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XIN - Q2 2016 Xinyuan Real Estate Co Ltd Earnings Call

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CORPORATE PARTICIPANTS

William Zima *ICR - Partner*

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

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

CONFERENCE CALL PARTICIPANTS

Josh Fain *Private Investor*

Brett Mayo *Private Investor*

PRESENTATION

Operator

Good day, everyone, and welcome to the Xinyuan Real Estate Co., Ltd. Second 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.

William Zima *- ICR - Partner*

Hello, everyone, and welcome to Xinyuan's Second Quarter 2016 Earnings Conference Call. The company's second 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 is included in our registration statements 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. He will be followed by Mr. 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.

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 Second Quarter 2016 Earnings Conference Call.

We are pleased to deliver stronger financial results for the second quarter of 2016, with contract sales up 42.8%; GFA sales up, 57.6%; and net income up to -- up 37.6% compared with the same quarter of last year's, as we continued to benefit from favorable market conditions.

Our sales activity remains healthy and active at most of our projects. We were also pleased to complete our third land acquisition in New York City very recently. Additionally, the company's property management was awarded and ranked number --



Unidentified Company Representative

14.

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

14 among the top 100 property management companies in China by the National Property Management Association in 2006 (sic - see press release, 2016). These new developments are expected to contribute to our future growth.

Finally, we are pleased to significantly raise our full year financial forecast. We also repurchased shares in the second quarter, on top of our quarterly dividend payment this quarter to maximize value for shareholders.

Now please allow me to turn the call over to our CFO, Mr. George Liu. George, please go ahead.

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

Thank you, Chairman. Hello, everyone, and welcome to Xinyuan's Second Quarter 2016 Earning Conference Call.

We are very pleased with the strong financial performance for the second quarter and continue to make good progress on the execution of our growth strategy. During the second quarter, Xinyuan continued to benefit from healthy market conditions in China's real estate sector. Our sales also benefited from our choice of projects in the Tier 1 and 2 cities that have favorable economic and population growth trends and where we have an existing presence and good track record of performance.

Now please allow me to further review our financial results for the second quarter of 2016.

Contract sales increased 42.8% to \$474.4 million from \$332.3 million in the second quarter of 2015 and increased 69.7% from \$279.6 million in the first quarter of 2016.

Total gross floor area sales increased by 57.6% to 344,600 square meters from 218,700 square meters sold in the second quarter of 2015 and increased 66.8% from 206,600 square meters sold in the first quarter of 2016.

The average selling price per square meter sold was RMB8,992 or \$1,377 in the second quarter of 2016 compared to RMB9,309 or \$1,519 in the second quarter of 2015 and RMB8,839 or \$1,354 in the first quarter of 2016.

Total revenue increased by 36.9% to \$376.6 million from \$2,075.1 million (sic - see press release, \$275.1 million) in the second quarter of 2015 and increased 60% from \$235.4 million in the first quarter of 2016.

Gross profit was \$77.3 million or 20.5% of revenue compared to a gross profit of \$60.9 million or 22.2% of revenue in the second quarter of 2015; and a gross profit of \$48.9 million, 20.8% of revenue, in the first quarter of 2016.

SG&A expenses were \$41 million compared to \$35.8 million for the second quarter of 2015 and \$31.5 million for the first quarter of 2016. As a percentage of total revenue, SG&A expenses decreased to 10.9% compared to 13% in the second quarter of 2015 and 13.4% in the first quarter of 2016.

Net income increased 37.6% to \$27.8 million compared to \$20.2 million for the second quarter of 2015 and increased 302.9% from \$6.9 million in the first quarter of 2016. Diluted net earnings per ADS attributable to shareholders were \$0.39 compared to \$0.27 per ADS in the second quarter of 2015 and \$0.09 per ADS in the first quarter of 2016.



As of June 30, 2016, Xinyuan's cash and cash equivalents, including restricted cash, decreased to \$899 million from \$1,028.6 million as of March 31, 2016. Total debt outstanding decreased to \$1.98 billion, a decrease of \$170.7 million compared to \$2.15 billion at the end of the first quarter of 2016.

