\$mn)	2,647.78
Dividend yield (%)	6.81

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

ONE-YEAR PRICE AND VOLUME HISTORY



CHINA'S REAL ESTATE MARKET IS UNSETTLED DUE TO PRICE REGULATIONS

China's real estate sector has recently been subjected to regulations to control property prices as prices continue to diverge from fundamentals. The severity of regulations varies from Tier I to Tier II cities, with Tier I cities being exposed to more stringent regulatory reforms. About eight cities had imposed controls on property purchases at end-September 2017.¹ Most local governments have banned resales for 2 to 3 years after the initial purchase. XIN has faced significant headwinds recently due to the current regulatory environment. XIN derives revenue from both Tier I and Tier II cities. However, most of its revenue is from Tier II cities, giving it room to adjust to the current situation. Tier II cities are expected to see price growth of 20-25% y/y in 2017.²

Despite regulations restricting growth, there are factors capable of driving growth in the near future. XIN has potential to expand its horizons in the current economy, considering ever-increasing urbanization and an expanding real estate market, which accounted for 15.7% of China's total GDP in 2016.³ Investment in real estate increased 7.93% y/y in August 2017, according to the National Bureau of Statistics of China, indicating growing market demand. XIN primarily develops residential properties, investment in which grew by 10.1% y/y in August 2017, suggesting more growth potential for XIN in the domestic market.

2Q 2017 EARNINGS HIGHLIGHT CONTINUED FINANCIAL OUTPERFORMANCE

XIN's 2Q 2017 earnings indicate growth potential, as revenue grew 29.6% y/y over the quarter. Contract sales also increased a significant 54.4% y/y, indicating the company's growing market position. The gross margin was 22.1%, compared to 20.5% in 2Q 2016. XIN realized a net profit of \$20.6 million, down 25.9% y/y. Lower net income was not due to a slowdown in operations but was primarily due to an increase in selling and distribution expenses related to commercial sales amid a more challenging market environment and an increase in the un-capitalized portion of the company's interest expenses due to debt not yet allocated to real estate projects.

UNWARRANTED PRICE DISCOUNT VERSUS OTHER HONG KONG LISTED PEERS

There is a huge year-to-date upswing in stock prices for most of the Chinese developers listed in Hong Kong. However, XIN has significantly underperformed its Hong Kong-listed counterparts despite being largely similar in regional business offerings and growth. During the year-to-date period, XIN shares returned around 14% compared with its peer group average of around 80%. These low returns fall more in range with the broader S&P 500 returns of around 15% but lagged even the Hang Seng Index returns of around 30%.

In our view, the investors in US markets overestimated the impact of regulatory restrictions in China due to a perception gap regarding local understanding of real estate markets. However, the investors in Hong Kong markets continue to invest heavily in real estate companies having a greater understanding of the ongoing price regulations and their positive influence in the longer term. That said, XIN remains very much

¹ Forbes, "China's Tamping Down Property Prices as Mortgage Debt Presents Risks", September 2017

² Koneko Research, "March NBS Price Data in Chinese Cities with Home Price Restrictions", April 2017

³ Seeking Alpha, "China's Real Estate Outlook", February 2017

attractive in terms of valuation compared to its peers with a high stock price growth potential from current price levels.

We believe that a substantial discount to XIN's stock price is highly unwarranted given its robust financial performance this year even in the backdrop of overall real estate slowdown in China. The company deserves a higher stock price driven by its impressive operating results and potential growth prospects discussed above.

Comparable Price Return Analysis (%)	1M return	3M return	YTD return	1Yr return	3Yr return
S&P 500	2.7	4.1	15.0	20.3	35.3
Hang Seng Index	1.3	6.5	29.5	21.9	23.5
CIFI Holdings (Group) Co. Ltd.	-13.1	11.7	110.0	96.9	211.3
China Aoyuan Property Group Limited	-17.9	25.5	140.4	146.0	259.7
Greentown China Holdings Ltd.	-8.1	-3.8	57.8	54.8	28.5
KWG Property Holding Limited	-15.2	41.0	90.6	78.8	55.9
Hangzhou Binjiang Real Estate Group Co., Ltd.	-4.2	3.8	0.6	3.4	101.4
Low	-17.9	-3.8	0.6	3.4	28.5
High	-4.2	41.0	140.4	146.0	259.7
Mean	-11.7	15.7	79.9	76.0	131.4
Median	-13.1	11.7	90.6	78.8	101.4
Xinyuan Real Estate	-8.3	3.3	14.1	-0.2	105.8

UPDATED VALUATION

We arrived at a base case price range of \$7.00-10.00 per share, based on a discounted cash flow and comparable company analysis. The latest 2017 revenue and EBITDA forecasts stand at \$1,745 million and \$216 million, respectively, based on our financial model projections.

