THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

XIN - Q3 2016 Xinyuan Real Estate Co Ltd Earnings Call

EVENT DATE/TIME: NOVEMBER 14, 2016 / 1:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

William Zima *ICR - IR*

Lizhou Zhang *Xinyuan Real Estate Company, Lt - CEO*

Yuan Zhang *Xinyuan Real Estate Company, Lt - CFO*

CONFERENCE CALL PARTICIPANTS

Karen Kwan *Deutsche Bank - Analyst*

Matthew Larson *Morgan Stanley - Analyst*

Albert Jones *Jones Capital Management - Analyst*

Richard Geronimo *- Private Investor*

PRESENTATION

Operator

Good day, everyone. Welcome to the Xinyuan Real Estate Company Limited third quarter 2016 earnings conference call.

Please note that today's call is being recorded.

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

William Zima *- ICR - IR*

Hello, everyone. Welcome to Xinyuan's third quarter 2016 earnings conference call. The Company's third 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 US Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our results will 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 US 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.

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

Lizhou Zhang *- Xinyuan Real Estate Company, Lt - CEO*

Thank you, Bill. Good morning and thank you all for joining our third quarter 2016 earnings conference call. We are pleased to achieve strong financial results for the third quarter of 2016 with strong increases to our contract sales, GFA sales, and net income over the prior-year period. Recently, we are pleased to acquire additional land parcels in Zhengzhou and Changsha at very attractive prices to further extending our presence in the local markets.

On the financial front, we successfully completed the debt refinance during the past months, which improves our financial position. Entering into the fourth quarter, we experienced the policy change which may affect sales at some of our projects. We will continue our quarterly dividend program and repurchase stock based on valuation and maximized value for shareholders.

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

Yuan Zhang - *Xinyuan Real Estate Company, Lt - CFO*

Thank you, Mr. Zhang. Hello, everyone. Welcome to Xinyuan's third quarter 2016 earnings conference call. Overall, we experienced strong financial performances for the third quarter, which benefited from steady year-over-year ASP and GFA volume sales in most of our major projects. Allow me to further take you through the numbers for this quarter, further discuss our latest operations initiatives, and conclude by updating you on our financial outlook for the remainder of the year.

Contract sales increased about 70% to $525 million from $310 million in the third quarter of 2015, and increased 11% from $474 million in the second quarter of 2016. Total gross floor area sales improved by 46% to 341,000 square meters from about 233,000 square meters sold in the third quarter of 2015, and decreased 1% from 345,000 square meters sold in the second quarter of 2016. The average selling price per square meter sold was RMB10,000 in the third quarter of 2016 compared to about RMB8,000 in the third quarter of 2015, and about RMB9,000 in the second quarter of 2016.

Total revenue for the third quarter increased by about 44% to $444 million from $309 million in the third quarter of 2015, and increased 18% from $377 million in the second quarter of 2016. The revenue increase was mainly due to strong real estate market demand in China's Tier 1 and Tier 2 cities where many Xinyuan development projects are located.

Gross profit for the third quarter of 2016 was about $105 million or 24% of revenue compared to gross profit of $83 million or 27% of revenue in the third quarter of 2015 and a gross profit of above $77 million or 21% of revenue in the third quarter of 2016. The gross margin increase was due to favorable sales at higher margin projects, for example, the newly launched Kunshan Xindo Park contributed 12% (corrected by company after the call) of revenue in the quarter with gross margin around 40%.

SG&A expenses were about $54 million for the third quarter of 2016 compared to $49 million for the third quarter of 2015, and $41 million for the second quarter of 2016. As a percentage of total revenue, SG&A expenses decreased to 12% compared to 16% in the third quarter of 2015 and 11% in the second quarter of 2016. The SG&A increase was mainly due to selling expenses and promotion fees increased for the launch of two new projects, namely Zhengzhou International New City Phase I and Kunshan Xindo Park, as well as higher commission rate of commercial sales related to our two project namely, Xi'an Xindo Park and Changsha Splendid.

