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XIN - Q3 2015 Xinyuan Real Estate Co Ltd Earnings Call

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Yong Zhang *Xinyuan Real Estate Company Limited - Founder and Chairman*

CONFERENCE CALL PARTICIPANTS

Richard DiGeronimo *Private Investor - Private Investor*

Herman Tai *Private Investor - Private Investor*

Brett Mayo *Private Investor - Private Investor*

Matthew Larson *Morgan Stanley - Analyst*

PRESENTATION

Operator

Good day, everyone, and welcome to the Xinyuan Real Estate Company Limited Third quarter 2015 Earnings Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Mr. Bill Zima. Please go ahead.

William Zima - ICR - IR

Hello, everyone, and welcome to Xinyuan's Third Quarter 2015 Earnings Conference Call. The company's third 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 discussions 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. 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 question, 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 Company Limited - Founder and Chairman

Thank you, Bill. Good morning, and thank you all for joining our third quarter 2015 earnings conference call.

We are very pleased with our operational performance and financial results in the third quarter. We benefited from the continued strong momentum in our business, as well as favorable government policies in the real estate sector. There were 19 active projects at the end of third quarter that contributed to our results, along with four projects under planning in China. We expect our operational effort and the government policies to



continue to favorably impact our business in the fourth quarter. We remain committed to driving performance for our shareholders with our quarterly cash dividend program. We will also execute our share repurchase program, as appropriate, based on valuation.

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

George Liu - Xinyuan Real Estate Company Limited - CFO

Thank you, Chairman. Hello, everyone. Welcome to Xinyuan's Third Quarter 2015 Earnings Conference Call. We are very pleased with our third quarter 2015 financial performance and made huge operational progress with our development activities.

Now please allow me to further review our financial results. Contract sales increased by 84.7% to \$309.7 million from \$167.7 million in the third quarter of 2014 and decreased by 6.8% from \$332.3 million in the second quarter of 2015.

Total gross floor area sales increased by 132.6% to 233,300 square meters from 100,300 square meters sold in the third quarter of 2014, and increased by 6.7% from 218,700 square meters sold in the second quarter of 2015.

The average selling price per square meter sold was RMB8,196, equivalent to \$1,328 in the third quarter of 2015 compared to RMB10,272, equivalent to \$1,672 in the third quarter of 2014; and RMB9,309, equivalent to \$1,519 in the second quarter of 2015. The year-over-year and sequential decreases in ASPs were primary attributable to stronger pre-sales in Tier 2 cities that occurred in the third quarter of 2015.

The company commenced presales of one new project in the third quarter of 2015 called Henan Xin Central, which contributed 10.9% of our total GFA sales.

Total revenue for the third quarter increased by 88.9% to \$309 million from \$163.6 million in the third quarter of 2014, and increased by 12.3% from \$275.1 million in the second quarter of 2015.

Gross profit for the third quarter of 2015 was \$82.7 million or 26.8% of revenue, compared to a gross profit of [\$43.5 million] (corrected by company after the call) or 26.6% of revenue in the third quarter of 2014, and a gross profit of \$60.9 million or 22.2% of revenue in the second quarter of 2015.

SG&A expenses were \$48.8 million for the third quarter of 2015 compared with -- compared to \$35.6 million for the third quarter of 2014 and \$35.8 million for the second quarter of 2015. As a percentage of total revenue, SG&A expenses were 15.8% compared to 21.8% in the third quarter of 2014 and 13% in the second quarter of 2015.

Net income for the third quarter of 2015 increased by 609.4% to \$22.7 million from \$3.2 million for the third quarter of 2014, and increased by 12.4% from \$20.2 million for the second quarter of 2015.

Diluted net earnings per ADS attributable to shareholders increased to \$0.31 from \$0.04 per ADS in the third quarter of 2014 and \$0.27 per ADS in the second quarter of 2015.

As of September 30, 2015, Xinyuan's cash and cash equivalents, including restricted cash, increased to \$555.9 million from \$441.4 million as of June 30, 2015. Total debt outstanding was \$1,793.1 million, an increase of \$71.3 million compared to \$1,721.8 million at the end of the second quarter of 2015. The balance of our real estate property under development at the end of the third quarter of 2015 was \$2,012.2 million compared to \$2,097.1 million at the end of the second quarter of 2015.

Today, we also announced a cash dividend for the third quarter of 2015 of \$0.025 per common share or \$0.05 per ADS, which will be paid to investors on December 9 to shareholders of record as of November 25 of this year. At this time, we do not have any intention to change our dividend policy.

During the third quarter of 2015, we continue to make good progress in our Oosten project based in Brooklyn, New York. As of the end of the quarter, we have presold nearly 60% of our total units. The building project is on schedule, and we continue to install the facade, interiors and mechanical systems.

