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XIN - Q3 2013 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

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Albert Jones *Jones Capital Management - Analyst*

Pat O'Donohue *Weeden & Company - Analyst*

Michael Madrid *Private Investor*

PRESENTATION

Operator

Good day and welcome to the Xinyuan Real Estate Company Limited Third Quarter 2013 Earnings Conference Call. This conference is being recorded and now, at this time, I'd like to turn the call over to Ms. Helen Zhang. Please go ahead.

Helen Zhang - Xinyuan Real Estate Company Limited - Financial Controller

Hello, everyone, and welcome to Xinyuan's Third Quarter 2013 Earnings Conference call. The Company's third quarter earnings results were released earlier today and 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 US Private Securities Litigation Reform Act of 1995. Forward-looking statements involve the inherent risks and uncertainties. As such, our result might be materially different from the views expressed today.

Further information regarding these and other risks and uncertainties is included in our registration statements and our Form 20-F and other documents filed with the US Securities and Exchange Commission.

Xinyuan does not assume any obligation to update any forward-looking statements, except as required under the applicable law.

Today, you will hear from Mr. Yong Zhang, our Chairman, who will comment on current operations and provide some perspectives on the market environment. He will be followed by Mr. Kevin Wei, our Chief Financial Officer, who will provide additional color on our performance, review the Company's third quarter 2013 financial results and discuss our outlook for the fourth quarter and full year of 2013.

Following management's prepared remarks, we will open the call to questions. During the Q&A session, Mr. Zhang will speak in Mandarin, and I will translate his comments into English.

Please note that unless otherwise stated, all figures mentioned during in this conference call are in US dollars.

I will now turn the call over to Xinyuan's Chairman, Mr. Yong Zhang. Please go ahead, sir.

Yong Zhang - Xinyuan Real Estate Company Limited - Founder, Chairman

Hello, everyone, and I thank you for joining us today. We are pleased to report another stronger quarter with our third quarter revenue on the (inaudible) exceeding our previous guidance.



This result was driven by solely our intentional exclusion with our existing development purchase which include two new projects launched during the quarter, and added by robust homebuyer sentiment in the city in relation with [upgrade]. The [positive] sale [meant] have been an eventful period for Xinyuan.

We will create a stronger salable investment position and has strengthened our future revenue toughness by adding five new project to our development portfolio in the last two [months] alone. In the fourth quarter, we have three new projects scheduled to commence pre-sale, namely Beijing Xindo Park, Xuzhou Colorful City and our newly acquired project in Kunshan.

During the third quarter, we've reached an agreement with TPG, one of the world's leading private investment firms. On which TPG has invested \$109 million in Xinyuan. We are pleased to partner with TPG and I believe their proceeds and long-term support will allow us to extend our land portfolio and improve our [even though enforced quarter] and operational capabilities to drive future growth.

With strong our management team in the [sentiments] through the action of (inaudible) in Yong Zhang as our CEO and Kevin Wei as our CFO. Mr. Zhang and Mr. Wei are highly experienced executives. (Inaudible) is for growth potential.

Overall, 2013 has been a very productive year for Xinyuan's development there so far. The current development of domestic real estate industry remains stable. And we are confident in seeing it as the long-term strategy and the growth potential.

Finally, we are pleased to release our four years of guidance [outflow] today and to have essentially announce our third quarter quarterly cash dividend this year. Now, I would turn the call over to Kevin Wei, our Chief Financial Officer.

Kevin Wei - *Xinyuan Real Estate Company Limited - CFO*

Thank you, Mr. Chairman. Hello, everyone, I'm Kevin Wei. I just recently joined Xinyuan as the CFO in September. I would like to thank you for joining our call today.

This past third quarter was a transformative one for Xinyuan. First, we have successfully completed a strategic partnership with TPG who has invested \$108.6 million in our company. The investment was comprised of \$75.8 million, of 5% convertible note, and \$32.8 million of common shares.

With the investment proceeds and the long-term support from TPG, we're positioned to further expand our land portfolios and continue to develop our internal infrastructure and operational capabilities to drive future growth.

