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# EDITED TRANSCRIPT

Q1 2020 Xinyuan Real Estate Co Ltd Earnings Call

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## CORPORATE PARTICIPANTS

**Yong Zhang** *Xinyuan Real Estate Co., Ltd. - Co-Founder, Chairman & CEO*  
**Yu Chen** *Xinyuan Real Estate Co., Ltd. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Linlin Qian** *The Blueshirt Group, LLC - MD*

## PRESENTATION

### Operator

Good day, ladies and gentlemen. Thank you for standing by, and welcome to the Xinyuan Real Estate Co., Ltd. First Quarter 2020 Earnings Conference Call. (Operator Instructions)

As a reminder, we are recording today's call. If you have any objections, you may disconnect at this time.

Now I'll turn the call over to Julia Qian, Managing Director of The Blueshirt Group Asia. Ms. Qian, please proceed.

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### Linlin Qian *The Blueshirt Group, LLC - MD*

Hello, everyone. Thank you all for joining us on today's conference call to discuss Xinyuan Real Estate Company's financial results for the first quarter of 2020. We released the results earlier today. The press release is available on the company's website as well as from Newswire services.

On the call with me today are Mr. Zhang Yong, Chairman and Chief Executive Officer; Mr. Brian Chen, Chief Financial Officer; Mr. Li Shangrong, Director and President of Xinyuan China; Mr. Zhang Hongwu, Vice President. Mr. Zhang Yong will deliver opening remarks, and Mr. Brian Chen will provide additional details on the company's financial results and outlook.

Before we continue, please note that today's discussion will contain forward-looking statements made under safe harbor provision of the U.S. Private Security Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, the company's actual results may be materially different from the expectations expressed today. Further information regarding these and other risks and uncertainties is included in the company's public filing with the SEC. The company does not assume any obligation to update any forward-looking statements except as required under applicable law.

With that, let me now turn the call over to our Chairman and CEO, Mr. Zhang Yong. Please go ahead, Mr. Zhang.

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### Yong Zhang *Xinyuan Real Estate Co., Ltd. - Co-Founder, Chairman & CEO*

Thank you, Julia, and hello, everyone. Thank you for joining our first quarter of 2020 earnings conference call.

Our first quarter results were heavily affected by the COVID-19 outbreak. Revenues were USD 125.8 million. GFA sales in China were 90,500 square meters. A few large project construction and presales were delayed by the nationwide lockdown, which disrupted our supply chain and sales.

In the end of March, China had gradually reopened for business. We are seeing an early sign of economic recovery. With all suppliers and partners to restart construction, we anticipate returning to normal business pace early of the third quarter this year.

Despite the short-term challenges from the unpredictable pandemic, our fundamental business remains solid. Our Hong Kong-listed property management company performed well. Our good cash position and ample liquidity enabled us to fully redeem USD 200 million senior notes on March 19. We will continue to repurchase our ADRs depending on market conditions. With the majority of our projects in China, we remain optimistic about our business outlook for this year. Our high-quality residential projects and best-in-class property services continue to attract our customers. We believe these efforts will drive positive performance for the rest of 2020 and beyond.



Because we are confident in our long-term outlook as well as the near-term recovery in our business, we will keep paying dividend again this quarter despite the crisis. It will be lower than previous dividends as we strive to manage our finances prudently. We are proud of our persistence of paying dividends for several years. It validates our commitment to enhance our shareholders' value and our continued confidence in the business, our financial capabilities and the long-term market potential.

With that, I will now turn the call over to our CFO, Brian Chen, who will offer more details on our financial performance. Brian, please go ahead.

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**Yu Chen Xinyuan Real Estate Co., Ltd. - CFO**

Thank you, Chairman. Good morning, everyone, and thank you for joining the call. We hope that all of you and your family are safe and healthy during this tough time.

