



ASX Announcement

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Hotel Property Investments (ASX Code: HPI)

Financial results for the half year ended 31 December 2017; Acquisitions and Development update

Hotel Property Investments (HPI) today lodged its interim report with the ASX and has declared an interim distribution of 9.8 cents per stapled security from trading operations for the half year ended 31 December 2017.

1. Highlights of the Half Year

- **Revenue:** Revenue from investment properties up 3.2% on the prior corresponding period to \$23.0 million (2016: \$22.3 million)
- **Adjusted Funds From Operations and Interim Distribution:** AFFO up 1% on the prior corresponding period to \$14.3 million (2016: \$14.2 million), and the Interim Distribution from trading operations is up 1% to 9.8 cents (2016: 9.7 cents) per stapled security, despite increased financing costs associated with refinancing.
- **Refinancing:** Completed refinancing of HPI's loan facilities including HPI's inaugural issuance into the USPP market, enhancing HPI's debt platform by diversifying funding sources, increasing the average debt tenor by 4.4 years and moving from secured to unsecured borrowing. HPI's weighted average debt tenor is now longer than its weighted average lease expiry.
- **Asset Acquisitions:** Exchanged contracts in February 2018 to acquire the freehold for a complementary accommodation based hotel in Griffith, NSW for \$15.25 million on a cap rate of 7.51%. The property is leased to a Quest Franchisee and has a remaining initial lease term of 13.8 years, and three further option terms of 5 years each. The lease has similar terms to HPI's existing assets.

Acquired a 1,350m² parcel of development land adjacent to the Regatta Hotel in Toowong, Brisbane for \$3.8 million. The purchase was completed in February 2018 and creates the opportunity for a future development complementary to the existing Regatta Hotel business.

- **Development of Vacant Land:** Executed an Agreement for Lease and sought planning approval for the estimated \$5 million development of a 1,300m² (approximately) building on vacant land adjacent to Ferry Road Tavern, Southport, Gold Coast. The 10+10 year lease is expected to commence in April 2019 with an annual rent of approximately \$540,000, subject to receiving appropriate development approvals.

2. Profit after tax and Distributable Earnings

Profit after Tax for the half year ended 31 December 2017 was \$17.5 million, down from \$71.2 million in the prior corresponding period which included a \$56 million fair value gain on investment property following a whole-of-portfolio revaluation in that period.

Operating revenues and expenses included rental income from investment properties of \$23.0 million, property cost recoveries of \$2.3 million, operating costs of \$5.1 million, financing costs of \$6.9 million, and a fair value gain on investment property of \$4.2 million.

Adjusting profit after tax for fair value adjustments, amortisation of derivatives, maintenance capex and other minor items, Adjusted Funds from Operations ("AFFO") was \$14.3 million, 100% of which is distributed to stapled security holders.

3. Portfolio Valuation

The Portfolio was valued at \$663.1 million reflecting a constant weighted average cap rate of 6.5% following independent valuations of 22 investment properties. The remaining 21 properties were valued by the Directors in accordance with the valuation policy, with cap rates held constant at their prior independent valuation levels, and applying current net incomes for each property.

4. Key Metrics

- **Statutory Profit:** \$17.5 million
- **Fair Value Gain:** \$4.2 million
- **Investment Property Value:** \$663.1 million
- **Weighted Average Cap Rate:** 6.5%
- **Cash on Hand:** \$1.1 million
- **Loans Drawn:** \$257.7 million
- **Gearing:** 38.6%
- **Weighted Average Debt Tenor:** 7.6 years
- **Weighted Average Lease Expiry:** 5.6 years
- **Occupancy:** Hotels 100% leased as at 31 December 2017
- **Net Assets Per Security:** \$2.67

5. Guidance

Final distribution guidance is 9.8 cents for a total for the year of 19.6 cents.

End.

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