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XIN - Q1 2017 Xinyuan Real Estate Co Ltd Earnings Call

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MAY 18, 2017 / 12:00PM, XIN - Q1 2017 Xinyuan Real Estate Co Ltd Earnings Call

CORPORATE PARTICIPANTS

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

William Zima *ICR, LLC - Partner*

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

CONFERENCE CALL PARTICIPANTS

Matthew Larson

P. Kwan *Deutsche Bank AG, Research Division - Research Analyst*

PRESENTATION

Operator

Good day, everyone, and welcome to the Xinyuan Estate Company Ltd. First Quarter 2017 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, LLC - Partner*

Hello, everyone, and welcome to Xinyuan's First Quarter 2017 Earnings Conference Call. The company's first 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 will be materially different from the views expressed today. Further information regarding these and other risks and uncertainties are 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'll 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 and Executive Director*

Thank you, Bill. Good morning, and thank you all for joining our first quarter 2017 earnings conference call. We are pleased to report the first quarter 2017, the financial results were in line with expectations, despite ongoing government restriction policies. Contract sales grew 9% compared with Q1 last year and the revenue increased to 20% compared with the same quarter last year. These were driven by improved ASP and healthy sales from our New York-based Oosten project, which contributed over 20% of our total sales this quarter. The majority of our development projects in China performed in line with our budget in the first quarter, and we maintained caution with respect to unit sales volume and operating expenses activities, given the current environment.

We were pleased to refinance some our debt, which highlights our effort to improve our debt structure and manage interest payments over the longer term. While China's regulatory environment has impacted the strength of our unit sales, we were -- we are encouraged with our longer-term



MAY 18, 2017 / 12:00PM, XIN - Q1 2017 Xinyuan Real Estate Co Ltd Earnings Call

opportunities, and we're executing important initiatives that will drive our financial performance as market conditions improved. We were also pleased to pay our 21st consecutive quarterly dividend and our recent \$40 million share repurchase announcement demonstrates our commitment to deliver value for our 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 Co., Ltd. - CFO

Thank you, Mr. Zhang. Hello everyone, and welcome to Xinyuan's First Quarter 2017 Earnings Conference Call. Allow me to take you through the financial result for this quarter, further discuss our latest operations initiatives and conclude by updating you on financial outlook for Q2 this year.

Total first quarter revenue increased 19% to \$281 million from \$235 million in the first quarter of 2016. The revenue increase was driven by an increase in commercial sales as well as revenues from U.S.-based Oosten project. Contract sales increased 9% to \$305 million from \$280 million in the first quarter of 2016. Again, this is reflective of strong demand from commercial property which is not affected by the government's price restriction. Sales in the U.S. totaled \$55 million in the first quarter of 2017. The average selling price per square meter sold in China was about CNY 12,000 in the first quarter of 2017 compared to about CNY 8,800 (sic) [CNY 8,839] in the same period last year. The ASP increase was due to the product mix of units sold and the company's strategic adjustment efforts to maintain pricing stability.

SG&A expenses as a percentage of total revenue decreased to 12.6% from 13.4% in the first quarter of 2016, due to our efforts to decrease operating expenses.

As a result of the above items, net income increased to \$7.4 million from \$6.9 million in the first quarter of 2016. Diluted net earnings per ADSs attributable to shareholders were \$0.11 compared to \$0.09 in the first quarter of 2016. The company repurchased about 1.4 million ADSs at a total cost of about \$7.2 million in the first quarter of 2017.

Balance sheet. As of March 31, the company's cash and cash equivalents, including restricted cash, increased to \$1.2 billion from \$900 million as of December 31, 2016. Total debt outstanding was \$2.3 billion, an increase of \$233 million compared to \$2.1 billion at the end of fourth quarter of 2016. The balance of the company's real estate property under development at end of the first quarter was \$1.8 billion compared to \$1.7 billion at the end of the fourth quarter of 2016.

Some project updates. During this first quarter of 2017, our Chinese projects continue on the track. We paid about CNY 1.3 billion on land acquisition or as equity to property funds in the first quarter for total of 6 projects, old and new. We also made good progress on our New York-based projects. Our Brooklyn-based, the Oosten project, has delivered 38 units with revenue of about \$65 million. As of the end of this March, the total units sold and revenue of this project have reached 144 units and \$217 million, respectively, and the construction loan has been completely paid off. Most closed buyers had moved in.

