Tsogo Sun Hotels Limited
(previously known as Southern Sun Hotels Proprietary Limited)
Incorporated in the Republic of South Africa
Registration number 2002/006356/06
Share Code: TGO ISIN:ZAE000272522
("Tsogo Sun Hotels" or "the group" or "the company")

Short-form announcement: Reviewed condensed consolidated financial results for the year ended 31 March 2020

Financial results

Total income for the year of R4.5 billion (2019: R4.4 billion) ended 2% above the prior year with a 2% growth in hotel rooms' revenue and a 7% growth in food and beverage revenue offset by a 7% reduction in property rental income and a 7% reduction in other income. Revenues were favourably impacted in the third quarter following the successful conclusion of the fixed and variable leases over the three Sandton hotels with effect from 1 November 2019. These three hotels comprise the InterContinental Sandton Towers, Sandton Sun and Garden Court Sandton City, which together total 1 001 rooms and make up 5% of the group's total rooms' portfolio. In terms of the leases, which are similar to those between Tsogo Sun Hotels and Hospitality Property Fund Limited ("HPF"), 98% of hotel earnings after the deduction of management fees payable to the group, accrues to the hotel owners as rent. As a result, while the group consolidated the trading of these hotels on the income statement, the net impact on earnings before interest, income tax, depreciation, amortisation, long-term incentives and exceptional items ("Ebitda") is minimal. Excluding the impact of the Sandton hotels, revenue for the group's base portfolio declined by 3% for the year ended 31 March 2020.

Covid-19 had a marked impact on the group's fourth quarter trading with international demand retracting as early as the last week of February 2020. The initial international travel regulations imposed by the President on 15 March 2020 and finally, the total ban on inter-provincial travel announced on 23 March 2020 as part of the nationwide lockdown resulted in a material reduction in revenues for the month of March, which is normally a peak activity month for the group. The group's entire portfolio in South Africa, Africa and the Seychelles has been deactivated with the exception of those hotels designated as quarantine facilities or as accommodation for essential service providers and persons awaiting repatriation.

Despite strict cost controls during the year to counteract the above-inflationary increases in administered costs including property rates and utilities, the shortfall in revenue as a result of the decline in demand which was further exacerbated by the Covid-19 pandemic has meant that earnings before interest, income tax, depreciation, amortisation, property rentals, long-term incentives and exceptional items ("Ebitdar") of R1.4 billion (2019: R1.5 billion) ended 9% down on the prior year. Excluding the impact of the Sandton hotels, Ebitdar for the group's base portfolio declined by 12% for the year ended 31 March 2020. The overall group Ebitdar margin of 30% has declined by 4 percentage points ("pp") from the prior year.

In order to provide shareholders with meaningful, like-for-like analysis of the group's performance for the year after reported Ebitdar, the pro forma financial information as set out in Annexure 3 of the company's pre-listing statement issued to shareholders on 23 May 2019 has been used as the comparative set of results. Shareholders are referred to Annexure 4 of the pre-listing statement for the reporting accountants' report on the pro forma financial information. Digital copies of the pre-listing statement can be found on the group's website at https://www.tsogosun.com/investors/circulars/2019.

Supplementary information

For the year ended 31 March	% Change on pro forma	2020 Reviewed Rm	2019 Pro forma Rm	2019 Audited Rm
Income	2	4 475	4 389	4 389
Ebitdar	(9)	1 352	1 488	1 491
Exceptional losses, net of gains				
Headline adjustments		(1 623)	(542)	(542)
Other adjustments		(46)	(39)	(39)
Ebitdar post exceptional items	*	(317)	907	910
Property rentals		(84)	(208)	(208)
Amortisation and depreciation		(348)	(306)	(306)
Long-term incentive expense		(17)	(13)	(4)
Operating (loss)/profit		(766)	380	392
Net finance costs		(360)	(231)	(417)
Share of (loss)/profit of associates and joint ventures		(3)	15	15
(Loss)/profit before income tax	*	(1 129)	164	(10)
Income tax expense		(96)	(118)	(70)
(Loss)/profit for the period		(1 225)	46	(80)
(Loss)/profit attributable to:				
Equity holders of the company		(896)	28	(98)
Non-controlling interests		(329)	18	18
		(1 225)	46	(80)
Reconciliation of earnings attributable to equity holders of the company to headline earnings and adjusted headline earnings				
(Loss)/profit attributable to equity holders of the company:	*	(896)	28	(98)
Impairment of property, plant and equipment		716	94	94
Fair value adjustment on investment properties		888	445	445
Other headline earnings adjustments		19	3	3
Share of associates' headline earnings adjustment		41	10	10
Total tax effect of adjustments		(52)	(27)	(27)
Total non-controlling interest effects of adjustments		(500)	(182)	(182)
Headline earnings	(42)	216	371	245
Exceptional items		76	39	39
Total tax effects of other exceptional items		(11)	1	1
Total non-controlling interest effects of other exceptional items		(4)	(7)	(7)
Share of associates' exceptional				

items		1	(1)	(1)
Adjusted headline earnings	(31)	278	403	277
Diluted weighted average number of shares in issue (million)		1 060	1 064	
Basic and diluted (loss)/earnings per share (cents)	*	(84.5)	2.6	
Basic and diluted headline earnings per share (cents)	(41)	20.4	34.8	
Basic and diluted adjusted headline earnings per share (cents)	(31)	26.2	37.9	

* Percentage change greater than 100%.