First, let me give you update on the impact of COVID-19. The impact on the business performance in Q1 was evident. In China, most of the cities have shut down business in part or entire of first quarter. We took immediate actions once the outbreak started, which hurt business but ensured the safety of our employees and customers. We closed our sales and construction sites, which disrupted construction and pre-sale.

The main impact was in large projects in Beijing, Qingdao, Henan and Xi'an. The construction delay caused a significant decline in sales and revenue. We are looking closely with our supplier and construction partners to resume operations. We expect normal growth to resume in early Q3.

Next, I will go through the key financials in this quarter. Affected by COVID-19 lockdown, total revenue in Q1 was \$125.8 million, down from \$468.9 million in the first quarter of 2019. Contract sales in China totaled \$153.3 million in the first quarter of 2020 comparing to \$478.9 million in the first quarter of 2019. The company's GFA, the gross floor sales area -- area sales in China were 90,500 square meters in the first quarter of 2020 comparing to 211,400 square meters in the first quarter of 2019.

Gross profit for the first quarter of 2020 was \$28.1 million or 22.3% of total revenue. This is a 6.1 percentage points improvement from the first quarter of 2019 though. Sales and -- SG&A expenses were \$44 million, down 21.5% comparing to the first quarter of 2019. The cost saving are mainly due to lockdown and internal cost savings which reduced our sales and marketing expense.

Throughout the crisis, we accelerated the platform and system integration, digitized our business process and further improve our operating efficiency. We will continue to optimize our cost structure in the quarters ahead.

In addition, during that time, we have been aggressively exploring innovative sales channel, leveraging both online and offline platforms. We developed our online sales system. This will further help us to attract customers and increase our sales efficiency. Now sales office are reopening so we are optimistic about resuming our business pace. The net loss for the first quarter of 2020 was \$39.1 million comparing to net income of \$18.2 million in the same quarter last year.

Next, I will discuss the balance sheet. Our cash position and liquidity are solid. At quarter end, we have cash and cash equivalent, including restricted cash, of \$933.1 million. This was after we redeemed \$200 million of senior notes on March 19. As Mr. Zhang mentioned, we will again pay dividend this quarter and may repurchase our ADRs depending on the market conditions.

Our overall asset position remains strong. At this moment, we have \$3.2 billion of project under development, \$0.4 billion of project that's completed and \$5.2 billion of projects under planning. As you all know, in China and in the past, our real estate projects are presold so we expect to generate meaningful cash flow as sales translate into cash.

We remain confident in the outlook. We still expect contract sales of about RMB 20 billion to RMB 22 billion this year with consolidated net income in the range of \$60 million to \$80 million, in line with last year's performance.

Let me conclude. Despite short-term turbulence, our long-term business fundamentals are intact. Our Hong Kong-listed property



management company performed well, and property management is a recurring revenue business that is not particularly impacted by outside factors such as epidemic, the economic and other force. Recently, Xinyuan Property Management was again recognized for its leadership position in the industry. In May, it was designated as a "2020 leading listed company of property management service in business performance". We are proud to achieve this honor.

With that, let's open the call for questions. Operator, please go ahead.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) We'll take our first question from [Franklin Morton].

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### Unidentified Shareholder

It sounds like it was a tough period, but there's some interesting pieces in your press release that I wanted to pursue a bit. With your stock trading where it is, you have a market cap of about \$140-some-odd million. What is the market cap or the value of the shares you own in the property management business today?

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### Yu Chen Xinyuan Real Estate Co., Ltd. - CFO

For that one, it's slightly higher than the parent company at about -- I believe it's about USD 120 million equivalent.

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### Unidentified Shareholder

So my simple mind would say that I'm paying -- as a shareholder, I'm paying for the property management business and I'm getting the property development business for free.

