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XIN - Q4 2017 Xinyuan Real Estate Co Ltd Earnings Call

EVENT DATE/TIME: FEBRUARY 09, 2018 / 1:00PM GMT



FEBRUARY 09, 2018 / 1:00PM, XIN - Q4 2017 Xinyuan Real Estate Co Ltd Earnings Call

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Matthew Larson

George Guo - *Private investor*

Richard Geronimo - *Private Investor*

PRESENTATION

Operator

Good day, everyone, and welcome to the Xinyuan Real Estate Co., Ltd. Fourth Quarter 2017 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*

Thank you, operator. Hello, everyone, and welcome to Xinyuan's Fourth Quarter 2017 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 the 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 and that's quite possible. So further information regarding these 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 company's operating results. He will 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'll 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 fourth quarter 2017 earnings conference call. We are pleased to see strong growth in contract sales during the fourth quarter, despite ongoing government restrictions on Chinese housing market. Thanks for steady demand at our active projects. Contract sales grew to USD 802.4 million or over RMB 5.4 billion, above our guided range of RMB 4.6 billion to RMB 4.8 billion. This growth drove our full year contract sales close to 40% from previous years, above our guidance range of 35% to 37%.

FEBRUARY 09, 2018 / 1:00PM, XIN - Q4 2017 Xinyuan Real Estate Co Ltd Earnings Call

During the fourth quarter, we have purchased 6 parcels of land with total GFA of 1.8 million square meters, which helped us enlarge our land bank. Although this was now debt and temporary higher leverage in this quarter, we believe it is important for us to add to our top line so as to support long-term growth. We are pleased -- we are also pleased to continue our dividend payment in this quarter.

Now please allow me to turn the call over to our CFO, Ms. Helen Zhang. Helen, please go ahead.

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

Thank you, Mr. Zhang. Hello, everyone, and welcome to Xinyuan's fourth quarter 2017 earnings conference call. Allow me to take you through the financial results for this quarter, further discuss our latest operations in each areas and conclude by updating you on our financial outlook for year 2018.

Fourth quarter contract sales increased 72% to \$802 million from \$465 million the same quarter last year. In renminbi terms, contract sales were CNY 5.4 billion for the quarter, CNY 600 million above the high end of our guidance. Contract sales for the full year increased 40% to USD 2.5 billion from USD 1.8 billion in 2016, 3% above the high end of our guidance.

Total GFA sales in China is 444,000 square meters in the fourth quarter, doubled from 222,000 square meters in the same quarter last year and increased 12% from 370,000 last quarter. Full year GFA sales in China increased 21% to 1.4 million square meters from 1.1 million square meter in 2016.

Total revenue increased to 44% to \$729 million from \$505 million in the fourth quarter of 2016. Total revenue for the year increased to 27% to \$2 billion from \$1.6 billion in 2016. The average selling price per square meter sold in China was around CNY 12,000 in the fourth quarter of 2017 compared to about RMB 11,000 in last quarter and RMB 10,000 the same quarter last year.

SG&A expenses as a percentage of total revenue increased to 10.6% from 10.4% in the fourth quarter of 2016 and is the same with last quarter. For the full year, SG&A expenses decreased to 10.7% of total revenue in 2017 compared to 11.4% in 2016. Interest expense this quarter was \$25 million compared to \$11 million last quarter and \$13 million in the same quarter last year. Full year interest expense increased to \$66 million from \$30 million last year.

The main reason is some interest that hasn't been capitalized into our project costs. As we begin construction this year, our newly purchased projects have capitalized. A portion of total interest will increase and thus bring down interest expense.

Income tax in 2017 was higher than in 2016, mainly because there was a one-off tax refund for the Kunshan project last year for a total of around RMB 16 million. We didn't have any project settlement in 2017. So no similar refund was made, which brought up our total income tax and tax rate. We expect to have one or more project settlements in 2018.

In line with sales performance, net income for the fourth quarter of 2017 was \$35.1 million compared to \$16.7 million for the fourth quarter of 2016. For full year, net income was \$80 million, similar with last year. The slower growth in net income is due to higher interest expense and tax, as mentioned earlier. The comparatively lower net income attributable to Xinyuan shareholders this year is because we have some noncontrolling interests related to Zhengzhou International New City Phase 1. This project contributed a large portion of net income and is upgraded through a joint venture in which we own a 51% beneficial right. Other business of the Zhengzhou International New City are all 100% owned by Xinyuan.

