Hospitality Property Fund Limited

South Africa Corporate Analysis **September 2018**

Rating class	Rating scale	Rating	Rating outlook	Review date
Long-term	National	A-(ZA)	Positive	September 2019
Short-term	National	A1-(ZA)		

Financial data:

(USD'm comparative)

	30/06/17^	31/03/18
R/USD (avg.)	14.07	12.30
R/USD (close)	13.41	11.83
Total assets	630.5	1,109.5
Total debt	128.2	163.7
Total capital	492.0	938.7
Cash & equiv.	15.7	33.0
Rental income	35.5	70.4
Operating income	32.7	66.7
NPAT	38.7	9.2
Op. cash flow	15.2	45.6
Market cap.*	R5.5bn/USD380m	
Market share	n.a	

^Reflects 9 months to 31 March 2017
* As at 20/09/18 at R14.47/USD

Rating history:

Initial rating (November 2012)
Long-term: BBB-(ZA)
Short-term: A3(ZA)
Rating outlook: Stable

Last rating (October 2017)
Long-term: BBB+(ZA)
Short-term: A2(ZA)
Rating outlook: Positive

Related methodologies/research:

Global Master Criteria for Rating Corporate Entities, updated February 2018

Global Criteria for Rating Property Funds and Commercial Real Estate Companies Updated February 2018

Hospitality Property Fund Limited ("HPF") rating reports, 2012-17

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Summary rating rationale

- The ratings upgrade considers HPF's enlarged and more diversified portfolio of hotels that target multiple price segments. This follows two significant property transactions concluded with the Tsogo Sun Holdings Limited group ("Tsogo"), its controlling shareholder since FY17, bringing the portfolio to 53 properties at a combined value of R12.6bn at FY18 from R5.3bn in FY16.
- GCR also notes the recently announced proposed transaction to acquire seven premium casino precincts from Tsogo (termed project Aurora) worth c.R23bn by March 2019. The transaction would materially transform HPF and further improve its business risk profile by significantly enhancing the REIT's scale and diversifying its assets and revenue sources. To this end, the Positive rating outlook reflects the expectation of a strengthening in HPF's credit risk profile post the Aurora transaction, but action will only be taken once the ultimate structure is finalised and the impact on credit metrics is clearer.
- Rental growth and earnings have been buttressed by robust acquisition-driven throughput over the last two years, although underlying performance of the stable portfolio has evidenced weakness amidst difficult trading conditions of late, particularly in key leisure nodes. While occupancy and demand are expected to be relatively flat going forward, HPF's HPF's ownership of certain prime assets provides the fund with moderate pricing power.
- Despite the rampant acquisitive growth strategy, HPF's financial profile remains conservative, with credit risk metrics having shown improvement over the past two years. To this end, the transactions have been funded largely via share issuances, resulting in the low net LTV of 12% at FY18 (FY17: 19%). Earnings-based gearing also registered at a modest 188% (FY17: 246%), giving rise to solid gearing headroom to withstand susceptibility to volatile hospitality-oriented cash flows. Net interest cover has strengthened to 5x (FY17: 4x), compared with levels of around 2.5x historically.
- The ratings also reflect successful refinancing and lengthening of debt maturities, with HPF displaying no material debt maturities over the next two years. Counterbalancing this somewhat are the very high asset encumbrances under the new general SPV, which is considered a liquidity weakness. However, comfort is derived from ample headroom under existing debt covenants and the significant overcollateralization, while unutilised committed facilities are sufficient for planned near term capex outlays.

Factors that could trigger a rating action may include

Positive change: HPF's ratings could potentially be upgraded by multiple notches post finalisation of the project Aurora deal. The magnitude of the rating change will be dependent on the degree of strengthening in the credit risk profile should the financial profile evolve significantly better (or worse) than initially outlined.

Negative change: Could be precipitated by sustained weakness in earnings and or more aggressive financial policies. GCR would also be concerned with any deterioration in the liquidity profile.

Corporate profile

HPF is the only JSE listed REIT specialising in the hospitality sector through its investments in hotel and resort properties across South Africa. The scale of the fund has grown notably since FY17 following large acquisitions from Tsogo Sun Holdings Limited ("Tsogo"), the largest hotel and gaming operator on the JSE, which has subsequently become a controlling shareholder. At FY18, HPF owned 53 hotels with more than 9,000 rooms, valued at R12.6bn.

