ASX Announcement

21 November 2018

The Manager
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Hotel Property Investments (ASX Code: HPI)

Chairman's address - AGM

Ladies and Gentlemen,

Introduction

In the year ended 30 June 2018 the Group again delivered the forecast distribution to securityholders.

The year was characterised by:

- the restructuring of the Trust's debt facilities, extending the tenor, unsecuring the lending platform and diversifying the funding sources with the inaugural USPP issuance;
- acquisitions of Quest Griffith and land adjacent to the Regatta Hotel; and
- a smooth transition of Managing Director from David Charles to Don Smith.

Financial Results

HPI achieved a group statutory profit after tax of $48.4 million which included $50.2 million revenue from tenants, a $21.2 million fair value gain on investment properties, Property Outgoings of $6.7 million, Management and Trust Expenses of $3.1 million, and Financing Costs of $13.2 million. AFFO or Adjusted Funds from Operations was $28.6 million and was 100% distributed to security holders.

At 30 June 2018 the HPI Group's net assets were $406.7 million representing net assets per security of $2.79 compared to $2.65 for the prior year.

Distributions

For the year ended 30 June 2018 the HPI Group paid an interim distribution from trading operations of 9.8 cents and a final distribution of 9.8 cents for a total of 19.6 cents per security, consistent with prior year due primarily to higher funding costs.

Capital management and re-financing

As at 30 June 2018 HPI's gearing of 39.4% was slightly below the Board's target range of 40% to 50%, following revaluation increases in investment properties. Gearing reverted to just within the target range following payment of the distribution in August 2018. At 30 June there was approximately $26.5 million headroom available within HPI's loan facilities.

In June 2017 the HPI Group completed negotiations on a A$230 million long-term debt issue into the U.S. Private Placement market, which was completed in August 2017. This issue, which was on an unsecured basis, saw HPI reduce its reliance on the Australian banks for debt funding, and extend its weighted average loan tenor from 3.6 years to 8 years at issuance.

The strategic decision to refinance HPI's short-term bank debt with longer term, unsecured notes came at a higher interest cost, impacting the Trust's earnings from trading operations, and hence distributions for FY18 remained constant with the prior year at 19.6 cents per security.

Following the USPP issue, approximately 50% of HPI's borrowings are on fixed rates.

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.

In the current low capitalisation rate environment, development opportunities undertaken on surplus land are a key focus for future growth.

The FY19 distribution guidance is 19.7 cents per security which has been impacted by:

- the Queensland Government's decision to increase land tax by 0.5% on values greater than $10 million;
- the sale of the Wickham Hotel in September 2018; and
- higher variable funding costs.

Summary

The Group is working hard to improve shareholder value and we remain focussed on delivering the distribution guidance.

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