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XIN - Q3 2019 Xinyuan Real Estate Co Ltd Earnings Call

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Perry Chan *Private Investor*

Chris Dahl *CDK Analysis*

PRESENTATION

Operator

Good day, everyone, and welcome to the Xinyuan Real Estate Company Limited Third 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, sir.

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

Hello, everyone, and welcome to Xinyuan's Third Quarter 2019 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 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. Yong Zhang, the company's Chairman and Chief Executive Officer, who will comment on our operating results. He will be followed by Mr. Brian Chen, 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.

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

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

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

During this quarter, we're happy to see that Xinyuan remained profitable despite some turbulence in the macroeconomic environment.

This quarter, we've seen continued demand for our domestic projects. We commenced pre-sales of 2 new projects in the third quarter, in Zhengzhou and Huzhou, contributing to 7.3% and 9.1% of total GFA sales and the total contract sales, respectively.

Our overseas projects progressed as planned. Hard costs of our Hudson Garden project in the Hell's Kitchen area of Manhattan remained under budget on the and on track.



We received the Temporary Certificate of Occupancy for Target's ground floor occupancy. We also leased an additional 1,910 square feet of retail/commercial space for a 15-year term.

For our RKO project in Flushing, we engaged GKV Architects for the development of new architectural plan, and the schematic design has already been finished.

We are also pleased to see successful listing of our subsidiary, Xinyuan Property Management Company, on the Hong Kong Stock Exchange in October. The listing on such a high-quality platform is the result of rapid growth of our property management business. We believe the listing will benefit our shareholders in the future.

Going forward, we have full confidence in our long-term strategy despite the persistent uncertainties in the market. We remain committed to our focus of enhancing the strength of our core real estate business and at the same time leveraging our auxiliary business to further improve our product offering. As we remain profitable, we will continue to deliver value to our shareholders through our quarterly cash dividend program.

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

Yu Chen - Xinyuan Real Estate Co., Ltd. - CFO

Thank you, Chairman, Mr. Zhang. Hello, everyone, and welcome to Xinyuan's third quarter 2019 earnings conference call. Allow me to take you through, first of all, the financial results for the quarter, and then we will further discuss our latest operations and initiatives. Last, but not the least, we will conclude by updating you on our financial outlook for the remaining of the year.

So please note that all figures in my speech are in U.S. dollars terms, unless otherwise stated.

Overall, we had pretty good year-to-date financial result compared to same time last year. However, facing the headwind, coming from the uncertainty in the macro environment and the stringent government restriction on Chinese housing market, we also see some more challenges in the Q2 (sic) [Q3] financial results.

The total revenue was increase by a 40% to about \$1.57 billion for the 9 months ended September 2019, from the [\$1.125 billion] (corrected by company after the call) in the same period of 2018. However, for the quarter-to-today, the revenue decreased by about 16.4% to \$497.6 million in the third quarter from the \$595.5 million in the third quarter of the 2018. Compared to the quarter before, the revenue decreased by about 18.3% from the \$609.4 million.

Net income was \$43.5 million for the 9 months ended September 30, 2019, compared to only \$1.8 million in the same period of 2018. For the quarter, the net income was \$5.4 million comparing to \$23.9 million for the quarter in -- for the prior quarter -- for the same quarter of the 2019.

In terms of the contract sales is decreased by a small percentage of 5.4% to USD 1.5 billion for the first three quarter of this year from \$1.56 billion in the same period of 2019 -- '18.

That being said, if we -- for the quarter, it was \$504.8 million comparing to [\$571.3 million] (corrected by company after the call) in the third quarter of 2018 and \$507.4 million in the prior quarter. It's noteworthy that on a year-to-date, the contract sales is decreased by the 5.4% as mentioned earlier, most of this was actually due to the FX fluctuation. If we compare them to RMB, in our base currency, the contract sale is actually flat at the -- or more or less the same amount compared to the year before.

