Tsogo Sun Hotels 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"**)

TRADING STATEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

Shareholders are advised that Tsogo Sun Hotels is scheduled to release its financial results for the six months ended 30 September 2020 on or about 13 November 2020. In terms of paragraph 3.4(b) of the JSE Limited Listings Requirements, listed companies are required to publish a trading statement as soon as they are satisfied that a reasonable degree of certainty exists that the financial results for the period to be reported upon next will differ by at least 20% from those of the prior comparative period. In addition to providing shareholders with an update on financial performance, the group will also be providing an update on its Covid-19 operational response as well as funding capacity and covenants.

The company intends publishing Earnings per share ("EPS"), Headline earnings per share ("HEPS") and Adjusted headline earnings per share ("Adjusted HEPS") as well as Earnings before interest, income tax, depreciation, amortisation, property rentals, long term incentives and exceptional items ("Ebitdar") for the six months ended 30 September 2020. The company is of the opinion that the publication of Adjusted HEPS and Ebitdar are appropriate performance measures which will assist shareholders in understanding the group's trading results.

Shareholders are advised that:

- Revenue is expected to be between 81% and 87% lower (R1,685 million and R1,810 million lower) compared to the prior comparative period of R2,080 million;
- Ebitdar is expected to be between 134% and 140% lower (R749 million and R783 million lower) compared to the prior comparative period of R559 million;
- EPS is expected to be between 24.0 cents and 29.0 cents lower compared to the prior comparative period EPS of 9.8 cents;
- HEPS is expected to be between 48.0 cents and 53.0 cents lower compared to the prior comparative period HEPS of 10.0 cents; and
- Adjusted HEPS is expected to be between 50.0 cents and 55.0 cents lower compared to the prior comparative period Adjusted HEPS of 13.3 cents.

These interim results clearly reflect the devastating impact that Covid-19 and the accompanying lockdown regulations have had on the hospitality industry in general and our group in particular. With effect from 27 March 2020, as part of the nationwide lockdown, the group's entire portfolio in South Africa, Africa and the Seychelles was deactivated with the exception of those hotels designated as quarantine facilities or as accommodation for essential service providers and persons awaiting repatriation.

COVID-19 Status and Action Plan

Since then, the group has been in close communication with its lenders, employees, trading partners, suppliers, tenants and landlords in order to arrive at mutually sustainable operating solutions in these extraordinarily difficult times. The group has implemented the following steps to reduce costs and preserve cash:

- **Reduction of payroll burden**: We understand that this is an extremely stressful time for our employees and we are committed to engaging with them openly and honestly. We have continuously communicated with all management and staff, sharing the severe impact that Covid-19 and the national state of disaster had and continues to have on the business. We consulted with employees to reach an agreement on the terms and conditions for a temporary layoff of staff in order to materially reduce pay for all levels including executive management and board members. At the end of March, a skeletal operating structure was established and the group will continue to operate on reduced staffing levels until demand returns. In addition, employee recruitments and training have been placed on hold while salary increases for 2021 and accrued bonus settlements relating to 2020 have been deferred.
- **The UIF Temporary Employer/Employee Relief Scheme** has been of great assistance in alleviating the cash flow burden on both the company and its employees while hotels have been closed or operating at low occupancy levels. The group has processed R103 million in grants over the period, however with this assistance coming to an end and with occupancy levels unlikely to improve in the short term, the group will have to consider further operational restructuring to align headcount with trading levels.
- **Rent relief**: The group has received rental concessions from its various landlords and while terms varied, these mainly involved a discount in rent due for 2021 in exchange for the extension of lease terms by one year. In other instances, property owners agreed to forgo rent and cover operating costs including payroll, security, utilities and rates, while hotels were closed or trading at low occupancies.
- **Suppliers**: The group has negotiated reduced or extended payment terms with major suppliers, particularly those providing fixed cost services such as security and lift maintenance. Municipal rates and taxes are a material fixed monthly cost for the group and while we currently continue to meet these obligations, we are lobbying government through industry bodies to grant discounts or rebates, particularly on hotels that remain closed.
- **Health and safety protocols**: With our culture of prioritising customer health and safety, the group was well placed to comply with these regulations and worked closely with government and the Tourism Business Council of South Africa to develop the health and safety protocols for the tourism industry as a whole. Since we are already highly compliant in this area, the implementation of these protocols has not required material capex spend. The group also has a number of health protocols and control measures to safeguard our employees. These measures include employee training, personal protective equipment and hygiene resources, social distancing and screening as well as increased sanitation and hygiene processes. Tsogo Sun Hotels' digital learning platform provides Covid-19 modules that employees can access remotely to stay informed.

Management's plan for the phased reopening of its portfolio as lockdown levels eased saw leisure hotels opening earlier to cater for demand for both intra and inter-provincial travel. The current regulations on international inbound travel are restrictive with many of the group's key source markets, including Germany, the UK, France and the USA, prohibited from travelling to South Africa. This has resulted in the cancellation of both Africa Oil and Mining Indaba scheduled for the first quarter of 2021, events which have historically benefited the group's Cape Town hotels. Without international travel, the Cape region is expected to experience a slow recovery.

Many corporates have implemented travel restrictions and in order to limit social interaction, are likely to keep offices closed until January 2021. Together with government limiting travel and conferencing, the group will largely be reliant on the domestic leisure and sport segments over the coming months. Demand from these segments is expected to contribute to the group's coastal and outlying properties, however many of the group's larger Gauteng based hotels catering to corporate and government groups and conferencing business, are expected to remain closed until the first quarter of 2021.