The New York real estate market is generally healthy, and the sales prices we are currently receiving for our Brooklyn project remain favorable. During the third quarter of 2015, one of our luxury penthouses sold for \$6.5 million, a record high for Xinyuan on this project, as well as a record high among all the residential units sold in Williamsburg, Brooklyn.

At Xinyuan, we also continue to explore new opportunities to develop real estate-related products and services to complement our core real estate development business. Our property management arm was recently awarded and ranked number 16 among the top 100 property management companies in China by the National Property Management Association as measured by overall competitiveness, including the effectiveness of corporate management, operational performance, as well as quality of services. Our efforts to cultivate real estate related products and services that can complement our core real estate development business will provide us with the best growth opportunities in the quarters ahead.

Overall, there were positive developments at Xinyuan in the third quarter, as market dynamics remained favorable for our sector and our operations as well. Favorable government policies in China's real estate sector, including easing monetary policy, relaxed home purchase restrictions and lower down payment requirements, have supported the market we serve, and we expect these policies will continue to positively impact our business on the fourth quarter.

Now I would like to conclude my comments by discussing our full year financial outlook. For the full year 2015, based on the third quarter results, we reiterate our expectation of full year contract sales and net income growth of approximately 30% compared to that in the prior year.

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 our first question today comes from [Richard DiGeronimo], a private investor.

Richard DiGeronimo - Private Investor - Private Investor

Congratulations on your good quarter and also it appears that the conferences in New York and possibly Hong Kong bear fruit and also I hope you enjoyed your alma mater in Cornell, New York. So I have a couple of questions for you.

George Liu - Xinyuan Real Estate Company Limited - CFO

Yes, please. Thanks.

Richard DiGeronimo - Private Investor - Private Investor

You're welcome. So what do you expect for the entire year as far as your revenue goes, your contract sales go? Do you expect to -- do you anticipate -- what do you expect for that, please?



George Liu - *Xinyuan Real Estate Company Limited - CFO*

We kind of addressed this issue in our earning release and in the speeches I just made, with the remarks I just made. We are -- we reiterate our expectation of full year contract sales and net income growth of approximately 30% compared to the prior year period.

Richard DiGeronimo - *Private Investor - Private Investor*

Understand. OK. But that -- I guess, what I'm looking to is the fact that we have the -- you have the 13.25% bonds, and there is a potential that they may be restructured, and how would that restructuring work as far as the bonds from China?

George Liu - *Xinyuan Real Estate Company Limited - CFO*

We are working on the possibility of onshore bond issuance, but it's still an issue full of uncertainties at the moment, and we will announce it once this onshore bond issue has been secured.

Richard DiGeronimo - *Private Investor - Private Investor*

Do you feel comfortable with that happening?

George Liu - *Xinyuan Real Estate Company Limited - CFO*

We have seen many of our peers have successfully completed onshore bond issues, we like to follow but no one can guarantee it will happen.

Richard DiGeronimo - *Private Investor - Private Investor*

I understand. And also, you talked about getting some more projects outside of China, and it seems like your focus was the U.S., and how is that Malaysian issue going as well?

George Liu - *Xinyuan Real Estate Company Limited - CFO*

Malaysia one is like -- I kind of also talked about this in the prior earning calls. The Malaysia one is more like an option that we are having. We have no plan to take any massive actions on Malaysia project, so it's a small investment compared with our total portfolio and we will we wait to see what is the best solution to that project.

Richard DiGeronimo - *Private Investor - Private Investor*

And New York?

George Liu - *Xinyuan Real Estate Company Limited - CFO*

New York, we are talking about -- you probably also read about some news about our potential efforts in New York City. What I can say is that we are not in a position to make specific comments on specific projects. We will -- we are talking to various opportunities. One or some of them might materialize in the near future. We are hopefully, but we can only announce a specific project after it has been finalized.

Richard DiGeronimo - *Private Investor - Private Investor*

OK, that's been very -- you've been very good, very kind and I appreciate that. And again, congratulations on a great quarter. And I certainly respect you as far as a CFO and the company, I think, is in good hands, and hopefully, it will stay that way. One other question is, the Board of Directors, there are still a couple of seats available or -- that have not been filled, how is that working out now?

George Liu - *Xinyuan Real Estate Company Limited - CFO*

Our board has recently added one independent member, Mr. Tian, who is from Korn/Ferry, another multinational company. And the board, as far as I know, is keen to add new members where appropriate and when a qualified candidate is found.

Richard DiGeronimo - *Private Investor - Private Investor*

Thank you very much.

George Liu - *Xinyuan Real Estate Company Limited - CFO*

Thank you.

Operator

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

Herman Tai - *Private Investor - Private Investor*

So I wanted to ask about, a year ago, the management said that you guys have used a aspect of 50% ROI when you do a land acquisition. So I wonder, is that annual return of 50% or is that the whole project? And what's the numerator and denominator used for that ROI?

