SA occupancies up to 36% as City Lodge Hotels posts better interim results

Issued by City Lodge Hotel

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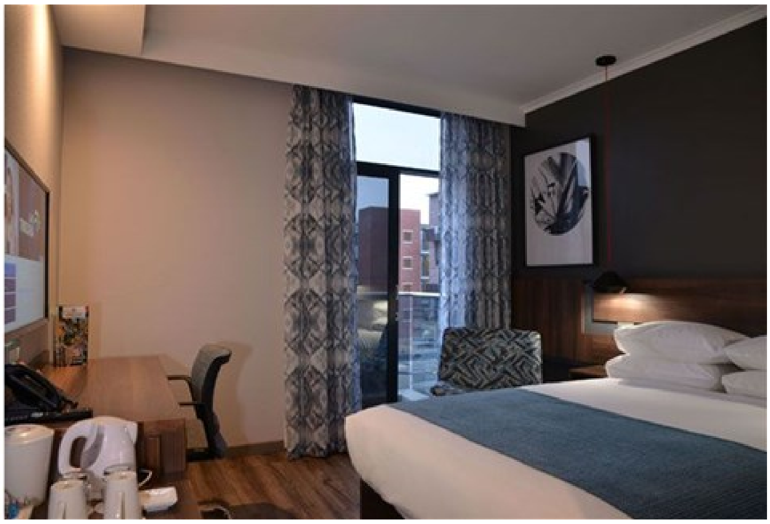
City Lodge Hotel Group has announced its interim results for the six months to 31 December 2021 and is pleased to report the numbers are moving in the right direction after two long years of pandemic-induced losses:

- **Revenue: R436.0m (2021: R215.6m)**
- **Average group occupancies: 30% (2021: 17%)**
- **Loss per share: 6c (2021: 128c)**
- **Headline loss per share: 6c (2021: 60c)**
- **Average occupancies – open hotels: Group34% (2021: 27%); SA 36% (2021: 29%)**



Commentary on the performance of the group's hotels during the six months from July to end-December 2021 and outlook for the coming year follows:

The new financial year had a particularly **tumultuous** start due to the severe third wave of Covid-19 infections and hospitalisations caused by the Delta variant. This caused travel hesitancy, and the level 4 lockdown restrictions, which banned leisure travel to and from Gauteng during the key winter school holiday period. The violent civil unrest in South Africa in July increased the negative impact on trading operations over this period. Gratefully, the group suffered no property damage as a result of the protests in KwaZulu-Natal, however, the majority of the hotels in the area closed temporarily due to safety concerns and lack of fuel and food supplies, and resumed trading as soon as the situation stabilised.

As infection rates steadily declined, **travel confidence returned**. This positively impacted occupancies and pricing, and resulted in additional hotel re-openings. The gradual easing of restrictions, the accelerated roll-out of vaccinations across all adult groups including young adults, and the removal of South Africa from international 'no-fly' and 'red lists', boosted business and leisure travel confidence.

Average occupancies for the interim period at the group's South African operations, based on total hotel room inventory,

Andrew Widegger, CLHG CEO

was 32%, with the low of 16% in July and a high of 43% in November. The discovery of the Omicron variant in South Africa in late-November 2021, and the almost overnight shutdown of international travel routes to South Africa, resulted in a setback in demand, which was substantially picked up by the domestic leisure market. December 2021 occupancies for the South African open hotels averaged 43% with 53 hotels open, and five hotels open in the rest of Africa.

Cost containment measures applied since April 2020 continue to be enforced, where appropriate, to help preserve and improve liquidity. We are grateful that, even during these turbulent and challenging times, our employees remain dedicated to providing outstanding service to all our guests, as our Rate Us and other feedback forums have registered our highest scores.

Financial review

The steady improvement in occupancies and demand for hospitality services over the last few months has led to average group occupancies for all hotels in the group for the six months ended 31 December 2021 of 30% (December 2020: 17%) and open hotels 34% (December 2020: 27%). As at December, the group had 92% of the hotels in its portfolio of hotels open, compared to 74% in the prior period.