Strategic overview and recent developments

Table 1: Tsogo portfolios acquired	Rooms	Value (R'm)
1st transaction	**1,979**	**2,657.6**
Garden Court Kimberly	135	193.3
Garden Court Milpark	251	374.7
Garden Court OR Tambo	253	422.1
Garden Court Polokwane	180	292.1
Garden Court South Beach	414	592.6
Stayeasy Century City	175	252.3
Stayeasy Rustenburg	125	118.5
SunSquare Cape Town	136	99.5
Southern Sun Bloemfontein	147	148.7
Southern Sun Newlands	162	161.0
2nd transaction		
The Cullinan (Pty) Limited	***2,263***	***3,592.3***
Southern Sun Cullinan	394	1,114.1
Southern Sun Waterfront	537	1,186.2
Southern Sun Katherine Street	122	86.2
Garden Court Morningside	150	171.3
Garden Court Hatfield	157	170.3
Garden Court Eastgate	157	151.4
Stay Easy Eastgate	135	86.4
Garden Court Kings Beach	280	190.3
Garden Court Umhlanga	204	298.9
Stay Easy Pietermaritzburg	127	137.2
Merway Fifth Investments (Pty) Ltd	***1,508***	***961.2***
Sun 1 Alberton	76	69.4
Sun 1 Benoni	58	24.3
Sun 1 Berea	69	32.1
Sun 1 Bloemfontein	64	35.2
Sun 1 Cape Town	64	60.0
Sun 1 Edenvale	76	11.8
Sun 1 Kimberley	64	21.8
Sun 1 Midrand	94	88.0
Sun 1 Milnerton	70	67.5
Sun 1 Nelspruit	76	52.0
Sun 1 OR Tambo	78	33.2
Sun 1 Parow	76	64.8
Sun 1 Port Elizabeth	88	69.9
Sun 1 Pretoria	135	135.6
Sun 1 Richards Bay	64	27.8
Sun 1 Southgate	138	91.2
Sun 1 Vereeniging	41	16.5
Sun 1 Witbank	90	29.9
Sun 1 Wynberg	87	30.2

In order to improve the quality and performance of its property portfolio by targeting greater diversification, HPF has to date concluded two significant transactions with Tsogo. In FY17, HPF acquired ten hotel properties from Tsogo at a fair market value of R2.7bn and a further 29 hotel properties valued at R4.6bn in FY18. As the transactions were mainly funded via asset for share considerations, Tsogo's shareholding in HPF stood at 59.2% at FY18 (FY17: 50.6%), whilst the fund has been able to sustain comfortable gearing metrics. Given the aforementioned, GCR considers that HPF's competitive position is enhanced beyond the scale of its own assets due to its access to Tsogo's extensive pipeline of potential deal flow and its international marketing platforms.

Most recently, HPF announced in July 2018 that it has agreed to acquire seven premium casino precincts from Tsogo, termed project Aurora. The transaction would largely be concluded through a shares and subscription agreement that would see Tsogo's shareholding rise to 87%. It is Tsogo intention to thereafter unbundle its shareholding to its own shareholders to improve HPF's share liquidity. Pro-forma the proposed transaction, HPF's property portfolio would grow to c.R35.5bn, with its LTV rising to c.28% as an additional R8bn of debt is assumed. The REIT expects to conclude the purchase by March 2019, once shareholder and regulatory approvals have been finalised.

Table 2: Illustrative income statement FY18 (R'm)	Scenario 1	Scenario 2
Total revenue	922	2,764
Property expenses	(47)	(47)
Operating income	**875**	**2,718**
Net finance charge	(164)	(929)
Fair value on swaps	(5)	(5)
Distributable profit	**706**	**1,784**

Note: Scenario 1, based on actual FY18 results including Tsogo 2nd transaction for 12 months. Scenario 2, includes project Aurora for comparative 12 months.