Secondly, we launched two new projects that generated over 35% of this quarter's contract sales in just one month of operations in September. Now, needless to say, customer demand at these two projects in Zhengzhou XIN City and Suzhou City exceeded expectations and it helped us overcome diminishing inventory at our legacy projects.

The next quarter promises to be just as exciting as new project launches are planned in Kunshan, [Xuzhou], with our flagship Xindo Park project in Beijing as well.

In amid execution of these five project launches in just the last four months of 2013, the Company has been acquiring light inventory to secure our future growth. And I will talk a little bit more on this later.

We were sufficiently encouraged by the sales activities and the project execution that we are once again raising contract sales, revenue and net income data for 2013.

Now, let me walk you through our third quarter audited numbers which are all in US dollar unless otherwise noted. Contract sales in the third quarter reached \$243.7 million versus \$196 million recorded in the second quarter for a sequential increase of 24%. There were also 16% ahead of the previously guidance.



New project contract sales at Zhengzhou XIN City and Suzhou XIN City reached 31,600 square meters and a 29,300 square meters respectively, representing 40% of the total GFA sold by Xinyuan in the third quarter.

Contract sales when these two new projects were virtually twice the level we expect in our previous guidance. Chengdu Xinyuan Splendid remain our best-selling project with 48,500 square meters sold in Q3 with higher ASP. Overall, ASP continue to firm up in a still robust market but also due to several projects nearing completion where we historically begin to sell higher priced commercial space.

Our reported weighted average ASP rose 20% from RMB8,312 per square meter in Q2 to RMB9,976 per square meter in Q3. This was partially due to the strong market and a greater mix of commercial versus residential sales in our legacy projects and it was also due to the fact that Q2 included a lower ASP contractual off-market sale to the government of 46,800 square meter into Chengdu Xinyuan Splendid project.

Major improvements from the second quarter was our inventory of salable GFA from active projects. As you may see from our earnings release, our saleable GFA on our active project has significantly increased to 440,200 square meters at the end of September from a 278,000 square meter at the end of Q2.

Now, adding the planned project salable GFAs, our total saleable GFA pipelines has increased to approximately 1.58 million square meters. Now, I want to discuss about the land acquisition at a later stage.

Now, for GAAP revenue under the US GAAP percent of completion method totaled \$240.7 million, up 21.3% sequentially and the 12% higher than the previous guidance. Now, this is mainly driven by the contract sales improvement of 16% over guidance mentioned earlier. The top three old projects contributed \$133.2 million or 55% of Q3 GAAP revenue. These three projects are Chengdu Xinyuan Splendid, Zhengzhou Century East B and Zhengzhou Royal Palace.

Now, two newly launched projects in Q3 as mentioned above achieved \$47.9 million GAAP revenue or 20% of total Q3 revenue.

The third quarter gross profit totals \$78.5 million or 32.6% of revenue as compared to last quarter's gross profit of \$69.9 million or 35.2% of revenue.

Project completion settlements has a significantly [considerable] impact on our gross margin in the second quarter, while such amounts were much less significant in the third quarter.

Quality estimates for total project cost were stable in Q3 while project revenue estimates inched a little bit higher with ASP improvement realized in the third quarter.

As far as operating expense goes, selling and distribution expenses rose significantly in the third quarter from \$2.9 million in Q2 to \$5.6 million in Q3 or from 1.4% of revenue to 2.3% of revenue. Now, this is due to more advertising and promotional spendings on Zhengzhou XIN City and Suzhou XIN City projects which were launched in September.

General administrative expenses rose from \$11.9 million in the second quarter to \$17.4 million in Q3 or from 6% of revenue to 7.2% of revenue. The one cause of this rise in SG&A was 44% increase in the management headcount over to Q2.

Now, from 159 headcounts to 229, these headcount increase to handle our increase to project launch activities as well as to execute our land acquisition plans.

Now, the factor for this increase was the accrual and a partial payout of additional incentive and retention bonuses for key managers in preparation of accelerated growth in the future.

And that income from the third quarter of 2013 was \$28.7 million compared to \$39.4 million in the second quarter. The sequential shortfall was due to only -- was due not only to an investment in SG&A spending but also due to the fact that the second quarter of 2013 results benefited from a one off \$9 million income tax benefit realize.