Our Midtown Manhattan project had completed demolition. Excavation and foundation work had begun. We successfully closed a \$108 million construction loan from the major commercial bank.

For our Flushing, Queens project, the company has selected a general contractor and is in the planning stage of the ground-up development. We're also in close discussion with several financial institutions regarding construction financing in order to commence constructions.

Commercial properties. Apart from our residential projects, we're also delighted to report that our 2 major commercial properties located in Zhengzhou and Xi'an within total floor area of 60,000 square meters, are both enjoying an occupancy rate of around 95%, and we are working on 6 more commercial projects with the total floor area of 85,000 square meters during the course of 2017. Although, the accounting measurement of U.S. GAAP doesn't allow us to book gain in fair value of investment properties, these commercial properties will contribute stable cash flow and broader reputation for the company.



MAY 18, 2017 / 12:00PM, XIN - Q1 2017 Xinyuan Real Estate Co Ltd Earnings Call

Debt refinancing and subsidiary leasing. Since our last earnings call, we have made a contributed effort to improve our balance sheet. We completed our debt refinancing through an issuance of \$300 million, 7.75% senior notes due in 2021 at the end of February to further optimize our financial structure. Later, our property management service entity, Xinyuan Technology Service Co., Ltd., celebrated its listing on the National Equities Exchange and Quotations in China. The listing on this enhances the company's publicity and allows companies listed there to complete a private equity offering with institutions. By now, Xinyuan Technology Service has not committed any of its shares with institutional investors. And when such transactions occur in the future, the company is planning to remain as its controlling shareholder.

Now let's move to dividend and share repurchase. During the first quarter, we repurchased about 1.5 million ADSs at a total cost of about \$7.2 million. We also announced a cash dividend for the first quarter of 2017 of \$0.05 per common share or \$0.10 per ADS, which will be paid to investors before June 14 to shareholders of record as of May 31, this year. We see our dividend policy as a long-term commitment for shareholders.

And now, let me spend some time talking about the risk and opportunities brought by ongoing restricted policies. The strict policy enforcement and tight credit controls is still taking place in key markets in China, especially Tier 1 cities, major Tier 2 cities and some of the satellite cities we used to benefit from upclass demand. Some latest restrictions were just published at end of March, including presales price control, transaction restriction suspension and higher threshold for both buyer mortgage and developer financing. While we are paying due attention to our risk exposures, we're also actively seeking the best development opportunities in this round of challenge. Our inventory in top-tier cities is comparatively smaller. Our product are mainly for ready demand buyers rather than investors and speculators. We are more flexible on pricing. We have U.S. projects to act as strong supplement, and we have been enjoying the benefit of land auction land acquisitions at this moment by consolidating smaller project companies with adequate cash and improved financing cost.

And now, let's come to financial forecast. As we look ahead, we continue to develop planning stage projects more cautiously, given the current environment. Yet still, our Q2 contract sales is expected to grow by 20% to 25% year-on-year, and we expect 65% of our total year sales to occur in the second half this year. As some cities just imposed the restrictions this past month, so its very possible government restrictions may last throughout the year. We believe our financial position is strong to weather the challenges and are in position to fulfill pent-up demand once the restrictions are lifted.

For the remaining quarters of the year, our goal is to generate positive cash flow from operations, focus on optimized pricing on our China and U.S.-based unit sales, commence presales on 4 to 5 of our new planning stage projects, complete select land acquisitions of merger and acquisition and move forward with the next stages of development for our New York-based projects.

And this concludes my prepared remarks for today's call. And operator, we're now ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first call from Matthew Larson from Morgan Stanley.

Matthew Larson

I guess, the only question I have, because I didn't hear the whole conference call, was the most important announcement I think you put forth this quarter was that, you initiated a new \$40 million share buyback, which is a pretty substantial by any measure, particularly because the float is a lot less than your market cap. I see you bought \$1.7 million or so last quarter. Have you been able to execute any thus far in the second quarter, particularly since the stock price is right at its low?