The casino precincts, worth a combined c.R23bn, include Montecasino Precinct, Gold Reef City Casino Precinct, Silverstar Casino Precinct, Suncoast Casino Precinct, Blackrock Casino Precinct, The Ridge Casino Precinct and Emnotweni Casino Precinct, and incorporate mixed-use facilities including 11 hotels with 1,335 rooms cumulatively. The leases would be long-term of 20 years, triple-net (meaning HPF would not be responsible for maintenance or other related capex) and are subject to annual CPI based rent escalations. Accordingly, HPF would benefit from predictable income streams that are more stable than pure hotel income, as the leases do not comprise a variable component (as in all its other lease structures), and would represent two thirds of revenue. That said, there is limited earnings upside for HPF in favourable markets, while the base rentals are also subject to resets depending on the trading performance of the portfolio, with the initial review scheduled for March 2025. In this regard, the gaming industry is currently facing headwinds in terms of constrained discretionary spending and increasing competition, including alternative forms of gambling in line with prevailing consumer preferences. GCR also notes that gaming assets are a specialized asset type with limited alternative uses under a stress scenario. Nevertheless, the assets also feature some mix of non-gaming amenities, which should provide a level of resilience.

If successful in its current guise, GCR is of the view that this acquisition will materially transform HPF and further improve its business risk profile by significantly enhancing the REIT's scale and diversifying its assets and revenue sources. While the expectation is that this transaction will have positive bearing on HPF's ratings, as the ultimate terms and structure of the transaction have yet to be finalised, GCR will assess its impact on HPF's credit risk profile post its closure.

Corporate governance

HPF is subject to the Companies Act and JSE Listings Requirements as a listed REIT. Compliance and governance have previously been managed in line with King III, however, the fund transitioned to King IV guidelines for FY18. Board committees are chaired by independent non-executive directors who form the majority of the board. As a result of the Tsogo transactions, the latter has nominated six seats on the Board, whilst the REIT established an independent acquisition committee to deal with related-party transactions.

Table 3: Corporate governance summary	
No. of directors	*13*
-Independent non-executives	6
-Non-independent non-executive	5
-Executives	2
Separation of the chairman	Yes, but the chairman is not independent. A lead independent director has been appointed.
Frequency of meetings	Minimum of quarterly.
Board committees (5)	Audit & Risk; Independent acquisition; Social & Ethics; Remuneration; Nominations.
External auditor	Changed to PwC Inc. in FY17, with an unqualified audit opinions provided since.

Property portfolio overview

GCR's assessment of HPF's business risk profile has improved, recognising the fund's progress of its repositioning plan. In this regard, HPF's portfolio of 53 properties at a combined value of R12.6bn at FY18, reflects greater scale and diversification in terms of location, brands and hotel class categories. As at FY18, the REIT reflected improving, but still somewhat elevated, geographic concentrations, with Western Cape rooms representing a lower 26% (FY17: 28%) and the Gauteng region a further 34% (FY17: 44%), and the remainder of the portfolio scatted throughout various provinces. The property pool also shows increased granularity, with the largest asset accounting for 15% of the portfolio's carrying value, down from 31% at FY16.

HPF's hotels benefit from their affiliation with large local and international recognized brands, some of which have strong customer loyalty reward systems that support their competitiveness. The various hotel brands target different market segments. The Westin and Autograph Collection cater to the luxury market; Southern Sun, Radisson Blu, Holiday Inn, Crowne Plaza target the upscale segment; Sun Square, Garden Court, Stayeasy, Protea, Birchwood and Aha target the midscale segment while SUN1 is aimed towards the economy sector. HPF displays a broadened hotel class spread, with luxury hotels accounting for a lesser 18% of revenues, down from 52% in FY16, whilst upscale decreased to 35% as new economy rooms were introduced (6%). However, the portfolio indicates an increased reliance on the mid-scale hotels at 41% of revenues (FY16: 29%), although this sector is typically less exposed to industry downturns than the luxury segment.

