

CITY LODGE HOTEL GROUP

Reviewed group preliminary results
for the year ended 30 June 2017





www.clhg.com



Average occupancies

63%

2016: 66%

Normalised diluted HEPS

(3%)

2016: +13%

Return on equity

22%

2016: 25%



COMMENTARY

Average occupancies at the group's operations decreased by three percentage points to 63% in the year to 30 June 2017.

In South Africa, the drop in occupancy was similar and was a direct result of the continued deterioration in business and consumer confidence, ongoing political uncertainty and negligible economic growth. Coastal hotels fared slightly better than inland hotels, benefiting from inbound tourism. Weekend occupancies were particularly soft.

Occupancies in Botswana mirrored the overall downward trend in South Africa, with that country's economy closely linked to South Africa's. After showing an increase in the first six months, Kenyan occupancies weakened in the last three months of the year in the lead-up to the country's 8 August elections. Occupancies should improve now that the elections are over.

Despite the drop in occupancies, the group demonstrated the resilience of its business model and the strength of its highly regarded brands in remaining highly profitable and strongly cash generative.

Total revenue for the year grew by 1,8% to R1,52 billion. This was assisted by an inflationary increase in room rates. Total operating costs, on a normalised basis, increased by 5,0% resulting in a 1,2% point decrease in the normalised EBITDA margin to 40,6%. Total normalised EBITDA decreased by 1,3% to R616,7 million. Depreciation and amortisation rose by 6,6%, interest income was R2,0 million higher and interest expense was R1,8 million lower.

Cash deposits of R48,4 million held by Chase Bank Kenya, which was placed into receivership in April 2016, were reclassified to other investments in the prior financial year. Given the length of time which has elapsed and the uncertainty regarding timing and extent of access once full banking operations are resumed, it was deemed prudent to impair the carrying value by 50%, resulting in an after tax charge to the income statement of R16,8 million. This has been reversed in the calculation of normalised earnings.

Normalised headline profit before tax for the group decreased by 2,1% to R501,3 million, while normalised headline earnings decreased by 3,1% to R362,2 million. Normalised diluted headline earnings per share were down by 3,1% to 833,6 cents.

In line with the group's established policy of paying out 60% of normalised earnings, a final dividend of R2,28 per share has been declared, bringing the total dividend for the year to R5,00, which is a decrease of 3,3% on the previous year.

COMMENTARY continued

The funding associated with the group's BEE transaction, which was concluded in 2008, is due for redemption and/or repayment on 31 December 2017. As a result the associated liabilities on the balance sheet, which are well covered by the value of the underlying shares, have been reclassified from non-current to current.

DEVELOPMENT ACTIVITY

South and Southern Africa

The 147-room Town Lodge Windhoek, Namibia, is making good progress and is expected to open in September 2017. This will become the group's third Town Lodge outside of South Africa. Construction of the 148-room City Lodge Hotel Maputo, Mozambique, is well underway and the hotel is expected to open in the second quarter of 2018.

In South Africa, development and lease agreements have been signed to extend the City Lodge Hotel at OR Tambo International Airport by 62 rooms to 365 rooms. Construction has commenced and the new rooms are expected to open in the first quarter of 2018. Plans are well advanced for the development of a 158-room Town Lodge in Umhlanga Ridge and a 90-room Road Lodge in Polokwane.

East Africa

Development of the 172-room City Lodge Hotel Two Rivers in Nairobi, Kenya, is nearing completion with the hotel expected to open in October 2017. The 147-room City Lodge Hotel Dar es Salaam, Tanzania, is progressing well and is expected to open in the first quarter of 2018.

The group continues to assess additional opportunities in Southern and Eastern Africa.

OUTLOOK

Trading conditions and therefore occupancies have remained under pressure in the first six weeks of the new financial year. It is hoped that a catalyst will soon emerge to improve sentiment and provide fresh economic growth impetus that will stimulate both business and leisure travel.