Exceptional losses for the year of R1.7 billion (2019: R581 million) relate mainly to fair value losses on the revaluation of externally managed investment properties in HPF of R888 million (2019: R445 million), property, plant and equipment impairments of hotels in South Africa and offshore totalling R716 million (2019: R94 million), restructuring costs of R40 million (2019: R8 million) which includes the termination benefits of R8 million for the closure of Southern Sun Nairobi and retrenchment costs relating to the unbundling, as well as the impairment of the group's investment in RBH Hotels UK Limited of R17 million (2019: Rnil). The majority of the quantum of these impairments are due to management's assessment of the negative impact of Covid-19 on forecast cash flows generated by the underlying hotels for the financial years ended March 2021 and March 2022 as well as volatility in the bond market and increased in-country risk assessments that have had a material impact on discount rates across the portfolio. In South Africa in particular, the risk posed by the Covid-19 pandemic compounded by the ratings downgrade, saw the South Africa Government 10Y bond yield increasing by 1.9% from 31 March 2019 (8.61%) to 31 March 2020 (10.51%).

Group adjusted headline earnings for the year at R278 million (2019: R403 million) ended 31% down on the prior pro forma year. The adjustments to the current year includes the reversal of the post-tax and non-controlling interest impacts of the exceptional losses noted above. The number of shares in issue remained flat on the prior comparative pro forma year and the resultant adjusted headline earnings per share is 31% down on the prior pro forma year at 26.2 cents (2019: 37.9 cents).

Funding capacity and covenants

The group's liquidity and access to facilities are of paramount importance and as at 31 March 2020 the group was well within lender covenant requirements:

* Tsogo Sun Hotel's leverage ratio (net debt to Ebitda) is 1.3 times against a maximum covenant requirement of no more than 2.5 times;
* Tsogo Sun Hotel's interest cover ratio is 12.2 times against a minimum covenant requirement of at least 3 times;
* HPF's leverage ratio (net debt to Ebitda) is 3.2 times against a maximum covenant requirement of no more than 3.5 times; and
* HPF's interest cover ratio is 3.7 times against a minimum covenant requirement of at least 2 times.

As at 31 March 2020, the group has net cash and cash equivalents of R722 million (2019: R212 million) and R4.0 billion (2019: R3.2 billion) of interest-bearing debt (excluding capitalised lease liabilities). Lenders to both Tsogo Sun Hotels and HPF have approved the waiver of the 30 September 2020 covenants, securing the group's access to sufficient short-term liquidity facilities to meet its obligations as they become due.

Prospects

This financial year has been one of highs, with the group celebrating its 50th anniversary and the separate listing of Tsogo Sun Hotels on the Johannesburg Stock Exchange. A short nine months later, the group experienced the low of having to deactivate the vast majority of its hotels. While the group supports government's efforts to safeguard the health of citizens, the prolonged lockdown has had and will continue to have a devastating impact on the South African economy in general and the southern African travel and tourism industry and its employees in particular. No industry can survive extended periods without revenue. We welcome the recent announcement by President Ramaphosa of the move to level 3 and appeal to government to continue to open the economy as quickly as possible, with due regard for safety.

Dividend

As outlined in the pre-listing statement, the group had intended to apply cash resources generated during the initial 15 months post the listing towards the settlement of the offshore division's Dollar-denominated interest-bearing debt. Given the anticipated extended period of minimal revenue, the directors considered it prudent to retain cash resources in order to ensure that the group is able to navigate this difficult period until trading resumes. Accordingly, the directors have not declared a final cash dividend for the year ended 31 March 2020.

Short-form announcement

This short-form announcement is the responsibility of the board of directors of Tsogo Sun Hotels. This short-form announcement is a summary of the full announcement released on SENS on 29 May 2020 and does not include full or complete details. The information contained in this announcement has not been reviewed or reported on by the company's auditors.

The full announcement is available on the company's website
https://www.tsogosun.com/investors/financial-reports/2020
and can also be accessed using the following JSE link:
https://senspdf.jse.co.za/documents/2020/jse/isse/TGOE/YE20.pdf.

A copy of the full announcement may be requested from companysecretaryTGO@tsogosun.com or the sponsor, Investec Bank at InvestecSponsorTeam@investec.co.za. Any investment decisions by shareholders should be based on a consideration of the full announcement, which shareholders are encouraged to view on SENS and on the company's website.

The condensed consolidated financial statements have been reviewed by the company's auditors, PricewaterhouseCoopers Inc., who expressed an unmodified review conclusion thereon.

Fourways
29 May 2020

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