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Q1 2019 Xinyuan Real Estate Co Ltd Earnings Call

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CORPORATE PARTICIPANTS

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Xuefeng Li *Xinyuan Real Estate Co., Ltd. - Interim CFO*

CONFERENCE CALL PARTICIPANTS

Richard Geronimo *Private Investor*
Suvas Patel *Private Investor*
Mark Scitt *Private Investor*
William Zima *ICR, LLC - Head of Asia Practice*

PRESENTATION

Operator

Good day, everyone, and welcome to the Xinyuan Real Estate Company First Quarter 2019 Earnings Conference Call. Please note that today's call is being recorded.

I would now like to turn the conference call over to Mr. Bill Zima of ICR. Please go ahead.

William Zima *ICR, LLC - Head of Asia Practice*

Hello, everyone, and welcome to the Xinyuan's First Quarter 2019 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 may be materially different from the views expressed today. Further information regarding these and other risks and uncertainties is included 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. Lizhou Zhang, the company's Chief Executive Officer, who'll comment on the company's operating results. He will be followed by Mr. Xuefeng Li, the company's Interim 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.

With that said, I would now like to turn the call over to Xinyuan's CEO, Mr. Zhang. Please go ahead.

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

Thank you, Bill. Good morning, and thank you all for joining our first quarter 2019 earnings conference call.

Our first quarter results show a good start to 2019. We are pleased to announce that our contract sales increased 26% year-over-year, due to a steady and positive demand for our active projects in China. At the same time, our first quarter revenue more than doubled to USD 468.9 million.

During the quarter, we continued to make investments to support our long-term growth by acquiring a new project in Foshan. We also commenced presales of a new projects in Zhengzhou, which further contributed to our total GFA and total contract sales.

Our overseas projects progress as planned. As of the end of the first quarter, a total of 177 units out of 216 units have been sold and closed in our Oosten project in Brooklyn, New York. We also completed construction to the sixth floor of the Hudson Garden project in Manhattan. The structural core of our London, Madison project was completed in the first quarter, construction remains on track for the



completion in 2020. Our Malaysia project remains on track as well.

Our Xinyuan Property Management Company subsidiary has achieved a rapid growth in recent years. To further driving its development, we have applied to list the Xinyuan Property Management Company in Hong Kong. After the listing, we will continue to be the controlling shareholder and fully consolidate the company. We believe that listing on such a high-quality platform, where many peer companies are listed, will benefit all of our shareholders.

We are also pleased to be able to continue to deliver value to our shareholders with our dividend payment this quarter. Despite market and policy uncertainties, we remain optimistic about our ability to achieve positive operating performance. We will remain focused on our core business, maintaining our competitive advantages and strengthening our market-leading position.

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

Xuefeng Li *Xinyuan Real Estate Co., Ltd. - Interim CFO*

Thank you, Mr. Zhang. Hello, everyone, and welcome to Xinyuan's First Quarter 2019 Earnings Conference Call.

Allow me to take you through the financial results for this quarter, further discuss our latest operations and initiatives and conclude by updating you on our financial outlook for the remainder of this year. Please note that all figures are in U.S. dollars terms unless otherwise stated.

Contract sales were \$479.7 million in the first quarter of 2019 compared to \$380.7 million in the first quarter of 2018 and \$724 million in the fourth quarter of the 2018.

Total GFA sales in China were about 211,400 square meters in the first quarter compared to 149,800 square meters in the same quarter last year and 355,000 square meter in the last quarter.

Total revenue increased to [169.3%] (corrected by company after the call) to \$468.9 million from \$174.1 million in the first quarter of 2018 and decreased 57.1% from about \$1.1 billion in the fourth quarter of 2018.

The average selling price per square meters sold in China was around RMB 15,300 in the first quarter of 2019 compared to about RMB 13,500 in the last quarter and about RMB 15,900 in the first quarter of 2018.

And SG&A expenses as a percentage of total revenue decreased to 12% from 22.8% in the first quarter of 2018 and increased from 9.7% in the fourth quarter of 2018.

Interest expense this quarter was about \$24.3 million compared to about \$23 million last quarter and \$29.8 million in the same quarter last year.

Due to foreign exchange fluctuation, the exchange gain in this quarter was about \$3.5 million compared to about \$652,000 exchange gain last quarter.

Net income for this quarter increased to \$18.2 million compared to a net loss of \$12.7 million for the first quarter of 2018.

