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XIN - Q1 2016 Xinyuan Real Estate Co Ltd Earnings Call

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CORPORATE PARTICIPANTS

William Zima *Partner - ICR*

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

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

CONFERENCE CALL PARTICIPANTS

Craig Mary - *Analyst*

Herb Singh *Herb Singh Family Trust - Analyst*

Brett Mayo - *Analyst*

Richard Geronimo - *Analyst*

PRESENTATION

Operator

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

William Zima - Partner - ICR

Hello, everyone, and welcome to Xinyuan's First Quarter 2016 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 is included in our registration statement, in 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'll 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.

(Operator Instructions) Also, 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 - Founder, Chairman

Thank you, Bill. Good morning, and thank you, all, for joining our first quarter 2016 earnings conference call.



We are pleased to report strong financial results, for the first quarter of 2016, with both contract sales and net income achieving greater than 50% growth over the first quarter of last year. Revenue growth was driven by healthy levels of sales activity and demand at most of our projects, and we continued to benefit from favorable national and local government policies.

During the first quarter of 2016, we successfully completed a new overseas land acquisition in New York, located in Midtown Manhattan. Additionally, we completed three new land acquisitions in Beijing, Kunshan and Zhengzhou during the month of April. These new land acquisitions are expected to contribute to our future growth. We maintain our commitment to our shareholders through our quarterly dividend policy and the share repurchase program. Our strong first quarter results and a favorable outlook enable us to increase our full year financial forecast.

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 First Quarter 2016 Earnings Conference Call.

We are very pleased with strong financial performance for the first quarter, and continue to make good progress on the execution of our growth strategy.

During the first quarter, Xinyuan continued to benefit from favorable government policies in China's real estate sector, which have helped support the markets we serve. 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 first quarter of 2016. Contract sales increased by 51.2% to \$279.6 million from \$184.9 million in the first quarter of 2015. Total gross floor area sales increased by 82.7% to 206,600 square meters from 113,100 square meters sold in the first quarter of 2015.

The average selling price per square meter sold was RMB8,839 or \$1,354 in the first quarter of 2016 compared to RMB10,031 or \$1,634 in the first quarter of 2015.

Total revenue for the first quarter increased by 41.2% to \$235.4 million from \$166.7 million in the first quarter of 2015.

Gross profit for the first quarter of 2016 was \$48.9 million or 20.8% of revenue compared to a gross profit of \$48 million or 28.8% of revenue in the first quarter of 2015.

SG&A expenses were \$31.5 million for the first quarter of 2016 compared to \$27.7 million for the first quarter of 2015. As a percentage of total revenue, SG&A expenses decreased to 13.4% compared to 16.6% in the first quarter of 2015.

Net income for the first quarter of 2016 increased 53.3% to \$6.9 million compared to \$4.5 million for the first quarter of 2015.

Diluted net earnings per ADS attributable to shareholders were \$0.09 compared to \$0.06 per ADS in the first quarter of 2015.

As of March 31, 2016, Xinyuan's cash and cash equivalents, including restricted cash, increased to \$1.03 billion from \$750.7 million as of December 31, 2015. Total debt outstanding was \$2.15 billion compared to \$1.73 billion at the end of the fourth quarter of 2015. The balance of our real estate property under development at the end of the first quarter of 2016 was \$2.04 billion compared to \$1.89 billion at the end of the fourth quarter of 2015.

In the first quarter, our China subsidiary completed the issuance of its second and third tranches of the onshore corporate bonds in China. The issue size of the second tranche bonds is RMB700 million, with a coupon rate of 7.47%, while the size of the third tranche bond is [RMB500] million



(corrected by company after the call), with a coupon rate of 7.09%. Overall, we completed the issuance of our onshore corporate bonds in China, representing a total principal amount of RMB2.2 billion.