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 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, except for financial instruments and share-based payments carried at fair value, and are presented in Rand thousands which is City Lodge's functional and presentation currency.

These condensed financial statements were prepared under the supervision of Mr AC Widegger CA(SA), in his capacity as group financial director.

REVIEW REPORT OF THE INDEPENDENT AUDITOR

These condensed consolidated financial statements for the year ended 30 June 2017 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/financial results. 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.

DECLARATION OF DIVIDEND

The board has approved and declared final dividend number 57 of 228 cents per ordinary share (gross) in respect of the year ended 30 June 2017.

The dividend will be subject to Dividends Withholding Tax (DWT). In accordance with paragraphs 11.17 (a) (i) to (x) 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 Dividends Tax rate is 20% (twenty per centum);
- The gross local dividend amount is 228 cents per ordinary share for shareholders exempt from the Dividends Tax;
- The net local dividend amount is 182,4 cents per ordinary share for shareholders liable to pay the Dividends Tax;
- The company currently has 43 572 293 ordinary shares in issue; and
- The company's income tax reference number is 9041001711.

COMMENTARY continued

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

Last date to trade cum dividend	Tuesday, 5 September 2017
Shares commence trading ex dividend	Wednesday, 6 September 2017
Record date	Friday, 8 September 2017
Payment of dividend	Monday, 11 September 2017

Share certificates may not be dematerialised or rematerialised between Wednesday, 6 September 2017 and Friday, 8 September 2017, both days inclusive.

For and on behalf of the board

Bulelani Ngcuka

Chairman

16 August 2017

Clifford Ross

Chief executive

CONDENSED consolidated statement of comprehensive income

R000's	Note	(Reviewed) Year ended 30 June 2017	%	(Audited) Year ended 30 June 2016
		change		
Revenue		1 520 410	2	1 493 163
Administration and marketing costs		(94 844)		(98 019)
BEE transaction charges	2	(587)		(858)
Operating costs excluding depreciation		(825 850)		(773 490)
		599 129	(3)	620 796
Depreciation and amortisation		(102 779)		(96 399)
Results from operating activities		496 350	(5)	524 397
Interest income		6 603		2 268
Total interest expense		(77 558)		(74 523)
Interest expense		(19 167)		(21 002)
Notional interest on BEE shareholder loan	2	(5 635)		(4 905)
BEE interest expense	2	(4 597)		(4 248)
BEE preference dividend	2	(48 159)		(44 368)
Profit before taxation		425 395	(6)	452 142
Taxation		(130 254)		(136 854)
Profit for the period		295 141	(6)	315 288
Other comprehensive income				
Items that will never be reclassified to profit or loss				
Defined benefit plan remeasurements		(573)		6 827
Income tax on other comprehensive income		160		(1 912)
Items that are or may be reclassified to profit or loss				
Foreign currency translation differences		(35 870)		34 093
Total comprehensive income for the period		258 858	(27)	354 296
Basic earnings per share (cents)				
– undiluted		809,8	(7)	868,3
– fully diluted		807,5	(6)	862,9