Diluted net earnings per ADS attributable to shareholders was \$0.33 compared to a net loss of \$0.16 per ADS in the first quarter of 2018.

The company repurchased 2.1 million ADS in the first quarter of 2019.

Balance sheet. As of March 31, 2019, the company's cash and cash equivalents was \$1.1 billion compared to \$1.2 billion as of December 31, 2018.

Total debt outstanding was around \$3.51 billion, increasing from around \$3.45 billion at the end of the fourth quarter of 2018.

The balance of the company's real estate properties under development as of the first quarter of 2019 was about \$4 billion compared to \$4.07 billion at the end of the fourth quarter of 2018.

Shareholder equity at the end of the first quarter of 2019 was about \$769 million compared to about \$746 million at the end of the fourth quarter of 2018.

Projects updates. As of March 31, 2019, our total unsold landmark was 5.5 million square meters.

U.S. projects update. As of March 31, 2019, our Oosten project in Brooklyn, New York, has recognized a total revenue of about \$260.1 million from the sales of 177 units out of 216 total units, representing approximately 82% of the total units sold.

Our Hudson Garden project in Manhattan, New York, completed construction up to 6th floor. With design drawing optimization, the total number of units increased from 82 to 92, a total of 29,000 square foot out of the 38,000 square foot of retail space has been leased to the U.S. department store retailer, Target with a 20-year lease. Presales are expected to begin at the end of second quarter of 2019.

We continue to execute on planning governmental approvals and predevelopment of our ground-up development project in Flushing, New York. After the landmark protection committee has approved our landmark protection plan, we were awarded the Certificate of Appropriateness. Transfer work was completed at the end of February 2019. The Landmark artifact are now stored in a warehouse for restoration work.

UK Project update. In the first quarter of 2019, our structural core of the Madison project was completed, and the structural frame will be completed in the second quarter of 2019. Construction remains on track for completion in 2020. By the end of the first quarter of 2019, all of the 104 Affordable Housing apartments of the 423 units of Madison project have been presold. Of the remaining 319 apartments, 133 apartments have been sold, representing 41.7% of the total number of units.

Senior note issuance. To refinance and to optimize our debt structure in April, we issued USD 300 million of 14.2% senior notes due 2021, among which, \$200 million were issued at par, and \$100 million at 103.932, representing a yield 12.3%. The proceeds have been and will be primarily used for repayment and the repurchase of our offshore debt.

Dividend. We announced a cash dividend for the first quarter of 2019 of \$0.10 per ADS, which will be paid before June 20, 2019, to shareholders of record as of June 3, 2019.

And finally, on to our full year 2019 financial forecast. For the full year of 2019, the company expects an increase in the contract sales of about 10% and an increase in consolidated net income of 15% to 20% over 2018.

This concludes my prepared remarks for today's call. Operator, we are not ready to take some questions.

QUESTIONS AND ANSWERS

Operator

I would now like to introduce Mr. Brian Chen, General Manager of Capital Markets department, who will be assisting with answering questions.

(Operator Instructions)

We will take our first question from Richard Geronimo, who is a private investor.



Richard Geronimo *Private Investor*

Okay. I have a couple of questions. Do you guys -- clearly, the company is doing quite well. Do you guys have any thoughts about coming to the U.S, United States, and trying to pick up some analysts to follow the company?

Brian Chen *Xinyuan Real Estate Co., Ltd. - General Manager of Capital Market*

Yes. This is Brian Chen again, the General Manager of Capital Market department. It is actually really my role. After this call in a month or so, we do plan to organize a tour to U.S. to interact with our analyst and investor to talk about face-to-face and have a more advanced conversation.

Richard Geronimo *Private Investor*

Okay. So have you -- obviously, you started the groundwork for -- do have some analysts from some major companies that are interested in following the Xinyuan?

Brian Chen *Xinyuan Real Estate Co., Ltd. - General Manager of Capital Market*

At this moment, I'm not aware. As far as I know, Xinyuan is pretty much the only 1 real estate developer that original from China, but list in the New York Stock Exchange. Looks like, we don't have a lot of coverages. That is one of the area that we would like to improve by doing some -- a tour, some other conversation on the ground. And we are going to enhance our investor relationship function, talking in more correction and have more conversation about the company's current status and the future plans.