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### Yu Chen Xinyuan Real Estate Co., Ltd. - CFO

You can almost say that. This is why we're doing the trade and listings on the Hong Kong Stock Exchange within Xinyuan other than the main business line. We have 5 or 6, 7 business. All of them are either already well established or had a great potential to go on capital market operation. At this point, we don't see our share price and the capital market for the list Co reflect those value, let alone the true value of the main business line. So what your appreciation and what you said are absolutely right.

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### Unidentified Shareholder

Yes. As an investor, I like to get things for free, and I hope someday people pay a lot of money for them. Can you talk a little bit about your repurchase strategy? Now that you've lowered the dividend, that gives you a little more financial flexibility. Have you bought any stock since the COVID outbreak? Or at what point do you think you might repurchase stock?

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### Yu Chen Xinyuan Real Estate Co., Ltd. - CFO

For that time period, we repurchased about 230,000 ADS with value on somewhere close to \$0.5 million. Going onward, we will look at the market condition and might continue to repurchase on the right timing.

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### Unidentified Shareholder

Yes. I mean it's just -- as you and I talked before, with the book value at, I don't know, \$13 a share and the stock at \$2.5 and based on your earnings projection, you're talking a couple of times -- a PE multiple of 2, it's pretty compelling. And I would refer to that as prudent to consider -- continue the repurchase program.

I just -- the last thing is I wanted to just compliment you on how well you all held the business together in what was obviously a very, very difficult period. I mean a lot of companies, when they shut down sales, shut down construction, they don't come back. And you all appear to have come back very quickly and very strong. And I think that's a testament to the quality of the management and your strategy. So I just wanted to congratulate you on that. And that was my last comment.



**Yu Chen Xinyuan Real Estate Co., Ltd. - CFO**

Thank you, Frank. Our fundamentals are still there. We had a strong land bank. We believe that this hit, it is temporary. With the epidemic fades out in China gradually, even reading Q1 month by month, we see noticeable improvement. Q2, we're still hanging there, but we see even better recovery. We believe that by early Q3, business will go back to normal. We'll be able to even recover those postponed or pent-up demand and sales in Q3 and Q4.

**Operator**

(Operator Instructions) We'll take our next question from [George Guo].

**Unidentified Participant**

My question is with recovery in place, when do you expect to restore the dividend, like to go back to the old dividend?

**Yu Chen Xinyuan Real Estate Co., Ltd. - CFO**

You know that Xinyuan, we have maintained this record for many years. Under this difficult time, we still continue on this change. At the same time, we have to make some big cuts due to the environment. We will continue to look at the business and strike a good balance between our shareholder and the debt equity -- debt investor as well as other stakeholder in the business.

At this point, we expect that the business will recover to a bigger extent in Q2 and should have a full recovery in Q3. So the dividend policy will be revealed on a quarter-by-quarter basis and will be decided by the Board members a few -- 1 week before the earnings release. Did I answer your question?

**Unidentified Participant**

Yes. Because I can understand you are making a lot of cuts at the company, employees. Maybe the balance of that -- everybody takes some sacrifice. That's -- are you -- is that a good understanding, my understanding?

**Yu Chen Xinyuan Real Estate Co., Ltd. - CFO**

Yes. We had pretty good control internally, too. Yes, go ahead with second question.

**Unidentified Participant**

Okay. Second question is about the New York property. Because -- it's hard to do the comparison because I don't remember how much unit you sold last quarter, so is there any [units sold in the quarter] ? And also, how is the Manhattan project in the 10th street -- Avenue?

**Yu Chen Xinyuan Real Estate Co., Ltd. - CFO**

Yes. First of all, on the Manhattan project on 10th Avenue, we -- originally, we had some road show in China, leveraging our well-established sales office and sales channel. We actually received very positive feedback, expect to realize some sales in Q1. But due to the epidemic, those Chinese buyer, they cannot come to New York, so those sales need to be postponed. At the same time, the local sales expected to kick off by the end of the March, but again, due to the epidemic, the sales office -- got postponed.

