

HOTEL PROPERTY INVESTMENTS

Half Year Results



31 December 2019



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1. Highlights



Highlights for 1H FY2020

Financial performance

Underlying revenue from investment properties

- \$24.6m rental revenue from investment properties
- Up 2.3% on prior year

Distributions per Security

- 10.3c per Security
- Up 5.1% on prior year
- In line with FY2020 guidance

Net asset value per Security

- \$2.96
- Up 1.0% from June 2019

Investment portfolio

Lease extensions

- All hotel leases expiring in CY2021 extended
- WALE increased from 3.8 years to 11.8 years

Properties

- 43 properties valued at \$714.3m
- NAV growth driven by cap rate compression in 28 properties, offset by valuation declines on properties where rent was reset and capex committed to the portfolio²
- Weighted average cap rate reduced to 6.1% (vs. 6.4% in June 2019)

Capital management

Debt

- \$264.7m drawn as at 31 December 2019
- 36.7%¹ Gearing ratio as at 31 December 2019

Distribution reinvestment plan

- 22.1% take up
- \$3.3m to be re-invested from the December 2019 distribution



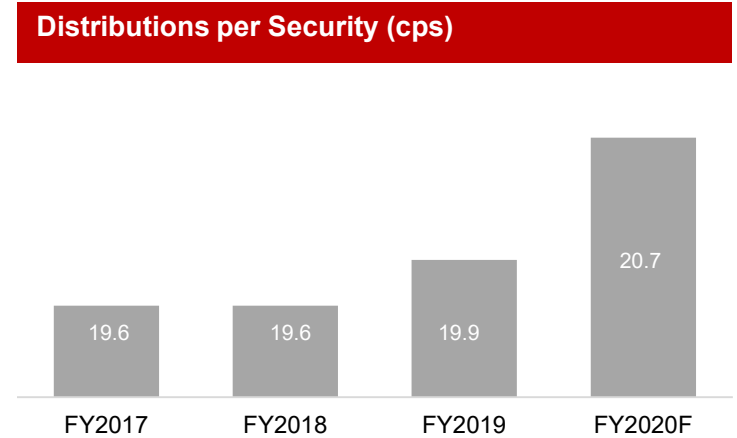
2. Financial Results

H1 FY2020 Financial Results - Statutory Profit

	H1 FY2020 \$m	H1 FY2019 \$m
Rental income	24.6	24.0
Other property income	2.4	2.2
Straight line lease adjustment	0.1	(1.4)
Net rental income	27.1	24.8
Property outgoings	(4.0)	(3.7)
Management and trust expenses	(1.9)	(2.0)
Operating profit	21.2	19.1
Gain on disposal of investment property	-	1.6
Fair value gain on investment property	5.0	6.9
Earnings before interest and tax	26.2	27.6
Finance expenses	(5.8)	(6.5)
Net profit	20.4	21.1
Earnings per Security	13.9 cents	14.5 cents

H1 FY2020 Financial Results – Distributions per Security

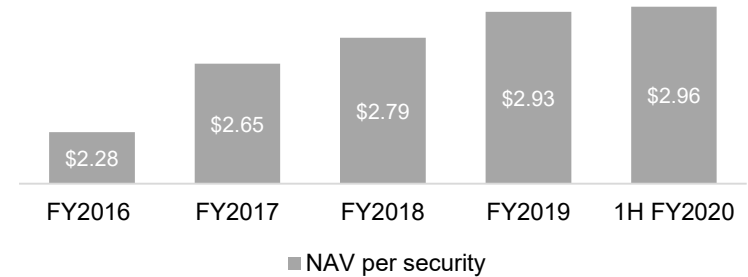
	H1 FY2020 \$m	H1 FY2019 \$m
Net Profit	20.4	21.1
Adjusted for:		
Straight line lease adjustment	(0.1)	1.4
Net property fair value gain	(5.0)	(6.9)
Gain on disposal of investment property	-	(1.6)
Maintenance Capex	(0.4)	(0.1)
Other adjustments	0.2	0.4
Adjusted Funds From Operations	15.1	14.3
Distribution per Security (cents)	10.3 cents	9.8 cents



H1 FY2020 Financial Results - Balance Sheet

	Dec 2019 \$m	Jun 2019 \$m
Cash and cash equivalents	0.5	0.6
Receivables	1.7	0.4
Investment properties	714.3	708.5
Other assets	3.2	0.6
Total assets	719.7	710.1
Creditors and payables	6.9	5.1
Provisions	15.1	14.7
Loans and borrowings	264.7	264.7
Borrowing costs	(1.4)	(1.5)
Other liabilities	0.2	0.2
Total liabilities	285.5	283.2
Net assets	434.2	426.9
NAV per Security	\$2.96	\$2.93
Gearing¹	36.7%	37.2%