CONDENSED consolidated statement of financial position

R000's	(Reviewed) 30 June 2017	(Audited) 30 June 2016
ASSETS		
Non-current assets	1 978 493	1 895 445
Property, plant and equipment	1 917 022	1 844 140
Intangible assets and goodwill	50 486	45 558
Investments	200	–
Deferred taxation	10 785	5 747
Current assets	372 367	306 648
Inventories	6 845	7 734
Trade receivables	95 092	97 408
Other receivables	130 549	35 948
Taxation	–	4 389
Other investments	24 217	56 860
Cash and cash equivalents	115 664	104 309
Total assets	2 350 860	2 202 093
EQUITY AND LIABILITIES		
Capital and reserves	934 311	871 828
Share capital and premium	179 377	167 958
BEE investment and incentive scheme shares	(526 729)	(524 228)
Retained earnings	1 167 252	1 083 082
Other reserves	114 411	145 016
Non-current liabilities	560 688	1 196 572
Interest-bearing borrowings	320 000	270 000
BEE interest-bearing borrowings	–	44 120
BEE preference shares	–	397 500
BEE shareholder's loan	–	37 893
BEE B preference share dividend accrual	–	200 171
Other non-current liabilities	89 517	102 203
Deferred taxation	151 171	144 685
Current liabilities	855 861	133 693
BEE interest-bearing borrowings	44 120	–
BEE preference shares	382 200	–
BEE shareholder's loan	43 528	–
BEE B preference share dividend accrual	236 466	–
Trade and other payables	142 004	133 693
Taxation payable	7 543	–
Total liabilities	1 416 549	1 330 265
Total equity and liabilities	2 350 860	2 202 093

Note: The company has authorised capital commitments of R656 million of which approximately R504 million has been contracted. It is anticipated that approximately R629 million will be spent by 30 June 2018. In addition, R136 million has been authorised in respect of the construction of buildings to be leased, of which, R65 million (included in other receivables) has been spent as at 30 June 2017. City Lodge is funding the expenditure during construction and will be refunded the entire amount, by the landlords, on completion.

CONDENSED consolidated statement of changes in equity

R000's	BEE				
	Share capital and premium	investment and incentive scheme shares	Other reserves	Retained earnings	Total
Balance at 1 July 2015	164 002	(515 728)	108 051	971 117	727 442
Total comprehensive income for the period	–	–	34 093	320 203	354 296
Profit for the period				315 288	315 288
<i>Other comprehensive income</i>					
Defined-benefit plan remeasurements, net of tax				4 915	4 915
Foreign currency translation differences			34 093		34 093
Transactions with owners, recorded directly in equity	3 956	(8 500)	2 872	(208 238)	(209 910)
Issue of new ordinary shares	3 956				3 956
Incentive scheme shares		(8 500)	(11 243)	(23 782)	(43 525)
Share compensation reserve			14 115		14 115
Dividends paid				(184 316)	(184 316)
Distribution by BEE structured entity				(140)	(140)
Balance at 30 June 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

CONDENSED consolidated statement of cash flows

R000's	(Reviewed) Year ended 30 June 2017	(Audited) Year ended 30 June 2016
Operating cash flows before working capital changes	626 227	635 780
(Increase)/decrease in working capital	(17 530)	18 841
Cash generated by operations	608 697	654 621
Interest received	6 603	2 268
Interest paid	(35 915)	(37 593)
Taxation paid	(117 034)	(129 657)
Dividends paid	(192 955)	(184 316)
Cash inflows from operating activities	269 396	305 323
Cash utilised in investing activities	(267 630)	(191 893)
– investment to maintain operations	(38 008)	(81 963)
– investment to expand operations	(164 353)	(110 345)
– expenditure refundable on operating leases	(65 268)	–
– purchase of investment	(200)	–
– proceeds on disposal of property, plant and equipment	199	415
Cash inflows/(outflows) from financing activities	16 905	(40 659)
– proceeds from issue of ordinary shares	11 419	3 956
– purchase of incentive scheme shares	(29 074)	(43 525)
– increase in interest-bearing borrowings	50 000	20 000
– redemption of BEE preference shares	(15 300)	(14 600)
– settlement of retirement benefit obligation	–	(6 350)
– distribution by BEE structured entity	(140)	(140)
Net increase in cash and cash equivalents	18 671	72 771
Cash and cash equivalents at beginning of period	104 309	73 346
Reclassification of cash and cash equivalents to other investments	–	(56 860)
Effect of movements in exchange rates on other investments	8 663	–
Effect of movements in exchange rates on cash held	(15 979)	15 052
Cash and cash equivalents at end of period	115 664	104 309

