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XIN - Q4 2018 Xinyuan Real Estate Co Ltd Earnings Call

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CONFERENCE CALL PARTICIPANTS

William Zima *ICR, LLC - Head of Asia Practice*

Michael Prouting

PRESENTATION

Operator

Good day, everyone, and welcome to the Xinyuan Real Estate Company Fourth Quarter 2018 Earnings Conference Call. Please note that today's call is being recorded. I would now like to turn the call over to Mr. Bill Zima, ICR. Please go ahead.

William Zima - *ICR, LLC - Head of Asia Practice*

Thank you, operator. Hello, everyone, and welcome to Xinyuan's Fourth Quarter 2018 Earnings Conference Call. The company's fourth quarter earnings results were released earlier today and are available on the company's IR website as well as on Newswire services.

Before we continue, please note that discussion today will contain forward-looking statements made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995.

Forward-looking statements involve inherent risks and uncertainties. As such, our results will be -- can be materially different from the views expressed today.

Further information regarding these and other risks and uncertainties is included in our registration statement and our form 20-F and other documents filed with the U.S. Securities and Exchange Commission. Xinyuan does not assume any obligations to update any forward-looking statements, except as required under applicable law.

Today, you will hear from Mr. Lizhou Zhang, the company's Chief Executive Officer, who will comment on our operating results. He will be followed by Mr. Xuefeng Li, the company's Interim Chief Financial Officer, who will provide some additional color on Xinyuan's performance, review the company's financial results and discuss the financial outlook. Following management's prepared remarks, we will open up the call to questions.

With that said, I would now like to turn the call over to Xinyuan's CEO, Mr. Zhang. Please go ahead.

Lizhou Zhang - *Xinyuan Real Estate Co., Ltd. - CEO & Executive Director*

Thank you, Bill. Good morning, and thank you all for joining our fourth quarter 2018 Earnings Conference Call.

We are pleased that Xinyuan has maintained a strong growth despite the downward pressure on sales across the industry.

For the 2018 full year results, the total amount of contracts signed in year 2018 was USD 3.2 billion, which is 42.4% higher than in 2017. Correspondingly, our full year total revenue increased by double digits. Due to the successful selection and execution of our projects, gross profit margin for the year increased 27.5%, resulting in bottom line growth of more than [30%] (corrected by company after the call), well above our forecast of [15%] (corrected by company after the call) to 20%.



In the fourth quarter of 2018, our revenue increased substantially reaching 49.1% growth over the fourth quarter of 2017. We also made notable improvements to our margins: gross profits increased 72.0% year-over-year, and the gross margin reached 28.7%.

Demand for our active projects in China remained steady and positive, and we advanced on multiple projects while driving positive results for our shareholders. During the fourth quarter, we commenced presales of 10 new projects, 5 in Zhengzhou, 2 in Suzhou and others in Qingdao, Jinan and Dalian. Domestic projects made significant contributions to our total GFA sales and total contract sales.

In term of offshore development, in the fourth quarter of 2018, our projects in the U.S. and Malaysia continued to proceed as planned, and our U.K. project made even further progress in both construction and sales.

During the past year, we maintained our commitment to controlling our financial leverage. We successfully reduced our short-term debt ratio by repurchasing the outstanding bonds and optimizing the debt structure. With increased profit and controlled leverage, we expect to further enhance our financial health.

In addition, we are also pleased to continue our dividend payments in this quarter and our ability to deliver value to our shareholders. Going forward, we remain optimistic about our ability to achieve positive operating performance by focusing on our core business, maintaining our competitive advantages and strengthening our market-leading position.

Now please allow me to turn the call over to our interim CFO, Mr. Xuefeng Li. Xuefeng, please go ahead.

Xuefeng Li - *Xinyuan Real Estate Co., Ltd. - Interim CFO*

Thank you, Mr. Zhang. Hello, everyone, and welcome to Xinyuan's Fourth Quarter 2018 Earnings Conference Call. Allow me to take you through the financial results of this quarter, further discuss our latest operations and initiatives, and conclude by updating you on our financial outlook [for the year of 2019] (corrected by company after the call).

To comply with SEC and Financial Accounting Standards Board's requirements, we have adopted ASC 606: Revenue from Contracts with Customers on January 1, 2018. We adopted ASC 606 on an "over time" basis via the cost to input method and applied the standard only to contracts not completed as of the date of adoption. That means part of our profits will be recognized later than previously estimated under the percentage of completion method.

Our fourth quarter results reflect the adoption of ASC 606, especially with regard to revenues and net income and may not be directly comparable to the same period last year. All references below are in US dollar terms unless otherwise stated.

Contract sales were \$724 million in the fourth quarter of 2018, compared to \$823.3 million in the fourth quarter of 2017 and \$571.3 million in the third quarter of 2018.

Total GFA sales in China were about 355,600 square meters in the fourth quarter, compared to 443,600 square meters in the same quarter last year and 277,500 square meters in the last quarter.

