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XIN - Q4 2016 Xinyuan Real Estate Co Ltd Earnings Call

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## FEBRUARY 14, 2017 / 1:00PM, XIN - Q4 2016 Xinyuan Real Estate Co Ltd Earnings Call

### CORPORATE PARTICIPANTS

**Bill Zima** *ICR - Partner*

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

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

### CONFERENCE CALL PARTICIPANTS

**George Go** - *Analyst*

### PRESENTATION

#### Operator

Good day, everyone, and welcome to the Xinyuan Real Estate Company Limited Fourth Quarter 2016 Earnings Conference. Please note today's call is being recorded.

And now, it's my pleasure to turn the conference over to Mr. Bill Zima of ICR. Please go ahead, sir.

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#### Bill Zima - ICR - Partner

Hello, everyone, and welcome to Xinyuan's Fourth Quarter 2016 Earnings Conference Call. The company's fourth 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 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 operating results. He will then 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.

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#### Lizhou Zhang - Xinyuan Real Estate Co., Ltd. - CEO

Thank you. Thank you, everyone. Welcome to our earnings call. Our fourth quarter results were in line with forecast from last quarter. Despite the implementation of new government restriction policy impact in China's overall housing markets, our revenue and gross profit still achieved a strong level of growth on an annual and quarterly basis. Our ability to make operational adjustments to our projects in wake of government restrictions contributed favorably to our financial results. We reduced operating expenses and experienced a great commercial sales and high-margin residential unit sales activity, which helped support average selling prices.

We continued to make progress with our real estate development projects in both Mainland China and overseas markets. Among all U.S. projects, our Oosten project in Williamsburg, Brooklyn is performing well with approximately 80% of the total units presold as of December 31, 2016.



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As construction on Oosten nears successful completion, we are pleased to recognize a total of \$152 million in revenue from this project in 2016. Our two other New York City projects, one in Manhattan and the other in Queens, are processing accordingly to plan. In China, we continue to add to our land bank the future development with the recent acquisition to secure land use and rights for the three land parcels in Zhengzhou, a market where Xinyuan has enjoyed great historical success.

While we remain cautious about the policy and market change, we continue to execute our selective land acquisition and project development strategy in 2017. Our financial position is solid, and we have confidence with our flexible operational strategy and the development of our overseas projects. Finally, we remain committed to deliver value to our shareholders through the continuation of our quarterly cash dividend program and remain committed to our share repurchase program.

This concludes my [remarks]. I will now turn the call over to Helen Zhang, our CFO.

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### **Helen Zhang** - *Xinyuan Real Estate Co., Ltd. - CFO*

Thank you, Mr. Zhang. Hello, everyone, and welcome to Xinyuan's Fourth Quarter 2016 Earnings Conference Call. Allow me to take you through the numbers for this quarter, further discuss our latest operations and initiatives, and conclude by updating you on financial outlook.

Total revenue for the fourth quarter increased by 22% to \$505 million from \$414 million in the fourth quarter of 2015, and increased 14% from \$444 million in the third quarter of 2016. Oosten project in Williamsburg, New York, contributed about \$117.5 million or 23% of total revenue in the fourth quarter and has been a valuable contributor to the company's financial performance in 2016.

Contract sales in China totaled \$348 million in the fourth quarter of 2016 compared to \$574 million in the fourth quarter of 2015, \$525 million in the third quarter of 2016. The company's GFA sales in China decreased to 222,000 square meters in the fourth quarter of 2016 from 421,000 square meters in the fourth quarter of 2015 and decreased from 341,000 square meters in the third quarter of 2016.

The average selling price, ASP, per square meter sold in China was around RMB10,400 in the fourth quarter of 2016 compared to RMB8,500 in the fourth quarter of 2015 and RMB10,100 in the third quarter of 2016. Such ASP increase was due to the product mix of units sold and company's efforts to maintain pricing integrity.

Gross profit for the fourth quarter of 2016 was \$128 million or 25% of revenue compared to a gross profit of \$81 million or 20% of revenue in the fourth quarter of 2015 and a gross profit of \$105 million or 24% of revenue in the third quarter of 2016. The gross margin increase was due to favorable sales of higher margin projects, especially projects in Zhengzhou area.

SG&A expenses was \$52 million for the fourth quarter of 2016 compared to \$55 million for the fourth quarter of 2015 and \$44 million for the third quarter of 2016. As a percentage of total revenue, SG&A expenses were 10% compared to 13% in the fourth quarter of 2015 and 12% in the third quarter of 2016. This decrease was due to tighter control over operating costs and benefits associated with the integration of regional management on multiple provinces, cities and projects.

Net income for the fourth quarter of 2016 was \$17 million compared to \$19 million for the fourth quarter of 2015 and \$28 million for the third quarter of 2016. Diluted earnings per ADS was \$0.18 compared to \$0.26 per ADS in the fourth quarter of 2015 and \$0.41 per ADS in the third quarter of 2016.

Now allow me to review our full year 2016 financial highlights. For the year ended December 31, 2016, total revenues increased by 34% to \$1.56 billion from \$1.15 billion (sic - see press release, "\$1,164.3 million") in 2015. GFA sales increased by 14% to 1.1 million square meters from 986,000 square meters in 2015. Contract sales increased by 27% to \$1.76 billion from \$1.4 billion in 2015.

Gross profit were \$358 million or 23% of revenue in 2016 compared to a gross profit of \$273 million or 23% of revenues in 2015.

SG&A expenses were \$178 million or 11% of revenue in 2016 compared to \$168 million or 14% of revenue in 2015.