The total GFA sales in China were about 255,600 square meters in the third quarter comparing to 277,500 square meters in the same quarter last year and 233,200 square meters compared to last quarter, which is about a 10% increase quarter, comparing to the prior quarter.

In terms of the average selling price per square meter, the latest price is about RMB 13,500 in the third quarter of 2019 comparing to about RMB 14,800 in the quarter before, which is 9% decrease. Comparing to the same price -- same time last year though, it remained flat.



SG&A expense were about \$57.6 million for the third quarter of 2019 comparing to \$47.7 million for the third quarter of 2018 and \$63.0 million for the prior quarter in this year, which is actually a 9% reduction in terms of the actual dollar amount. The SG&A expense as a percentage of total revenue increased to about 11.6% from 8% in the same quarter last year and 10.3% in the second quarter this year.

Interest this quarter was about \$31.3 million comparing to \$28.4 million last quarter and \$21.8 million in the same quarter last year.

Due to the FX exchange fluctuation, exchange lost in this quarter was about \$7.7 million comparing to about \$4.4 million loss the same time -- on last quarter. And for this quarter, though, we've actually had FX hedge program in place, which hedged and offset the loss by about \$3.7 million, which brought the net FX loss for the quarter down to about USD 5 million.

Diluted net earnings per ADS attributable to the shareholder were about \$0.60 for the 9 months ended September 30, 2019 comparing to \$0.04 only in the same period of 2018. Diluted net earnings per ADS contributable to shareholder was \$0.07 in the third quarter comparing to \$0.31 per ADS in the third quarter of 2018.

For the quarter, the company repurchased about \$1 million ADS this quarter and at this point, we already repurchased about \$8.69 million ADS, which comprise of about 13.5% of our total ADS for the company.

If you look to balance sheet. As of September 30 this year, the company's cash and cash equivalents, including restricted cash, were about \$688.4 million comparing to around \$1 billion as of June 30, 2019. Majority of this reduction of debt was reduced to fund the settlement of the debt. So you can see that our total debt outstanding for now was around \$3.2 billion, it's also decreasing from about \$3.6 billion at the end of the second quarter. So the quarter-to-date reduction of the total debt is around USD 400 million.

The balance of the Company's real estate properties under development at the end of this quarter was about \$3.6 billion comparing to about \$3.8 billion at the end of the second quarter of the year.

Shareholder equity at the end of the third quarter was about \$710 million comparing to about \$753 million at the end of the second quarter. Overall, the shareholder's equity reduced by \$43 million, about \$37 million of them actually contributed by the CTA, the FX translation.

If we look to the project updates. As of the September 30, 2019, our total unsold land bank was about 5 million square meter, which would translate to about CNY 60 billion land bank, which -- or you can translate to about USD 10 billion land bank.

If we move to the U.S. project update, as of September 30, 2019, our Oosten project in Brooklyn, New York, has recognized a total revenue of about \$260 million from the sales of 177 units out of the total 216 units. The other -- the second project, which is the BLOOM ON FIFTY (sic) [BLOOM ON FORTY FIFTH] avenue, which is our -- or we call it Hudson Garden Project, in Manhattan, New York completed the superstructure construction and -- as well as the precast concrete facade, window installation and received permanent power from the electric utility provider.

During the past year, the project's design drawings were optimized and the total number of units subsequently increased from 82 to 92. 29,000 square foot of the project's 38,000 square foot -- or the total retail space has been leased to U.S. department store retailer Target for 20-years term, and another 1,910 square foot has just been leased to a dermatologist's office for, also, a 15-year term. Residential unit sales are expected to be opened in the first quarter of next year.

We continue to execute on the planning, governmental approvals and pre-development activities of a third project in New York, which is the RKO, our ground-up development project, in Flushing, New York. Transfer work of the site's Landmark artifacts was complete at the end -- earlier this year and is currently stored in a warehouse for restoration work. As of September 30, 2019, GKV Architects was engaged to develop and deliver the new architectural plan and the schematic design is 100% completed as planned.