HPF's hotels are managed by professional operators, some of which are also the brand owner such as Tsogo, Radisson Blu and Protea by Marriott. Leases are structured on a fixed and variable ("F&V") basis, with the fixed portion calculated at 50% of budgeted EBITDAR and variable component equating to 75%-98% of EBITDAR less the fixed rental income. The terms and conditions, as well as the length of leases are often adjusted during the lease period to take into account changing operating conditions. To this end, while HPF displays a long lease expiry profile (15 to 20 years), which enables high cash-flow visibility, the fixed rental rates of HPF's contracts are reset every two or three years based on budget. Thus, if performance over a two-year period has been poor, and expectations are the same, budgeted EBITDAR will be set lower and thus the fixed rental portion reduced. Thus, while the performance risk is seemingly shared between the tenant (who is liable for the fixed component) and HPF (which receives the benefit of excess income), over the longer term the majority of risk lies with HPF. Moreover, GCR notes HPF's high tenant concentration, with the largest tenant representing a significant 54% of total rental income and the second largest at 24%.

The aforementioned, combined with the cyclical nature of the hotel industry remains a primary credit concern. Hotels have the least stable cash flows of any commercial property type. Economic cycles, as well as exogenous events (for example, acts of terrorism or disease outbreaks), can cause material declines in revenues and profitability for hotels. South African operating conditions have been challenging, which has seen both domestic leisure and business travel demand falter due to the tough economic climate. Pressures on Cape Town hotels, an important tourist destination, in particular have been exacerbated by the water crisis following the prolonged drought. This led to stringent water restrictions and fears of an impending "Day Zero", which saw many hotel bookings cancelled particularly at the beginning of the peak summer season. Overall, meek growth of 2% in

tourist arrivals to South Africa for 2017 was reported (2016: 12.8%).

Table 4: Performance statistics	Occupancy (%)		ARR (R'000)		RevPar (R'000)	
	FY17	FY18	FY17	FY18	FY17	FY18
Western Cape	68.8	67.0	1,656	1,647	1,139	1,104
Gauteng	60.2	59.3	993	1,014	598	602
Rest of SA	66.4	68.9	922	906	612	624
Sub-total	*64.6*	*64.4*	*1,202*	*1,197*	*777*	*770*
SUN1	58.5	56.6	454	476	266	269
Total	**63.6**	**63.0**	**1,088**	**1,087**	**692**	**685**
Industry	*65.2*	*64.2*	*1,203*	*1,228*	*784*	*789*

Note: Excludes Champagne Sports Resort. Both years based on a 12-month period for the full portfolio to give like-for-like comparability.

Accordingly, HPF's FY18 performance was negatively impacted in by the drop off in hotel occupancies in the Western Cape region, similar to industry statistics, with the larger luxury hotels most affected thus contributing to the decline in revenue per available room ("RevPAR"). In response to the drought, HPF did install desalination plants at three hotels, as well as filtration plants and/ or increased water storage capacity at others. Johannesburg, primarily a business destination, also reported reduced occupancies, although as Average Room Rates ("ARR") held up, RevPAR grew by 0.6%, comparing favourably with an industry decline. The SUN1 hotels performed in line with the prior year, as buying down trends continue for cheaper accommodation and for shorter stays.

While the negative sentiment surrounding the Cape Town water issues have eased somewhat as good rains have ensued during 2018, other challenges remain including the high supply of new rooms as several new hotel developments are planned over the next five years, particularly in the high-end segment. In addition, while alternative accommodation options remain available to travellers, hotels still largely retain their competitiveness in terms of high-quality services offered and in terms of trends of room nights requested. Other general sector issues remain visa regulations, which need to be reworked in order to facilitate easier access for tourists, as well as reduced international flight routes.

While leases are on a net basis, HPF is responsible for capital expenditure for major refurbishments which typically carry an investment cycle of ten to fourteen years, with soft upgrades are undertaken on average every five to seven years. Maintenance capital is typically 20% of annual rentals YoY. Over the next two years, a significant refurbishment of the Westin Cape Town rooms is planned, which is included in the R236m maintenance capital budget for FY19.

Financial performance

Attached are the audited financials, with FY17 results reflecting the nine month period to March 2017 due to the change in year-end. Accordingly, the commentary that follows hereafter has largely based FY17 comparisons on an illustrative 12 month period (as per table 5).