Net income for the third quarter of 2016 was about $28 million compared to $23 million for the third quarter of 2015 and $28 million for the second quarter of 2016. Diluted net earnings per ADS attributable to shareholders were $0.41 compared to $0.31 per ADS in the third quarter of 2015 and $0.39 per ADS in the second quarter of 2016.

Now let's move to balance sheet. As of [September] (corrected by company after the call) 30, Xinyuan's cash and cash equivalents, including restricted cash increased to about $1.4 billion from $899 million as of June 30. Total debt outstanding increased to $2.3 billion, an increase of $281 million compared to $2 billion at the end of second quarter of 2016. The balance of our real estate property under development at the end of third quarter of 2016 was about $2.3 billion compared to $2.1 billion at the end of last quarter.

Our US projects. During the third quarter we continued to make good progress on our Oosten project that based in Brooklyn, New York. We delivered nine apartment units resulting in above $35 million in revenue and the Company had presold approximately 76% of its total units as of the end of the third quarter compared to 73% at end of last quarter.

General sales trend and the pricing activities remain favorable. We expect about $340 million revenue to be recognized in the coming quarter. Our second New York project announced earlier this year, which is located in midtown Manhattan, has completed its design work. We're currently in the selection process for the general contractor and the sales listing agency, and expect to break ground before the end of the year. The location and design of this project are tracking high interest from number of major national retail chains. Most recently, we have signed a leasing contract with a national large-scale retail chain to lease 80% of the total retail space with a term of 20-years-plus and 10-year extension option. This collaboration provides us with a landmark retail tenant at our Manhattan location.

Our third US project, which we announced this past August, is a land acquisition in Flushing, Queens. The property was normally a performance theater. Designs for the buildable development has been prepared by the architectural firm of Pei Cobb Freed with plans for about 270 modern condo residences; that includes amenities such as a 24-hour doorman, gym, tenant lounge, 305 space parking garage and landscaped courtyard as well as a large ground-floor and second-floor retail space. We believe this project will add substantial value to our project portfolio, and expect to begin construction in the first-half of year 2017.

Debt refinancing. Since our last earnings call, we have made a concentrated effort to improve our balance sheet. We completed our debt refinancing through a series of activities, including the issuance of $300 million of 8.125% senior notes due in the year 2019, and the early redemption of 13.25% senior notes due year 2018.

Through these activities, we expect to realize, annualize the interest expense savings of about $6.7 million, and these transactions extend the maturity of our long-term debt, lower our financing cost, and hedge our exchange rate exposure. In addition, we had issued the first tranche of Non-Public Onshore Corporate Bonds of RMB1.5 billion of 7.5% in China, which improved our domestic loan structure. We'll continue to evaluate additional opportunities to further lower our financing costs.

Dividend and share repurchase. As of December 30, we repurchased about 5 million ADSs at a total cost of about $21.1 million this year. We remain committed to our share repurchase program based on market conditions and the Company's operating performance. Earlier today, we also announced our cash dividend payments for the third quarter, which maintained the increased dividend level in the second quarter of this year. The payment of $0.05 per common share or $0.10 per ADS will be paid to investors on December 15 to shareholders of record as of November 28, 2016.

And now, let's talk about the government policy changes. In early October, when the Chinese real estate market was experiencing a meaningful development, the local governments in about 20 cities announced the tightening measures designed to cool a market with escalating prices. These measures announced included higher down payments and home purchase restrictions. Despite the restriction policy, the overall underlying home buying demand remains favorable in our local markets. For example, in our Zhengzhou International New City Phase I project, nearly 100% of presale units were booked on Alibaba's house booking system within a few hours and nearly no buyers withdrew their deposit after the restriction policy was issued.

From the beginning of this year, housing prices increased dramatically in certain cities in China. While we're sharing the benefit of the price upside, we believe the goal of the government's restriction policy is to maintain healthy and stable development of the market by cooling down escalating prices in certain cities, which we support for the long-term sustainable growth of our business. The actions Xinyuan is planning to take in wake of this government policy restrictions, we expect to adjust our sales policy in Q4 by increasing commercial sales, which are not affected by restriction policies, while decreasing residential sales.