MAY 18, 2017 / 12:00PM, XIN - Q1 2017 Xinyuan Real Estate Co Ltd Earnings Call

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

Yes, we have plan to continue our buyback shares program in Q2. That depends on the management's discretion and also the market circumstance.

Matthew Larson

Okay. Second of all, if you've touched on this on the call I apologize, on the Hudson Yards project that you're breaking ground on, am I correct in saying that I read that your anchor tenant is Target and it represents perhaps the largest retail lease in all of Manhattan? Is that an accurate assessment?

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

Yes. We've talked about that in the previous quarters, you're right.

Matthew Larson

Got you. That's certainly something that you should and can market. It just further validates your strategy in diversifying here in Manhattan, because the -- for the Houston projects sounded very well. It's been -- my hats off to you, you did very well. I'm calling from New York and I've seen it and I'm very familiar with how strong the sales have been. Question about the Flushing project. Is that still on the drawing board? Does that come after Hudson Yards? Or you're going try and get that going simultaneously?

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

The Flushing, Queens project, actually is still developing on track. As we have talked about in the prepared remarks, we are talking with the -- we're in the selection of the general contractors and also talking with different financial institutions to lock in the construction loan.

Matthew Larson

Okay. Probably the last question. I've been investing in your company heavily for years. And frankly, you've done as a company pretty much everything one could expect. You've always bought back shares, you've raised the dividend, you've performed, frankly. The stock nonetheless trades at a big discount to what one would like to see. Over that time span, and particularly, in the last couple of years, you've done a number of large underwritings in the bond area. I think our firm might have had a hand in a couple of the private placements. The point is that, you as a firm are paying fees to investment banks. So I would assume you'd be the type of firm that might be able to get some research coverage at some point. I know, you're small but just think if the stock price was 2 or 3 points higher where it clearly should be trading, I think it should be a lot more than that, but at the current level makes no sense. And one of the reasons might be there is no sponsorship of your firm. Is there any chance you could get some research coverage from some firms because of the low valuation and your longer track record?

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

We took a visit to the U.S. and I'm happy to tell you that, we have talked with some of the analysts and we're going to have coverage from some of the U.S. firms. You're going to see the report recently.

Operator

(Operator Instructions) We'll take our next question from Karen Kwan from Deutsche Bank.



MAY 18, 2017 / 12:00PM, XIN - Q1 2017 Xinyuan Real Estate Co Ltd Earnings Call

P. Kwan - Deutsche Bank AG, Research Division - Research Analyst

I've got a few questions. The first question is, recently, we have seen some press reports mentioning the tightened expense from NBRC for offshore bonds issuance. I'm wondering, given the fact that you have already issued USD 300 million bonds earlier this year, is there any quota left?

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

We have applied a quota up to \$300 million at the beginning of this year, and we're lucky enough to finish the issuance. So the quota has been used up.

P. Kwan - Deutsche Bank AG, Research Division - Research Analyst

I see and then secondly...

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

We have enough U.S. currency with our payment level. We probably don't have further plan to issue another bond this year.

P. Kwan - Deutsche Bank AG, Research Division - Research Analyst

I see. And can you also let us know what was the capitalized interest in first quarter of 2017? And also given the tightened policy measures in some of the cities in China, what is management's latest view on the outlook for second half property sales for the sector?

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

Personalized interest for Q1 2017 was around USD 43 million. And if you're asking about the Q2 guidance will talk about the 20%, 25% over the same period last year.

P. Kwan - Deutsche Bank AG, Research Division - Research Analyst

And do you think the property sales environment would be better in second half of this year or stable or a bit worse? Second half this year compared to first half?

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

I wouldn't see there is in any signal of the restriction policy lifting in Q2. As we just talked about in the prepared remarks, some of the restriction policies in some other major cities just issued in March. So I think this restrictive policy may last for the remainder of the year but we're hoping there might be some changes in Q3 or Q4 this year.

Operator

And we'll take our next question from [John Schagij], a private investor.



MAY 18, 2017 / 12:00PM, XIN - Q1 2017 Xinyuan Real Estate Co Ltd Earnings Call

Unidentified Participant

Can you share some comments about your expectations for land acquisitions in 2017?

