

ASX Announcement



18 November 2020

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Hotel Property Investments (ASX Code: HPI)

Chairman's address - AGM

Ladies and Gentlemen,

Introduction

As you all know 2020 has been an exceptionally challenging year for everyone. The COVID-19 pandemic has impacted our people, our business and our tenants, and may continue to do so over the next few years.

HPI has proven its resilience in this challenging environment with minimal impact on the financial results of the Group.

The key highlights for the year are:

- Extension of the leases for which the initial term ended in 2021 was completed in January 2020;
- Acquisition of the Acacia Ridge Hotel (Queensland) and Gregory Hills Hotel (New South Wales);
- Completion of an equity raise and introduction of a new debt facility; and
- Working through the challenging operating environment created by COVID-19

Extension of 2021 leases

On 28 January 2020 the Group announced an agreement with Queensland Venue Company to extend 28 leases that were due to expire in June and December 2021. The leases over these 28 properties represented 57% of the Group's gross rental income at 31 December 2019 and were extended by either 10 years (8 pubs) or 15 years (20 pubs).

As a result of the lease extensions, HPI's pro forma Weighted Average Lease Expiry by income as at 31 December 2019 increased from 3.8 years to 11.8 years.

In conjunction with the lease extensions the Group agreed to invest \$30 million into capital works with the aim of improving the operational performance of the pubs, of which approximately 22% has been invested to date.

Under this program full renovations of the Bonny View Hotel in Bald Hills and Palm Cove Tavern in Cairns have been completed and there are several other large projects underway.

For 8 of the pubs, where the operational performance was challenging, the Group agreed to reduce the rent by \$3 million from 1 July 2020 and for the remaining 20 the rent continued unchanged.

Acquisition of Acacia Ridge Hotel and Gregory Hills Hotel

On 26 February 2020 the Group announced the acquisition of Acacia Ridge Hotel and Gregory Hills Hotel, the first acquisitions since 2018 and the first pub acquisitions since 2016.

The cumulative purchase price was \$60 million at a yield of 5.5% and both leases had an initial 12 year lease term.

Equity raise and introduction of a new debt facility

The Group raised \$30 million (pre costs) via an institutional placement at an issue price of \$3.23 per security to fund the acquisitions, the first capital raise since 2014.

It was intended that a Security Purchase Plan would supplement the institutional placement, however the impact of COVID-19 on the Group's security price resulted in it being withdrawn.

The Group also introduced a new 5 year, \$100 million revolving debt facility that was partially used to fund the acquisitions.

Challenging operational environment due to COVID-19

All Australian states implemented restrictions on pubs and hotels, which significantly affected the operations of our tenants. In all cases the pubs were required, at the direction of government, to close for extended periods, and once re-opened social distancing requirements and limits on the number of patrons in the venues were imposed. Although the closures have not materially impacted the financial performance of the HPI Group in the year to 30 June 2020, any ongoing interruptions to our tenants' business may affect future financial years.

There were two areas of impact on the Group's business and results due to COVID-19:

Agreement to defer a portion of rent payments

The Group reached a commercial agreement with Queensland Venue Company to defer part of the rent for the period April 2020 to September 2020 totalling approximately \$7.5 million, excluding GST. The deferred rent is to be repaid in full to the Group between February 2021 and June 2022. Approximately \$3.4 million was deferred in FY20.

Rent abatement for specialty tenants

The Group agreed to abate approximately \$0.4 million (or 0.7% of total FY20 rental income) from specialty tenancies as a result of the impact COVID-19 has had on their businesses.

Our goal was to give these small businesses the opportunity to survive the period of reduced trade associated with the pandemic and it is pleasing to note that all tenants have re-commenced trading and rental payments.

Financial Results

For the year ended 30 June 2020 HPI achieved a group statutory profit after tax of \$40.9 million which included \$54.1 million revenue from tenants, a \$10.2 million fair value gain on investment properties, Property Outgoing Costs of \$7.3 million, Management and Trust Expenses of \$4.2 million, and Financing Expenses of \$11.9 million. AFFO or Adjusted Funds from Operations was \$30.3 million and was 100% distributed to security holders.

At 30 June 2020 the HPI Group's net assets were \$472.0 million representing net assets per security of \$3.01 compared to \$2.92 for the prior year.

Distributions

For the year ended 30 June 2020 the Group paid an interim distribution from trading operations of 10.3 cents and a final distribution of 9.7 cents for a total of 20.0 cents per security.

Capital management and re-financing

As at 30 June 2020 the Group's gearing of 38.0% was within the Board's target range of 35% to 45%. At 30 June there was approximately \$101.5 million headroom available within the Group's loan facilities.

Business Strategies and prospects

The Group will continue to pursue acquisition opportunities which meet its investment criteria, namely that target properties be in good condition, in key regional or metropolitan locations with potential for long term growth and leased to experienced tenants on favourable lease terms.

The FY21 distribution guidance is 19.2 cents per security.

Summary

This year saw the first pub acquisitions since 2016. The Group is working hard to improve securityholder value and we remain focussed on delivering the distribution guidance.

Change of Chairman

It is pleasing to note the strong performance of the Group on so many fronts, made possible both by a dedicated management team and high calibre Board.

This strong position makes possible my recently announced decision to step down as your Chairman at the conclusion of this Annual General Meeting and from the Board during the first half of next calendar year.

I have no hesitation in supporting the Board's election of Ray Gunston as the company's new Chairman and have every confidence he will lead the Group to further notable successes.

I would like to note my gratitude for both the opportunity to serve the company and its securityholders since its listing in 2013 and for the support and hard work of my fellow Directors.

Decisions such as this are not made lightly and this one is made for the very best of reasons as it reflects an intention for my wife and I to pursue what we hope will be an exciting and fulfilling new chapter in our lives.

Thank you, I will now move to the Formal Business of today's Meeting.

John Russell

Hotel Property Investments Limited Chairman

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