George Liu - *Xinyuan Real Estate Company Limited - CFO*

You mean for our Brooklyn project?

Herman Tai - *Private Investor - Private Investor*

Yes. I mean, someone mentioned that you used the aspect of ROI of 50%.

George Liu - *Xinyuan Real Estate Company Limited - CFO*

Well, what I can say is that we are doing extremely well on Brooklyn project, but we are not in a position to give any specific numbers at the moment, even though we have sold out like 60% of the total units, but we cannot give you any specific numbers until all the numbers have been fixed.

Herman Tai - *Private Investor - Private Investor*

Actually, it's not for a specific project, but these are the aspects that you guys used to, I mean, when you deployed capital for a land acquisition, right? You guys have a ROI expectation and the management said that it's 50%.

George Liu - *Xinyuan Real Estate Company Limited - CFO*

Yes, that the management might -- the management said -- made a remark. I have to check whether the management has made the remarks. But what I can say is that we are confident to achieve whatever ROI they might have given you, because this one, this project might do better than our expectations from the current progress.

Herman Tai - *Private Investor - Private Investor*

I see. So just currently right now, I see that your earning can go to like at least \$1 a year and that's your current share price, right? You are earning like 25% return easily. I wonder why you are not more aggressively doing that share repurchase?

George Liu - *Xinyuan Real Estate Company Limited - CFO*

Do what? I didn't quite get your last sentence.

Herman Tai - *Private Investor - Private Investor*

So I wonder why you are not aggressively more -- more aggressively doing share repurchase when you're earning like 25% guaranteed return onwards.

George Liu - *Xinyuan Real Estate Company Limited - CFO*

We are doing some share repurchase.

Herman Tai - *Private Investor - Private Investor*

Yes, but why are you not more aggressively doing that? Considering that the returns are much higher than like all your other land acquisition or whatever?

George Liu - *Xinyuan Real Estate Company Limited - CFO*

Yes. You make a good point. We'll revisit this again and see whether we can repurchase more. But now is a blackout period, we cannot do -- at least, we cannot do it around this stage.

Herman Tai - *Private Investor - Private Investor*

I mean, yes, but the last quarter, you have a lot of time to do share repurchase, but you're not doing it very aggressively, why is that?

George Liu - *Xinyuan Real Estate Company Limited - CFO*

We -- last quarter, we did some repurchases.

Herman Tai - *Private Investor - Private Investor*

Yes, but why is not like more aggressively doing that? I think you only purchased about, like, 200,000 or so?

George Liu - *Xinyuan Real Estate Company Limited - CFO*

It's really a judgment call. And obviously, we think that our focus on the fundamentals is definitely more important than any repurchases plan. But for your information, we did a lot more than 200,000 shares in the last quarter.

Herman Tai - *Private Investor - Private Investor*

How many shares did you do? Yes, can you say how many shares did you repurchase last quarter?

George Liu - *Xinyuan Real Estate Company Limited - CFO*

We will need to check on this. If you are keen to know the exact numbers, you can send us an e-mail.

Herman Tai - *Private Investor - Private Investor*

I see. So my last question is that, so your net profit margin compared to last quarter, I think it does not expand. And you are earning like a high revenue, I wonder why you don't get any operating leverage.

George Liu - *Xinyuan Real Estate Company Limited - CFO*

Operating margin has actually increased. I don't know why you've got this impression that it's not much different than -- OK, you mean compared with last year. Compared with last year, you mean, right?

Herman Tai - *Private Investor - Private Investor*

You increased like 12% or so, so I wonder why the margin does not increase.

George Liu - *Xinyuan Real Estate Company Limited - CFO*

I didn't quite get -- any increase in that scale would not -- generally, would not increase the gross margin. It only increase the net profit margin.

Herman Tai - *Private Investor - Private Investor*

Yes. The net profit margin, I will increase it -- I would expect you to increase like lots more because you get a larger revenue base. So I mean, your SG&A should decrease proportionately. I mean, decrease in terms of the percentage of revenue. I wonder why that's not happening.

George Liu - *Xinyuan Real Estate Company Limited - CFO*

Actually, our net profit margin also have increased significantly as compared with the same period last year. Maybe not reached your target, but it's already like three to four times better than last year -- than that of the same period last year.

Operator

And moving on, we are going to take a question from Brett Mayo, a private investor.

Brett Mayo - *Private Investor - Private Investor*

First off, I would say great execution on the quarter, almost \$23 million net income. Great, great quarter. I guess my first question would be, I'd seen on the news about the Tianjin blast, the tragic explosion there. And also I noticed that you guys have a presales plan for the fourth quarter. And I didn't know -- I don't -- I'm not familiar with the geography over there, and I didn't know if your and was affected by that or if that affects presales, or if you could just give any details about that, the Tianjin. I think you have planned sales this upcoming quarter for presales.