Diluted net earnings per ADS attributable to shareholders were \$0.47.

(technical difficulty)

FEBRUARY 09, 2018 / 1:00PM, XIN - Q4 2017 Xinyuan Real Estate Co Ltd Earnings Call

Operator

Please go ahead.

Yuan Zhang - Xinyuan Real Estate Co., Ltd. - CFO

Okay. Let's come to diluted net earnings per ADS attributable to shareholders were \$0.47 compared to \$0.18 in the fourth quarter of 2016. For the full year, diluted earnings per ADS were \$0.94 compared to \$1.06 per ADS in 2016. The company did not make a share repurchase in the fourth quarter of 2017. Now let's come to balance sheet.

As of December 31, 2017, the company's cash and cash equivalents, including restricted cash, increased to USD 1.5 billion from USD 1.2 billion as of September 30, 2017. We're glad to report that our cash collection ratio remains higher than the industry average, even under current restricted policies. This allows us a better position to capture opportunities in the merger and acquisition market and to cope with potential systematic or policy risks. Total debt outstanding was \$3.3 billion, which reflected an increase of \$819 million compared to \$2.5 billion at end of third quarter of 2017.

This is mainly due to the new bond issuance as well as trust of bank loans related to new projects acquired in the quarter. The balance of the company's real estate properties and their development at the end of the fourth quarter of 2017 was about USD 2 billion, similar to that of the third quarter.

Now come to the project update. As of year-end 2017, we have, in total, 22 active projects and 14 projects under planning, including 6 projects acquired in this quarter with total GFA of 1.8 million square meters. The new projects are mainly located in our existing markets with solid track record. And we believe they will drive our long-term growth. As of the end of 2017, our total unsold land bank is around 5 million square meters, more than 2x higher than in the beginning of the year. This lay a strong foundation for development in future years.

U.S. project updates. As of the end of 2017, our Oosten project in Brooklyn, New York has recognized total revenue of \$251 million, with \$99 million generated in 2017. 172 units have been sold out, out of 216 total units, with 66 of those units sold in 2017. We expect foundational work to be completed on our Hudson Garden project in Manhattan, New York. In the first quarter of 2018, we're also pleased to announced that after optimizing the internal layout of the building, we now expect 87 units to be available for sale, a increase from the original 82 units.

We continue to execute on planning governmental approvals and predevelopments of our ground-up development project in Flushing, New York. The Landmark Protection Committee has approved our landmark protection plan and awarded us a certificate of appropriateness. We expect to begin transferring and protecting crucial parts of the existing theater in the first quarter of 2018.

As we are constantly making efforts to enhance our management capabilities in the U.S., we're now operating our U.S. project through a joint venture with Kuafu Properties. The venture is called Xin Fu and is majority owned by Xinyuan's U.S. unit. Kuafu's engagement will complement and strengthen Xinyuan's existing capabilities in New York by supplying professional services and support related to construction management and marketing.

Xinyuan retained 100% ownership of this 3 of our New York projects and will continue to control overall project development. Kuafu will help with construction management and marketing. The combined team will take advantage of the resources and expertise of both sides to deliver better projects and services to our customers in the U.S. market.

Construction management service business. Last quarter, we introduced our new business segment, construction management service, when we obtained our first project in Guangzhou. This quarter, another 3 projects were added to the business segment pipeline. This asset-light business model will supplement our core traditional project development business and aid our future growth. In addition to receiving revenues from service fees and interest spread yields. We may also invest in minority shares of the project companies.



FEBRUARY 09, 2018 / 1:00PM, XIN - Q4 2017 Xinyuan Real Estate Co Ltd Earnings Call

Dividend. We announced a cash dividend for the fourth quarter of 2017 of \$0.10 per ADS, which will be paid to investors on March 15, 2018, to shareholders of record as of February 28, 2018.

Technology initiatives. Earlier today, the company published a press release that provides an update on our blockchain initiative. Xinyuan started its study on blockchain in 2016 and some key achievements, since that time can be found in that separate press release. We plan to further develop a blockchain platform so that it might be applied to real estate and across different industries. While the company's core business is still real estate development, we hope to establish a practical blockchain platform, which could help us capture market opportunities in China.

Before we step into 2018 outlook, I would like to share with you our understanding of the market environment.

