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XIN - Q2 2017 Xinyuan Real Estate Co Ltd Earnings Call

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CORPORATE PARTICIPANTS

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

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

Yuan Zhang *Xinyuan Real Estate Co., Ltd. - CFO*

PRESENTATION

Operator

Good day, everyone, and welcome to the Xinyuan Real Estate Co., Ltd. Second Quarter 2017 Earnings Conference Call. Please note that today's conference is being recorded.

I would now like to turn the conference over Mr. Bill Zima of ICR. Please go ahead.

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

Hello, everyone, and welcome to Xinyuan's Second Quarter 2017 Earnings Conference Call. The company's second 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 the 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 may 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 obligation 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 Ms. Helen Zhang, the company's 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 for questions.

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

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

Thank you, Bill. Good morning, and thank you all for joining our second quarter 2017 earnings conference call. We are pleased to report that second quarter 2017 financial results were in line with expectations. Despite ongoing government restriction policies, we have achieved 54% year-on-year contract sales growth and 30% year-on-year revenue growth. We are also pleased to report that we made 5 land acquisitions in China this quarter to further expand and establish our presence in new and old markets. Of the 5 new land purchases, 2 were in made in Zhengzhou and the other 3 in Kunshan, Xi'an and Zhuhai, respectively.

Recently, we completed early redemption of the 13% senior notes due 2019. This lowers our debit -- our debt levels and allows us more flexibility to develop our projects. Whilst ongoing government policies still have impact on the overall real estate market in China, we remain committed to our long-term growth plans. We are confident that Xinyuan is well positioned to take advantage of opportunities through many different channels, whether our market is difficult or when it is seeing growth. We are also pleased to continue our quarterly dividend and share repurchase program, which reflects our commitment to deliver value to our shareholders.

Now please allow me to turn over to our CFO, Ms. Helen Zhang. Helen, please go ahead.



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Yuan Zhang - *Xinyuan Real Estate Co., Ltd. - CFO*

Thank you, Mr. Zhang. Hello, everyone, and welcome to Xinyuan's Second Quarter 2017 Earnings Conference Call. Allow me to take you through the financial results for this quarter, further discuss our latest operations initiatives and conclude by updating you on our financial outlook for the rest of the year.

Contract sales increased 54% to \$732 million from \$474 million in the second quarter of 2016 and marked quarterly increase of 140%. Contract sales in China totaled \$712 million in the second quarter, up 50% from \$474 million in the same quarter of 2016 and up 195% quarterly. Total revenue increased 30% to \$488 million from \$777 million (sic) [\$377 million] in the second quarter of 2016 and increased 74% from first quarter 2017. Both the increases in contract sales and revenue have reflected the company's solid marketing performance and strong product demand under current restrictive policies.

Total gross floor area sales in China were 410,000 square meters in the second quarter of 2017, up 19% year-on-year and up 192% from first quarter 2017. The average selling price per square meter sold in China was about RMB 12,000 compared to about RMB 9,000 in the second quarter of 2016 or about RMB 11,800 in the first quarter this year. Selling, general and administrative expenses as a percentage of total revenue decreased to 9.9% from 11% in the second quarter of 2016 and 13% last quarter as a result of our efforts to control expense percentage.

Net income was \$21 million in the second quarter, down from \$28 million same quarter last year and up from \$7 million in the first quarter this year. Diluted net earnings per ADS attributable to shareholders was \$0.14 compared to \$0.39 in the second quarter of 2016 and \$0.11 per ADS in the first quarter of 2017.

The net income this quarter ended lower than that of the same period last year mainly for 3 reasons. First, we spent more selling and distribution expense on commercial products to cope with ongoing restrictions, which have turned out to successfully support our revenue. Second, interest expense increased partially because our a new bond issuance of USD 300 million, which completed in February, yet our USD 2 million bond was redeemed in July, which caused a larger debt amount in this quarter.

Another reason is some of our financings in this quarter haven't been capitalized yet. This, from another perspective, demonstrates the company's financing capability since most of our peers are facing financing challenges, both onshore and offshore. Our financing highlights will be discussed later. And the third reason is in the second quarter last year, we enjoyed a onetime LVAT refund during the final settlement of one project totaling around USD 9 million. Taking these factors into consideration, the company's overall operation in this quarter has been solid, and we aim to further improve it during the second half of this year.

