

Abacus Hospitality Fund Fund Update April 2016



Portfolio Update

At 31 December 2015 the Fund owned three hotel properties, with a combined 862 rooms, valued at \$124.9m:

- Rydges Tradewinds in Cairns, North Queensland with 246 rooms
- Rydges Esplanade in Cairns, North Queensland with 242 rooms
- Novotel Twin Waters Resort on the Sunshine Coast, Queensland with 374 rooms

The two Rydges hotels in Cairns have experienced modest improvements to occupancy and average room rate over the last six months resulting in higher profits compared to the prior corresponding period. This has been driven by increased overseas visitors as the Australian dollar has reduced in value against other currencies and refurbishment projects undertaken at the hotels. This positive has been partly offset with lower than expected demand from conferences and events.

Novotel Twin Waters hotel on the Sunshine Coast is more reliant on domestic tourism and conference and events business. Hotel profits in the six months to 31 December 2015 were approximately 12% higher than the prior corresponding period. This improvement in performance has arisen from solid trading across all segments. In particular the creation of a sports oval on the property and additional events space has increased patronage from sporting groups and wedding groups. A third party operator has recently installed an inflatable water park on the lagoon outside the hotel which increases the appeal for leisure use.

On 16 March the Fund exchanged contracts to sell the Rydges Tradewinds Hotel in Cairns for \$34m as part of the ongoing managed asset sell down. Settlement is expected within 90 days once contract conditions have been met. The net sales proceeds are proposed to be applied to the repayment of debt obligations.

Fund Financial Statements

The half year financial report of Abacus Hospitality Fund for the period ended 31 December 2015 is available on the funds and investment page of Abacus' website. The summarised balance sheet is set out below:

\$m	Balance sheet as at	
	31 December 2015	30 June 2015
Property assets	124.9	114.0
Gross assets	137.9	126.5
Net liabilities	(18.8)	(31.0)
Gearing (borrowings less cash over gross assets less cash)	33%	37%
Security value (based on the Abacus working capital facility being notionally converted to equity at a price of \$1.03)	\$0.52	\$0.43

Gearing

At 31 December 2015 the bank loan was drawn to \$51.2m under a facility expiring in April 2017. The bank loan to value ratio was 42% compared to the covenant maximum of 55% and all the banking covenants were met. Proceeds from the sale of Tradewinds hotel are proposed to be applied to the repayment of bank debt and reduction of the fixed interest rate swap obligation. After the sale of Tradewinds and the repayment of bank debt the loan to value ratio is expected to decrease to around 25-30%. Future sale proceeds may be applied to the progressive repayment of unitholder capital when possible.

Investor returns and liquidity for securityholders

The Fund is unlisted and has no available liquidity facility. Improved returns to investors will depend on asset value recovery.

Distributions are currently being paid at the rate of 0.5 cents per security per quarter.

Outlook and Strategy

The Fund will continue with its managed sell down of the remaining two hotel assets.