

Landing in US

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In mid-December of 2007, Xinyuan Real Estate, a Zhengzhou-headquartered residential real estate developer, became the first Chinese property company to float shares on the New York Stock Exchange (NYSE).

The company raised \$245 million through the sale of 17.5 million American depository shares at \$14 each, within the \$13-to-\$15 forecast range.

Before the listing, Xinyuan completed several rounds of financing from private equity firms, real estate investment funds and investment banks. In August of 2006, the company received a \$25 million capital injection from private equity firm Blue Ridge China and Equity International (EI), an investment company specializing in real estate investments outside the US. It followed that with a further \$50 million in funding four months later. In the first quarter of 2007, Xinyuan received \$100 million in debt financing from Merrill Lynch.

Established in 1997, Xinyuan is focused on real estate in China's second-tier cities, characterized as larger, more-developed urban areas with above-average GDP and population growth rates. The company currently has operations in five so-called second-

tier cities, including Chengdu in Sichuan province, Hefei in Anhui province, Jinan in Shandong province, Suzhou in Jiangsu province and Zhengzhou in Henan province.

How could such a mid-sized Chinese property developer win the favor of the world's leading private equity companies and investment banks? How could it conclude an initial public offering (IPO) when the NYSE was in the shadow of the US subprime crisis? And what is the company's next step after its IPO? China Business Weekly reporter **Hu Yuanyuan** poses these questions in an exclusive interview with **Zhang Yong**, chairman of Xinyuan Real Estate Co Ltd.

Q: Chinese property developers usually prefer floating shares in Hong Kong, if not on the mainland. Why then did Xinyuan choose the NYSE, as the Sarbanes-Oxley Act greatly increases the listing cost?

A: In Hong Kong, a land bank is a major criterion to judge a real estate firm. But Xinyuan has a business mode featuring high asset turnover rather than a large land bank. So the Hong Kong stock exchange is not an ideal choice for us.

As one of our major shareholders, EI, has a very strong background in the US, we finally decided to launch the IPO on the NYSE. And the Sarbanes-Oxley Act can also help to improve our cooperate governance.

Q: We noticed it took Blue Ridge China only two months to decide on its investment in Xinyuan. You are also quite popular with international investors even though the US capital market is struggling with the subprime crisis. What is your major attraction?

A: I believe that our business mode - with a focus on high asset turnover, efficient working capital management and strict cost control - is the major selling point.

Our standardized processes that emphasize rapid asset turnover allow us to efficiently use capital and generate attractive returns on our investments. Besides, we typically acquire land that is ready for development through the government auction system.

We do not tie up our capital in idle land banks but instead begin development relatively quickly after land acquisition. We use our working capital efficiently by actively managing and coordinating receivables and expenditures across various projects. We believe that the velocity of our development cycle and our ability to efficiently manage our capital and maintain strict cost control at each stage of development enable us to generate attractive returns on our projects.

Q: Xinyuan is focused on the country's second-tier cities and you've expanded your network into Chengdu, Hefei, Jinan, Suzhou and Zhengzhou. What's your next step? Will you also consider extending into first-tier cities?

A: For the time being, we would still like to concentrate our business on second-tier cities, as that type is what we are quite familiar with. When strengthening our foothold in the existing five cities, we are going to further expand our network this year, with cities under survey including Chongqing, Changsha, Wuhan, Hangzhou, Xi'an, Tianjin, Shenyang and Qingdao.

And we will also look at appropriate opportunities in first-tier cities.

Q: In the past three years, Xinyuan saw a compound annual growth rate of around 100 percent in terms of revenue and net income. What is the major driving force? Is that rapid growth sustainable?

A: Increases in disposable consumer income and urbanization rates have resulted in the emergence of a growing middle-income consumer market, driving demand for quality housing in many cities across China. And that market is what we target.

We have had a proven track record of building large-scale quality residential communities that appeal to middle-income customers, as demonstrated by the sale of more than 99 percent of units in our completed projects and our annual revenue growth rate of 99.9 percent from 2004 to 2006.

So, as long as China's economy roars ahead, we believe we can still maintain rapid growth in the coming three to five years. And expansion into other second-tier cities will further fuel our growth.



Zhang Yong

Q: During your road show before the IPO, which question is most frequently raised by investors?

A: "Could your business mode be copied?"- that is the question raised by most of the investors during the road show. And my answer is "yes". We believe that our standardized practices and methodologies, together with our systematic approach to the development process, can be replicated in strategically selected second-tier cities. Since 2006, we have expanded from one to a total of five cities in China, and from December 31, 2004 to September 30, 2007, our total gross floor area for projects under construction has grown 176.4 percent.

Q: But does that also mean such a business mode could be easily copied by your rivals? And what was the most difficult time for you during the whole process of IPO?

A: Yes, it could be. But the market is big enough and is still expanding, and everybody can get his slice in the growing pie.

Frankly speaking, we really had bad timing when kicking off the roadshow. At home, the government launched more restraining policies to cool down the property market, partly leading to very poor performance of real estate shares. In the US, the on-going subprime crisis cast a shadow over the property market and stunted investor confidence. In fact, several enterprises canceled their listing plans due to the poor market sentiment. And we also had a really tough time in persuading our investors under such an environment.

Q: Because of the government's more restrained policy on residential buildings, more property developers are turning to the commercial sector as it will bring in a steady cash flow. Does Xinyuan have a similar plan in the future?

A: Not yet. We have a clear focus on China's emerging middle-income consumers to provide standardized mid-sized units at affordable prices for this market.

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