

## Abacus Hospitality Fund Fund Update July 2015



### Portfolio Update

The Fund currently owns three hotel properties, with a combined 862 rooms, valued at \$114.5m:

- 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

On 30 January 2015 the Chateau on the Park hotel in Christchurch, New Zealand was sold for NZ\$35m. The proceeds were applied to the repayment of debt and reduction of fixed interest rate swap obligations.

The hospitality industry in Queensland has been negatively affected by reduced tourism demand and conference business. The weakening Australian dollar in recent times has seen improvements to inbound tourism, especially from Japan and China. This additional demand combined with limited new hotel supply is expected to result in modest profit growth over the coming year for the two Rydges hotels in Cairns.

Novotel Twin Waters hotel on the Sunshine Coast is more reliant on domestic tourism and conference and events business. Additional land purchased in 2014 has been cleared of native bush and is being prepared for use for corporate sporting events. The hotel also has new facilities to attract wedding events. The hotel is budgeting for an increase in revenue compared to the current year from corporate and event business, aided by the recent closure of the Palmer Coolum Resort.

### Fund Financial Statements

The half year financial report of Abacus Hospitality Fund for the period ended 31 December 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	
	31 December 2014	30 June 2014
Property assets	148.0	150.3
Gross assets	163.1	162.9
Net liabilities	(28.9)	(25.4)
Gearing (borrowings less cash over gross assets less cash)	44%	44%
Security value (see below)	\$0.45	\$0.55

After the sale of Chateau on the Park in January 2015 the gearing of the Fund decreased from 44% to 37%.

Rydges Esplanade was last externally valued in March 2014 and Novotel Twin Waters Resort and Rydges Tradewinds were both last externally valued in December 2013. External valuations are undertaken every two years.

The security value as at 31 December 2014, calculated as detailed in the table below in accordance with the Fund's security valuation policy (available on our website), was \$0.45.

	Net assets/ (liabilities) (\$000)	Securities on issue (000)	Security value
<b>As at 31 December per financial report</b>	<b>(28,852)</b>	<b>49,039</b>	
Abacus Working Capital Facility notionally converted to equity at \$1.03 at Fund wind up	90,507	87,871	
<b>Adjusted net assets/ securities on issue</b>	<b>61,655</b>	<b>136,910</b>	<b>\$0.45</b>

As advised in the December 2014 Fund update, the security value now includes the interest rate swap liability. This change was the primary cause of the reduction in the security price from \$0.55 to \$0.45.

The accounts for the full year ended 30 June 2015 will be completed by the end of August 2015.

### *Gearing*

At 31 December 2014 the bank loan was drawn to \$66.9m and the banking covenants were met. After the sale of Chateau on the Park the bank loan was reduced to \$51.2m, drawn under a \$55m facility agreement expiring in April 2017. The bank loan to value ratio was 44% compared to the covenant maximum of 55%. The Fund has a \$30m fixed interest rate swap at a rate of 6.25% until August 2017.

### *Investor returns and liquidity for securityholders*

The Fund is unlisted and has no available liquidity facility. The current security value is \$0.45. 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 three hotels in the Fund are showing signs of improvement with a weaker Australian dollar and an increase of overseas visitors. However, the domestic economy remains weak and conference and events business is competitive.

The Fund will continue with its managed sell down of assets over the medium term.