



CITY LODGE HOTEL GROUP



Group preliminary
results for the year
ended 30 June 2018

Average
group
occupancies



59%



Normalised
diluted
HEPS

-9%



Return
on
equity



19%

COMMENTARY

Average occupancies at the group's operations decreased by four percentage points to 59% in the year to 30 June 2018.

In South Africa, occupancies declined to 61% from 63% as trading conditions continued to be impacted by low business and consumer confidence. Expectations following new leadership in the ruling party have not yet translated into higher levels of economic activity. The anxiety caused due to a lack of clarity on the policy for land expropriation without compensation is further impacting investor confidence.

Occupancies were also impacted by the Day Zero water campaign in the drought-affected greater Cape Town area which caused some travellers to cancel or shorten their stays. In general, across the country, the length of business travel stays has been shortened, partly due to budgetary constraints.

Botswana occupancies were in line with the prior year, but Kenya occupancies were markedly weaker over the year due to the re-run of the country's elections and an overhang of hotel accommodation supply in Nairobi. There were, however, encouraging signs of recovery in the second half of the year.

The 151-room Town Lodge Windhoek opened towards the end of 2017. The first few months of trading have been slow, reflecting the economic recession in Namibia.

Group revenue for the year dropped by 1,0% to R1,5 billion. Against the backdrop of lower occupancies and increased levels of discounting in the industry, room rates reflected below inflation increases.

On a normalised basis, total operating costs increased by 3,8%, while the normalised headline EBITDA margin decreased by 2,8% points to 37,8%. Resulting in headline EBITDA decreasing by 8,2% to R566,0 million. Depreciation and amortisation rose

by 2,4%, interest income was R2,6 million lower and interest expense was R13,3 million lower as a result of borrowing costs being capitalised during construction activities.

Normalised headline profit before tax decreased by 8,4% to R458,9 million while normalised headline earnings decreased by 8,6% to R331,1 million. Normalised diluted headline earnings per share were down by 8,8% to 760,6 cents.

The process of obtaining approval from the Kenya Revenue Authority for the Investment Deduction tax allowance on the development of City Lodge Hotel at Two Rivers Mall in Nairobi, has commenced. This will lead to a zero normal tax charge for the entire Kenyan operation, including Fairview and Town Lodge, until such time as the allowance is fully utilised. The application is based on a claim of 150% of the cost incurred; however, only a 100% claim was accounted for until it is finally approved. There is therefore a cash flow benefit due to the suspension of normal tax payments, until such time as the allowance is fully utilised.

In line with the group's established policy of paying out 60% of normalised headline earnings, adjusted for unrealised foreign exchange gains and losses, a final dividend of R2,01 was declared, bringing the total dividend for the year to R4,54, which is a decrease of 9,2% on the previous year.

On 6 July 2018, the Central Bank of Kenya ("CBK") announced that SBM Bank (Kenya) had commenced with the acquisition of certain assets and the assumption of certain liabilities of Chase Bank Kenya in receivership, in line with its announcement of 17 April 2018. It also announced that this process would be completed by 17 August 2018. The announcement did not, however, give an indication as to when the funds held in the bank would become available to depositors, and as such no further adjustments were made to the impairment previously recognised.

DEVELOPMENT ACTIVITY

South Africa

The first 39 of 62 additional rooms at City Lodge Hotel at O R Tambo International Airport were opened in the last week of June. The remaining rooms are expected to become available in the next few weeks, taking the hotel's capacity to 365 rooms.

Construction is progressing well on the 154-room Town Lodge Umhlanga Ridge, while final approvals are still awaited for the development of the 90-room Road Lodge Polokwane.

East Africa

The 171-room City Lodge Hotel at Two Rivers Mall in Nairobi opened 104 rooms in early 2018. This hotel has experienced a slow start. The final 67 rooms of City Lodge Hotel at Two Rivers Mall in Nairobi are expected to be completed by the end of the month, while the 147-room City Lodge Hotel Dar es Salaam in Tanzania is expected to open at the end of September.

Southern Africa

The 148-room City Lodge Hotel Maputo in Mozambique has experienced further delays and is now expected to open in October.

Once all these hotels are fully operational, the group will offer 7 991 rooms at 63 hotels in six countries.

The group continues to assess opportunities in South Africa, Southern Africa and East Africa. This effort will be stepped up once the current expansion phase has been completed.

OUTLOOK

In South Africa, occupancies in the new financial year have continued the soft trend of the previous year. It is unlikely that there will be a meaningful change in sentiment until after the country has held its general election, which is likely to take place

in the second quarter of 2019. The outlook for hotels located outside of South Africa, has shown encouraging signs of improvement and the group will benefit from the opening of the new hotels.