During the first quarter of 2016, we continued to make good progress on our Oosten project based in Brooklyn, New York. As of the end of the first quarter, the company had presold approximately 69% of its total units compared to 64% at the end of December 2015. Unit demand and pricing remained healthy for this project during the quarter and we expect to fully deliver the entire project in the second half of this year, earliest.

For our newly-acquired project located in Midtown Manhattan, our architectural, engineering and marketing teams have already been assembled. The project is currently in the planning and design stage and will be a mixed-use project, which will include some retail space. As just discussed, our new Manhattan project represents our second land acquisition in New York City, which we announced in January.

We also announced three new China land acquisitions in April in the cities of Beijing, Kunshan and Zhengzhou. We have carefully selected these land parcels, which are in attractive locations, are in existing markets we serve, and also enjoy rapid development and population growth. As such, we expect these new projects to generate strong investment returns.

During the first quarter of 2016, we repurchased 3,634,240 ADS at a total cost of approximately \$14.2 million. Today, we also announced a cash dividend for the first quarter of 2016 of \$0.025 per common share or \$0.05 per ADS, which will be paid to investors on June 8, 2016, to shareholders of record as of May 25, 2016. We remain committed to these programs in 2016 to maximize shareholder value.

As we look ahead to the remaining quarters of 2016, while there still remains some uncertainty in the real estate industry, we believe market conditions will be stable in the coming quarters and expect favorable government policies to continue to drive additional demand for our projects.

Based on our strong performance in the first quarter and the outlook for the business in the coming quarters, we are raising our 2016 full year financial forecast. We now expect full year contract sales growth between 15% to 20% and net income growth of 20% to 25% compared to 2015. Please note that our 2016 forecast also includes a partial contribution from our Oosten project in Brooklyn, New York.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take a question from [Craig Mary].

Craig Mary - - Analyst

Congratulations on your first quarter and your aggressive repurchase during this period. I had a question regarding the Oosten project. According to the register, the \$7 million worth of units were delivered in the first quarter. I was wondering what your expected gross profit was on those project?

George Liu - Xinyuan Real Estate Co. Ltd - CFO

Gross margin for the Oosten project, we are expecting a margin roughly like 30%. Since this project is being booked in accounting method different from what we have been booking our China project. So we still need to finalize the margin calculation on the project as the unit being developed -- or being delivered. But generally, we are expecting gross margin like 28%, 30%, or 35%, it really depends on how all those final settlements will work out.



Craig Mary -- Analyst

Okay. And on those two units that were delivered in March, the sales price was up a little bit higher than the list price. Was that additional work that you did for the project or was just bidding for the units?

George Liu - Xinyuan Real Estate Co. Ltd - CFO

We are -- again, like we just mentioned that the pricing and the sales trend in the Brooklyn on our specific project is very healthy. So generally, we actually have been able to sell our unit in Brooklyn project faster than we have planned for at the beginning.

Craig Mary -- Analyst

Okay, thank you very much.

Operator

(Operator Instructions) We'll go next to [Herb Singh] with Singh Family Trust.

Herb Singh - Herb Singh Family Trust - Analyst

Hello, good morning, George. My question also relates to the Oosten project. You said that some of this full year guidance includes some net revenue associated with that. I was wondering if you could give me a perspective based on the sales trend. When we could expect the benefit of the sales to hit the financial statements. What quarters you expect that to happen over?

George Liu - Xinyuan Real Estate Co. Ltd - CFO

We expect some to happen in the second quarter, but the majority would probably happen in the third and the fourth quarter. But we probably would not book all of the Oosten project this year. So some of them will be left in 2017.

So in the second quarter, we expect to book a little better -- a little more than what we have booked in the first quarter, but the real big chunk will probably come in the last quarter of this year.

Herb Singh - Herb Singh Family Trust - Analyst

I have one follow-up to that. Do you think that by the end of -- you said, some of that would be into 2017. Can you give me an idea of the percentage of the revenue you'd expect to book at the end of this fiscal year versus the remainder for 2017?