Total revenue increased 49.1% to \$1,081.8 million from \$725.7 million in the fourth quarter of 2017, and increased 81.7% from \$595.5 in the third quarter of 2018. The increase was mainly due to the centralized delivery of projects and presale of 10 projects in fourth quarter.

The average selling price per square meters sold in China was around RMB 13,500 in the fourth quarter of 2018, compared to about RMB 13,400 in last quarter and about RMB 12,100 in the fourth quarter of 2017.

SG&A expenses as a percentage of total revenue decreased to 9.9% from 10.8% in the fourth quarter of 2017 and increased from 8.0% in the third quarter of 2018.

Interest expenses this quarter was about \$20.6 million compared to about \$21.8 million last quarter, and \$25.2 million in the same quarter last year. The year-over-year decrease was caused by a lower debt balance at the end of fourth quarter of 2018.

Due to foreign exchange fluctuations, exchange loss in this quarter was about \$65,000 compared to about \$15.5 million exchange loss last quarter.

Net income for the fourth quarter increased to \$104.2 million compared to \$35.4 million net earnings for the fourth quarter of 2017.

Diluted net earnings per ADS attributable to shareholders were USD 1.15 compared to USD 50 cents net earnings per ADS in the fourth quarter of 2017.

The company repurchased 2.2 million ADS in fourth quarter of 2018. The total ADS repurchased in 2018 is \$4.5 million.

Our full year contract sales of 2018 decreased because it only includes contracts that qualify for revenue recognition. The excluded contracts will be qualified in the coming quarters and the contract sales will be recovered.

Balance sheet. As of December 31, 2018, the Company's cash and cash equivalents was USD 1.2 billion compared to USD 1.4 billion, as of September 30, 2018.

Total debt outstanding was USD 3.5 billion, decreasing from USD 4.1 billion at the end of the third quarter of 2018.

The balance of the company's real estate properties under development at the end of fourth quarter of 2018 was about USD 3.8 billion compared to USD 4.5 billion at the end of the third quarter of 2018.

Shareholders' equity at the end of the fourth quarter of 2018 was about USD 758 million compared to about USD 658 million at the end of third quarter of 2018.

Project updates. As of December 31, 2018, our total unsold land bank was 5.7 million square meters.

U.S. project updates. As of December 31, 2018, our Oosten project in Brooklyn New York, has recognized a total revenue of about \$259.3 million from sales of 176 units out of 216 total units, representing approximately 81.5% of total the units sold.

Our Hudson Garden project in Manhattan, New York, completed construction up to 6th floor. With design drawing optimization, the total number of units increased from 82 to 92. A total of 29,000 square foot out of the 38,000 square foot of retail/commercial space has been leased to the U.S. department store retailer, Target, with 20-year lease. A soft launch began in the fourth quarter of 2018.

We continue to execute on planning, governmental approvals and pre-development of our ground-up development project in Flushing, New York. After the Landmark Protection Committee's approval on our landmark protection plan, we were awarded with a Certificate of Appropriateness. Transfer of work is to be completed by the end of February 2019.

U.K. projects updates. In the fourth quarter of 2018, we added another 8 floors to the structural core of the building, with only 11 floors left to finish for a 53-story building for our completion target of 2020. By the end of the fourth quarter 2018, all of the 104 Affordable Housing apartments of the 423 units in Madison project have been presold. Of the remaining 319 apartments, 133 apartments have been sold, representing 41.7% of the total numbers of units.

Dividend. We announced a cash dividend for the fourth quarter of 2018 of \$0.10 per ADS, which will be paid before March 12, 2019, to shareholders record as of February 25, 2019.

And finally, on to our full year 2019 financial forecast. For 2019, we expect an increase in contract sales of about 10% and an increase in consolidated net income of 15% to 20% over 2018.

This concludes my prepared remarks for today's call. Operator, we are now ready to take some questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will take our first question from Michael Prouting with 10K Capital.

Michael Prouting

I didn't see any update in the press release on your blockchain initiatives. So I was wondering if you could just update us on that? And any plans that you may have to try to have the value of that initiative reflected in the stock price?

Unidentified Company Representative

(foreign language) Well, as for business in blockchain for Xinyuan, we used to release that in our previous quarterly report. And application for blockchain technology in Xinyuan is now in the very early phase of exploration, especially for the application with our traditional real estate industry, especially -- for example, like the IBM's project now is in the very early stage. In the future days, we will have more comprehensive trying and exploration in this area.

Operator

(Operator Instructions) And there are no questions at this time, so I would like to turn the call back over to management for any additional or closing remarks.

Xuefeng Li - Xinyuan Real Estate Co., Ltd. - Interim CFO

Okay. We thank you for joining us on today's call, and we appreciate your ongoing support. We look forward to updating you on our progress in the weeks and months ahead. Thank you again.

Operator

And that concludes today's presentation. We thank you for your participation. You may now disconnect.

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