If we look at our project in U.K., in the third quarter of 2019, the construction remained on track on the -- Madison Project, which is expected with a completion time of 2020. By the end of the third quarter, all of the 104 Affordable Housing apartments of this project has been presold. Of the remaining 319 apartments, 134 apartments have been sold.

In terms of the dividend, we announced a cash dividend for the third quarter of 2019 of the \$0.10 per ADS, which will be paid before January 16, 2020 to shareholder of record as of December 18, 2019.

And for -- onto our full year 2019 financial forecast. For the whole year, the company expects consolidated net income and the contract sales to be close to those of the 2018.

This concludes my prepared remarks for today's call.

Operator, now we are ready to have some questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Thank you. We will take our first question today from [George Guo], a private investor.

George Guo - Private Investor

I have a question about your guidance. So you say that net income will be similar to 2018, but your share count also dropped 11%, 12%. Does that mean we will have earnings per share increase of about 13%?

Yu Chen - Xinyuan Real Estate Co., Ltd. - CFO

Okay. Yes, the share purchase was processed in the last few years, it's not just happened in this quarter. And for the 13.5%, we bought it back but they haven't been cancelled. So for the calculation, we still go by the full shares outstanding out there.

George Guo - Private Investor

Also, I noticed there's no land -- new land purchase. Is that to preserve cash?

Yu Chen - Xinyuan Real Estate Co., Ltd. - CFO

For the quarter, we didn't acquire a lot of land. It, to some extent, is our cash management. But for next year, we'd also have some land acquisition plans in place. Also, if you look at our overall land backs, as at this point, we have about CNY 68 billion worth of the land back, which is sufficient for our development and growth for the next 2 to 3 years.

George Guo - Private Investor

Also, the last question is, do you expect any policy change in China that will help the real estate developers? That's what I've heard, they're going to help the real estate to loosen their policy. Is that true or not?



Yu Chen - Xinyuan Real Estate Co., Ltd. - CFO

At this point, we (inaudible) that somewhere in mid of next year, there may be some loosen of the restriction, but not really in the recent weeks or -- and next quarter. We are more focused on our own operation and efficiency than betting and gambling, or the loose of these governmental policy.

Operator

(Operator Instructions) We will take our next question from [Perry Chan].

Perry Chan - Private Investor

I have 2 questions that are mainly regarding your cash bonds and on the liquidity position. So the first one is, it's like your cash level is getting pretty low in the third -- end of third quarter. Do you have any target, what will be your cash level by the end of this year?

And also that is like -- if we're looking at your short-term debt, it's like your outstanding short-term debt is almost \$1 billion. So what is your plan and what kind of measures that you are thinking about taking to adjust this short-term debt repayment pressure. And will the company consider any asset disposal to alleviate some of the pressure that you're -- we are seeing right now?

Yu Chen - Xinyuan Real Estate Co., Ltd. - CFO

Thank you. First of all, for the cash position, we forecast that by the end of the year, the cash positions would be improved to about \$1 billion. And, typically, in a business like ours, Q4 is the largest quarter. We saw most of the presales and -- recognized for the quarter and the cash collections from the operations. We expect that the cash position will be improved.

In terms of the short-term debt, you are right that it is high. We have about \$1 billion. But again, with the cash collect for the quarter and the next 12 months to come, we actually expect that we could have about \$18 billion cash collect for the next 12 months. This should be sufficient to helping us to cover the short-term debt.

The other things is that, as mentioned earlier, we had about USD 10 billion land bank. Out of that like 40%, we could bring it to the market and push for the presale. So the next 12 months and the -- furtherly, we are also working on certain refinancing for the next 12 months. And with our credit and reputation, we are confident that we can refinance certain fund for the next 12 months.

So overall, we are confident that Xinyuan has a very good liquidity capability to deal with this short-term debt. As a matter of fact, for this \$1 billion short-term debt, a certain percentage of them is negotiable with our lender to renew or extend for another 1 year or 2.