George Liu - Xinyuan Real Estate Co. Ltd - CFO

It's really still -- it's still just too early to make any exact projection, but we are expecting to book roughly half of the project in 2016. It could be as low as 40% or could be as high as 60%. But the chance is probably 60-40 divided between this year and next year.

Herb Singh - Herb Singh Family Trust - Analyst

Great. If there -- could I ask another question or do you want me to get back into queue? I don't know how long the queue is.

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

Okay.

Herb Singh - *Herb Singh Family Trust - Analyst*

Okay. So the --

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

Yes, please.

Herb Singh - *Herb Singh Family Trust - Analyst*

So the other question relates to the buyback. I'm very pleased to see the buyback. And I was wondering about the intentions for the remainder of the fiscal year. I got the impression that it's something that the company is positive about continuing, but could you give me an idea about the magnitude that you expect to possibly do over the remainder of the year?

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

We will continue to look at the possibility of repurchase program. Again, that the repurchase itself is not going to increase the stock price, as you would have hoped for. From order track record of what we have done in the repurchase program in the past four years, which we have concluded that repurchase program alone does not make much difference. But again, we are happy to look at the possibility of further repurchases in the coming quarters while we will continue to focus on improving our fundamentals.

Herb Singh - *Herb Singh Family Trust - Analyst*

Wonderful. Thank you so much.

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

Thank you.

Operator

(Operator Instructions) We'll take our next question from [Brett Mayo].

Brett Mayo - *Analyst*

Yes. Hi, Mr. Liu. Yes, I would agree with what Greg and Herb said, great job with buyback. Back of the envelope math, it looks like you brought back around 5% of the outstanding shares this quarter, which is fantastic for existing shareholders that increased our ownership. So that's -- like I said, that's fantastic.



I noticed the \$44 million difference between contract sales and revenue. And also in Q4 it was much more than that; it was like \$161 million between the contract, sales and revenue. Can you give some details on that? And I guess, particularly, do you expect those to come close together? And what does that -- does that affect overall margin?

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

It's a timing difference of -- there's always a timing difference between the contract sales and the revenue. Because we need to also need to calculate the percentage of completion for all the contract sales that we have made to conclude the revenue. However, any difference in the regard of gross margin, usually would be caused by the mix of different projects with different margins rather than the difference between contract sales and the revenue.

Brett Mayo - *Analyst*

Okay, that's helpful. I did notice that the Sanya project, and I apologize if I am pronouncing that wrong, but it had no sales this quarter. What is going on with that project and are there any updates on it?

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

Which project?

Brett Mayo - *Analyst*

Sanya Bay.

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

Sanya project?

Brett Mayo - *Analyst*

Yes, sir.

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

Okay. Yes, I know. There is some administrative measures that have been imposed on the neighborhood, where our Sanya project is. So basically, not just our project, all the projects in that community -- in that location has been put on hold due to the administrative measures imposed by local government.

Brett Mayo - *Analyst*

All right. Well, thank you, sir. And again, congrats on a great quarter and tip of the hat for the increase in financial buyback. Thank you, sir.

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

Thank you.

Operator

(Operator Instructions) We'll go next to [Richard Geronimo].

Richard Geronimo - - *Analyst*

I just have a couple of questions. The tranche that you guys did for the third tranche, obviously, the 13% bonds are going to be coming up in the '17 and '18 year. What are your plans to dispense of those?

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

We are definitely look at -- since we are -- as a matter of fact, our blended costs for our financing has been decreased to a level like 8% -- 7% to 8% so that means that is really reasonable to consider any possible works on the 13% that we currently have. But there are a couple of options that we are weighing. We are actively considering mergers to reduce our financing costs, including these high yield bonds that we have -- that we did a couple of years ago. But we haven't made any firm actions and once we have done it, we will announce it separately.

Richard Geronimo - - *Analyst*

Okay. So I kind of understand a little bit of that, but -- so you're looking at -- but that's one of your largest percent bonds that you have. I know it's difficult to transfer from China to the U.S., but you are expecting to try to do it this year? I mean, I know there's also a penalty to pay. What are your thoughts?