At this point, you know the situation in New York is even more serious comparing to those China Mainland market. So we are closely monitor the opening up, and the sales activity will be depending on how the epidemic situation goes. In this quarter, we haven't realized any sale.

In terms of Oosten, very similar, no sales in the quarter. We did receive some interest and some walk-in before the epidemic. But because of that, it got postponed, including the 4 -- in Oosten, we had commercial gallery, had a buyer very close to sign the deal. In the last minute, because of epidemic, it got postponed. And in terms of the London project, we had 1 sales of the unit. The construction and sales also got impacted by the epidemic for this overseas project.

**Operator**

And we will take our next question from [Yunchang Xia].



**Unidentified Shareholder**

Brian, can you hear me?

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**Yu Chen Xinyuan Real Estate Co., Ltd. - CFO**

Yes, no problem.

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**Unidentified Shareholder**

Nice speaking to you again. Yes. Okay. So my first question is -- I mean I am from China, and I can speak Mandarin. But for most of the U.S. investors, they're unable to use the original language, so it's very hard for them to conduct due diligence. And some investors may -- especially after what happened with Luckin Coffee this year, so some investor has doubt about the company's financials and stuff. And I conducted due diligence, and I know the company's financials are very real. But in order to help U.S. investors better understand the company, have you considered to increase transparency by disclosure -- by better disclosure about your individual projects on your Investor Relations website as well as maybe maintain social media awareness, for example, on Twitter or Facebook or even YouTube so that investor get a better up-to-date information about your project?

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**Yu Chen Xinyuan Real Estate Co., Ltd. - CFO**

Absolutely. And thanks for your call, hearing your voice again. First of all, Xinyuan, since we list in New York Stock Exchange, in the past, we really care about our reputation and the company's integrity. For the past 13 years in a row, we've been audited by BNY, being compliant and stuff. We maintain a really good record. We are not those bad apples that we don't want to comment on. We will focus on ourselves.

And you are absolutely right that the majority of our shareholder at the moment is still mainly coming from U.S., from the East Coast and the West Coast. We commit to you really the communication we've done. Early this year, I spent 3 months' time in New York. We replaced our PR company. We are exploring more communication channel, including those on social media.

At the moment, we already laid down some plan. After this call, we are going to implement a few of them to enhance the communication, have more in-depth and several communication, including the detailed project disclosure. And on top of this investor call, we mean to create more road show and more real-time presentation and taking more question from shareholder on more areas and more platforms.

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**Unidentified Shareholder**

Yes, that would be great. Because every time I listen to the conference call, like the only question that investors are able to ask is your London project or your New York project, but that's a very small part of your overall business. And I think you know that.

So yes, like my biggest concern is -- by the way -- and my second question is like your company has -- like generally, like for business -- for real estate development business listed on Hong Kong, like generally, they have a relative high valuation compared with your P/V ratio. So have you considered maybe have a dual listing in both Hong Kong and the U.S. so that your -- you can potentially get a revaluation from the market?

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**Yu Chen Xinyuan Real Estate Co., Ltd. - CFO**

At this moment, the Board and the capital market department will explore all alternatives. Wherever alternative fit, we are going to duly consider and grab the opportunity to share the value of the company to our shareholder and stakeholder. Dual listing could be one of them, yes.

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**Unidentified Shareholder**

Okay. Yes. If you can have a dual listing, I think you will have a significant higher valuation compared with today. And because -- I mean U.S. investors really don't understand a lot about your Chinese business so that could be an option to realize shareholder value.



**Yu Chen Xinyuan Real Estate Co., Ltd. - CFO**

Yes. Thank you for highlighting that. We are continuing to educate and communicate with our U.S. shareholder. As mentioned on the presentation, at this point, our land bank has a fair value of over CNY 60 billion, not like most of the business and peer company in U.S. Typically, with that high-quality land in the Tier 1 and Tier 2 city, with our solid fundamentals, our reputation typically is supply driven.