George Liu - *Xinyuan Real Estate Company Limited - CFO*

No, our project is far away from the site where the tragedy happened, very far away. It's basically two completely different directions. We -- our project has no effect -- has suffered no effect from the tragedy, and we are expecting good presales.

Brett Mayo - *Private Investor - Private Investor*

OK, good. If you could -- I know that you guys have about 19 projects going on or something like that, if you could just kind of list the couple or two that, I guess, internally you are most excited about, maybe the bottom two that might give you concerns or where you might have to take discounts or something like that, just kind of the top two, bottom two?

George Liu - *Xinyuan Real Estate Company Limited - CFO*

OK. I'd like to share with you the new project that actually started presales only in the third quarter. We actually were able to manage a contract sales of more than \$30 million -- about \$30 million in -- for its presales. And actually, we managed more than \$20 million on the first day of our presales.

Brett Mayo - *Private Investor - Private Investor*

And where was that? What project?

George Liu - *Xinyuan Real Estate Company Limited - CFO*

That's actually in Henan in Zhengzhou. If you look at our earning release, it's actually the last project in the table, Henan Xin Central. This basically is the only the new project in the third quarter, never happened before. And the presales happened like almost in the last week -- or last two in the second half of the September. However, it has accounted for about 10% of our total GFA sales in the -- for the third quarter.

Brett Mayo - *Private Investor - Private Investor*

That's great. Very good news. I noticed -- I guess on the projects that maybe are not doing quite as stellar. Chengdu, I noticed that it kind of -- if I'm just kind of glancing through, its average selling price has kind of on the lower end. Is it cheaper to develop land there or is it just kind of an outlier, or are the margins are just lower on Chengdu? And what are the expectations from that project going forward?

George Liu - *Xinyuan Real Estate Company Limited - CFO*

If you look at our -- if you look at the table in our earnings release, you can realize that even the ASP of Chengdu project in the third quarter is lower, slightly lower than that in the second quarter of this year, but it's actually higher than the third quarter of last year. So the price is in that wide range, it's probably due to a different -- due to the location, the floor and the direction of different flats. The good news is you can -- if you compare with



the sales of -- the flat sales in the third quarter of this year with the flat sales in the third quarter of last year, you can see that the sales of Chengdu project in this year, obviously, is doing a lot -- significantly better than that in 2014.

Brett Mayo - *Private Investor - Private Investor*

Right. That's good. And again, a great quarter. I appreciate you coming to New York and doing the kind of the roadshow. And I believe Beijing as well, I think it means a lot to investors to be able to spend their time and -- with you and other members of management. Great execution, great quarter. I agree with the last caller or investor. The share buyback, you guys have around \$13 a share book value and trading around \$3.50 or something like that per ADS. It's a no-brainer to be aggressive on the share buyback. But I understand, priority number one is running the business. Number two, I am excited about the potential onshore bond. If you could just as -- and I'll hang up and listen to the answer. But if you -- I don't really understand that process very well, if you could just kind of give some color about what that could potentially mean. But again, you guys are doing a great job of selling real estate, which is your primary goal. And I'll hang up and listen to the answer on the onshore bonds, what other companies are doing and what that can mean for you guys.

George Liu - *Xinyuan Real Estate Company Limited - CFO*

OK, thank you. Quite a few real estate companies have issued onshore bonds, but most of them are big bonds. We haven't got any peers with a similar size as ours that have issued onshore bonds. We are actually moving, if not ahead of them, at least is in the about same state as them. We have submitted our application to the authority. We are waiting for their approval. It could probably take weeks or even months to get the approval. And the general process is, once we've got the approval, then we are allowed to do the roadshows to sell the bonds to potential investors. Thank you.

Operator

And moving on, we have a question from Matthew Larson from Morgan Stanley. (Operator Instructions)

Matthew Larson - *Morgan Stanley - Analyst*

Good morning, guys. Actually, my question was answered. It's about the bonds and about the share buyback. And I just wanted to say as well a great quarter, you guys seem to be executing. On the share back -- share buyback, it does make sense from a financial point of view, certainly, it's a no-brainer, but I can understand with the small float that it may not be as much a priority as one might think. And frankly, I think it's just a question of whether or not global interest in Chinese equities continues to be positive for you. At some point, the value of your company will just be recognized and we'll see an ascension in the stock price on itself, so I just wanted to add that in.

George Liu - *Xinyuan Real Estate Company Limited - CFO*

Thank you.

Operator

(Operator Instructions) And it looks like that's all the time we have for questions today. Gentlemen, I'll turn the conference back over to you.



PRESENTATION

George Liu - *Xinyuan Real Estate Company Limited - CFO*

OK. 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 that does conclude our conference today. Thank you all for your participation.

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