Net Asset Value per Security



H1 FY2020 Financial Results - Borrowing Summary

	USPP Note A	USPP Note B	USPP Note C	Bank facilities	Total
Total facility	\$100m	\$30m	\$100m	\$73m	\$303m
Amount drawn	\$100m	\$30m	\$100m	\$34.7m	\$264.7m
Available debt	-	-	-	\$38.3m	\$38.3m
Maturity date	August 2025	August 2027	August 2027	July 2022	5.7 years
Interest basis	Fixed	Fixed	Floating	Floating	49% fixed

Covenants	Covenant	Dec 2019	Headroom
Gearing ¹	60%	39%	21%
Interest cover ratio	1.5 times	3.5 times	2.0 times
Tangible assets	\$500m	\$720m	\$220m

1. (Total interest bearing liabilities and distribution provision) / Total tangible assets



3. Investment Portfolio

Investment Portfolio

- HPI owns 43 pub and accommodation properties, 41 leased to Queensland Venue Co (“QVC”)
- QVC is a joint venture between Coles Ltd and Australian Venue Co (“AVC”) established in March 2019
- AVC are an experienced pub and hospitality operator of 150+ venues
- Secure income stream underpinned by long term lease arrangements
- HPI owns the majority of the liquor and gaming licences which revert to the landlord at lease expiry
- Prudently managed balance sheet which provides flexibility
- Attractive risk-return profile

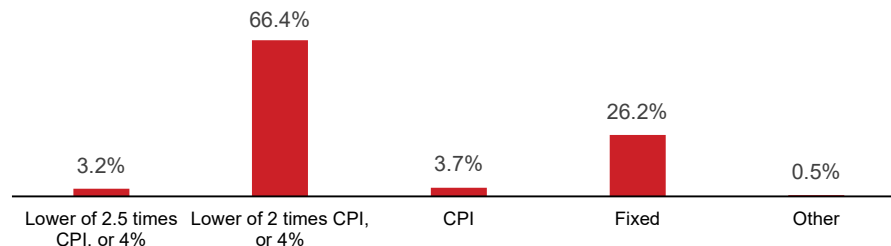
Key Portfolio Metrics

	Dec 2019 ³	Jun 2019
Investment properties		
Investment properties value	\$714.3m	\$708.5m
Number of properties	43	43
Weighted average capitalisation rate	6.1%	6.4%
Weighted average lease expiry	11.8 years	4.4 years
Average hotel option period	15.1 years	24.0 years
Hotel occupancy	100%	100%
Debt facilities		
Debt facilities limit (ex Guarantees)	\$303.0m	\$304.0m
Loans drawn (ex Guarantees)	\$264.7m	\$264.7m
Gearing ¹	36.7%	37.2%
Weighted average debt expiry	5.7 years	6.6 years
Weighted average debt costs	4.01%	4.33%
% at fixed interest rates	49%	50%

Key observations

- NAV growth driven by cap rate compression in 28 properties, offset by valuation declines on properties where rent was reset and capex committed to the portfolio²
- WALE has increased from 3.8 years to 11.8 years
- Reduction in average hotel option period to 15.1 years (QVC exercised as part of the lease extensions²)
- 100% hotel occupancy maintained
- Weighted average debt costs have reduced to 4.01%

Annual rent review profile



1. (Drawn Debt minus Cash)/(Total Assets minus Cash)