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

Yes, again, there are many ways to do it. One thing, I'll just say, we can try to transfer our RMB out of China to try to retire those high yield bonds. And there's also -- since our financing costs have been reduced that if we could buy some cheap bonds or debts outside of China, we could also use the proceeds to replace these high cost, high yield bonds. All those options are being weighed and we are actively exploring different possibilities. And once a decision has been made or an action has been completed, we will definitely announce it separately.

Richard Geronimo - - *Analyst*

That's great. And you've made a lot of purchases this year for land, which I really applaud. Do you think it's going to continue or are you just going to see what the market bears as far as the rest of the year goes?

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

Again, we are a real estate company. So if there is any good land parcels being priced at reasonably, we are happy to consider it and we probably will acquire them.

As for the four, five land lots that we have acquired, one we announced in January that is in Manhattan, we think that is a very good addition to our Brooklyn project and it's very -- it also does good to our brand image in New York City. And we consider that we become more like international homebuilder, but instead of China one by taking these kind of steps, which we will continue to explore in the future.

And about the other four lands that we acquired, in Beijing, Kunshan, Zhengzhou, respectively, all the four lands are being acquired at a price that we are very happy with. They are the opportunities we cannot miss. That's why we are -- we have taken those steps. I quickly elaborate a little bit about these acquisitions.

For instance in Beijing, as you can see from our announcement, the land acquisition cost per square meter, construction area, we are talking about roughly RMB11,000 per square meter. However, neighborhood, the land at the property -- the residential property is being sold at roughly RMB40,000 per square meter. And any new land lots that have been auctioned, being pushed up around the neighborhood, it probably would be sold between RMB30,000 to RMB35,000 per square meter.

And in terms of Kunshan project, which we announced, our land cost is roughly RMB5,000 per square meter. However, anyone could tell you that the price has almost increased 40% in the first quarter in that very location. And it was a reasonable projection, would be much higher than the land costs we have secured, probably I would expect like 50% more than we have secured.

And in terms of Zhengzhou, which is where this company has been founded and started, we are working on those land lots for over two years and now it's time for us to harvest the efforts we have made in the past two years. As you can see there, we've got that land lots at a cost of roughly RMB2,000 per square meter, consider that the property price, average property price for residential in Zhengzhou is now around RMB9,000 to RMB10,000 per square meter.

So all the four deals -- all the five deals are good deals and we are very happy that we have done that. But in the future, for the coming quarters, again, if there are good deals, we are definitely drawn to seize that. If there is no good deals, if the market continues to get heated and getting such a hot level that the land acquisition become cost ineffective then we will walk away from those deals.

Richard Geronimo -- Analyst

And one more question. So do you think you may do some more onshore bonds to potentially to get rid of the 13% bonds in the U.S., U.S. dollars?

George Liu - Xinyuan Real Estate Co. Ltd - CFO

Yes, again. As I just mentioned that to get rid of 13% U.S. dollar bonds is definitely something which we are taking serious consideration and there are many ways to do it. If offshore bond, we can get at a cost 8% or 9%, is also a good way to replace that. And for the onshore bonds, apart from the 7% or 7.5% financing cost that we have on the current onshore bonds, if we can continue to get those money at a reasonable financing cost, like below 8%, it might be, we might consider to replace them -- to use that to replace some trust loans that we are paying across the higher than 8%.

Richard Geronimo -- Analyst

Well, thank you very much. It was a great quarter and I appreciate talking to you.

George Liu - Xinyuan Real Estate Co. Ltd - CFO

Thank you.

Operator

With no other questions in queue at this time, I'll turn it back to management for closing remark.

George Liu - Xinyuan Real Estate Co. Ltd - CFO

Thank you. 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

Ladies and gentlemen, thank you for your participation. This does conclude today's conference. You may now disconnect.

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