EPS results are impacted by exceptional gains of R250 million (2019 losses: R19 million) net of tax and non-controlling interests, the majority of which relates to the profit on sale of the group's 50% investment in United Resorts and Hotel Limited which owns the MAIA Luxury Resort and Spa of R355 million (2019: nil), offset by the group's share of fair value losses on investment properties owned by International Hotel Properties Limited of R90 million, restructuring costs of R7 million (2019: R15 million), transaction costs of R5 million (2019: R2 million) and pre-opening costs of R3 million (2019: nil). Management has assessed the fair value of the group's investment properties and assessed goodwill, property, plant and equipment for impairment by reviewing the cash flow forecasts, which we believe still adequately reflect the negative impact of Covid-19 on cash flows generated by the underlying hotels for the financial years ending March 2021 and March 2022; as well as various technical inputs including the 10Y bond yield which has declined from its peak in March 2020 of 10.51% to 9.45% as at 30 September 2020. Based on these factors, management is of the view that the values of investment properties, goodwill and property, plant and equipment are fairly stated at 30 September 2020 and no fair value adjustment or additional impairment is required. The valuations of investment properties and impairment assessments of goodwill and property, plant and equipment, will be revised at year-end to take into account any changes in the technical inputs and the impact that changing conditions may have on the estimated future cash flows.

Excluding the impact of these exceptional items HEPS and Adjusted HEPS are expected to be between 48.0 cents and 53.0 cents and between 50.0 cents and 55.0 cents lower than the prior period, respectively, reflecting the impact which Covid-19 and the lockdown regulations implemented to curb its spread, has had on trading.

Funding Capacity and Covenants

The group's liquidity and access to facilities are of paramount importance and as previously reported, the group has received covenant waivers from all its lenders for the minimum covenant requirements (leverage and interest cover ratios) as at 30 September 2020. The group has finalised the terms of March 2021 covenant waivers with its lenders who have requested revised covenants as a means of measuring trading and liquidity. In order to address this, revised covenants have been introduced at Tsogo Sun Hotels level which establishes a maximum rolling 12-month negative Ebitda ("Earnings before interest, income tax, depreciation, amortisation, IFRS 16 rent adjustments, long term incentives and exceptional items") level. This Ebitda threshold excludes the Covid-19 interventions undertaken by the group as discussed earlier. In addition, a minimum liquidity level of R500 million is required which includes available facilities and cash on hand. These covenants will be measured quarterly at December 2020 and March 2021. An event of default will occur if both the Ebitda and liquidity covenants are breached in one of the measurement periods or the Ebitda covenant is breached for two consecutive measurement periods. Management believes that there is adequate headroom currently in place to achieve these revised covenant thresholds and is in continuous contact with lenders. At a Hospitality Property Fund Limited ("Hospitality") level, lenders have introduced a minimum liquidity covenant of R125 million including available facilities and cash on hand.

The lenders to both Tsogo Sun Hotels and Hospitality have been very supportive of the group during this challenging period and have approved the covenant waivers for March 2021.

The group has an unutilised R600 million facility which will be due for renewal within the next 12 months.
Global Credit Ratings downgraded Hospitality's long and short-term credit rating to BBB(ZA)/A3(ZA) respectively. Concurrently, the ratings assigned to the Senior Secured Notes issued by Hospitality have been downgraded to A+(ZA)(EL) from AA(ZA) (EL). The outlook on all the ratings has been maintained on Rating Watch Negative. The downgrade to Hospitality reflects the uncertain operating environment in which it operates, with its income severely reduced due to the economic impact of the Covid-19 pandemic.

Prospects

While we are encouraged by the recent move to level 1 of the national lockdown and the group now trading approximately 68% of the hotels in its portfolio, the recovery of the hospitality industry is expected to be slow due to the uncertainties around the health of travellers, and the negative economic impact on government, corporates and individuals leading to reduced spend on hotel accommodation and conferences.

On 30 September 2020 the board of directors of Hospitality and the board of directors of Tsogo Sun Hotels approved a transaction by which Tsogo Sun Hotels will offer to acquire all of the ordinary shares with no par value in the issued share capital of Hospitality, other than the Hospitality shares already owned by Tsogo Sun Hotels, its subsidiaries and treasury shares ("Offer"). An application will be made for the delisting of all Hospitality shares from the main board of the Johannesburg Stock Exchange, being the securities exchange operated by the JSE Limited. Consideration in respect of the Offer will be settled by the issue of no par value ordinary shares in the issued share capital of Tsogo Sun Hotels at a ratio of 1.77 TGO shares for every one HPB share acquired by Tsogo Sun Hotels. A general meeting of Tsogo Sun Hotels' and Hospitality shareholders will be held on Thursday, 19 November 2020 to consider and, if deemed fit, pass the resolutions required to approve and implement the Offer.

In this low revenue environment, where Hospitality is increasing its debt burden and building on its assessed loss through covering the fixed property- related costs of the hotels, such as administered costs, insurance and security via the working capital facility catered for in the lease agreements, the preference going forward is to retain cash resources. The successful implementation of the Offer will eliminate the pressure for Hospitality to declare pre-tax cash distributions, post the recovery of activity levels in order to retain its REIT status and will allow the group to focus on rebuilding the balance sheet and protecting the livelihoods of the many stakeholders who depend on the Tsogo Sun Hotels group – from our employees and suppliers to our communities and investors.

The financial information in this trading statement has not been reviewed and reported on by the group's external auditors, PricewaterhouseCoopers Inc.

10 November 2020

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