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 R000's	Courtyard		City Lodge		Town Lodge		Road Lodge		Central office and rest of Africa		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenue	67 139	76 703	790 685	750 948	228 297	227 583	296 104	288 272	138 185	149 657	1 520 410	1 493 163
EBITDAR	25 274	33 124	470 078	445 741	110 094	111 339	166 863	162 286	(76 656)	(46 930)	695 653	705 560
Land and hotel building rental									(96 524)	(84 764)	(96 524)	(84 764)
EBITDA											599 129	620 796
Depreciation	(3 846)	(4 239)	(22 612)	(21 779)	(7 316)	(6 662)	(11 670)	(11 732)	(57 335)	(51 987)	(102 779)	(96 399)
Results from operating activities											496 350	524 397

Geographic information R000's	South Africa		Rest of Africa		Total	
	2017	2016	2017	2016	2017	2016
Revenue	1 382 225	1 343 506	138 185	149 657	1 520 410	1 493 163
Non-current assets – Property, plant and equipment	1 299 533	1 371 592	617 489	472 548	1 917 022	1 844 140

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

SUPPLEMENTARY information

R000's	Note	(Reviewed) Year ended 30 June 2017	%	(Audited) Year ended 30 June 2016
			change	
1. Headline earnings reconciliation				
		295 141		315 288
		249		(229)
		(75)		67
		295 315	(6)	315 126
<hr/>				
		43 572		43 407
		36 448		36 309
	3	36 548		36 537
	4	810,2	(7)	867,9
		808,0	(6)	862,5
<hr/>				
2. Normalised headline earnings reconciliation				
		295 315		315 126
		587		858
		5 635		4 905
		4 597		4 248
		48 159		44 368
		(1 578)		(1 373)
		–		2 330
		7		49
		4 306		3 158
		16 786		–
		(11 629)		–
		362 185	(3)	373 669

Note: The gain realised on the defined-benefit fund follows the curtailment of the fund following the transfer of all members to the existing defined-contribution fund.

SUPPLEMENTARY information continued

R000's	(Reviewed) Year ended 30 June 2017	% change	(Audited) Year ended 30 June 2016
3. Number of shares (000's)			
Weighted average number of shares in issue for EPS calculation	36 448		36 309
BEE shares treated as treasury shares	6 390		6 390
10th anniversary employees share trust treated as treasury shares	509		527
Weighted average number of shares in issue for normalised EPS calculation	43 347		43 226
Weighted average number of shares in issue for diluted EPS calculation	36 548		36 537
BEE shares treated as treasury shares	6 390		6 390
10th anniversary employees share trust treated as treasury shares	509		527
Weighted average number of shares in issue for diluted normalised EPS calculation	43 447		43 454
4. Normalised headline earnings per share (cents)			
– undiluted	835,5	(3)	864,5
– fully diluted	833,6	(3)	859,9
5. Dividends declared per share (cents)	500,0	(3)	517,0
– interim	272,0	1	269,0
– final	228,0	(8)	248,0
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	18,7		16,8
8. Return on equity (%)			
– calculated on a normalised basis	21,8		24,5
9. Net asset value per share (cents)			
– calculated on a normalised basis	3 928		3 704

ADMINISTRATION

REGISTERED OFFICE

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

DIRECTORS

BT Ngcuka (Chairman), C Ross (Chief executive)*,
GG Huysamer, FWJ Kilbourn, MSP Marutlulle,
N Medupe, SG Morris, VM Rague†, Dr KIM Shongwe,
AC Widegger*

**Executive †Kenyan*

COMPANY SECRETARY

MC van Heerden

TRANSFER SECRETARIES

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

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





Registered office:

“The Lodge”, Bryanston Gate Office Park,
corner Homestead Avenue and Main Road,
Bryanston, 2191

Telephone: +27 11 557 2600

Facsimile: +27 11 557 2670

Email: info@clhg.com

www.clhg.com

www.bid2stay.co.za