We expect the government's restricted policies to remain unchanged in 2018. High down payments and home purchase restrictions are still in place. Despite the restrictions, overall underlying homebuying demand remains favorable in our local markets. We believe the goal of the government's restriction policy is to maintain healthy and stable development of the market by pulling down or escalating prices in certain cities, which will support for the long-term sustainable growth of our business.

We believe, overall, long-term housing demand trends are strongly backed by China's stable economic growth and urbanization profit, in which a large population is migrating to Tier 1 and Tier 2 cities.

Now for our 2018 guidance. 2017 was a year, in which, we equipped ourselves for future development. We have gained strong contract sales and added some land bank and a healthy cash position at a cost of higher debt and interest expense. However, we believe that this is crucial for us, especially in a market, where both housing and financing restrictions persist. After this efforts in 2017, we're committed to and more focused on profit generation in 2018. For 2018, we expect an increase in contract sales of about 10% and an increase in consolidated net income in the range of 15% to 20% over 2017.

Similar with 2017, 2018 will be a second-half-loaded year, with around 65% after sales to take place in the second half of the year. This is because of inventory ready for sale is comparatively small at this moment, and a newly purchased land need a cycle to turn into contract sales. As such, contract sales growth for first half of the year was limited.

For first quarter of 2018, the contract sales total is expected to be flat compared to the first quarter of 2017. And we expect a significant pressure on earnings in the first quarter due to slower sales associated with Chinese New Year and increased interest expense associated with new debt from land acquisitions in May 2017, while operating expenses remained fixed.

We will try our best to accelerate the preconstruction and construction progress of certain projects and recognize the contract sales contribution as early as possible.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we can now take our first question from Hunter Diamond from Diamond Equity Research.

Hunter Louis Diamond - Diamond Equity Research LLC - CEO & Founder

Can you just provide a little more guidance around the blockchain developments? And what you're looking to do in that area?



FEBRUARY 09, 2018 / 1:00PM, XIN - Q4 2017 Xinyuan Real Estate Co Ltd Earnings Call

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

As we have disclosed in the press release, earlier today, we now had a team about 10 -- 100 employees. The blockchain initiative has been developed for about 1.5 years, and we've invested about USD 7 million by far. It's still in the very early stage. We have applied for private patents for Chinese government officials. And we're still working on it. We hope that the development of the Blockchain will help us to find new opportunities in China's real estate and also some other industries. It's still in the early stage. We'll give you some update, once we'll have some material information to report.

Operator

(Operator Instructions) We will now take our next question from Matthew Larson from Wells Fargo.

Matthew Larson

I have been a shareholder for many years of -- probably 1% of your outstanding. And I have to say that you -- management has done quite a bit to try and enhance shareholder value, whether it's been the consistent share buybacks, the dividend, of course, has been very nice to have. And your projects in New York, where I'm based, certainly shows your intent to grow and diversify. I can say, the Oosten project is really world class. And actually, I'll be working over in the Hudson Yards area. Speaking of Hudson Yards, is it true that target will be your -- one of your primary tenants in the building?

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

Yes.

Matthew Larson

All right. And I read in someplace that, that is likely to be the largest retail lease in Manhattan. Is that also true?

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

I guess, so.

Matthew Larson

Okay. Well, that's impressive. I got a couple of things. Okay. The blockchain question, I had has been answered. And then I read periodically, that your new initiative to have a management -- real estate management division in the PRC. I've heard that you may potentially lift that locally, so it would trade separately to establish a value on that. Is that correct?

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

Are you talking about our blockchain business?



FEBRUARY 09, 2018 / 1:00PM, XIN - Q4 2017 Xinyuan Real Estate Co Ltd Earnings Call

Matthew Larson

No, no, no. Sorry. I -- to be honest with you, I don't have the notes in front of me. I read a blog that, again, you have a management division that you discussed on this call that you would take small pieces of -- equity pieces may be in some projects, but you would primarily be offering real estate consultation advice and what have you for a fee. And if that division might be listed at some point.

Yuan Zhang - Xinyuan Real Estate Co., Ltd. - CFO

I guess, what you're talking about is our construction service segment that we just discussed. Currently, we don't have any plan for a public listing. It's still in the very early stage. We haven't talked about that yet.

Matthew Larson

All right. And I didn't have time to go through the whole news release, but can you confirm, your book value looks to be around \$14, \$15 now. Is that accurate?

Yuan Zhang - Xinyuan Real Estate Co., Ltd. - CFO

Yes.