The balance of our real estate property under development at the end of the second quarter of 2016 was \$2.08 billion compared to \$2.04 billion at the end of the first quarter of 2016.

During the second quarter of 2016, we continued to make good progress in our Oosten project, based in Brooklyn, New York. As of the end of the second quarter, the company had presold approximately 73% of its total units compared to 69% at the end of March 2016. Sales trends and prices remain healthy at our Oosten project.

For our mixed-use project located in midtown Manhattan, our architectural, engineering and marketing teams have already been assembled and are busy in the planning and design stages. It is important to note that, in addition to developing residential condos, a portion of this project will include commercial retail space, marking our first foray into the NYC retail real estate market. We are currently in close discussions with several major national retail chains about establishing a presence in our new building. We have recently submitted our official building permit application to the New York City Department of Buildings.

Recently, on August 1, we announced the successful acquisition of a third New York City-based land parcel in Flushing, Queens, with project plans for 269 modern condo residences that include 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. The company expects to begin construction on this property as the company's Oosten project construction comes to completion. We believe that this project will add substantial value to our project portfolio.

During the second quarter of 2016, we repurchased 1,387,008 ADS at a total cost of approximately \$7 million. Today, we also [announced a 100% increase quarterly dividend payment for the second quarter of 2016. The increased payment of US \$5 cents per common share, or US\$10 cents per ADS] (added by the company after the call due to a technical issue with the live audio), will be paid on September 8, 2016, to shareholders of record as of August 25, 2016.

As we look ahead to the remaining half of 2016, we believe market conditions at our various development projects will remain strong. Therefore, we are raising our full year financial forecasts. We now expect full year contract sales to grow approximately 30% and net income to grow approximately 50% compared to 2016 -- 2015. Please note that our 2016 forecast also includes a partial contribution from our Oosten project in Brooklyn.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll go first to [Josh Fain], a private investor.

Josh Fain -- Private Investor

My question is regarding the interests in the future bonds. Are there any plans to prepay those, or are they going to remain on schedule? And are you looking for better interest rates?



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

About interest rates, we do look in -- we do expect more favorable interest rates in the second halves of this year.

Josh Fain - *Private Investor*

Refinancing?

Operator

Could you repeat your question, please.

Josh Fain - *Private Investor*

Sure. So you will be refinancing the bonds?

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

Refinancing, we are actually evaluating the options that we have. And we will announce it once a firm decision has been made.

Josh Fain - *Private Investor*

Excellent. Thank you guys so much.

Operator

(Operator Instructions) And we'll go next to [Brett Mayo], a private investor.

Brett Mayo - *Private Investor*

Mr. Liu, just wanted to say congratulations on a fantastic quarter. Management is doing an awesome job at executing on their strategy. As a shareholder, the increased dividend, continued buybacks and most importantly the improving balance sheet, it's all good news. And I actually don't have any questions, just congratulations on a very solid quarter. And I'm very pleased with the results. Thank you.

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

Thank you.

Operator

And we'll go next to Josh Fain, private investor.

Josh Fain - *Private Investor*

Yes, I had one more question. Will you guys be aggressively continuing share repurchase?



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

We have -- the board has an approval that allows us to do share repurchase, but whether we will continue to do it in an aggressive way, it really depends how the future will go.

Josh Fain - *Private Investor*

Okay, but you will be continuing the buyback.

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

It's definitely an option that we will consider.

Josh Fain - *Private Investor*

Okay, excellent. Thank you, gentlemen.

Operator

And there are no more questions in the queue at this time. I'd like to turn the conference back to the speakers for any additional or closing remarks.

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

Now if there's no more questions, we thank you for joining us on today's call and appreciate your ongoing support. We would look forward to updating you on our progress in the weeks and months ahead. Thank you again.

Operator

This does conclude today's conference. We thank you for your participation. You may now disconnect.

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