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16 November 2022

**Hotel Property Investments Limited (ASX Code: HPI)  
Chairman's AGM address**

Ladies and Gentleman,

I'd like to begin by acknowledging the Traditional Custodians of the land on which we meet today, the Wurundjeri people of the Kulin nation, and to pay my respects to their Elders past and present and to all that respect and care for the lands and the seas of Australia.

**Introduction**

The 2022 financial year followed similar themes to 2021 as we continued to execute on our strategy of actively enhancing and growing our portfolio of properties.

HPI has proven its resilience in what has been a challenging environment with growth in distributions and in the number of investment properties as reflected in the strong financial results of the Group.

The key highlights for the year are that we:

- Acquired nine freehold pubs;
- Completed a development at Ferry Road, Southport on the Gold Coast;
- Increased tenant and geographic diversity;
- Further worked with our major tenant to invest in the existing portfolio under the QVC Capex program, resulting in improved underlying business performance of the pubs which supported the uplift in investment property valuations;
- We also continued to experience the resilience of the business model during COVID-19 with either or both the bottle shops and the pubs providing sufficient cashflows to support our rental income streams;
- We partly funded the acquisitions through a \$59.5 million equity raise via a \$50 million Institutional Placement and \$9.5 million Security Purchase Plan;
- We actively managed our debt facilities early on in the financial year through a refinancing via a further issue of \$80 million into the US Private Placement market with half of these notes maturing in 2028 and half in 2033. We focused on having resilience to the current interest rate environment, with 45% of our drawn debt fixed and with an average debt tenor of 4.1 years at year end, ranging from 2 to 11 years; and

- We also focused on ESG and we are in the process of formulating our approach and reporting framework. Our first Sustainability Report was recently released to the market.

## **Financial Results**

For the year ended 30 June 2022 HPI achieved a group statutory profit after tax of \$211.4 million which included \$74.0 million revenue from tenants, a \$171.3 million fair value gain on investment properties and Property Outgoing Costs of \$11.2 million, Management and Trust Expenses of \$5.4 million, and Financing Expenses of \$17.2 million. AFFO or Adjusted Funds from Operations was \$39.2 million. Together with a capital distribution of \$0.4 million, 100% of AFFO was distributed to Security Holders.

At 30 June 2022 the HPI Group's net assets were \$810.0 million representing net assets per security of \$4.19 compared to \$3.30 for the prior year.

## **Acquisitions**

Throughout the course of the 2022 financial year HPI geographically diversified our portfolio, acquiring two freehold pubs in Victoria, being the Edwardes Lake Hotel, Reservoir as well as The Ball Court Hotel, Sunbury.

And we also added to our portfolio in South Australia acquiring six pubs in Adelaide, being The Unley, The Mile End, Avenues Café Bar, The West End Tavern, Mick O'Shea's Hotel and The Duck Inn, as well as the Victoria Hotel in the Adelaide Hills.

## **Divestments**

During the year, HPI disposed of three properties for an aggregate selling price of \$44.8 million representing a weighted average yield of 4.7%, including the Acacia Ridge Hotel, which we sold for \$5.0 million more than its February 2020 purchase price of \$20.0 million. The other two pubs sold opportunistically were the Royal Hotel in Townsville and the Lord Stanley Hotel in East Brisbane.

## **Increase in underlying investment property revenue**

Rent and outgoing recovery revenue increased by 23.0% during the 2022 financial year.

This was attributable to both a 3.5% increase in rental income from our existing portfolio as well as from the new rental stream from the recently acquired properties.

## **Increase in fair value of the investment property portfolio**

Financial Year 2022 saw a continuation of capitalisation rate tightening. Consequently, the average capitalisation rate across the HPI portfolio decreased from 5.9% to 5.2% as assessed by independent valuers and Directors under HPI's valuation policy, resulting in a significant fair value gain of \$171.3 million during the year.

## **Equity raise**

The Group received strong support from both institutional and retail investors raising a total of \$59.5 million in the first half of the year.

An institutional placement raised \$50 million (pre costs) and \$9.5 million (pre costs) was raised via a Security Purchase Plan, all at an issue price of \$3.40 per security. The proceeds were used to fund the acquisitions previously mentioned.

## **Debt management**

In August 2021, HPI refinanced a portion of bank debt via issuance of an additional \$80 million into the USPP market. \$40 million was issued for 7 years at a fixed rate of 3.99% and \$40 million was issued for 12 years at a fixed rate of 4.76%.

As at 30 June 2022 the Group's gearing of 35.7% was within the Board's target range of 35% to 45%. At that date there was \$63 million headroom available within the Group's loan facilities.

### **Distributions**

For the year ended 30 June 2022 the Group paid an interim distribution of 10.2 cents and a final distribution of 10.3 cents for a total of 20.5 cents per security, an increase of 6.2% on 2021.

### **Business strategies and FY23 to date**

The Group has been actively monitoring the pub market and is focused on continuing to enhance the portfolio through both acquisitions and divestments. Since year end, we contracted to dispose of the Barron River Hotel for \$6.2 million, representing a 4.99% yield.

HPI will continue to pursue acquisition opportunities but only when they meet our key 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 Group will continue to build on the strong relationship with our principal tenant and highly regarded pub operator QVC to identify opportunities that lead to mutually beneficial outcomes.

Consequently, HPI's guidance for the FY23 distribution is now at 18.4 cents per security, barring any unforeseen events and no material change in market conditions. The decrease of 10% from FY22 reflects the impact of increased interest costs, partially offset by revenue increases across the portfolio.

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

Giselle Collins

*Hotel Property Investments Limited Chairman*

*This ASX announcement was authorised by the Chair of the Hotel Property Investments Limited Board.*

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