

Abacus Hospitality Fund Fund Update December 2014



Portfolio Update

The Fund currently owns four hotel properties with a combined 1,054 rooms:

- 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
- Chateau on the Park, Christchurch, New Zealand with 192 rooms.

The hospitality industry, particularly in Queensland, continues to be affected by reduced tourism demand and conference business. However, the underlying performance of the Fund's Cairns hotels was better in the year to 30 June 2014 compared to the prior corresponding period.

Both of the hotels in Cairns are undergoing modest refurbishment which is expected to increase average daily room rates.

In May 2014 the Fund acquired freehold land adjacent to the Twin Waters hotel that is used for car park and operational uses, for \$1.1m. This land was previously leased from a third party.

The major repairs at the Chateau on the Park Hotel in Christchurch have now been completed, fixing the damage caused by the 2011 earthquake. It has been difficult to re-establish the inbound tourism market following the earthquake and there has been recent new hotel supply in Christchurch.

Fund Financial Statements

The Annual Financial Report of Abacus Hospitality Fund for the year ended 30 June 2014 is available on the funds and investment page of Abacus' website. The summarised balance sheet is set out below:

\$m	Balance sheet as at	
	30 June 2014	30 June 2013
Property assets	150.3	145.6
Gross assets	162.9	164.2
Net assets / (liabilities)	(25.4)	(21.4)
Gearing (borrowings less cash over gross assets less cash)	44%	37%
Security value (see below)	\$0.55	\$0.59

Rydges Esplanade was last externally valued in March 2014, Chateau on the Park was last externally valued in January 2014 and Twin Waters Resort and Rydges Tradewinds were both last externally valued in December 2013. The weighted average capitalisation rate of all four hotels was 9.6% as at 30 June 2014.

The security value as at 30 June 2014 was \$0.55 as calculated in the table below, in accordance with the Fund's security valuation policy which is available on our website:

	Net assets/ (liabilities) (\$000)	Securities on issue (000)	Security value
As at 30 June 2014 per financial report	(25,353)	49,039	
Abacus Working Capital Facility notionally converted to equity at \$1.03 at Fund wind up	90,507	87,871	
Interest rate swap liability added back as this reverts to zero at the end of the swap term	9,675	-	
Adjusted net assets/ securities on issue	74,829	136,910	\$0.55

The security pricing valuation policy states that the liability relating to the interest rate swap should not be added back in calculating adjusted net assets if the interest rate swap is not expected to be held to maturity.

It is uncertain whether the interest rate swaps will be held to maturity if hotel assets are sold in line with our short to medium term strategy. As a result the application of the security pricing valuation policy in the future will no longer exclude the interest rate swap liability. This change will be reflected in the security price at 31 December 2014.

Gearing

At 30 June 2014 the Fund had a drawn bank loan of \$66.3m. The bank loan to value ratio was 44% compared to the covenant maximum of 55%. The Fund met its banking covenants at 30 June 2014. During the year the Fund refinanced its borrowings with a major Australian bank for a three year term to April 2017.

The Fund's bank borrowings are over-hedged as a result of repaying bank debt from hotel sales over previous years. There was a liability of \$9.7m as at 30 June 2014 (\$11.3m at 30 June 2013) which reflects the cost of the swaps if these positions (which expire in August 2017) had to be paid out at 30 June 2014. The swap liability was reduced at the same time that the bank facility term was extended.

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.

The Fund paid distributions of 2 cents per security in the year ending 30 June 2014. Distributions are currently being paid at the rate of 0.5 cents per security per quarter.

Outlook and Strategy

Hotel prospects in non-CBD locations in Australia remain challenging but there are signs of improvement as the Australian dollar depreciates in value relative to other currencies, the number of overseas visitors increases, including those from China, and Australian consumer and corporate confidence improves.

The Fund will continue with its managed sell down of assets over the medium term with the expectation that this may take some years.