Our discounted cash flow analysis leads to a base case price of \$9.85 per share, with upside potential of 70% 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						
	Exit Multiple					
		7.1x	7.6x	8.1x	8.6x	9.1x
Weighted Avg. Cost of Capital	3.7%	9.51	10.94	12.37	13.8	15.23
	4.2%	8.92	10.32	11.71	13.11	14.51
	4.7%	8.35	9.71	11.08	12.44	13.8
	5.2%	7.79	9.13	10.46	11.79	13.12
	5.7%	7.25	8.55	9.85	11.15	12.45
	6.2%	6.73	7.99	9.26	10.53	11.8
	6.7%	6.21	7.45	8.69	9.93	11.17
	7.2%	5.71	6.92	8.13	9.34	10.56
	7.7%	5.22	6.41	7.59	8.77	9.96

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

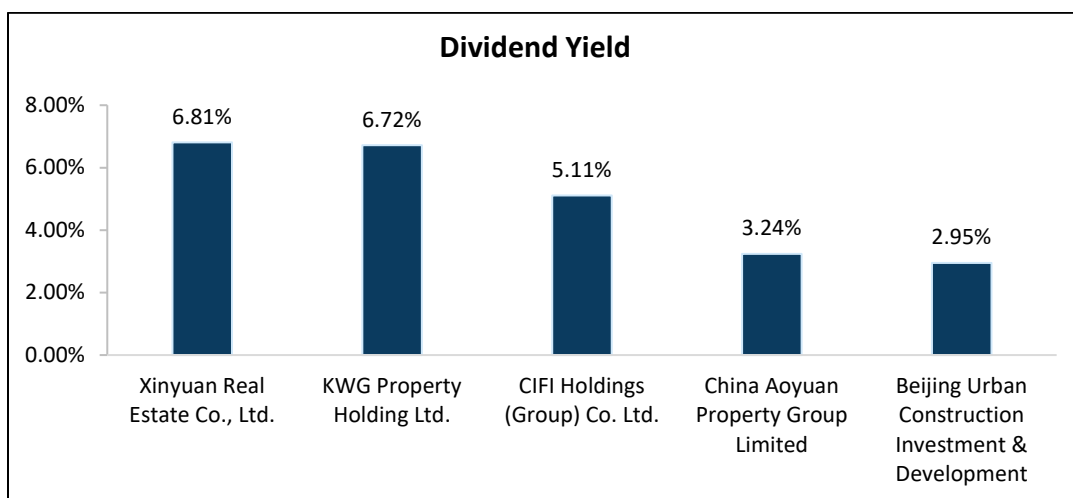
Comparable Company Analysis (\$ millions)					
	Ticker	Market Cap	EV/EBITDA	P/E	P/sales
CIFI Holdings (Group) Co. Ltd.	SEHK:884	4,121	7.4x	6.9x	1.0x
China Aoyuan Property Group Limited	SEHK:3883	1,495	8.7x	7.0x	1.5x
Greentown China Holdings Limited	SEHK:3900	2,785	15.3x	9.1x	1.6x
KWG Property Holding Limited	SEHK:1813	3,245	12.7x	6.2x	1.7x
Hangzhou Binjiang Real Estate Group Co., Ltd.	SZSE:002244	3,181	4.9x	12.5x	1.0x
Low			4.9x	6.2x	0.5x
High			15.3x	12.5x	1.7x
Mean			9.8x	8.3x	1.0x
Median			8.7x	7.0x	0.9x
Xinyuan Real Estate	XIN	377	8.1x	6.9x	0.2x

Our base-case comparable company analysis results in a FV of \$7.00 per share, representing upside potential of 21%, versus expected EV/EBITDA multiples of selected peer companies. Our bull-case comparable company analysis suggests a FV stock price of \$10.00, representing upside potential of 72% from the current market price.

We obtain a FV range of \$7.00-10.00, representing significant upside potential of 21%-72% from current price levels, based on relative valuation and discounted cash flow methodologies.

Relative Valuation (\$ million)		Bull	Bear
Cash and cash equivalents	1,277		
Debt	2,648		
Net debt	1,371		
Minority interest	33		
XIN 2017E			
EBITDA	216		
No. of shares (million)	71		
Peer average multiple (x)		9.8x	8.8x
Derived EV		2,108	1,896
Market cap		704	492
Target price (\$)		10.0	7.0

Moreover, the company has been consistently creating value for its shareholders, having declared its 22nd dividend in 2Q 2017. The dividends are generous compared to key competitors’.



Source: Yahoo Finance, October 16, 2017

COMPANY DESCRIPTION

Xinyuan is a China-based real estate developer that focuses on developing residential real estate in China. It has completed 41 projects since its inception and has sold 97% of its condominium projects. This compares favorably to China’s historical housing vacancy rate of 15%. The company focuses on Tier I and Tier II cities in China, with 31 projects split between the two tiers. These projects represent approximately 5,918,000 square meters in gross floor area. China has four categories of cities. Tier I cities – such as Beijing, Shanghai, and Shenzhen – are the most developed, have the largest populations, and tend to be directly run by the Chinese government. Tier II cities – such as Zhengzhou, Jinan, Suzhou, and Xi’an – are the next most developed and are often provincial capitals.

Xinyuan has also expanded into the US market in recent years, with its residential buildings across the boroughs of New York City. In New York City, the company has developments in Williamsburg, Brooklyn; Hell’s Kitchen, Manhattan; and Flushing, Queens. The Williamsburg project, the Oosten; the Queens development, RKO; and the Manhattan development are all primarily residential.

COMPANY INFORMATION

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