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XIN - Q1 2015 Xinyuan Real Estate Co Ltd Earnings Call

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CORPORATE PARTICIPANTS

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Yong Zhang *Xinyuan Real Estate Co., Ltd. - Chairman*

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CONFERENCE CALL PARTICIPANTS

George Yeov - *Private Investor*

Justin Chan - *Private Investor*

Trung Nguyen *Lucror - Analyst*

Franklyn Martin - *Private Investor*

PRESENTATION

Operator

Good day, everyone, and welcome to the Xinyuan Real Estate Company Ltd, First Quarter 2015 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.

William Zima - *Xinyuan Real Estate Co., Ltd. - ICR*

Hello, everyone, and welcome to Xinyuan's first quarter 2015 earnings conference call. The Company's first quarter earnings results were released earlier today and are available on the Company's IR Web site 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 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 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. Yong Zhang, the Company's Chairman, who will comment on our operating results and provide some perspectives on the property market environment. He will be followed by Dr. George Liu, 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 to questions. During the Q&A session, Mr. Zhang will speak in Mandarin, and his comments will be translated into English by Ms. Helen Zhang the Company's Board Secretary.

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

Yong Zhang - *Xinyuan Real Estate Co., Ltd. - Chairman*

Thank you, Bill. Good morning and thank you all for joining our first quarter 2015 earnings conference call. We experienced a challenging quarter as housing demand continued to slump in the beginning of 2015. The first quarter is traditionally slower due to the Chinese New Year holiday and we expect our contract sales and revenue to improve during the course of the year.

Our performance for the remainder of the year can also be aided by recent government continued policies relaxation in the housing sector to support property demand. While we believe such policies can improve our sales opportunities, there remains uncertainty in China's real estate



market including the timing on when market conditions may recover. As we look to the remainder of 2015, we will continue our efforts to develop our core business while looking for the other good opportunities to maximize shareholder value.

Now please allow me to turn the call to our CFO, Mr. George Liu. George joined Xinyuan in early April with extensive experience in finance, corporate governance and real estate. Welcome George. George, please go ahead.

George Liu - Xinyuan Real Estate Co., Ltd. - CFO

Thank you, Chairman. Hello everyone, welcome to join us on Xinyuan's first quarter 2015 conference call. I am pleased to be participating in my first earnings call with the Company and I look forward to getting to know you going forward.

Xinyuan's 2015 first quarter financial results were lower than last year mainly due to the continued weakness in China's real estate market. While the central government issued policies to stabilize property market this year, many buyers remained hesitant requiring the market more time to recover. Now allow me to review our financial results.

Contract sales totaled \$184.9, a 32.5% decrease from \$273.9 million recorded in the first quarter of 2014. Total gross floor area i.e. GFA sales were 113,100 square meters, an 11% decrease from 127,100 square meters sold in the first quarter of 2014. The average selling price i.e. ASP per square meter sold was RMB10,031 in the first quarter of 2015, down from RMB13,181 in the first quarter of 2014, but increased 2.3% from RMB9,806 in the fourth quarter of 2014.

One new project was launched in the first quarter, Shanghai Royal Palace, which contributed 10% of total contract sales. In the first quarter of 2015, the Company's total revenue was US\$166.7 million compared to \$226.4 million in the first quarter of 2014.

Gross profit for the first quarter of 2015 was \$48 million, or 28.8% of the revenue, compared to a gross profit of \$59.4 million or 26.2% of revenue, in the first quarter of 2014.

Selling, general and administrative expenses were \$27.7 million in the first quarter of 2015 compared to \$24.3 million for the first quarter of 2014.

Net income was \$4.5 million compared to [\$10.1] (corrected by company after the call) million for the first quarter of 2014. Diluted net earnings per American Depositary Shares ADS attributable to shareholders were \$0.06, compared to diluted net earnings per ADS of \$0.12 in the first quarter of 2014.

As of March 31, 2015, the Company reported \$432.8 million in cash and cash equivalents including restricted cash compared to \$509.4 million as of December 31, 2014. Total debt outstanding was \$1,683.5 million, an increase of \$174.7 million compared to \$1,508.8 million at the end of the fourth quarter of 2014. The balance of the Company's real estate property under development at the end of the first quarter was \$2,045.4 million compared to \$1,714.6 million at the end of the fourth quarter of 2014.

Now turning to the land acquisition, in the first quarter we acquired 82% of the equity interest in Shandong Highway Shengxuan Real Estate Co., Limited. For the purpose of acquiring a land project in Jinan which is located in Shandong province. This land parcel has a total GFA of 261,600 square meter and is next to the second ring of east Jinan. When the acquisition is completed, Xinyuan will hold 100% of the local company with the consideration of approximately RMB717 million.