Matthew Larson

All right. And then on that, this is just a side thing. Each quarter, you announced land purchases and what have you do to increase your land bank, so that you can grow. In -- your company, in my mind, has always been undervalued. Certainly, on a price to book on a PE multiple and any number of things. Even though you have a significant presence here in the United States. You're listed. You've done several large debt offerings, dollar-based, so you have a capital here. But I see that other companies -- I wanted to highlight one just for a moment, and I wonder whether a company such as yours would be interested in view that, that consolidation is taking place that I understand in the PRC amongst developers. There's a company that's been brought to my attention with this ticker CNTF, which Merrill Lynch underwrote about 10 years ago. And it's -- recently sold their Beijing headquarters for \$144 million cash, which closed last year, and yet the whole company trades for \$28 million. And they have other assets. Real estate assets in the Hangzhou and Xinyang, if I'm pronouncing it. My reason for bringing it up is, is that normal for not only a company like yourselves to be trading at less than book value, even though you're listed in the U.S. and there's other company with symbol, CNTF, which trades at 10% of book, and just raised almost \$150 million cash and that's 5x its market cap. I mean, is it likely companies that have that sort of discount would be acquisition targets? Because it seems to me, if I was buying new land to develop, but I could buy another company at \$0.15 on the \$1 dollar, or at least, make an offer for it, that would be a better use of my funds. The company, I'm talking about has less than a \$30 million market cap. It probably has \$200 million to \$300 million in real estate. Is that something that you feel in the future will be more realized, I guess, as people become more, I guess, comfortable owning smaller cap Chinese stocks? Or as the real estate market becomes more -- even more mainstream in the PRC? Sorry, long question.

Yuan Zhang - Xinyuan Real Estate Co., Ltd. - CFO

Okay. Yes. Actually, we've noticed that our book value is high compared to our capitalization. There's kind of a discount approximately around 50%. If you compare a real estate company of our size with other real estate companies listed in Hong Kong larger size, you will notice that we are actually not alone. Company of our size listed in Hong Kong on more or less the same discount, same discount level like us. And you're talking about merger and acquisition. And I heard about the company that you're talking about, but I'm not quite familiar with that one. So I think I'm not sure, if I'm in a very good position to talk about company. But in term of merger and acquisition, I was noted that there is a trend in China real estate sectors, is that the bigger ones are getting bigger, that's true. We are, actually, working with other developers and also we're doing merger and acquisitions through share transfer or share purchase. So we build -- we acquire land together, and we build the project together. But in term of



FEBRUARY 09, 2018 / 1:00PM, XIN - Q4 2017 Xinyuan Real Estate Co Ltd Earnings Call

the transaction, sometimes, it's quite complicated and you need to be very careful, because real estate sector, when the other side is acquiring land, whether it's clean or with some legal problems, you need to be very clear and cautious. And I would say that the trend here, in China, is going on. And we'll evaluate very carefully, when it comes to merger and acquisition, either working with a single project company or with a share transfer model.

Matthew Larson

Okay. Well, then I will talk by book. CNTF is the ticker. I mean, just, it might be worth a look. So with that, I got a better understanding of how your business works, and thank you very much for the information.

Operator

(Operator Instructions) We can now take our next question from George Guo from private investor.

George Guo - - Private investor

I'm also following up other conference out here. One thing I read from your Chinese website that you're planning to have 25% gross margin and 10% net margin. But so far you are only guiding 5% after tax. I was just wondering, how you are going to achieve 10% net margin?

Yuan Zhang - Xinyuan Real Estate Co., Ltd. - CFO

I am not sure, which article you're reading, and who is giving the guidance to you. In term of the guidance for 2018, we just stated that we expect 10% in contract sales for next year. And 15% to 20% increase to our net -- consolidated net income. We try to be conservative because it's still early time for the year, and we've stated that we expect the year is going to be back-end loaded. Or I think there is some upside, but I would feel comfortable to share more information with you as we have more visibility.

George Guo - - Private investor

I see. Is the investor presentation for September 2017 in your website, the main Chinese website, which makes sense because you already achieved 25% gross margin right now, 24%, but far away from the net margin. So for example, like noncontrolling interest. You pay them through aftertax money. Shouldn't that -- should we pay tax also? A question like that, I don't know...