DIRECTORATE

Following the group's announcement in May, long-serving chief executive, Clifford Ross, stepped down at the end of June due to ill health. The group is hugely thankful to him for his 15 years of leadership and more than 30 years of contributions to operations and growth. We wish him well in his retirement.

Andrew Widegger succeeded Clifford Ross as chief executive officer from 1 July with Alastair Dooley becoming chief financial officer. Lindiwe Sangweni-Siddo was appointed to the new role of chief operating officer.

BASIS OF PREPARATION

The condensed consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports and the requirements of the Companies Act of South Africa. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the condensed consolidated financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated annual financial statements.

The condensed consolidated financial information has been presented on the historical cost basis, and are presented in Rand thousands which is City Lodge's functional and presentation currency.

These condensed consolidated financial statements were prepared under the supervision of Mr A W Dooley CA(SA), in his capacity as chief financial officer.

REVIEW REPORT OF THE INDEPENDENT AUDITOR

These condensed consolidated financial statements for the year ended 30 June 2018 have been reviewed by KPMG Inc., who expressed an unmodified review conclusion. The auditor's report does not necessarily report on all of the information contained in this announcement. Shareholders are therefore advised that, in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office.

PRO FORMA FINANCIAL INFORMATION

The supplementary information presented contains information presented on a normalised basis. This information is the responsibility of the company's directors and has been prepared for illustrative purposes only. It may not fairly present the company's financial position, changes in equity, results of operations or cash flows. The reporting accountant has provided assurance on the pro forma information and the report is available for inspection at the issuer's registered office.

DECLARATION OF DIVIDEND

The board has approved and declared final dividend number 59 of 201 cents per ordinary share (gross) in respect of the year ended 30 June 2018.

The dividend will be subject to Dividend Tax. In accordance with paragraphs 11.17(a)(i) to (ix)

and 11.17(c) of the JSE Listings Requirements the following additional information is disclosed:

- The dividend has been declared out of income reserves;
- The local Dividend Tax rate is 20% (twenty per centum);
- The gross local dividend amount is 201 cents per ordinary share for shareholders exempt from the Dividend Tax;
- The net local dividend amount is 160,8 cents per ordinary share for shareholders liable to pay the Dividend Tax;
- The company currently has 43 573 893 ordinary shares in issue; and
- The company's income tax reference number is 9041001711.

Shareholders are advised of the following dates in respect of the final dividend:

Last date to trade cum dividend	Tuesday, 4 September 2018
Shares commence trading ex dividend	Wednesday, 5 September 2018
Record date	Friday, 7 September 2018
Payment of dividend	Monday, 10 September 2018

Share certificates may not be dematerialised or rematerialised between Wednesday, 5 September 2018 and Friday, 7 September 2018, both days inclusive.

For and on behalf of the board

Bulelani Ngcuka
Chairman

Andrew Widegger
Chief executive officer

15 August 2018

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		(Reviewed) Year ended 30 June		(Audited) Year ended 30 June
R000's	Note	2018	% change	2017
Revenue		1 498 426	(1)	1 520 410
Other income		21 923		–
Administration and marketing costs		(99 841)		(94 844)
BEE transaction charges	2	(2 267)		(587)
Operating costs excluding depreciation		(845 483)		(825 850)
		572 758	(4)	599 129
Depreciation and amortisation		(105 217)		(102 779)
Results from operating activities		467 541	(6)	496 350
Interest income		4 031		6 603
Total interest expense		(63 867)		(77 558)
Interest expense		(5 857)		(19 167)
Notional interest on BEE shareholder loan	2	(6 472)		(5 635)
BEE interest expense	2	(4 425)		(4 597)
BEE preference dividend	2	(47 113)		(48 159)
Profit before taxation		407 705	(4)	425 395
Taxation		(128 267)		(130 254)
Profit for the period		279 438	(5)	295 141
Other comprehensive income				
Items that will never be reclassified to profit or loss				
Defined benefit plan remeasurements		–		(573)
Income tax on other comprehensive income		–		160
Items that are or may be reclassified to profit or loss				
Foreign currency translation differences		27 825		(35 870)
Total comprehensive income for the period		307 263	19	258 858
Basic earnings per share (cents)				
– undiluted		764,7	(6)	809,8
– fully diluted		762,9	(6)	807,5

