



P: +61 3 9038 1774  
F: +61 3 8526 7430  
[www.hpitrust.com.au](http://www.hpitrust.com.au)

**Address**  
L23, HWT Tower,  
40 City Road, Southbank  
Melbourne VIC, 3006

ASX Announcement

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The Manager  
Australian Securities Exchange Limited  
Corporate Announcement Office  
Level 4, 20 Bridge St  
Sydney NSW 2000

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**Hotel Property Investments (ASX Code: HPI)**  
**Financial results for the year ended 30 June 2016**

Hotel Property Investments (HPI) today lodged its annual financial report and declares a final distribution of 9.3 cents per security for the year ended 30 June 2016

**1. Highlights of the Year**

- **Statutory Profit:** \$60.1 million (2015: \$35.4 million)
- **Final Distribution:** 9.3 cents per security for a total of 18.3 cents for the year (2015: 16.3 cents), an increase of 12.3%
- **Distribution Growth in FY17:** Guidance of 19.5 cents is 6.6% above FY16
- **Property Portfolio:** valued at \$596.6 million including a fair value gain of \$32.6 million (2015: \$18 million)
- **Management and RE internalisation:** on 1 July 2016 HPI completed the internalisation of management and the Responsible Entity functions

**2. Profit after tax and Distributable Earnings**

Profit after Tax for the year ended 30 June 2016 was \$60.1 million. Operating revenues and expenses included rental income from investment properties of \$43.7 million, property cost recoveries of \$4.1 million, property outgoing costs of \$6.9 million, management fees and other trust costs of \$4.1 million, and financing costs of \$10.3 million. Additionally, there was a fair value gain on investment property of \$32.6 million.

Adjusting profit after tax for fair value adjustments, losses on hedging and other minor items, the distributable earnings of the HPI Group was \$26.8 million. Adjusting further for maintenance capex of \$0.5 million and one off costs of management internalisation of \$0.4 million, the Adjusted Funds from Operations (AFFO) was \$26.7 million, 100% of which is distributed to security holders.

### **3. Key Metrics**

- **Portfolio Valuation:** \$596.6 million including a \$32.6 million fair value gain
- **Weighted Average Cap Rate:** 7.28%
- **Loans Drawn:** \$246.6 million
- **Cash on Hand:** \$2.3 million
- **Gearing:** 40.8%
- **WALE:** 7.0 years
- **Average Length of Option Period:** 24.3 years
- **Occupancy:** 100% leased as at 30 June 2016
- **Net Assets per Security:** \$2.28

### **4. Portfolio Valuation**

At 30 June 2016 the investment property portfolio including one asset held for sale has been valued by Directors at \$596.6 million including a fair value gain of \$32.6 million, compared to \$564.2 million at 30 June 2015.

In accordance with the HPI Group's established policy and cycle, independent valuations are obtained for approximately 1/3<sup>rd</sup> of the portfolio each December. In December 2015 fifteen properties were independently valued with Capitalisation ("Cap") Rates for those properties contracting by an average 41 basis points.

Independent valuations will be commissioned for 1/3<sup>rd</sup> of the portfolio in December 2016.

### **5. Portfolio Management**

In June HPI exchanged contracts to sell the Payneham Tavern in South Australia for \$10 million, taking advantage of the high demand for quality pub properties leased to investment grade tenants like the Coles Group, a subsidiary of the A- rated Wesfarmers Group.

The sale was at a yield of 6.0% and settlement will occur on or around 8 September 2016.

### **6. Management and RE internalisation**

From 1 July 2016 the HPI Group internalised its management and became the Responsible Entity for the Hotel Property Investments Trust. All the staff previously providing the third party services became employees of the HPI Group at this time, thus ensuring the seamless continuity of services and expertise.

The Directors consider that this will see a greater alignment of management and investors' interests, whilst providing a modest annual cost saving and positioning the HPI Group to create future value for investors.

## **7.     Guidance**

HPI has announced distribution guidance for FY17 of 19.5 cents per security, an increase of 6.6%. This rise is underpinned by the strong 4% annual rental increases on most (40 of 44) of HPI's properties, which is particularly advantageous in the current low CPI environment.

End.

**Contact:**

**Jenny Romeo**

**Chief Financial Officer and Company Secretary**

**Hotel Property Investments Limited**

**03 9038 1774**

**Website: [www.hpitrust.com.au](http://www.hpitrust.com.au)**