So I hope that answer your question from those 3 or 4 points.

Perry Chan - Private Investor

But will the company consider any major asset disposal at all?

Yu Chen - Xinyuan Real Estate Co., Ltd. - CFO

No. At this time, we don't have that intention. We believe that with our organic growth and by -- and push for the trending projects and bringing more land banks on the sales, we should be able to recover sufficient funds to pay for this short-term debt.



Operator

We now move to [Chris Dahl] of CKD Analysis.

Chris Dahl - CDK Analysis

Can you hear me?

Yu Chen - Xinyuan Real Estate Co., Ltd. - CFO

Yes. Please go ahead.

Chris Dahl - CDK Analysis

Please comment on your dividend policy. If you foresee a change in that, you have been consistently paying the dividends. And the second part of my question, I'll ask you, you distributed your property management operation and listed it separately onto the Hong Kong Exchange. I would like to know is there any benefit involved there for shareholders, or the stock price went down?

Yu Chen - Xinyuan Real Estate Co., Ltd. - CFO

Yes. Okay. First of all, for the dividend policy. We evaluate the dividend policy every quarter. At this point -- because we are confident to achieve more or less similar net income comparing to a year before, in the near future, we intend to keep these dividends -- be consistent with before. Obviously, with the uncertainty of this macro environment, if the environment changes or the financial, we may have small challenging in the future. We always review this on the quarterly basis and adjust it accordingly. But at this point, we mean to keep it consistent.

To come to your second question about the property -- the management company got listed in Hong Kong Stock Exchange. Yes, currently the share price tanked or dropping, but we have believe that this temporary change in this share price does not reflect the true value of our property management company. And we are more focused on the healthy growth and long-term growth instead of the share price. We believe that, with time passing by, when our property management company does deliver the performance as what we forecasted, the investor will recognize the value and the share price would go back to a reasonable level.

In terms of what the benefit to our shareholder, although, we splitted off, the property management company is still fully consolidated in Xinyuan's financial statement. The change of the share price won't be referred into our financial number, but the way that we release it on the market can helping last bringing additional capital for that operation as well as to increase the credibility of that operation and bringing in a lot more partner and the coordinator can help in what altogether we see our property management company also can push this business to improve their operation.

So in the near future, we believe that by being on this platform, the property management company will have the opportunity and have the capability, and we have the confidence that they will deliver and grow way faster and more profitable than stay private dealing group.

Chris Dahl - CDK Analysis

Are you saying that you are consolidating all the property management or is it just the part of it that's being consolidated in your -- like your quarterly reports and earnings reports.



Yu Chen - *Xinyuan Real Estate Co., Ltd. - CFO*

Currently, Xinyuan own about 60% of the property management company. So based under the U.S. GAAP and common guidelines, we fully consolidate each line. And then in the minority interest, we will deduct the net income of that, the 40% minority interest.

Chris Dahl - *CDK Analysis*

Is that reflected in your third quarter? If the number had been higher, have you not spun off property management?

Yu Chen - *Xinyuan Real Estate Co., Ltd. - CFO*

For the quarter, we just -- this listing event happened -- it's the Q4 event. We just listed in October 11. So in this quarter, you won't see any change. But based on our 3 years forecast, this business is supposed to be grow by about 30% to 40% each year. And we believe that the -- by going on this platform, they will have better results and better chance to grow, even better than what we forecast, and the value will show on our financial statement.

And don't -- also don't forget that property management is part of our auxiliary business. Xinyuan's auxiliary business is not a standalone business. All of these auxiliary, they had a lot of synergy effect with our main business line. Each business growth, they will contribute or help out to the other business line and whole Xinyuan as a whole.

Chris Dahl - *CDK Analysis*

(inaudible) especially when you forecasted?

Yu Chen - *Xinyuan Real Estate Co., Ltd. - CFO*

Sorry, I cannot hear you, your voice was a really trembling. Can you repeat your question?