In Q3, our residential sales accounted for 93% and commercial was 7%. While in Q4 we expect the residential sales would account for 60%, and commercial sales for 40%. We also decided to temporarily halt residential sales for certain projects, as we believe strong unit demand will recover when restrictions are lifted. To give you some perspective, in our Tianjin Spring Royal Palace project, buyers were willing to purchase units at price of RMB15,000 per square meter prior to the restriction policy. However, with new restrictions in place, there is a price ceiling of RMB10,500 per square meter imposed by the local government.

Therefore, we intend to slow our sales in Q4 and possibly beyond. And we expect the market to recover in the second-half of 2017 based on our understanding of government intentions. Despite the shift in market momentum, we believe overall long-term housing demand trends are strong backed by China's stable economic growth and urbanization process, where a large population migrates into Tier 1 and Tier 2 cities. Based on prior

THOMSON REUTERS

experience with government policy to cool China's housing market, the pattern has been a slowdown in purchase demand, followed by even higher prices and sales volumes once restrictions were relaxed, especially in the cities and regions where we have operation.

Now, let's talk something about exchange risks. For Xinyuan, the exchange risk is more translation risk than transaction risk. Since the majority of Xinyuan's projects are located in China, our Chinese projects have renminbi revenue and renminbi costs, and our US projects have US dollar revenue and US dollar costs. So there are no bid mismatches on our projects. Certainly we are watching now for the currency depreciation issues. We are going to match our US dollar liabilities with our US dollar assets, and also we are using domestic financial measures to cover our domestic real estate fund demand in China, and that helps to balance our currency risks.

And now let's move to our financial forecast. As we look ahead, there are several factors expected to negatively impact our financial results in the fourth quarter, and this includes: one, a $12.1 million one off prepayment premium from the early redemptions of the May 2018 senior notes; and second, a slower-than-expected residential sales activities as Xinyuan's project in selected cities affected by the recent housing purchase restriction policy; and third, we talk about a foreign exchange risk; and fourth, the delay in the presales activity at our Liyuan project in Tongzhou District of Beijing.

And let me try to give you more color on this Beijing project. We acquired the project in April this year at a floor price of around RMB12,000 a square meter. Since the Beijing municipal government has decided to relocate its administrative agencies to Tongzhou District where our project is located. The government is now in the process of re-planning this district from a residential area to a mix of residential and political area, so to facilitate the government function.

During this transaction period we have seen the housing price around our project rising sharply to over RMB40,000 per square meter, up from RMB25,000 per square meter. Though our project construction and presales are delayed due to this re-planning, we believe we will benefit from the change as we launch the project in early year 2018.

As a result, we now expect full-year contract sales to grow in the range of 20% to 25%, and net income to grow between 20% to 25% in renminbi terms compared to last year. And factoring in the foreign currency exchange impact, we are expecting full-year contract sales and net income to grow between 12% to 17% in US dollar terms compared to last year.

This concludes my prepared remarks for today's call. And, Operator, we are now open to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Karen Kwan with Deutsche Bank.

Karen Kwan - *Deutsche Bank - Analyst*

I am wondering given the recent policy measures, what's your land banking attitude within the next 6 to 12 months? And also secondly, can you quickly go over what portion of your interest expenses were capitalized in third quarter of this year and also in first-half of this year?

Yuan Zhang - *Xinyuan Real Estate Company, Lt - CFO*

In talking about our land bank, in Q4 we've prepared the Chinese fund up to RMB2 billion for new project purchase. And for Q1 2017, we were going to prepare about RMB3 billion to RMB4 billion in China for the possible new land acquisition. And we believe by the end of March, year 2017, we are going to have enough land bank, which will secure the sales for the coming three to four years. And talking about the capitalized the interest, in the first-half this year we capitalized about $80 million, and for Q3 this year we capitalized about $48 million.