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Net income was \$80 million in 2016 compared to \$67 million in 2015. Diluted earnings per ADS were \$1.06 in 2016 compared to \$0.91 per ADS in 2015.

**Balance sheet.** At the end of Q4 2016, the company's cash and cash equivalents, including restricted cash, decreased to \$906 million from \$1.35 billion at the end of Q3 due to land acquisition deposits at the end of the year. The cash balance recovered to \$1 billion at the end of January 2017 due to return of land deposits. Total debt outstanding was \$2.1 billion, a decrease of \$167 million compared to a \$2.3 billion at the end of third quarter of 2016. The balance of the company's real estate property under development at the end of the fourth quarter of 2016 was \$1.8 billion compared to \$2.3 billion at the end of third quarter of 2016.

**Overseas projects.** During the fourth quarter of 2016, we continued to make good progress on our Oosten projects based in Brooklyn, New York. We had presold about 80% of those total units at the end of the fourth quarter compared to 76% at the end of last quarter. We had delivered about \$152 million and 106 units in total as of the end of 2016 and most closed buyers have moved in. Additionally, we passed government inspections and obtained Temporary Certificates of Occupancy for all phases of this project. General sales trend and pricing activity remains favorable in the mid-market condo segment, but we observed a relative slowdown in the high-end market.

We expect our second New York project, located in Midtown Manhattan, to break ground in the first quarter of 2017. In the fourth quarter, we successfully entered NYC's retail real estate market by executing a lease with Target Corporation, the national large-scale retail chain, which will occupy the project's entire cellar level and 60% of the retail space on the ground level in a term of 20 years plus a 10-year extension option.

Our third U.S. project, which we announced this past August, is a land acquisition in Flushing, Queens. We are in the selection process for the general contractor and expect to begin construction in the first quarter -- in the first half of 2017.

**New land acquisitions in China.** Last month, we acquired three land parcels in Zhengzhou, the capital city of Hunan province at an average flow price of less than RMB2,100 per square meter. The newly acquired land parcels will be included as part of the company's larger Zhengzhou projects named Zhengzhou International New City. The first phase presale was launched in last October. The three land parcels offer a total GFA of 346,000 square meters with a total consideration of about RMB700 million for the land use right. The company plans to develop residential apartments and commercial buildings on the land. We are very pleased to further expand our major Zhengzhou projects by securing these three additional land parcels as Zhengzhou is an important strategic area for our future expansion.

**Debt financing.** We've called back our \$200 million bonds due 2018 in last August, which brought a one-off nonrecurring interest payment of \$12 million in last August, equivalent to 6.625% of the bond principal.

**Dividend and share repurchase.** As of December 31, 2016, we repurchased about 6.8 million ADS' at a total cost of about \$30 million this year. We will remain committed to our share repurchase program based on market conditions and company's operating performance in year 2017.

Earlier today, we also announced our cash dividend payment for the fourth quarter of 2016, which was the same with previous quarters. The payment of \$0.05 per common share or \$0.10 per ADS will be paid to investors before March 14 to shareholders of record as of February 27.

**Financial forecast.** And finally, I would like to provide you with some perspective on our business as it relates to our first quarter and full year 2017 financial results. For the first quarter, our estimated contract sales will be in the same shape of first quarter of 2016. However, our estimated contract sales might be impacted by a contingent postponed issuance of sales permit at one of our major projects by the local government in Zhengzhou due to the previously mentioned government restriction policy. We have signed a letter of purchase intent with our customers for this project and a RMB50,000 down payment was made to customers while signing the agreement.

However, without the sales permit from the local government, the formal purchase agreement cannot be signed and the contract sales cannot be booked. Therefore, the contract sales related to the sales permit, which is estimated to be half of our Q1 sales, is likely to shift to Q2 and following quarters.



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As we look at the full year, we believe 2017 will be a year of growth. As per our current estimation, 70% of our total sales are coming in the second half of the year. We plan on providing some updated information to you regarding our full year expectations when we report our first quarter results in May, including any relevant updates on the lifting of recent government restriction policies.

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

### QUESTIONS AND ANSWERS

#### Operator

Thank you. (Operator Instructions) And we'll go first to [George Go].

#### George Go -- Analyst

I have a question for the tax rate. It looks like you're paying about 70% in tax. Can you explain the breakdown of the tax?

#### Helen Zhang - Xinyuan Real Estate Co., Ltd. - CFO

In our financial statement, the tax actually is mainly consists of two categories. One is CIT, another is LAT. So for the CIT for year 2016, it's around \$40 million. And LAT is more or less the same, \$40 million. And the CIT rate is about 26% and LAT is about 38%.

#### George Go -- Analyst

What do they stand for, LAT? Land --

#### Helen Zhang - Xinyuan Real Estate Co., Ltd. - CFO

Land added tax.

#### George Go -- Analyst

Okay, thanks. I have another question. Do you know how much realized revenue for Oosten for the rest of the year? You realized \$152 million, and how much left?

#### Helen Zhang - Xinyuan Real Estate Co., Ltd. - CFO

For year 2017, it's going to be \$150 million. And for the years after 2017, it's going to be around \$75 million.

#### George Go -- Analyst

Okay, thanks.



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**Operator**

(Operator Instructions) And I have no additional questions at this time. I'd like to turn the program back over to management for any additional or concluding remarks.

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

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

**Operator**

And ladies and gentlemen, once again, that does conclude today's conference. And again, I'd like to thank everyone for joining us today.

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