Now let me give you an update on our U.S. project, our Oosten project remains on schedule and on budget. As of March 31, 2015, 100% of the concrete superstructure has been completed as planned. The Company continues to work on the mechanical, plumbing and electrical systems as well as the exterior window walls. Pre-sales are proceeding smoothly at a measured pace. Sales prices on per-square-foot basis have gradually increased by about 25% on average since the Company began pre-sales on a limited basis in the third quarter of 2014, as local market conditions in New York remain strong. At the end of the first quarter of 2015, the total contract amount was approximately \$125 million.

We continue to selectively evaluate other investment opportunities in the states.



Since 2011 when we announced the implementation of a quarterly dividend payment program, Xinyuan has paid out over \$45 million in dividends. We intend to continue with our dividend program in 2015.

As for our buyback program, since 2011 when we started repurchasing shares, we have repurchased 11.6 million ADS totaling \$37 million. We have not repurchased any shares in 2015, but we'll evaluate the opportunity to do so as we progress throughout the year.

While we believe recent policies released by the central government, Central China Government can help support the industry, there remains uncertainties in China's real estate market including the timing on when market conditions might recover.

Despite the market uncertainty, I'd like to update you on our guidance outlook for the year. We currently expect the full year contract sales and net income to increase about 30% compared to 2014. Please note these estimates reflect the company's current and preliminary view which is subject to change.

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

QUESTIONS AND ANSWERS

Operator

Thank you (Operator Instructions). We'll take our first question from [George Yeov], a private investor.

George Yeov -- Private Investor

I read your earnings report, it looks like the earning before tax is very similar to last year. Meant you paid a lot of tax? Like 20 million or 80% of tax. Can you clarify that?

George Liu - Xinyuan Real Estate Co., Ltd. - CFO

Yes, you're right. Our effective tax rate has increased significantly in the first quarter as compared with the same time last year and mostly is a deferred tax liability on some cost incurred overseas to China. So it's really not a cash payout and since our profit before tax for the first quarter is really a small amount, so just a small amount of tax increase or liability deferred -- a small increase of deferred tax liability has significantly increased our effective tax rate.

George Yeov -- Private Investor

Thank you. Second question is, what's the policy for the dividend this year?

George Liu - Xinyuan Real Estate Co., Ltd. - CFO

We intend to continue with similar dividend payout as we did in the last three years. But it takes us some time to coordinate with our record keeping banks, so you can expect more news to come out after a few days.

Operator

(Operator Instructions). We'll go next to [Justin Chan], private investor.

Justin Chan - - *Private Investor*

I would just like to learn more about the sales progress starting after March, because I understand that a lot other developers in China have seen sales pick up in April and in May. Is there any light you can shed on the sales in April and May?

George Liu - *Xinyuan Real Estate Co., Ltd. - CFO*

Yes we do see some encouraging sales trend in many of our projects. But again, we haven't got -- even our sales haven't got some real numbers. We haven't finalized our numbers yet. So, there still remains uncertainty on the level that this positive trend can go and how long it might sustain. So it'll still take us more time to confirm such a positive trend will become big on our bottom line. Thanks.

Justin Chan - - *Private Investor*

And the follow on question is, I see that about half your projects have seen sale price actually increase in the last -- compared to the last quarter. Are you guys pursuing a strategy to increase price [or] are you focused more on just getting inventory sold?

George Liu - *Xinyuan Real Estate Co., Ltd. - CFO*

It really depends, there are roughly now 15 or 16 property projects been on sale and they are at different locations in various cities. So for some projects we do intend to increase our price and for other projects we might adopt the strategy to consume our -- to reduce our inventory as soon as possible. So it really depends on what the local market is like and what is the best strategy we shall take in that specific project.

Operator

So we'll take our next question from Trung Nguyen from Lucror.

Trung Nguyen - *Lucror - Analyst*

Can I have some color on the contracted sales figure, this year 180 million include the contracted sales for the New York Oosten project. And secondly how many percent of that New York project has been sold? I mean how many percent left to be sold and when will the project be completed? Thank you.

George Liu - *Xinyuan Real Estate Co., Ltd. - CFO*

It's very clear that the contract sale in our first quarter, it does not include any sales from Oosten project and about the Oosten project, actually I kind of have already given update during my remarks. But again I can repeat those remarks, basically at the end of the first quarter 2015 the total contract amount was approximately \$125 million. Regarding the Oosten project in New York, 100% of concrete superstructure has been completed as planned and the project is on budget as well.

Trung Nguyen - *Lucror - Analyst*

So is there any more or less to be sold in that project. Sorry I'm not very updated with this project.



George Liu - *Xinyuan Real Estate Co., Ltd. - CFO*

There's still something left to be sold. Again, the average price has actually gradually increased by about 25% since we began presales in the third quarter of 2014. So we are -- as you might also know that a positive price trend has been witnessed in New York market so it probably takes some time to conclude a better strategy on the rest of the project. Thank you.