Table 5: Income statement (R'm)	FY17*	FY18	YoY %Δ
Total revenue	600.1	866.9	44.5
Property expenses	(48.7)	(46.6)	(4.3)
Equity accounted earnings	0.4	0.3	(25.0)
Operating income	**551.8**	**820.6**	**48.7**
Net finance charge	(155.2)	(164.1)	5.7
Profit/loss on disposals	36.5	-	-
Non-cash adjustments	(20.9)	(0.4)	(98.1)
Impairments	(16.0)	-	-
Distributable profit	**396.2**	**656.2**	**65.6**

*Illustrative 12 month period to March 2017.

On account of the additional rooms from the two acquisitions, total revenues jumped by 45% to R867m in FY18. However, it is noted that excluding the impact of the 2nd Tsogo transaction (as the assets transferred in July 2017), revenue decreased by 8% on a like-for-like 12 month comparable period. This indicates the tough trading conditions and the susceptibility of the fund to any pressures in its key regions, with Western Cape contributing a lower 43% to total revenues (FY17: 48%).

Nonetheless, HPF has limited responsibility for the operating costs, which supports higher operating margins for its property portfolio compared with most other local REITs. Moreover, the operating margin has remained steady over the review period, approximating a high 90% YoY. Due to increased debt and the early settlement fees to refinance existing funding, the net finance charge registered at a higher R164m in FY18 (FY17: R155m on a like-for-like 12 months). However, as new acquisitions have been ungeared, net interest cover has strengthened to 5x (FY17: 4x) compared with levels of around 2.5x historically. 54% (FY17: 64%) of the REIT's interest rate exposure is hedged.

Growth in cash generated by operations registered in line with higher operating income off the enlarged asset base, indicating quality cash flows. Capex and investments spend was R1.2bn in FY18 comprising of property acquisitions and refurbishments. Most of the outlay was financed through the R994m rights issue, with limited recourse to debt.

Gearing and liquidity profile

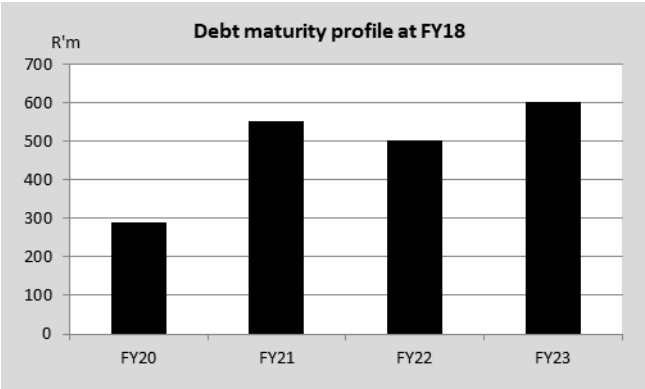
Despite the rampant acquisitive growth strategy, HPF's financial profile remains conservative, with credit risk metrics having shown improvement over the past two years. To this end, the transactions have been funded largely via share issuances, resulting in the low net LTV of 12% at FY18 (FY17: 19%), and net debt to operating income ratio of 188% (FY17: 246%). The low gearing provides HPF sufficient funding capacity for future growth opportunities and

to withstand the tough trading conditions, which has placed pressure on property valuations of the standing portfolio. In this regard, valuations are done on an annual basis on the entire portfolio, with a R538m downward adjustment recorded for FY18.

Table 6: Debt funders (R'm)	FY17	FY18
Nedbank	755	n.a
DMTN Secured	890	810
DMTN Unsecured	80	80
Standard Bank	n.a.	1,050
Total*	**1,725**	**1,940**

*Gross of debt raising fees.

In an effort to optimise its funding structure, HPF negotiated new three and five year credit facilities with Standard Bank for a combined R1.6bn, which were used to refinance all existing Nebank debt during FY18. Currently, a committed revolving facility of R500m remains undrawn, and given no material refinancing requirements over the next two years and short term capex needs, liquidity is deemed strong. Counterbalancing this strength somewhat is the fact that the REIT's funding sources remain limited, whilst the entire property portfolio is encumbered through a general SPV on all secured borrowings. However, this facility is significantly overcollateralised and the REIT has ample headroom under its financial covenants, which require an LTV ratio not exceeding 40% and an interest coverage ratio of at least 2x. As at FY18, HPF's LTV and interest coverage ratios, as defined by credit agreements, were 20% and 3.9x, respectively.