And now let's turn to balance sheet. As of June 30, 2017, the company's cash and cash equivalents, including restricted cash, increased to about USD 1.3 billion from \$1.25 billion as of the end of Q1 2017. Total debt outstanding is around \$2.7 billion, an increase of \$320 million compared to \$2.3 billion at end of first quarter this year. The incremental part is mainly domestic financing, both country level and project level, including a domestic bond issued in April totaling about RMB 1.1 billion.

The balance of the company's real estate property under development at end of the second quarter of this year was about \$2.1 billion compared to \$1.9 billion at end of the first quarter of 2017.

This number doesn't reflect all the new projects we have purchased. Some of them are currently booked at other deposits, considering project status.

And then let's come to project updates. During the second quarter, we continue our strategy of expansion through strategic land acquisitions. We increased our presence in Zhengzhou by acquiring 2 additional land parcels, one of them in prime location to further expand our Shilipu development project, which we originally announced in 2016. The other project is located around Zhengzhou's central business district, downtown of the city.

We also expanded our presence in Kunshan market by securing a land parcel in an attractive location being auctioned by local port. The project will help refuel our land bank around Shanghai, where the company has already gained sound reputation and track record. Additionally, we acquired



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our second project in the city of Xi'an, the capital of Shaanxi province. We're confident for the market in Xi'an as it is at the starting point of the Silk Road Economic Belt, which is part of the One Belt, One Road initiative, China's largest inland port and logistics program to connect over 16 countries and 18 Chinese provinces.

Apart from these existing markets, we're glad to report that we had made our entrance into a new city, Zhuhai, an important composition of the Guangdong, Hong Kong and Macao Greater Bay Area, as mentioned in the annual government work report this year. With these 5 projects, we have added a total of about 800,000 square meters of planned development in the second quarter. This will support our growth in the years to come.

Now some update of our U.S. projects. All our 3 U.S. projects are proceeding in accordance with our plan. For project Oosten in Brooklyn, it recognized revenue of about \$21 million this quarter, which brings total revenue reported to \$238 million year-to-date, and the construction loan has been fully paid. Also, the project has just been recognized by the Brooklyn Chamber of Commerce by winning the Best Residential Condominium Building category of the 2017 Building Brooklyn Awards. This is the first time that special award is being won by a non-U. S.-based developer.

For project Hudson Garden in Manhattan, we're continuing its foundation work in due course. And for project RKO theater in Flushing, the company has been continuing to execute on planning, government approvals and predevelopment of the ground-up development.

And now debt refinancing. Recently, we announced the completion of the early redemption of the 13% senior notes due 2019. The refinancing improves our debt structure and allowed us greater flexibility to continue executing our real estate development projects.

And then our dividend and share repurchase. During the second quarter, we repurchased about 950,000 ADSs at a total cost of about USD 4.7 billion (sic) [USD 4.7 million]. We also announced of the cash dividend for the second quarter of 2017 of \$0.10 per ADS, which will be paid to investors on September 15 to shareholders of record as of August 31 of this year. We see our dividend policy as a long-term commitment to shareholders.

And now let's come to financial forecast for the rest of the year. For the third quarter this year, we estimate our contract sales to be around RMB 4 billion. This will make our total 9-month contract sales to reach around RMB 11 billion and 30% year-on-year growth compared to the same period 2016.

And this concludes my prepared remarks for today's call. And operator, we'll now open to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from [John Sheehy] A private investor.

Our next question comes from [George Bu], private investor.

Unidentified Participant

What is the reason for the such high tax rate? It used to be -- I remember it's like 30%, 40% tax, but now it's always 60%.

Yuan Zhang - Xinyuan Real Estate Co., Ltd. - CFO

Our effective tax rate for the second quarter this year is around 55%. And if we compare the effective tax rate of last quarter, it was 66%. So this quarter was lower than the previous one.



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Unidentified Participant

I see. But a few years ago, I remember that the tax rate was lower. Just this year somehow, the tax rate is higher. Just can you clarify on that?