2. As disclosed in HPI's ASX announcement dated on 28 January 2020

3. Includes the impact of the lease extensions as disclosed in HPI's ASX announcement on 28 January 2020

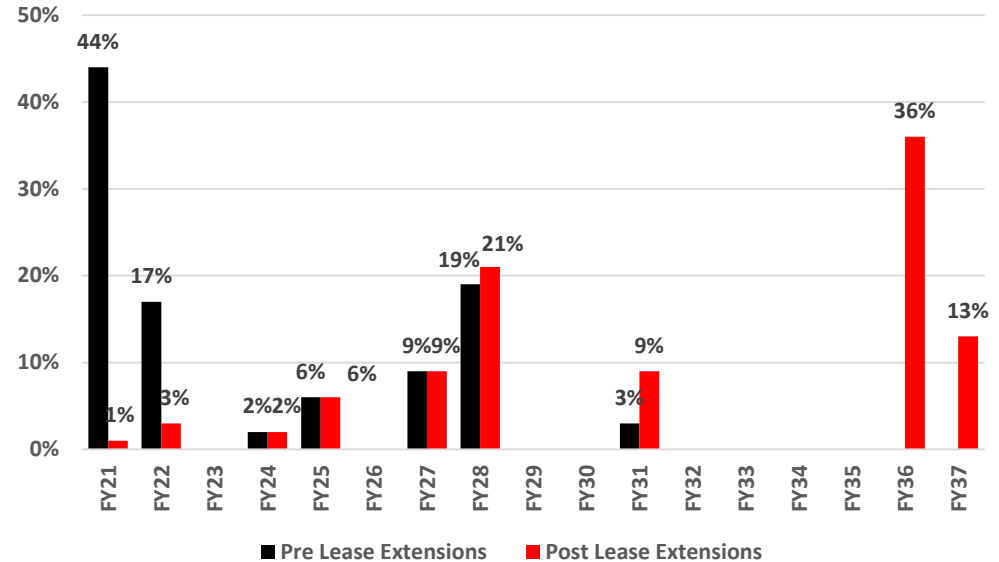
All hotel leases expiring in CY2021 extended

Lease extension

- HPI have agreed with QVC to exercise multiple options for hotels where the initial term expired in CY2021 (28 pubs)
- The extended pubs represent 57% of HPI's current passing income
- WALE by income has increased from 3.8 years to 11.8 years

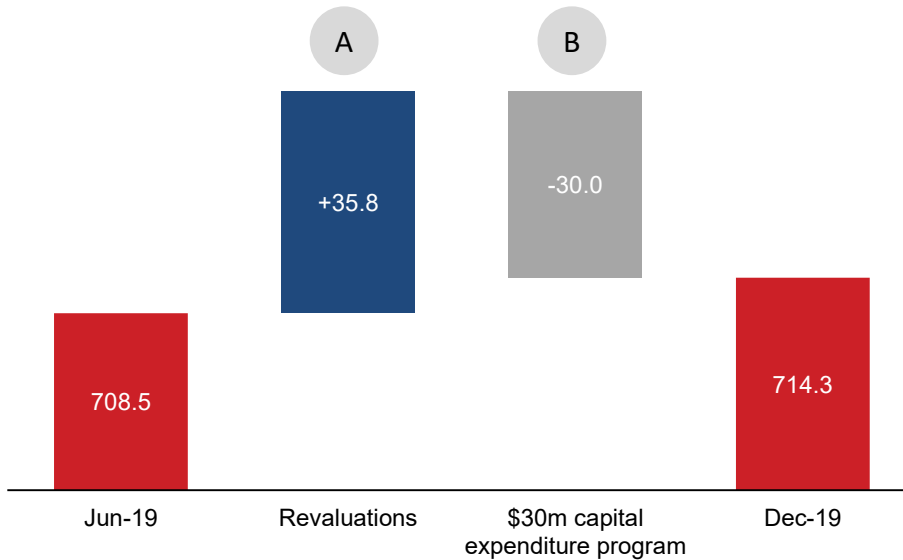
	20 Pubs	8 Pubs
Options exercised	3 x 5 years	2 x 5 years
Rent	Remains unchanged	Reset \$3m lower than June 2020 passing rent
New rent commences	N/A	1 July 2020
Rent review mechanism	Remains unchanged	Remains unchanged

Lease expiry profile by percentage of income¹



H1 FY2020 Financial Results – Investment property valuations

Change in investment property valuation (\$m)



- A. Valuation uplift reflects the following items:
- Annual contracted rent increases
 - Revaluation associated with cap rate compression on 28 properties (WACR reduced from 6.4% in June 2019 to 6.1% in December 2019)
 - Rent reduction agreed as part of lease extensions announced by HPI on 28 January 2020
- B. Impact of \$30m capital commitment associated with lease extension
- Capital commitment will incrementally contribute to portfolio valuation as cash is spent
 - HPI expects that the planned capital works will improve asset quality and has the potential to provide valuation upside in future

4. Outlook



Outlook

- HPI is a long term owner of pub and accommodation properties that aims to deliver a secure income stream to investors
 - Reaffirming FY2020 DPS guidance of 20.7 cents¹
- We work with tenants to enhance the value of the portfolio through investment and upgrades to achieve better site utilisation with the objective of increasing distributions and capital growth by:
 - Focusing on expanding onsite accommodation; and
 - Exploring opportunities to create new income streams on underutilised land
- HPI will pursue pub acquisitions that meet our investment criteria

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