Chris Dahl - *CDK Analysis*

(inaudible) Very much, especially taking into account your growth expectations for property management.

Yu Chen - *Xinyuan Real Estate Co., Ltd. - CFO*

We still missed the first half of your question, the second half is fine. Can you repeat the first half?

Chris Dahl - *CDK Analysis*

Yes. It's a very nice return on capital business, and property management business is a good business. So I'll just state for the record that, that's a very better way of realizing value for shareholders, I guess on a longer-term basis, or even a shorter-term basis?

Yu Chen - *Xinyuan Real Estate Co., Ltd. - CFO*

Shorter -- in the short term, probably not that direct.



Operator

(Operator Instructions) As we have no further questions, so if you will excuse me, we do have a follow-up question from George Guo. Please go-ahead.

George Guo - Private Investor

I have a few more questions. The first one is that the tax rate seems to be very high this quarter. Is there explanation for that?

Yu Chen - Xinyuan Real Estate Co., Ltd. - CFO

Yes. On our tax, it's actually had 2 components. One is the land operation and tax, the other is corporate income tax. It's way higher this quarter due to 2 reasons. First reason is that the -- for the company, we -- according to our broken down analysis, the effective tax rate in our Chinese domestic market is actually -- stay at a healthy and reasonable, 25%. And for the corporate income tax rate for U.S. operation also remained at a reasonable 35% which is a federal and the state tax.

The issue is coming from these offshore, senior notes, the entries of the senior notes, it cannot transfer back to the domestic market, to be used to deduct the taxable income. And for this quarter, because the denominator -- which is our taxable income, is smaller compared to the quarter before. So it looks little bit high in this quarter. But on a year-to-date basis, it stayed in the reasonable level.

George Guo - Private Investor

The next question is -- you have a new President and a new Board of Director, what's -- can you tell us more about that?

Yu Chen - Xinyuan Real Estate Co., Ltd. - CFO

Yes. We have a new CEO who is also joining our Board this quarter, and -- joining the Board. The gentleman has over 25 years of experience in the finance and accounting. We believe that by Mr. Li, joining the company, Xinyuan's overall performance in finance and accounting capability will move up to another level.

And just to clarify, this gentleman, he's joining us as the President, and the CEO remain as Mr. Zhang -- still taking the CEO role.

George Guo - Private Investor

Last question for me is, can you update us about the blockchain effort? It seems to be very hot in China?

Yu Chen - Xinyuan Real Estate Co., Ltd. - CFO

Yes. It's high in China and...

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

(foreign language)



Yu Chen - Xinyuan Real Estate Co., Ltd. - CFO

[Interpreted] So let me translate, that was coming from our Chairman and CEO, Mr. Zhang. Now let me translate what our correspond was to your question on the blockchain.

We believe that blockchain is technology that has a great future and can make a lot of change for the industry. Since 3 years ago, we start to look into this opportunity by working with IBM, EY and some big law firm. We already clarify and accomplished a lot of achievement in terms of the technology and legal compliance. For the quarter, we launched a trial, and trying to securitize about 10 unit of our property by means of these blockchain technology or, what we calls, FTO. We hope that this trial can deliver the value for the future -- for the company.

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

(foreign language)

Yu Chen - Xinyuan Real Estate Co., Ltd. - CFO

[Interpreted] Yes. Xinyuan is the company that believes in the technology can change life and change the real estate industry. By embracing these new technology and combined it with innovation, in the fundraising and financing, we believe that the benefit will realize in the future.

Operator

Thank you. Ladies gentlemen, I would now like to turn the call back over to management for any closing remarks.

Yu Chen - Xinyuan Real Estate Co., Ltd. - CFO

We thank you all for joining us on today's call, and we appreciate your ongoing support. We look forward to updating you on our progress in the weeks and months ahead. Thank you, again, everyone. Have a good day.

Operator

Thank you. Ladies and gentleman, that will conclude today's conference call. Thank you for your participation. You may now disconnect.

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