Yuan Zhang - *Xinyuan Real Estate Co., Ltd. - CFO*

I don't think the tax rate is much higher compared to previous years. But I guess, 2 reasons. One is, this year, 45% of our sales are coming from commercial projects. So commercial projects has a higher LVAT tax rate compared to residential. And second one is we issued about USD 600 million bonds, and some of the interest expense hasn't been capitalized in our project, which is not tax deductible.

Unidentified Participant

Okay. My other question is, what is non-controlling interest? What entity is that? I mean, you pay quite a bit of money after tax to them.

Yuan Zhang - *Xinyuan Real Estate Co., Ltd. - CFO*

For this quarter, there's one project named Zhengzhou International New City, which attributed 50% of our overall contract sales. It was a joint venture between Xinyuan and another company, and we hold 51%. The other party holds 49%.

Unidentified Participant

Okay. How -- do you pay a tax in U.S. separately? Or is that accounted for the project in Brooklyn?

Yuan Zhang - *Xinyuan Real Estate Co., Ltd. - CFO*

Yes, we pay tax in U.S. separately as long as we accrue net profit.

Operator

(Operator Instructions) Our next question comes from [John Sheehy], private investor.

Unidentified Participant

I'd like to ask -- Xinyuan's website mentions sales of RMB 1.3 billion in 2 minutes at the Zhengzhou International New City Project in June. Can you explain how this was achieved and how these sales will be recognized in Xinyuan's financial statements?

Yuan Zhang - *Xinyuan Real Estate Co., Ltd. - CFO*

Okay. Thank you, John. Actually, the project that you are talking about is the one we just talked about, is Zhengzhou International New City. And we call this program crowd subscription. It -- the procedure goes like this. The potential buyer needs to deposit RMB 50,000 and then sign a letter of intent to become valid for this program. And then the company will illustrate the layout of each housing unit online, and then we announce an online presale date. So before -- at the official start of the online presale, the units will be normally placed -- subscribed by the first applicants who chose it. So under this program, there was about 2,000 people who registered, and then we had 970 units sold. And then the buyer was required to complete 30% down payment within certain time after the online presale and then sign the formal purchase agreement. And I have to mention that this 200 (sic) [2000] people who registered on this program actually are qualified buyers under the restrictive policy. That's what had happened.



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Unidentified Participant

And how much of those sales were reported in the second quarter? Or will some of them not be delayed -- not be recognized until the third quarter or later?

Yuan Zhang - *Xinyuan Real Estate Co., Ltd. - CFO*

Most of these sales we recorded in this quarter because, as I mentioned, almost all of the buyers are qualified buyers under restriction policy. And they paid 30% down payment after signing of the formal contract.

Unidentified Participant

Okay, that's great. That's very helpful. And can you give us an update on Xinyuan's blockchain business?

Yuan Zhang - *Xinyuan Real Estate Co., Ltd. - CFO*

As many peer companies in China, Xinyuan is also actively looking for opportunities to merge this traditional real estate and the cutting-edge technologies. And to be more specific, our program actually is called (inaudible), which is aimed to utilize the blockchain technology to provide credit evaluation services related to property transactions. And this is the update, and then we will readily disclose if anything material happens.

Unidentified Participant

Okay. And my last question is, can you give us an update about Xinyuan's land acquisition plans for the rest of this year?

Yuan Zhang - *Xinyuan Real Estate Co., Ltd. - CFO*

We had a budget for land acquisition this year. The budget is around -- is in the range of RMB 7 billion to RMB 8 billion. And this year, we've already paid RMB 3 billion for certain projects we've already acquired, and the unpaid amount related to the projects we acquired was -- is about RMB 2 billion. And then for the rest of this year, probably we're going to spend another RMB 2 billion for mergers and acquisitions. We'll see the change of the market. If more opportunity is coming up, it fits the criteria of the company, we'll see whether we're going to spend more or less. That's the plan.

Operator

(Operator Instructions) It appears we have no other questions at this time. I would now like to turn the conference back over to management for any additional or closing remarks.

Yuan Zhang - *Xinyuan Real Estate Co., Ltd. - CFO*

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

Operator

That does conclude today's conference. Thank you for your participation.



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