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	(Reviewed) 30 June	(Audited) 30 June
R000's	2018	2017
ASSETS		
Non current assets	2 352 684	1 978 493
Property, plant and equipment	2 285 396	1 917 022
Intangible assets and goodwill	54 678	50 486
Investments	200	200
Deferred taxation	12 410	10 785
Current assets	333 046	372 367
Inventories	7 298	6 845
Trade receivables	79 167	95 092
Other receivables	159 021	130 549
Taxation	8 282	–
Other investments	26 185	24 217
Cash and cash equivalents	53 093	115 664
Total assets	2 685 730	2 350 860
EQUITY AND LIABILITIES		
Capital and reserves	1 057 866	934 311
Share capital and premium	179 503	179 377
BEE investment and incentive scheme shares	(524 984)	(526 729)
Retained earnings	1 265 174	1 167 252
Other reserves	138 173	114 411
Non-current liabilities	1 446 619	560 688
Interest-bearing borrowings	450 000	320 000
BEE interest-bearing borrowings	44 120	–
BEE preference shares	367 600	–
BEE shareholder's loan	50 000	–
BEE preference share dividend accrual	273 477	–
Other non-current liabilities	86 275	89 517
Deferred taxation	175 147	151 171
Current liabilities	181 245	855 861
BEE interest-bearing borrowings	–	44 120
BEE preference shares	–	382 200
BEE shareholder's loan	–	43 528
BEE preference share dividend accrual	–	236 466
Trade and other payables	181 245	142 004
Taxation payable	–	7 543
Total liabilities	1 627 864	1 416 549
Total equity and liabilities	2 685 730	2 350 860

Note: The company has authorised capital commitments of R610 million of which approximately R460 million has been contracted. It is anticipated that approximately R560 million will be spent by 30 June 2019. In addition, R37 million had been authorised in respect of the construction of buildings to be leased, of which R36 million (included in other receivables) has been spent as at 30 June 2018. City Lodge is funding the expenditure during construction and will be refunded the entire amount by the landlord on completion.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital and premium	BEE investment and incentive scheme shares	Other reserves	Retained earnings	Total
R000's					
Balance at 1 July 2016	167 958	(524 228)	145 016	1 083 082	871 828
Total comprehensive income for the period	–	–	(35 870)	294 728	258 858
Profit for the period				295 141	295 141
<i>Other comprehensive income</i>					
Defined-benefit plan remeasurements, net of tax				(413)	(413)
Foreign currency translation differences			(35 870)		(35 870)
Other movements					
Deferred tax on settlement and curtailment of defined benefit fund				(1 095)	(1 095)
Transactions with owners, recorded directly in equity	11 419	(2 501)	5 265	(209 463)	(195 280)
Issue of new ordinary shares	11 419				11 419
Incentive scheme shares		(2 501)	(10 205)	(16 368)	(29 074)
Share compensation reserve			15 470		15 470
Dividends paid				(192 955)	(192 955)
Distribution by BEE structured entity				(140)	(140)
Balance at 30 June 2017	179 377	(526 729)	114 411	1 167 252	934 311
Total comprehensive income for the period	–	–	27 825	279 438	307 263
Profit for the period				279 438	279 438
<i>Other comprehensive income</i>					
Foreign currency translation differences			27 825		27 825
Transactions with owners, recorded directly in equity	126	1 745	(4 063)	(181 516)	(183 708)
Issue of new ordinary shares	126				126
Incentive scheme shares		1 745	(14 371)	(2 462)	(15 088)
Share compensation reserve			10 308		10 308
Dividends paid				(178 904)	(178 904)
Distribution by BEE structured entity				(150)	(150)
Balance at 30 June 2018	179 503	(524 984)	138 173	1 265 174	1 057 866

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	(Reviewed) 30 June	(Audited) 30 June
R000's	2018	2017
Operating cash flows before working capital changes	563 572	626 227
Decrease/(increase) in working capital	57 315	(17 530)
Cash generated by operations	620 887	608 697
Interest received	4 031	6 603
Interest paid	(44 347)	(35 915)
Taxation paid	(128 415)	(117 034)
Dividends paid	(178 904)	(192 955)
Cash inflows from operating activities	273 252	269 396
Cash utilised in investing activities	(436 151)	(267 630)
– investment to maintain operations	(81 936)	(38 008)
– investment to expand operations	(343 669)	(164 353)
– expenditure refundable on operating leases	(35 554)	(65 268)
– purchase of investment	–	(200)
– proceeds on disposal of property, plant and equipment	25 008	199
Cash inflows from financing activities	100 288	16 905
– proceeds from issue of ordinary shares	126	11 419
– purchase of incentive scheme shares	(15 088)	(29 074)
– increase in interest-bearing borrowings	130 000	50 000
– redemption of BEE preference shares	(14 600)	(15 300)
– distribution by BEE structured entity	(150)	(140)
Net (decrease)/increase in cash and cash equivalents	(62 611)	18 671
Cash and cash equivalents at beginning of period	115 664	104 309
Effect of movements in exchange rates on other investments	(1 968)	8 663
Effect of movements in exchange rates on cash held	2 008	(15 979)
Cash and cash equivalents at end of period	53 093	115 664

Note: Cash and cash equivalents held with Chase Bank, Kenya, which was placed into receivership, have been reclassified as other investments pending the bank resuming full normal operations.