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

Our total budget for land acquisition for the whole year would be around USD 10 billion.

Unidentified Participant

Can you repeat the amount?

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

Well, USD 1 billion.

Unidentified Participant

Okay. That make more sense. And you mentioned in an earlier call that you chose to delay presales of some projects like in Tianjin with the market value substantially higher than the price committed for presale. Could you update those comments for the current situation?

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

I'm not sure which project you're talking about. I guess probably you're talking about the project in Tianjin?

Unidentified Participant

Yes. And earlier I think in the third quarter conference call, you said that, you are going to delay presales because the price permitted for the presale was below the fair market value. So are you continuing the delays? Or what is the outlook for that type of situation?

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

If you are talking about the Tianjin project, the presales is scheduled some time Q2.

Unidentified Participant

Okay. And is there an option complete developments and then sell them as finished properties that does not require presale permits and would not be subject to price limits?

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

According to the policy, yes, we can do so. But if we're waiting for the project to be developed -- to be completed and delivered to the customers, so that will be about 10 or 12 months later. So if we're talking about cash inflow, that might be -- given that it impacted the company and the cash level. So we need to take make a balance.

MAY 18, 2017 / 12:00PM, XIN - Q1 2017 Xinyuan Real Estate Co Ltd Earnings Call

Unidentified Participant

Okay. And can you share your plans for how to use the company's extremely large cash balance?

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

We're going to make the operating cash positive and then start to establish a pool for land acquisition. But, of course, we will be very cautious under the current circumstances to see whether there is good opportunities here especially for merger and acquisition for smaller size project.

Unidentified Participant

So do you expect the cash balance to remain around this level? Or will you pay down some debt? Or will you use a substantial amount of the cash for land acquisitions?

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

We've talked about the budget for land acquisitions for the year, CNY 1 billion. I believe the cash balance will go up and down depending on the spending on the land acquisition, but we have our threshold and the line for the sitting balance -- cash balance.

Unidentified Participant

So can you make any projection for what the cash balance might be around the end of the year?

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

I think it's too early to talk about it, but my best expectation would be CNY 2 billion or CNY 3 billion.

Unidentified Participant

And in the second -- in the first quarter, it looks like you did not book any presales at the Zhengzhou International New City project. So can you share your expectations for the schedule of sales launches at that project?

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

We've already got the presale permit for 2 parcels of land for that project and the second presales permit is going to be expected somewhere June. So we're going to start a presales in Q2.

Operator

And we'll take our next question from Richard Geronimo, a private investor. We're hearing no response. We'll move on to our next question from [Craig Mary], a private investor.

Unidentified Participant

A couple questions. I was wondering if you could explain your drop in interest income? In the first quarter of last year was \$8.5 million, last quarter, \$6.1 million and this quarter \$2.6 million.



MAY 18, 2017 / 12:00PM, XIN - Q1 2017 Xinyuan Real Estate Co Ltd Earnings Call

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

Last year, we had some land acquisition deposit for Shenzhen and Zhengzhou project, and then, we didn't acquire that land. So according to the contract -- that has been working with a local developer and government. According to contract, we'll have some interest income, therefore Q1 -- for Q1, all the land acquisition deposit has been refunded. So there's no -- there's less interest income.

Unidentified Participant

Okay. And then the second question is, has your subsidiaries been listed on the China exchanges? Or they still waiting to be listed?

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

The -- Craig, we're talking about is just for private equity offering. We're still in the process of considering whether we're going to have the company listed in Chinese market -- in Chinese capital market or somewhere else.

Unidentified Participant

Okay. And when do you expect that to occur?

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

We're still in discussion. There's nothing material to report.

Operator

There are no further questions. I'd like to turn the call back over to management for closing remarks.

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

Well, thank you all for joining us on today's call and appreciate your ongoing support. We look forward to updating you on our progress in the coming weeks and months. So thank you, again.

Operator

This concludes today's presentation. Thank you for your participation. You may now disconnect.



MAY 18, 2017 / 12:00PM, XIN - Q1 2017 Xinyuan Real Estate Co Ltd Earnings Call

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