Yuan Zhang - Xinyuan Real Estate Co., Ltd. - CFO

I think what you're talking about is, when we're talking about merger and acquisition and evaluation of new project, our goal is to have 25% gross margin and 10% net margin for that project. That's my understanding.

George Guo - - Private investor

Okay. I see. Second question is the -- in your construction management business, how do we calculate the profit because you have a business model of say, 10% net margin for construct for the year outstanding real estate. But for management, how do we calculate the profit?



FEBRUARY 09, 2018 / 1:00PM, XIN - Q4 2017 Xinyuan Real Estate Co Ltd Earnings Call

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

Our business model here is, we will receive revenue from service fees and interest-led yields, and we'll also have some minority shares in the project, the company. We started the business -- actually, we started the business last year, and we have some nice development. But it's still in the early stage. And both the revenue and profit contribution for year 2018 would be very limited, but I think, we're going to have a very nice growth in year 2019. But it's still early to talk about it. I will give you more information as time goes by.

George Guo - *Private investor*

Okay. I did a quick calculation. Your book value is over \$16 per share now. Now if you think for the share price, it's like, every \$1 you buy the share, you can get \$2.5 equivalent increase in value. I'm just wondering, why not continue the share buyback because the return on investment is 150% instant.

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

On the one hand, actually we have done share buyback for quite a few quarters in the past. Within the company, we had a threshold for the price, I would say, sitting price. I think you understand that at end of -- around the end of last year, stock market goes very high. So we just suspended the stock buyback. And we will evaluate market opportunity and see if, we will resume the stock buyback after evaluating the stock performance and the overall market environment.

George Guo - *Private investor*

I see. I feel that your stock price is a very good marketing tool for selling real estate because when people would check your stock price, he will see gold drops, he feel more comfortable with -- your comforting. So I would encourage you to continue buyback, raising your minimum price. It cannot be the fixed price because you should increase your -- the price you pay. That's my point.

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

Thank you very much. And as we will talk about that. We will have some internal discussion to see, how to set the sitting price and whether we'll resume the share buyback in the future.

Operator

We will now take our last question from Richard Geronimo, who's a private investor.

Richard Geronimo - *Private Investor*

And I have great expectations for the 2018. I do have a couple of questions, although quite a few have been answered. What are your -- the USD 300 million bonds, what are they trading for now, I guess, in Singapore? What are they trading for now?

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

Yes. You're right. The market is in Singapore.



FEBRUARY 09, 2018 / 1:00PM, XIN - Q4 2017 Xinyuan Real Estate Co Ltd Earnings Call

Richard Geronimo -- *Private Investor*

No, I understand. But what do they trading for? Are they trading above par or are they trading below par?

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

It used to trade at book par. And you understand that in the past few days, stock market dropped a lot. That will give a negative impact to the bond trading. So it's about 99, a little bit below par.

Richard Geronimo -- *Private Investor*

Okay. So I guess, what I'm leading to is, your refinance -- your costs are still, what I consider, a little high at 8.75%. And with the continued profit and also the growth of your company, first, I have to ask, is financing readily available to you? And do you think in the next round, when you're going to have to refinance and as time goes on that rate will come down? I know that's -- I like your idea.

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

First of all, as related -- the price is related to the rating. We have 2 rating agencies. One is, Standard & Poor's another is Fitch. Both of them give a rating B. For B company, there is a price range there, which is market-oriented. And also there are 2 factors that they pay much more attention now. One is the scale. We've already talk about the sales contract -- our contract sales in 2017, 2018 since you have a idea. And second one actually is the debt to EBITDA, that ratio. You need to reach a certain level. So the rating agency will consider whether they were going to upgrade you or not. According to our estimation, we believe that 2018 probably going to have the same rating, which is B.

Richard Geronimo -- *Private Investor*

Okay. So what stage as far as your -- the size of the company, when does that become something that's a positive for the company? In other words, if you'd say, \$2 billion or \$3 billion revenue, when does Fitch and S&P feel that, that becomes a positive for Xinyuan?

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

In my mind, contract sales probably should reach CNY 30 billion. That's for contract sales. So we still have a -- have some -- we still have a far way to go. Guidance that we gave to -- yes.

Richard Geronimo -- *Private Investor*

Okay. Now another question I have is, you said there's going to be a lot of pressure as far as for net income in the first quarter. Do you anticipate making a profit in the first quarter of 2018?

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

We're saying that we have a significant pressure on net income for Q1. So if you are talking Q1 along, I'm prepared for a loss.