Operator

(Operator Instructions) Matthew Larson with Morgan Stanley.

Matthew Larson - *Morgan Stanley - Analyst*

Just want to be clear about the new growth rate because of some of the measures being taken over there by the government to cool the market near-term. At the end of last quarter, you had given expectation levels of gain in contract sales of 30% and net income up 50% for the year. And now it is more in the 20% range, is that accurate?

Yuan Zhang - *Xinyuan Real Estate Company, Lt - CFO*

Yes, correct.

Matthew Larson - *Morgan Stanley - Analyst*

So how recent were these directives by the government placed on developers?

Yuan Zhang - *Xinyuan Real Estate Company, Lt - CFO*

The new restriction policy actually was imposed in early October. So it's in the right beginning of Q4. And then in response to the restriction policies, we adjusted our target for the sales, and also the mix of the commercial product sales and also residential product sales, because based on the experience that we have in the past few years when the local government imposed the restrict policy, we're feeling that after probably six months the prices will go up again and also followed by the increase of sales volume.

And we're very confident that most of our residential products and also the projects are located in good place and also the location of the cities and regions where we have presence. So we decided to slowdown the sales of residential products and also ramp up the sales of the commercial product which is not imposed by the restricted government policy. And we believe that probably at the end of Q3 and probably in the second-half of the year 2017, the restricted policy might be lifted up and the market will go up second-half next year.

Matthew Larson - *Morgan Stanley - Analyst*

But the policy was not imposed till after the third quarter was in. So you really are talking about one quarter of reduced sales, because that's when it became imposed via the new attempt to reduce sales. And so that dropped it, that one quarter dropped it from net income growth of 50% to - what was the new number for the year?

Yuan Zhang - *Xinyuan Real Estate Company, Lt - CFO*

20% to 25%; that's in RMB currently.

Matthew Larson - *Morgan Stanley - Analyst*

So that - the literally growth got cut in half, and that's -- you're saying that should be - you're not going to - you're going to keep properties off the market if you do not want to accept lower prices, and instead, feel you'll get at least what you can get now and most likely significantly higher prices if you just wait six or eight months. Is that kind of what you've been saying?

Yuan Zhang - *Xinyuan Real Estate Company, Lt - CFO*

Yes. And another factor actually is the launch of the Beijing project we just talked about. In Q2, when the Company was giving the guidance they factor in the launch of this new Beijing project. And the launching date sometime in Q4. And now, because of the relocation of the Beijing government and then the launch of the new project was postponed to early 2018 and that project is very - it's a very high margin project.

Matthew Larson - *Morgan Stanley - Analyst*

You mentioned that you had purchased a property back in April for -- I think you said like RMB10,000 per square foot or square meter, and because the government is moving some governmental buildings and some other residential, I guess, developments into that area that that property could be worth four times that now, you said prices around RMB40,000?

Yuan Zhang - *Xinyuan Real Estate Company, Lt - CFO*

Yes. That's the Beijing project we just talked about.

Matthew Larson - *Morgan Stanley - Analyst*

So it's just a matter of time before you realize a tremendous gain on that, because it sounds -

Yuan Zhang - *Xinyuan Real Estate Company, Lt - CFO*

Yes, correct.

Matthew Larson - *Morgan Stanley - Analyst*

So that's just something to look forward to, because that's a very significant gain. Obviously, if you just bought it in April and you could get a return several times which you paid for, all right. And then, okay, I guess in just -- couple of other questions. I'm in New York and I've seen the Brooklyn project a number of times, and you mentioned it's 76% sold. Is that slowing down or are you purposely keeping the sales at a slow pace because you can get higher and higher prices, is that it? Or is there any reason why that hasn't just sold out by now?

Yuan Zhang - *Xinyuan Real Estate Company, Lt - CFO*

No, not exactly. Actually, our sales activities is on track and the pricing from the market is favorable, because we're selling small size apartments very quickly and also the larger size units selling at a current level compared to the small size units the sales is comparatively slower, because the larger size units are of a very higher absolute amount.