Richard Geronimo *Private Investor*

Okay. And with the refinancing of the 14.2% coupon, so you're still giving guidance of revenue of 10% increase and including the increased coupon rate. And also an increase of the income of 15% to 20%?

Brian Chen *Xinyuan Real Estate Co., Ltd. - General Manager of Capital Market*

Yes. That is still the plan for the year. For the contract sales, our plan is to have 10% increase, and the profit have the 10% to 15% increase. As far as we can see for the Q1, we actually achieved the goal for the quarter. Q2, we're almost there. We are moving on to achieve the goal too. As at this point, we don't see any major issue to miss the target for the year.

Richard Geronimo *Private Investor*

Okay. That's great news. The Malaysian project, when -- I know you've been doing the landfill or filling in the area, when do you expect construction to begin?

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

(foreign language) Already began about 1 year, all on track. All the projects we look for will be end -- at the end of this year or the next year, first quarter of next year.

Brian Chen *Xinyuan Real Estate Co., Ltd. - General Manager of Capital Market*

So the landfill is supposed to be finished by the end of this year or early next year.

Richard Geronimo *Private Investor*

Okay. And that's the 170-acre area under water. Is that correct?

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

(foreign language) No. The 100-acre.

Brian Chen *Xinyuan Real Estate Co., Ltd. - General Manager of Capital Market*

Oh, okay. It's actually 100 acre.

Richard Geronimo *Private Investor*

Okay. So it's 100 acres?



Brian Chen *Xinyuan Real Estate Co., Ltd. - General Manager of Capital Market*

Yes.

Richard Geronimo *Private Investor*

Okay. I guess I have one more question about the Hudson project. How is that going to be marketed? I mean, obviously, there's friction between Chinese and Americans. And how do you plan on marketing that. So that you get the best return?

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

Yes. it's hard to say because the situation is very hard fallen now because of some relationship between the 2 countries. We will base on the local market for now. Now we are assessing the market, and we want to determine our price of our beginning.

Brian Chen *Xinyuan Real Estate Co., Ltd. - General Manager of Capital Market*

Yes. The project is located in the good area, Hell's Kitchen and compared to the building nearby, our price is reasonable. We believe -- and we have a pretty good local sales and marketing team. At this point, we have no reason to believe that we cannot book the sale, based on the local demand and the local team.

Operator

We will take our next question from Suvas Patel, private investor.

Suvas Patel *Private Investor*

I had one question on the stock buyback program. I know last to last year, the Board of the company had approved \$40 million to spend behind stock buyback. My question is how much of that approved amount remains for future stock buyback?

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

Sorry, would you please repeat that?

Brian Chen *Xinyuan Real Estate Co., Ltd. - General Manager of Capital Market*

Repeat your question? We didn't get that. Could you repeat your question?

Suvas Patel *Private Investor*

Sure. The stock buyback program, how much money is available with the company to purchase stock back from the market?

Let me rephrase it, the Board of the company had approved \$40 million to spend behind stock buyback. And the company has already bought back some shares. And then how much money is left for future buybacks?

Brian Chen *Xinyuan Real Estate Co., Ltd. - General Manager of Capital Market*

Okay. So for the original program, we have already used pretty much almost all of that so far. We are in the process to submit an application to our Board to apply for some new -- to continue that program.

Operator

(Operator Instructions) We'll take our next question from Mark Scitt, a private investor.

Mark Scitt *Private Investor*

I just have one question. So I see that you guys have both opportunities on New York. I was just wondering if you guys are seeing any opportunities in other cities than New York or maybe even Europe?

Brian Chen *Xinyuan Real Estate Co., Ltd. - General Manager of Capital Market*

For the moment, the company is in the middle of the process looking for new opportunity, but we are not expand without principle. We only looking at the quality project that we can manage it, and we can make sure to return reasonable profit and return to the company. We keep ourselves open. At this point, we are not limited by the region and the area. Obviously, previously, our presence in New York, in London and Malaysia, this would be the base that we are trying to focus on.



Operator

That concludes today's Q&A session. I will now like to turn the call back over to Xuefeng Li. Please go ahead.

Mark Scitt *Private Investor*

That's all I have, thank you.

Xuefeng Li *Xinyuan Real Estate Co., Ltd. - Interim CFO*

Okay. Thank you for joining us on this call, and we appreciate your ongoing support and look forward to updating you on the progress in the weeks and months ahead. Thank you again.

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