Richard Geronimo -- *Private Investor*

Okay. So potentially, there is going to be a loss for the first quarter. However, your guidance for the whole year is -- sorry?

FEBRUARY 09, 2018 / 1:00PM, XIN - Q4 2017 Xinyuan Real Estate Co Ltd Earnings Call

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

Yes. That's true. If you check Q1 track record in 2016 and 2017, you will see that we are -- we were making profit. But the number is quite minimal. And since we have more interest expense because of the leverage we're associated with more debt of land acquisition. So I am prepared for a loss for Q1. But for the whole year because 65% of the contract sales were coming from second quarter -- from the second half of the year is mainly because of the cycle of launch of the new projects. So we're still giving the guidance to Street that we're going to have a consolidated net income increase up to 15% to 20%. That's what we can see.

Richard Geronimo - *Private Investor*

Okay. So now, is Xinyuan having any problem at all getting financing for any of your new projects?

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

I don't think so. This is timing.

Richard Geronimo - *Private Investor*

I don't understand -- I'm not quite sure, I understand that. You don't think so. So in other words, there is a potential that the financing might not be available?

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

No, I don't think so. We are not seeing any more difficulty in financing in China.

Richard Geronimo - *Private Investor*

Okay. So if things stay the same then for you to continue to develop the projects you have, financing will be available?

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

Yes. As long -- as we have the quality project, as long as the project is in a nice location.

Richard Geronimo - *Private Investor*

Which I assume, you've done the research, the due diligence and that's where you buy land, right?

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

Yes. You're right. We're saying that we focus on Tier 1, Tier 2 cities. And in the Tier 2 cities, most of the projects are located in the capital city of the province.

Richard Geronimo - *Private Investor*

Okay. So now other companies of your size, are they running into problems with financing?

FEBRUARY 09, 2018 / 1:00PM, XIN - Q4 2017 Xinyuan Real Estate Co Ltd Earnings Call

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

Probably, yes. But the financing actually is more related to the quality of your project. If they have project in Tier 3 and 4 cities, and I think they're having some problems.

Richard Geronimo - *Private Investor*

Okay. Now how about the Malaysian project, the Melaka. What is the status of that?

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

Malaysia project, we've been having active discussions with the local government. And we plan to launch the reclamation around June this year.

Richard Geronimo - *Private Investor*

Okay. It seems to be being pushed back further and further. Is there any issue with that? Or is it just normal bureaucracy things that have to be done with the government?

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

I think 2 factors. One is, we're continuously evaluating the market environment in Melaka. So we're not in rush. Starting the reclamation earlier probably wouldn't give us more benefit. Second is, we're continuously talking with the local government to see when is the better time for us to launch the reclamation, and we need to pass there some certificates from the local government before the reclamation started.

Richard Geronimo - *Private Investor*

Okay. So now you purchased that quite a while ago for, I guess, \$10 million or something like that. It's appreciated in value, regardless of what you do?

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

The \$10 million that we purchased is the reclamation right. So we need to make the watering to land first and sell the land -- either sell the land or build a building afterward. According to our estimation, if we finish the reclamation and sell the land, we'll make profit. That's what forecast.

Richard Geronimo - *Private Investor*

Okay. Great. And it appears that the -- like you mentioned in your statement that the prices of around -- the average price your selling your units for is about RMB 12,000. Is that being consistent with the -- in 2018? Is that still about the same? Or is there some pressure?

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

ASP for 2017 increased by 18%, 20% compared to year 2016. As we've just talk about that for 2018, we expect the restricted policies will continue. I think, I should be conservative. It really depends on which market you are in and the current market -- what the current market price is. I think to be very cautiously optimistic, our price will go up, but it wouldn't go up that quickly for 2018.



FEBRUARY 09, 2018 / 1:00PM, XIN - Q4 2017 Xinyuan Real Estate Co Ltd Earnings Call

Richard Geronimo -- *Private Investor*

Well, that's good. Just as long as it's firm, that's great. I appreciate you taking my questions and again congratulations for all of us, both you and I. I hope continued success with Xinyuan.

Operator

There are no further questions in the queue. I would now like to turn the call back to the hosts for any additional or closing remarks.

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

We thank you very much for joining us on today's call. And we appreciate your ongoing support. We look forward to updating you on our progress in the months ahead. So thank you again.

Operator

Thank you. That concludes today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.

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