Matthew Larson - *Morgan Stanley - Analyst*

And you're seeing the sales were slower, just because larger units take longer to sell, is that?

Yuan Zhang - *Xinyuan Real Estate Company, Lt - CFO*

Yes.

Matthew Larson - *Morgan Stanley - Analyst*

And then you mentioned you bought back some shares in the third quarter. I didn't get the number, because I was like just a moment late in getting on the conference call. How many shares did you buyback in the third quarter?

Yuan Zhang - *Xinyuan Real Estate Company, Lt - CFO*

Okay. Let me try to repeat. We repurchased about 5 million ADSs at a total cost of about $21.1 million this year.

Matthew Larson - *Morgan Stanley - Analyst*

For the year, all right. But -

Yuan Zhang - *Xinyuan Real Estate Company, Lt - CFO*

Yes, for the year.

Matthew Larson - *Morgan Stanley - Analyst*

But you can't tell us how many in the third quarter or whether or not you are doing any repurchases for this quarter?

Yuan Zhang - *Xinyuan Real Estate Company, Lt - CFO*

I'm sorry, we never disclosed the exact number of the ADSs we purchased. We have ceiling price decided by the senior management, and probably we're going to start repurchase sometime in Q4 depending on the change of the stock price.

Matthew Larson - *Morgan Stanley - Analyst*

Well, it sounds like you've just had to scale back your tremendous growth a little bit that you expect to reaccelerate next year and beyond, because of some of the changes over there, just to cool the market, but -

Yuan Zhang - *Xinyuan Real Estate Company, Lt - CFO*

Yes. That's mainly because of the restriction policy.

Operator

(Operator Instructions) Albert Jones with Jones Capital Management.

Albert Jones - *Jones Capital Management - Analyst*

I was just wondering if you booked a little bit less revenue from the New York project this quarter than you had anticipated.

Yuan Zhang - *Xinyuan Real Estate Company, Lt - CFO*

No, I don't think so. We have a budget for the recognition of our New York project's revenue and we're actually on track, though $35 million revenue has been booked for Q3. And there are about a $150 million, which is going to be booked in Q4. So we're on track.

Albert Jones - *Jones Capital Management - Analyst*

Can you tell me -- I believe I read something where the restrictions on some cities in China were based on maybe average selling price compared to competitors in that same market. I'm wondering if you are affected in some cities and not affected in others by that policy.

Yuan Zhang - *Xinyuan Real Estate Company, Lt - CFO*

We have about 19 projects in different cities and areas. And most of the cities where we have presence imposed are affected by the restricted policy. So mainly, let's say, the down payment rise from 20% to 30%. And that's for the first housing buyer, and for the second house buyers in the down payment rise from 30% to 50%.

And also in some cities like Zhengzhou, Kunshan, Suzhou there are ceiling prices imposed by the local government. For example, in Zhengzhou, we talk about a project in our prepared remarks, we can sell at about RMB12,000 or RMB13,000 per square meter, but the ceiling price is RMB10,500 per square meter.

And also in Kunshan, the market price actually can be RMB22,000 per square meter, but the ceiling price imposed by the local government is about RMB18,000. There is a large difference. And that's the major reason why we slow down the residential sales, because we believe the market is still there and customers are willing to pay for more, and it's just because of the policy that we will like to wait for a while and till sometime second quarter next year when the market pick up.

Albert Jones - *Jones Capital Management - Analyst*

Can you tell me if the general feeling in China is that these policies will last shorter than anticipated, because of the possible outcry of investors that want to purchase, but aren't able to at this time? Can you give us kind of a feeling of the mood in China regarding these new policies?

Yuan Zhang - *Xinyuan Real Estate Company, Lt - CFO*

Actually as far as I can recall, this is the third time that the local government are imposing the restriction policies. According to our prior experience, the restriction policies probably could last for six or nine months, less than a year. And also we believe the goal of the policy is to cool down the fast growing prices in some cities and areas and try to make the market more healthy. And this is what we are looking for.

