

HOTEL PROPERTY INVESTMENTS INTERIM RESULTS BRIEFING – 31 DEC 2015



Key Messages

As at 31 December 2015

1. Statutory Profit \$30.2 million (2014: \$7.3 million), Distributable Earnings of \$13.6 million and AFFO of \$13.3 million (2014: 11.6 million)
2. Interim Distribution ↑ 14% to 9.0 cents (2014: 7.9 cents)
3. Full year Distribution guidance of 18.2 cents (2015: 16.3 cents)
4. Property portfolio valued at \$580.1 million including a fair value gain of \$16.3m (2014: \$2.1 million)
5. Cap rates tightened by an average 41 points for 15 properties independently valued at 31 December

Key Metrics

As at 31 December 2015

<u>Key Metrics</u>	<u>31-Dec-15</u>	<u>30-Jun-15</u>
Investment Property (incl Asset held for sale)	\$580.8 m	\$564.2 m
Loans Drawn	\$247.1 m	\$251.1 m
Cash On Hand	\$2.0 m	\$4.6 m
Gearing	42.1%	43.6%
Average Cap Rate	7.28%	7.42%
WALE (years)	7.4	7.9
Occupancy	100%	100%
Net Assets per security	\$2.18	\$2.07

¹ Each property's cap rate reflects its most recent independent valuation

Capital Management

As at 31 December 2015

CAPITAL MANAGEMENT	<u>31-Dec-15</u>	<u>30-Jun-15</u>
Drawn Debt	\$247.1 m	\$251.1 m
Net Debt (Drawn Debt less Cash)	\$245.1 m	\$246.6 m
Loan Facility Limit	\$270.0 m	\$270.0 m
Weighted Average Debt Term to Maturity	3.0 yrs	3.5 yrs
Gearing ¹	42.1%	43.6%
% Hedging of Drawn Debt	51%	46%
Gearing Policy	40% - 50%	40% - 50%
Hedging Policy	approx 50%	approx 50%

- Low risk capital structure with gearing decreasing and potentially falling further
- Potential to further optimise debt financing arrangements by moving to unsecured, with greater diversification and an extended term to maturity
- Reduced gearing provides further balance sheet flexibility to debt fund acquisitions or consider capital management options

¹ (Drawn Borrowings - Cash) / (Total Assets – Cash)

Outlook and strategic agenda

1. Continuing strong performance of HPI properties in the Qld gaming rankings, underpinning HPI's average 3.9% annual rental increases and strong growth in distributions
2. Continue to review debt financing arrangements to achieve optimal cost, tenor, structure and flexibility
3. Active portfolio management to maximise value for securityholders, including continuing to evaluate acquisition, divestment and development opportunities
4. AFSL application positions HPI to consider internalising management and bringing the Responsible Entity function inside the fund

Investment Proposition

- Owner of large scale gaming venues leased to Coles & ALH
- Premium hotel assets whose underlying value grows with gaming
- Secure income underpinned by long term leases
- Expected distribution yield circa 7% with growth underpinned by contracted rental increases averaging 3.9% p.a
- Investment property portfolio value growing as cap rates tighten and rentals grow
- Additional value associated with land value, development potential and strategic value of liquor and gaming licences
- Tenant's business is a contingent asset which reverts to the landlord at the end of the lease
- Low risk capital structure with balance sheet flexibility
- Active portfolio management to drive further security holder value
- Attractive risk-return profile for a Wesfarmers bond-like security (A- rating)
- Experienced Board and management



Appendix 1 – Financials

Net Profit for the 6 mths ended 31 December 2015

Consolidated Income Statement

<u>P&L in \$ millions</u>	<u>31-Dec-15</u>	<u>31-Dec-14</u>
Income		
Net rental income (excl. straight line lease adj)	21.8	19.7
Operating expenses		
Non-recoverable property expenses	-1.3	-1.2
Management fees	-0.8	-0.8
Trust expenses	-1.0	-0.7
Total expenses	-3.2	-2.7
Operating profit	18.6	17.0
P&L on Disposal of Assets	0.0	0.0
Fair value adj and realised loss on hedging ¹	0.4	-6.6
Fair value gain on investment property	16.3	2.1
EBIT	35.4	12.6
Net interest expense	-5.2	-5.3
Net profit before tax	30.2	7.3
Tax	0.0	0.0
Net Profit after tax	30.2	7.3

¹ Hedge accounting was adopted on 1 July 2015. The Mark to Market valuation of hedging instruments at that date is being amortised over the remaining term of the instruments.

Minor addition differences are due to rounding to \$M's

Distributions for the 6 mths ended 31 Dec 2015

Consolidated Distribution Statements

	<u>6 mths ended 31 Dec 15</u>	<u>6 mths ended 31 Dec 14</u>
<u>DISTRIBUTIONS in \$ millions</u>		
Statutory NPAT for the period	30.2	7.3
Amortisation adjustment	0.1	0.1
Fair Value adjustments	-16.8	4.4
Distributable earnings	13.6	11.9
Maintenance capex	-0.3	-0.3
AFFO (Adj Funds From Ops)	13.3	11.6
Stapled Securities at end of period	146.1	146.1
AFFO per stapled security (cents)	9.1	7.9
Distribution declared per stapled security (cents) ¹	9.0	7.9

¹ HPI intends to pay 100% of AFFO as distributions for FY16

Minor addition differences are due to rounding to \$M's

Balance sheet at 31 December 2015

Consolidated Balance Sheet

BALANCE SHEET in \$ millions	<u>Dec-15</u>	<u>Jun-15</u>
Current Assets		
Cash	2.0	4.6
Other current assets	1.8	1.1
Total Current Assets	3.9	5.7
Non Current Assets		
Investment property / Property held for sale	580.8	564.2
Other non current assets	0.2	0.2
Total Non Current Assets	581.0	564.4
Total Assets	584.8	570.1
Liabilities		
Current Liabilities		
Payables, Accruals, Other current liabilities ¹	16.9	14.9
Non Current Liabilities		
Borrowings ²	246.3	250.2
Other non current liabilities	3.2	3.0
Total Liabilities	266.4	268.1
Net Assets	318.5	302.0

¹ Current Liabilities includes Provision for Distribution, which will be drawn from funds previously repaid under HPI's revolving loan facility

² Borrowings shown on balance sheet are drawn borrowings less \$0.79 million (Jun-15: \$0.91 million) of capitalised debt establishment fees

Minor addition differences are due to rounding to \$M's



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