Hospitality Property Fund Limited

(Rand in millions except as noted)

Income statement Year end : 31 March	2014	2015	2016	2017*	2018
Rental income	426.3	434.1	474.6	498.8	866.5
Straight line income	*(3.1)*	*(0.8)*	*(0.2)*	*0.0*	*0.4*
Total revenue	**423.2**	**433.3**	**474.3**	**498.8**	**866.9**
Property expenses	(40.5)	(40.7)	(44.9)	(38.9)	(46.6)
Net property income	**382.7**	**392.6**	**429.5**	**459.9**	**820.4**
Distributable earnings from associates and investments	0.2	0.2	0.3	0.4	0.3
Other (expenses)/income	0.0	0.0	0.0	0.0	0.0
Operating income	**382.9**	**392.8**	**429.7**	**460.4**	**820.6**
Net finance income (charge)	(146.0)	(160.9)	(158.1)	(115.5)	(164.1)
Interest on derivatives	12.8	6.2	6.2	(5.0)	(5.4)
Fair value movements	96.5	128.7	236.9	168.2	(537.6)
Profit (loss) on property disposals and other	0.0	0.4	(13.6)	36.5	0.1
Distribution to linked debenture holders	(240.0)	(232.8)	0.0	0.0	0.0
NPBT	**106.2**	**134.4**	**501.2**	**544.6**	**113.8**
Taxation charge	(0.2)	(0.1)	(0.0)	0.0	0.0
NPAT	**106.0**	**134.3**	**501.2**	**544.6**	**113.8**
Cash flow statement					
Cash generated by operations	**386.2**	**394.0**	**430.3**	**460.1**	**820.3**
Utilised to increase working capital	4.9	(15.5)	23.2	(130.9)	(95.2)
Net interest paid	(146.0)	(160.9)	(158.1)	(115.5)	(164.1)
Taxation paid	(1.2)	(0.2)	(0.1)	0.0	0.0
Cash flow from operations	**243.9**	**217.5**	**295.3**	**213.6**	**561.1**
Distribution paid to linked debenture holders	(227.6)	(237.1)	(247.6)	(334.6)	(351.3)
Retained cash flow	**16.3**	**(19.6)**	**47.7**	**(121.0)**	**209.8**
Net expansionary capex	(105.5)	(245.5)	(131.2)	(73.3)	(1,446.9)
Investments and other	0.0	0.0	(0.0)	88.1	202.6
Proceeds on sale of assets/investments	0.2	80.2	206.4	146.9	1.0
Shares issued	8.9	116.6	0.0	0.0	994.7
Cash movement: (increase)/decrease	(119.8)	(16.9)	9.9	(15.8)	(180.5)
Borrowings: increase/(decrease)	200.0	85.2	(132.8)	(25.0)	219.2
Net increase/(decrease) in debt	**80.2**	**68.3**	**(122.9)**	**(40.8)**	**38.7**
Balance sheet					
Ordinary shareholders interest	782.6	958.7	3,732.3	6,597.5	11,104.6
Linked debentures (capital)	2,325.2	2,415.8	0.0	0.0	0.0
Total shareholders' interest	**3,107.8**	**3,374.6**	**3,732.3**	**6,597.5**	**11,104.6**
Short term debt	40.0	230.0	600.0	230.0	0.0
Long term debt	1,732.6	1,627.9	1,125.1	1,488.5	1,936.1
Total interest-bearing debt	**1,772.6**	**1,857.9**	**1,725.1**	**1,718.5**	**1,936.1**
Interest-free liabilities	95.3	87.3	121.3	139.1	84.3
Total equity and liabilities	**5,093.9**	**5,433.6**	**5,578.6**	**8,455.1**	**13,125.0**
Fixed assets	0.9	0.6	0.2	0.2	0.2
Properties	4,826.9	5,136.0	5,298.5	8,126.6	12,599.6
Investments and advances	20.8	21.9	23.0	0.5	0.8
Cash and cash equivalent	187.2	204.2	194.3	210.1	390.6
Other current assets	58.1	71.0	62.7	117.7	133.9
Total assets	**5,093.9**	**5,433.6**	**5,578.6**	**8,455.1**	**13,125.0**
Ratios					
Cash flow:					
Operating cash flow : total debt (%)	13.8	11.7	17.1	16.6	29.0
Profitability:					
Rental income growth (%)	19.6	1.8	9.3	40.1	73.7
Net property income : revenues (%)	91.2	90.8	90.6	92.2	94.6
Property expense ratio (%)	9.5	9.4	9.5	7.8	5.4
Operating profit margin (%)	90.6	90.7	90.6	92.3	94.7
Coverage:					
Operating income : gross interest (x)	2.5	2.3	2.5	3.4	4.3
Operating income : net interest (x)	2.6	2.4	2.7	4.0	5.0
Operating income : net interest incl. hedges and int. capitalised(x)	2.9	2.5	2.8	3.8	4.8
Activity and liquidity:					
Days receivable outstanding (days)	66.4	72.8	69.6	54.8	25.1
Current ratio (:1)	0.7	0.8	0.6	1.0	2.6
Capitalisation:					
Total debt : equity (%)	57.0	55.1	46.2	26.0	17.4
Net debt : equity (%)	51.0	49.0	41.0	22.9	13.9
Total debt : operating income (%)	459.2	472.0	401.2	280.0	236.0
Net debt : operating income (%)	410.7	420.1	356.0	245.8	188.4
Loan to value					
Total debt : properties (%)	36.7	36.2	32.6	21.1	15.4
Net debt : properties (%)	32.8	32.2	28.9	18.6	12.3
Total debt : properties & investments (%)	36.6	36.0	32.4	21.1	15.4
Net debt : properties & investments (%)	32.7	32.1	28.8	18.6	12.3

