

Elle Investments Research Report: XIN

Company: Xinyuan Real Estate Co., Ltd.

Symbol: **XIN**

Analysis date: 5/5/19 – UPDATE: 11/13/19

Analysis price: \$3.99

Price Target (PT): \$10.46

Upside: 162%

Dividend: \$0.40 (10%)

Recommendation: **Buy**

XIN: 1-Year Chart

1D 5D 1M 6M **1Y** 5Y 10Y MAX  Advanced Chart



52wk high:	5.10
52wk low:	3.34
EPS (TTM):	1.79
PE (TTM):	1.92
Div Rate (FWD):	\$0.40
Yield (FWD):	11.63%
Market Cap:	\$217.1M
Volume:	57,604

Source: Seeking Alpha

INVESTMENT THESIS:

XIN is a Chinese real estate developer and property manager that is trading at a very depressed valuation, which is common for Chinese companies of this nature. But we feel that the real estate projects outside of China (i.e. NYC, UK), the substantial investment by global private investment firm TPG (2% of shares outstanding as of 9/29/19 according to Yahoo Finance), and the 31 consecutive quarters of paying a dividend significantly de-risk a position in XIN. It may take awhile (if ever) for the market to give XIN's stock a fairer valuation, but in the meantime, patience can be rewarded via the 10% dividend.

LIQUIDITY POSITION: Fair

As of 2Q19 (which ended 6/30/19), XIN had cash on hand of \$1B (includes cash, cash equivalents, restricted cash, and short-term investments). They were profitable in 2018, and for 2019 they have maintained their guidance of 15-20% net income growth. This implies net income to common shareholders of about \$87M for 2019.

However, XIN does have a very large debt load, which stood at \$3.6B as of 2Q19. Thus far XIN seems able to easily access more funding and extend their debt maturities into the future. The

risk here is the questionable terms of the financing decisions that management is making, which continue to push their weighted average interest rate up. On April 29, they announced the issuance (offered outside of the US) of \$300M worth of 14.2% senior notes due 2021. The proceeds were used to partially retire two other batches of senior notes paying interest rates of 8.1% and 9.9%.

Frankly, the jury is still out about management's rationale behind this expensive-looking maneuver.

COMMERCIAL PROSPECTS: Very Good

As previously mentioned, XIN earned very healthy profits in 2018 and expects to grow net income by 15-20% for 2019, implying net income to common shareholders of about \$87M. For 2019, we calculate earnings of \$1.49/ADS (this includes the 1M restricted stock units (RSUs) that are not included in the diluted share count of 57.4M).

The absurdly low valuation (indicated by the forward P/E of 3.4x) is not uncommon for Chinese real estate companies, given the heightened fear that US investors have towards real estate valuations in China.

It's true that the majority of their revenue comes from their real estate development projects in tier-one and tier-two cities in China such as Beijing, Shanghai, Zhengzhou, Jinan, Xi'an, and Suzhou. This makes it difficult for US investors to verify the stated book value of their assets. However, they do have a growing list of projects outside of China, most notably in New York City (the Oosten Project in Brooklyn and the Hudson Garden Project in Manhattan) and the UK.

These projects validate their business operations. The fact that they have paid a quarterly dividend for 31 consecutive quarters (and counting) speaks towards management's willingness to return capital to shareholders—something that many other Chinese companies are reluctant to do.

Because of these important differences, we think XIN is deserving of a more favorable valuation and have assumed a target forward P/E of 7x to calculate our PT.

XIN: Price Target

Date	11/13/19
Current price	\$3.99
Diluted mkt cap	233
2019 earnings/ADS	\$1.49
Forward P/E (x)	2.7
Target P/E (x)	7.0
PT	\$10.46
Upside	162%

Source: Elle Investments

XIN: Dividend History

Ex-Div Date	Dividend (\$)
8/30/19	0.10
5/31/19	0.10
2/25/19	0.10
11/23/18	0.10
8/24/18	0.10
6/8/18	0.10
2/27/18	0.10
11/29/17	0.10
8/29/17	0.10
5/26/17	0.10
2/23/17	0.10
11/23/16	0.10
8/23/16	0.10
5/23/16	0.05
3/11/16	0.05
11/23/15	0.05
8/20/15	0.05
6/23/15	0.05
3/18/15	0.05
11/28/14	0.05
8/28/14	0.05
5/28/14	0.05
3/5/14	0.05
11/14/13	0.05
8/14/13	0.05
5/17/13	0.05
2/14/13	0.05
10/23/12	0.04
8/1/12	0.04
4/26/12	0.04
6/8/11	0.10
Consecutive dividends	31

Source: Elle Investments, Yahoo Finance

CONCLUSION:

XIN is not without risks. The questionable financing decisions by management, the slowing Chinese economy, and the effect of Brexit on the UK's real estate market need to be considered.

But we feel that this has been punished too severely. The very low valuation is not indicative of a company that is growing the top and bottom line, has a growing list of real estate projects in major cities of both the US and Europe, has the backing of well-known global investor TPG, and has paid a dividend (currently 10%) consistently for the past several years. The market may never assign it a more favorable P/E, which means that our PT may never be reached. But the consistent dividend makes this worth a position. We think XIN is a Buy.

Note: Additional commentary from Elle Investments can be found at <http://elle-investments.com>. We welcome your feedback. Additionally, we are thinking of launching a subscription service that would offer early access to our research, along with some other features that investors might find useful (i.e. general portfolio management strategies, live blog updates highlighting our reaction to breaking news, etc.). If you would be interested in subscribing to such a service, please let us know.

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