With that being said, we did beat a \$27.5 million midpoint guidance by \$1.2 million over the net income for Q3.

Third quarter fully diluted earnings per ADS was \$0.39 when you compare to \$0.54 in the second quarter and the \$0.44 in a year ago second quarter.

Now, on the balance sheet item, as of September 30, 2013, we have \$796 million in cash and cash equivalence included restricted cash as compared to \$874.7 million as of the June 30, 2013 due to substantial land purchases made in the quarter.

Total debt outstanding was \$515.6 million, an increase of \$4.9 million compared \$510.7 million at the end of second quarter 2013.

The balance of the Company's real estate property under development at the end of third quarter was \$534.7 million compared \$605.7 million at the end of second quarter. The book value was \$11.55 per ADS as of September 30, 2013.

Now, in short, we'll continue to enjoy healthy cash positions while adding substantially to our land resources.

Now, regarding the land acquisition as noted last quarter, our operational team has been very focused on land acquisitions. And the third quarter starts to show the results of these efforts. In the third quarter, we purchased three parcel of land near Zhengzhou City and one parcel in Suzhou, for a total consideration of approximately \$501 million. As of September 30, 2013, we have paid approximately \$154 million of this total with further payments of \$347 million due in Q4 and the future years.

The three parcel near Zhengzhou was successfully purchased under our negotiated acquisition model which was initiated over a year ago whereby we enter into the agreement as local land bureaus to make a refundable deposit facilitated by preparation work to bring projects to auction. There's no assurance that we'll always be a successful in any negotiated acquisitions. If we are not successful bidder, we will receive back our deposit.

In October 2013, we also completed the acquisition of the entity, only a parcel of land in Kunshan for a total consideration of \$137 million. Total GFA for this project is 284,000 square meter of which 64,000 square meter is currently under [restruction] for which we can expect to commence presale in the first quarter of 2013.

Now, this is also another new alternative way of trying new development projects other than government land options.

Going forward, senior management team remains focused on making additional land acquisition through these different channels.

Now, a quick update on the US operation. Our Williamsburg project in Brooklyn, New York remains on schedule as the groundbreaking remain projected before the end of this year. We will remain active in seeking future similar attractive US development opportunities.

Regarding our guidance. For the fourth quarter of 2013, company expect contract sales to reach between \$310 million and \$320 million. It will continue to be an exciting transition period for Xinyuan as we plan to launch three new projects in Kunshan, Suzhou and Beijing with a total GFA of 519,200 square meter pipeline.

Net revenue under the percent of completion method for the first quarter is estimated to be \$255 million to \$265 million. First quarter net income is estimated to be in a range of \$20 million to \$30 million. Please know that these estimates are based on the management of the latest forecast and are subject to change, depending on the successful launch in Q4 of Beijing Xindo Park project and a contrast sales contributions from the two other new launches as well as the existing active projects.

As for total year 2013, based on the latest forecast for Q4, we're raising our four-year guidance in light of the continuous ASP firmness and a higher confidence and ability to launch three additional new projects on time in Q4. Contract sales are expected to be \$930 million to \$940 million up from previous guidance of \$900 million. Net revenue is estimated to reach between \$860 million to \$870 million up from the previous guidance of \$820 million. Net income expects to exceed \$150 million, up from \$110 million guided previously.

Now, this concludes our prepared remarks. Operator, we're now ready for questions. Please go ahead with the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions).

And we'll go with our first question. Albert Jones with Jones Capital Management, please go ahead.

Albert Jones - Jones Capital Management - Analyst

Hello, gentlemen. Can you give me a quick update on the Reno and Irvine properties, was there anything sold in the quarter?

Kevin Wei - Xinyuan Real Estate Company Limited - CFO

The Reno and Irvine project we sold a relatively small amount but is substantially completed at the end of this quarter.

Albert Jones - Jones Capital Management - Analyst

And we expect any meaningful sales in the current quarter?

Kevin Wei - Xinyuan Real Estate Company Limited - CFO

The fourth quarter, you mean? Not a significant amount.