*Audited results for the 9 months end 31 March 2017, due to change in year-end from 30 June.

Note: Ratios based on rental revenue, op. income have been adjusted to exclude straight-lining rental accruals.

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S CORPORATE GLOSSARY

Budget	Financial plan that serves as an estimate of future cost, revenues or both.
Capital	The sum of money that is invested to generate proceeds.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Corporate Governance	Corporate governance broadly refers to the mechanisms, processes and relations by which corporations are controlled and directed, and is used to ensure the effectiveness, accountability and transparency of an entity to its stakeholders.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Diversification	Spreading risk by constructing a portfolio that contains different investments, whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding.
Fair Value	The fair value of a security, an asset or a company is the rational view of its worth. It may be different from cost or market value.
Gearing	With regard to corporate analysis, gearing (or leverage) refers to the extent to which a company is funded by debt and can be calculated by dividing its debt by shareholders' funds or by EBITDA.
Hedge	A form of insurance against financial loss or other adverse circumstances.
Impairment	Reduction in the value of an asset because the asset is no longer expected to generate the same benefits, as determined by the company through periodic assessments.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Loan to value (LTV)	Principal balance of a loan divided by the value of the property that it funds. LTVs can be computed as the loan balance to most recent property market value, or relative to the original property market value.
Long-Term Rating	A long term rating reflects an issuer’s ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation’s current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Operating Margin	Operating margin is operating profit expressed as a percentage of a company's sales over a given period.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Real Estate Investment Trust	A REIT is a company that owns or finances income-producing real estate. REITs are subject to special tax considerations and generally pay out all of their taxable income as distributions to shareholders.
Refinancing	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
Rights Issue	One of the ways that a company can raise additional funds is to issue new shares. These must be first offered to current shareholders and a rights issue allows a shareholder to buy shares in proportion to the number already held.
Risk	The possibility that an investment or venture will make a loss or not make the returns expected. There are many different types of risk including basis risk, country risk, credit risk, currency risk, economic risk, inflation risk, liquidity risk, market or systemic risk, political risk, settlement risk and translation risk.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Short-Term Rating	A short term rating is an opinion of an issuer’s ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

Hospitality Property Fund Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to Hospitality Property Fund Limited.

The information received from Hospitality Property Fund Limited and other reliable third parties to accord the credit ratings included:

- The 2018 audited annual financial statements (plus prior four years of comparative audited numbers)
- A breakdown of debt facilities available and related counterparties, and security pledged at FY18
- Investor presentations
- SENS circular in respect of Acquisition of Casino Precincts and withdrawal of cautionary announcement

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.