CONDENSED SEGMENT REPORT

Primary segment	Courtyard		City Lodge		Town Lodge		
	R000's	2018	2017	2018	2017	2018	2017
Revenue		67 410	67 139	783 558	790 685	217 507	228 297
EBITDAR		24 759	25 274	445 407	470 078	97 564	110 094
Land and hotel building rental							
EBITDA							
Depreciation		(4 004)	(3 846)	(21 728)	(22 612)	(7 320)	(7 316)

Results from operating activities

Geographic information	South Africa		Rest of Africa		Total		
	R000's	2018	2017	2018	2017	2018	2017
Revenue		1 380 848	1 382 225	117 578	138 185	1 498 426	1 520 410
Non-current assets – Property, plant and equipment		1 329 443	1 299 533	955 953	617 489	2 285 396	1 917 022

EBITDAR represents earnings after BEE transaction charges but before interest, taxation, depreciation, amortisation and rental.
EBITDA represents earnings after BEE transaction charges but before interest, taxation, depreciation and amortisation.

Road Lodge		Central office and rest of Africa		Total	
2018	2017	2018	2017	2018	2017
312 373	296 104	117 578	138 185	1 498 426	1 520 410
169 612	166 863	(58 770)	(76 656)	678 572	695 653
		(105 814)	(96 524)	(105 814)	(96 524)
				572 758	599 129
(11 345)	(11 670)	(60 820)	(57 335)	(105 217)	(102 779)
				467 541	496 350

SUPPLEMENTARY INFORMATION

R000's	Note	(Reviewed)	% change	(Audited)
		Year ended 30 June 2018		Year ended 30 June 2017
1. Headline earnings reconciliation				
		279 438		295 141
		(21 923)		249
		4 911		(75)
		262 426	(11)	295 315
		43 574		43 572
	3	36 543		36 448
	3	36 629		36 548
	4			
		718,1	(11)	810,2
		716,4	(11)	808,0
2. Normalised headline earnings reconciliation				
		262 426		295 315
		2 267		587
		6 472		5 635
		4 425		4 597
		47 113		48 159
		(1 812)		(1 578)
		(41)		7
		4 141		4 306
		–		16 786
		–		(11 629)
		6 078		–
		331 069	(9)	362 185

SUPPLEMENTARY INFORMATION continued

	(Reviewed) Year ended 30 June		(Audited) Year ended 30 June
R000's	2018	%	2017
		change	
3. Number of shares (000's)			
Weighted average number of shares in issue for EPS calculation	36 543		36 448
BEE shares treated as treasury shares	6 390		6 390
10th anniversary employees share trust treated as treasury shares	509		509
Weighted average number of shares in issue for normalised EPS calculation	43 442		43 347
Weighted average number of shares in issue for diluted EPS calculation	36 629		36 548
BEE shares treated as treasury shares	6 390		6 390
10th anniversary employees share trust treated as treasury shares	509		509
Weighted average number of shares in issue for diluted normalised EPS calculation	43 528		43 447
4. Normalised headline earnings per share (cents)			
– undiluted	762,1	(9)	835,5
– fully diluted	760,6	(9)	833,6
5. Dividends declared per share (cents)	454,0	(9)	500,0
– interim	253,0	(7)	272,0
– final	201,0	(12)	228,0
6. Dividend cover (times)			
– calculated on normalised headline earnings	1,7		1,7
7. Interest-bearing debt to total capital and reserves (%)			
– calculated on a normalised basis	24,1		18,7
8. Return on equity (%)			
– calculated on a normalised basis	18,5		21,8
9. Net asset value per share (cents)			
– calculated on a normalised basis	4 289		3 928

ADMINISTRATION

REGISTERED OFFICE

The Lodge
Bryanston Gate Office Park
Corner Homestead Avenue and Main Road
Bryanston, 2191

DIRECTORS

B T Ngcuka (Chairman) A Widegger (Chief executive officer)*, A W Dooley*, G G Huysamer, F W J Kilbourn, M S P Marutlulle, N Medupe, S G Morris, V M Raguet, L G Siddo*, Dr K I M Shongwe *Executive †Kenyan

TRANSFER SECRETARIES

Computershare Investor Services Proprietary Limited
Rosebank Towers
15 Biermann Avenue
Rosebank, 2196

COMPANY SECRETARY

M C van Heerden

SPONSOR

Nedbank Corporate and Investment Banking



City Lodge Hotels Limited
Incorporated in the Republic
of South Africa
Registration number:
1986/002864/06
Share code: CLH
ISIN: ZAE 000117792



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