Operator

(Operator Instructions). We'll take our next question from [George Yeov], private investor.

George Yeov - *Private Investor*

My question is about the investment in Malaysia, can you give more color on that investment?

George Liu - *Xinyuan Real Estate Co., Ltd. - CFO*

Are you asking the Malaysia project?

George Yeov - *Private Investor*

Because there is -- I think there is news somewhere you are purchasing a company.

George Liu - *Xinyuan Real Estate Co., Ltd. - CFO*

Yes, we do have a project in Malaysia and we have disclosed such a project in our 20-F document that filed to SEC for the full year result 2014. And we have acquired 100% shares of a Malaysian company which owes offshore land field development right for 170 acres. And that's a consideration of roughly \$10 million, it's really like [1%] (corrected by company after the call) of the total asset of this company, so we haven't decided what is the best strategy to move forward on that particular project. But we already engaged local architecture engineering and planning consultancies and beginning to start the project. That's the recent progress. Thank you.

Operator

And we'll go next to [Franklyn Martin], private investor.

Franklyn Martin - *Private Investor*

Good morning, could you review again shortly your guidance for this year. I believe you said revenue and contract sales are up 30%. Could you talk a little bit more about that? And what net income might look like?

George Liu - *Xinyuan Real Estate Co., Ltd. - CFO*

You are right. Yes, our recent guidance is that we expect about 30% increase in both contract sales and net income as compared to 2014, then we're probably talking about roughly \$1.3 billion for contract sales and roughly around \$60 million in net income.



Franklyn Martin - - *Private Investor*

And how were these compared with the guidance that you put in investor report in March?

George Liu - *Xinyuan Real Estate Co., Ltd. - CFO*

Investor report in March, we haven't issued any investor report in March, can you elaborate a little bit like which number you are referring to?

Franklyn Martin - - *Private Investor*

Yes, you had a slide show on your website that talked about the Company overview and your strategy and your progress and one of the slides in there did have some projections for 2015 that were somewhat higher than what you're talking about right now, I am just trying to understand what the difference might be?

George Liu - *Xinyuan Real Estate Co., Ltd. - CFO*

We haven't got because I am really not very sure which investor report you're referring to, but in the last conference call there is some guidance that was given and we kind of feel at this moment, we kind of feel those guidance outlook might be a little bit overoptimistic. So you're right our current guidance look are lower than the similar one we gave in the last quarter conference call, but I feel not yet for -- I am not sure if there is any so called investor report that you refer to which well it is in March.

Operator

And we'll go next to Trung Nguyen from Lucror.

Trung Nguyen - *Lucror - Analyst*

I just wonder if you could share your sources of funding and how are you're going to -- what's your plan to refinance those short term debt. I think you have about 850 million short-term debt?

George Liu - *Xinyuan Real Estate Co., Ltd. - CFO*

Yes, you're right, again we still, we're planning to sell our products to reduce our inventory in the first place of course and as we can see that the recent policy released by the China government had actually helped or given more light on our potential sales therefore ease our cash position and in the meantime, we do have -- we are also expecting that our even though some of the short term debts might mature, but we also expected that we might [stay] on some other debts to kind of replace the some of the existing current debts mostly from domestic financial institutions usually in the way of either construction loans or trust loans or some other financial products that are now within China's financial system.

Trung Nguyen - *Lucror - Analyst*

And thank you and while we do expect that the interest rate for those trust loan will be?

George Liu - *Xinyuan Real Estate Co., Ltd. - CFO*

Yes, basically we are taking those loans in according to the market trends and since we are actually one of the top 100 real estate development companies in China, we are actually able to get more, get some good supports from domestic financial institutions, usually better financial supports from them than the other smaller developers.

Trung Nguyen - *Lucror - Analyst*

Right and would you have a range of the interest rate?

George Liu - *Xinyuan Real Estate Co., Ltd. - CFO*

Yes, but usually the construction loans usually range from 5.5% to 9% usually it depends on the project, the mortgage rate, et cetera, and the local conditions, et cetera. And for the trust loans usually the market condition is a range between 10% to 13%, and it also varies on the project, the location and mortgage turns that might be negotiated.

Operator

And it appears there are no further questions at this time. I would like to turn the conference back to the moderator for any additional or closing remarks.

George Liu - *Xinyuan Real Estate Co., Ltd. - CFO*

Okay, we -- if there is no more questions, we thank you for joining us on the today's call and appreciate your ongoing support. I am pleased to be a part of Xinyuan team and look forward to updating you on our progress in the weeks or months ahead. Thank you again. Goodbye.

Operator

This does conclude today's conference.

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