And try to give you some example, from the beginning of the year until the end of September, almost all of our projects are benefitting from the pricing upside, from growth from 30% to even 50%. So we believe the policy may cool down the prices for a while, but we are confident for the market momentum, because we believe the demand is still there.

Operator

[Richard Geronimo], Private Investor.

Richard Geronimo - - *Private Investor*

I have a couple of questions about your balance sheet. It appears there is quite an increase of the cash and cash equivalents including the restricted cash. Now, can you explain -- is that because of the bank you've taken out, but by the same token you've also reduced the debt -- or it's increased, but not nearly as much as the Company cash?

And then the third question would be, on the balance of the property under development, it's gone up substantially by $300 million compared to second quarter of 2016. Is that based on the elevated prices? And are you expecting to pay the RMB40,000 per square meter for Beijing; is that how you came to the substantial increase in the property under development?

Yuan Zhang - *Xinyuan Real Estate Company, Lt - CFO*

Let me take the increase of the cash and cash equivalents first. In this quarter, while the operating cash, the net cash from our operating activities actually increased to $165 million. It's mainly because the subsidiaries are collecting more receivables from sales and also the mortgage from the bank, and also we have a very limited payment to our land cost. And we are doing a series of financing activities including construction loan, trust loan, onshore corporate bonds, senior notes and shareholders loan and also capital lease, which all increased the cash inflow. And the cash payment for Q3 was about $57 million.

So net-net, the increase was about $300 million. And also talking about the balance sheet, the real estate property under development, because in Q1 and Q2 we acquired three parcels of land, and the values of these lands are now in the real estate property under development. The pre-sales hasn't started yet, we are in the construction and also master planning of this project.

Richard Geronimo - - *Private Investor*

Now another question is, are you planning on redeeming the 2019 13.25% bonds in May of next year? I believe that's the time it becomes redeemable.

Yuan Zhang - *Xinyuan Real Estate Company, Lt - CFO*

The early redemption, according to the indenture, cannot happen sometimes during 2017. But I think that would depend on the market condition whether there is enough US funds in the market, whether we can have a good price to issue a new bond to refinance this $200 million senior notes. It depends, but we carefully evaluate the market situation and we will keep you posted.

Richard Geronimo - - *Private Investor*

And the property in Malaysia, is there any interest in that, the development, or you just going to hold on to it and wait until the price goes up and possibly sell it?

Yuan Zhang - *Xinyuan Real Estate Company, Lt - CFO*

According to the contract with the local Malaysian government, the reclamation can happen sometime in June in the year 2017. So currently we are in the process of the master planning and environmental evaluation, and we need to submit the documents to government for their approval. We have enough time to go.

Richard Geronimo - - *Private Investor*

So you are thinking about developing that. Is that correct?

Yuan Zhang - *Xinyuan Real Estate Company, Lt - CFO*

It depends. We need to finish the reclamation first. And then we need to decide whether we are going to develop all the 100% of the land parcel or we sell part of it or develop part of it. We still have time to think about it. That's depending on the market situation.

Richard Geronimo - - *Private Investor*

And how is the market situation in Malaysia at present?

Yuan Zhang - *Xinyuan Real Estate Company, Lt - CFO*

The land parcel is located in Malacca, which is now attracting lot of tourism. And also if you heard the Chinese policy proposed by Chairman Xi Jinping, there is One Road and One Belt, which is going to collaborate the need of the Asian market and also with the China market. Currently the market is good, but we need to do a very careful calculation before we really launch the project after we finish the reclamation. With regard to the reclamation, it will take about 18 months to finish the land parcel.

Operator

And it appears we have no further questions at this time. I'd like to turn the conference back over to management for any additional or closing remarks.

Yuan Zhang - *Xinyuan Real Estate Company, Lt - CFO*

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 coming quarters. Thank you and good-bye.

Operator

And this does conclude today's call. Thank you for your participation. You may now disconnect.