The epidemic might impact our business temporarily, but it's just a timing impact. With epidemic going -- fades away, it's only the supply and the -- and those projects in place. Typically, we can do presales. We can realize over 60% of the sales on the day 1, and majority of the cash per se can come back to the business. We had a pretty solid cash -- business in place with majority business in Mainland China.

**Unidentified Shareholder**

Yes, that would be great. Yes. And also, if you can -- when your business recover from the pandemic, if you can maybe increase dividend and potentially maybe one day returning to the normal dividend level, that will be great also.

**Yu Chen Xinyuan Real Estate Co., Ltd. - CFO**

Note taken. Thanks for the suggestion.

**Operator**

(Operator Instructions) And it appears we have no further questions at this time. I would like to turn the call back over to management for any additional or closing remarks -- I'm sorry, we do have a question in the queue. We will take our next question from [Max Koenig].

**Unidentified Shareholder**

It's [Max Koenig] calling from Germany. First, I want to say thank you to the Board that you will still be able to pay a dividend of \$0.025. I think this is very important for many of us that you continue to pay dividend to us.

And my second remark is I want to ask the former speaker who's able to speak Mandarin if he can perhaps join us at the Yahoo! shareholder board or Facebook group. Perhaps we can ask him some questions or we can have a conversation with him.

And my third remark or question is I've already sent this question to the management or to Investor Relations team because I don't understand the short sell during the last months. I have seen some short interest site that they have shortage of stock on every day, which is sometimes 50% of daily volume. And so it is really important for us if you see the decrease at the beginning of 3%, 4%, 5% in our share and we don't know the reasons. Okay. I see the reason is manipulating by short sellers, but I don't understand why you are not acting on them because the data is publicly available and you can punish them if you are buying back the same amount on the very next day or a larger amount so they keep their fingers out of our company.

**Yu Chen Xinyuan Real Estate Co., Ltd. - CFO**

Thanks, Max, for your feedback, and I appreciate you sharing -- first of all, sharing those communication platform with the other shareholder. Our Investor Relations and myself would like to participate and willing to or eager to answer whatever question you have either through e-mail or those social media platform.

Secondly, about the short sell activity, we realize that there are some activity going on, and we're closely monitoring that with that -- the company with that philosophy in mind. One thing is that some of the short sell maybe is based on the misunderstanding about our business model and misinterpretation of some of the number and might be impacted by the external environment, including some of the Chinese company like previous shareholder mentioned. We are not like one of them.

Since we list in New York Stock Exchange [13 years ago] (corrected by company after the call), we keep our reputation. We continue to improve our communication, believe that -- some of the short sell, we're eager to approach them and talk to them and understand what's the logic behind, and hopefully, those practice could be milled down.

Secondly, we believe in the fundamental of our business. We had solid -- we have a high-quality land bank. We have good reputation. We have a very efficient internal operation, and we continue to improve it, especially for the past 12 months. Most of the impact should be



realized for the next 6 to 18 months.

With that, we believe our performance, our credit rating, a lot of the obvious performance, we will be able to show to our shareholder. So the share price will be coming up through that performance presentation. Last but not least, we -- as mentioned on the previous call, we also closely monitor this situation. We -- if the timing is right, we are not shy to doing the buyback. The Board does have umbrella or bucket approval. For the share buyback, it's up to our capital market team to make the call when the timing is right. Thank you, Max. Appreciate your call again.

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**Operator**

(Operator Instructions) And seeing that we have no further questions, I'd like to turn the call back over to management for any additional or closing remarks.

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**Yu Chen *Xinyuan Real Estate Co., Ltd. - CFO***

Thank you, operator. And thank you all for participating on today's call, and thank you for your support. We appreciate your interest and looking forward to reporting to you again next quarter on our progress. Thank you.

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**Operator**

Once again, that does conclude today's conference. Thank you for your participation. You may now disconnect your phone line.

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