Albert Jones - Jones Capital Management - Analyst

This fourth quarter not --

Kevin Wei - Xinyuan Real Estate Company Limited - CFO

Yes.

Albert Jones - Jones Capital Management - Analyst

You can't anticipate anything coming from there?

Kevin Wei - Xinyuan Real Estate Company Limited - CFO

No, not a significant amount.

Albert Jones - Jones Capital Management - Analyst

Okay. Is there any settlement conference this quarter or the follow -- next quarter?



Kevin Wei - *Xinyuan Real Estate Company Limited - CFO*

Can you repeat that question, settlement what?

Albert Jones - *Jones Capital Management - Analyst*

Settlement conferences you know on cost estimates for projects near completion. I notice as projects get near completion, you have some settlement conferences to where you might garner some funds coming in like you had the last few quarters.

Kevin Wei - *Xinyuan Real Estate Company Limited - CFO*

Sure. I mean, I think the -- I think the previous quarters I think are quite significant. This quarter, we had some like close to around \$3 million or \$4 million. But in the future, I think -- you know, as a Reno amount, it's not a significant amount expected.

Albert Jones - *Jones Capital Management - Analyst*

Okay. Can you talk about the price range for Beijing Xindo Park and the margins on that that might be available being that Beijing is a higher price point?

Kevin Wei - *Xinyuan Real Estate Company Limited - CFO*

Yes. Well, it's going to be probably one of the highest ASP that are among our active projects. You know, it could be in a range exceeding RMB20,000 per square meter. But having said that, you know, we haven't launched that project yet. The price in Beijing as a -- as the --- you know, you're aware of the tier 1 city, it has been very, very strong.

So -- and also, there are a certain amount of rules and regulation that impose by the Beijing government that -- for example, that as soon as we obtain the sales permit, the government sometimes what they'll want is to impose a ceiling price on that as well. So, we're actually very careful evaluating strategy getting the sales price.

But, you know, I -- the land clause already was disclosed before too. I mean, the construction costs add together is a -- you know, higher probably than the tier two, tier three cities. But we remain very confident and hopeful that the gross margins for this project is going to be strong.

Albert Jones - *Jones Capital Management - Analyst*

I noticed a few months back there was a mention of possibly going into Shandong area with a managed auction situation for some land acquisition there. Is anything moved forward on that?

Kevin Wei - *Xinyuan Real Estate Company Limited - CFO*

You know, we continue to evaluate in Shandong as well in the Zhengzhou areas. And there's one large project we recently tried to bid but we, you know, decided to switch it to some alternative options and then the -- we have a -- as we talked about earlier, we already successfully obtained the three land from the negotiated acquisition model as well.

So, we'll continue to utilize that. But so far, you know, we haven't announced any major acquisitions in one of those provinces. But we are very active in several key markets as we speak.



Albert Jones - *Jones Capital Management - Analyst*

Can you also tell me what you guys are actively looking outside of China for development projects?

Kevin Wei - *Xinyuan Real Estate Company Limited - CFO*

Yes. We're always being presented with opportunities given the fact that we already invest several projects in the US and there was a major one in Williamsburg. We have been constantly seeking, you know, attractive opportunities including west coast, east coast in the US as well.

On top of that, I think we're still open for potentially other part of the world that where the mostly attractive to potential Chinese buyers for investment on immigration kind of intention.

Albert Jones - *Jones Capital Management - Analyst*

One final question on the New York project, your financing costs over there. Do you anticipate those to be less expensive than what you get in China?

Kevin Wei - *Xinyuan Real Estate Company Limited - CFO*

Well, I guess, yes. I mean, the construction loans just have the same in US dollars and get domestic in US and should be, you know, comparable to all the other real estate companies in the US. So, between 4 or 5% I think should be significantly lower.

Albert Jones - *Jones Capital Management - Analyst*

Okay, thank you. Good quarter, guys.

Kevin Wei - *Xinyuan Real Estate Company Limited - CFO*

Well, thank you for your question.

Albert Jones - *Jones Capital Management - Analyst*

You're welcome.

Operator

(Operator Instructions).

And we'll hear next from Pat O'Donohue from Weeden & Company.

Pat O'Donohue - *Weeden & Company - Analyst*

Sorry if I'm late and if this is already addressed. I was wondering if you could comment on the SG&A grown from 9.6% from 6.6% two years ago, a 45% increase. I was wondering if you could comment on that?



Kevin Wei - *Xinyuan Real Estate Company Limited - CFO*

Yes. As I mentioned a little earlier, we are continuing to expand so we have expanded our headcounts in various functions to continue to seek more land acquisition opportunities as well as the launch of the new projects as we've talked about.

In addition, obviously, with the recruitment of the new management, we have accrued a certain amount of incentive compensations, retention compensations in the third quarter.

You know, this -- you could look at this as it could be sort of applicable for a little bit early part of this year as well and a little bit part of for the future quarters as well. So, we do expect maybe the G&A expenses would continue to be at a level that will sustain our investment in the human capital, if you will.

Pat O'Donohue - *Weeden & Company - Analyst*

Do you expect this 10%-ish to continue higher or maybe go back down or?

Kevin Wei - *Xinyuan Real Estate Company Limited - CFO*

Well, I think that ratio part is always a little bit to pinpoint the fact that we've given the guidance of, you know, much higher revenue for the fourth quarter. I think even with some kind of a slight increase, let's say, if you do have an increase, then the percentage should remain relatively stable or potentially slightly lower.

But that's why we -- you know, if you notice that we did give a fairly larger range, I guess, in terms of net income for the fourth quarter, about \$20 million to \$30 million.

Pat O'Donohue - *Weeden & Company - Analyst*

Right. Okay, thank you.

Kevin Wei - *Xinyuan Real Estate Company Limited - CFO*

Thank you for your question.

Operator

(Operator Instructions). And we'll take a question from a private investor, [Michael Madrid].

Michael Madrid - *Private Investor*

Oh, yes, hi, guys. Just kind of related to the last question. But I know you've been putting a lot of things in place the last couple quarters which has increased expenses. When do you expect profits to increase? They've been a little flat the last couple quarters.

Kevin Wei - *Xinyuan Real Estate Company Limited - CFO*

Could you repeat the last sentence that we expect our profit to what, sorry.

Michael Madrid - - *Private Investor*

Profit and profit guidance seems to be a little flat the last couple quarters. Was wondering when you expect that to pick up again.

Kevin Wei - *Xinyuan Real Estate Company Limited - CFO*

We unfortunately cannot give any future guidance other than the fourth quarter and the entire year. But I think the upside, obviously, is the fact that we invest so much in the land acquisition as you notice that our salable GFA was at a fairly low level at the end of the second quarter. And, you know, we have brought that up to 440,000 square meter.

And then, the fact that we already have acquired more land to have a total 1.58 million square meters GFA I think will indicate that our future revenue, first of all, the contract sales could be significantly higher than what we have achieved for this year.

I mean, sure, we're going to have incurred, you know, this year, as a result, we've got some additional loans that the interest expense could be higher but we remain very hopeful that these investment will pay out in the little bit longer term, as I say, over a 12-month period, 12 to 18-month period, like I say.

Michael Madrid - - *Private Investor*

Okay, great. So, -- and I expect next quarter, we'll get more guidance as to what you expect for 2014?

Kevin Wei - *Xinyuan Real Estate Company Limited - CFO*

Yes. I mean, we will evaluate the basis for it based on our annual budget and the current market conditions and project status when we announce our fourth quarter to give a -- we always give a current quarter, next quarter guidance, as well as maybe the annual guidance as well.

Michael Madrid - - *Private Investor*

Okay. Great, thanks for -- thanks for the info and you guys are doing some exciting things.

Kevin Wei - *Xinyuan Real Estate Company Limited - CFO*

Thank you for your question.

Operator

(Operator Instructions).

And with no additional questions, I would like to turn the call back over to management for any additional or conclusion remarks.

Kevin Wei - *Xinyuan Real Estate Company Limited - CFO*

Well, thanks, everybody for joining our call today. We're looking forward to speaking with you in the next quarter. Thanks, again.



Operator

Ladies and gentlemen, this will conclude your conference for today. We do thank you for your participation.

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