Total revenue for the period doubled to R436 million compared to R215.6 million for the prior period. Operating costs excluding depreciation and amortisation decreased by 11%, compared to the prior six months, however, excluding unrealised foreign exchange gains and losses on intercompany loans, increased by 40%. Increases were mainly due to the raising of reduced salaries paid in the early stages of the pandemic from 50% up to 70% from November 2020, and then further increased to 75% from November 2021. Operating costs per room sold, excluding unrealised foreign exchange gains and losses reduced by 22% compared to the prior year. The group supported and enabled the UIF TERS claims, which provided necessary support to employees to alleviate the financial burden of reduced salaries.

As more hotels open and occupancy increases, the variable **operating costs** increase to enable continued operations. The group generated profit from operating activities before interest, tax, depreciation and amortisation (EBITDA) for the six months to December 2021 of R122.6 million compared to an EBITDA loss in the prior period of R131.7 million. Depreciation and amortisation on owned assets decreased by 26%, mainly due to discontinuation of depreciation on held for sale assets and the impact of impairment losses recognised in prior periods.

Depreciation on right-of-use assets increased by 16%, mainly due to the opening of the leased Courtyard Hotel Waterfall City in March 2021. No impairments have been recognised during the period. Interest expense decreased by R10.9 million following settlement of the BEE debt in December 2020.

The group incurred a **net loss after tax** for the six months ended 31 December 2021 of R33.7 million (2021: R550.4 million), a decrease of 94% from the prior year.

Headline loss decreased by 88% to R33.7 million. Diluted and undiluted headline loss per share improved by 90% to a loss of 6 cents compared to an adjusted loss of 60 cents in the prior period.

The group has generated **positive cashflows** from operating activities of R13.1 million, after taking into consideration the offsetting impact of the increase in working capital of R45.1 million from increased trading activity, and settlement of accruals associated with the Courtyard Hotel Waterfall City fit-out. This is compared to negative cashflows from operations of R68.9 million in the prior period.

The results above include the operational performance of the **disposal** groups in Kenya and Tanzania. The disposals are subject to the fulfilment of customary conditions precedent, which includes approvals or consents from competition on antitrust authorities to the extent legally required. By the end of January 2022, the transaction received the unconditional approval from the competition commissions in Kenya, and Tanzania respectively. Due to the delays in the competition commission approvals, the long stop dates have been extended to 31 May 2022. However, the remaining conditions precedent are in the process of execution, and it is anticipated that the sale will complete by the end of April 2022.

R320 million of the total outstanding **interest-bearing borrowings** are due for repayment within the next 12 months. The proceeds from the disposal of the East African operations are planned to be utilised to settle the debt. All original debt covenants have been waived for all measurement periods up to and including September 2022. The new loan to value covenant has been met for all measurement periods during the reporting period. The group has engaged with funders to commence discussions to restructure its debt facilities following settlement of the loans due in September and December 2022.

Strategic developments

Over the last few months, the group has honed and rolled out its **enhanced food and beverage** offers, which is bespoke to each hotel brand within the group. The enhanced offering has helped attract more leisure, **'bleisure'**, staycation and special holiday events business, and gives guests more reason to stay in their hotel rather than dine out. Guests have received the enhanced offering with enthusiasm and appetite. Food and beverage revenue has increased by 128% compared to the prior year.

The group offers regular **special rates** and seasonally themed promotions, often with a food and beverage element, designed to appeal to leisure travellers in particular. Business travellers are catered for with value-added benefits when booking boardrooms and making use of our facilities for meetings.

Our **Best Available Rate** (BAR) initiative, which went live in June 2021, considers market trends and demands for accommodation to calculate the best rates for our guests, rather than applying a single rate philosophy. This benefits our guests by providing them with more competitively priced accommodation at all times, while optimising revenue yields for the group. For this purpose, we are leveraging predictive analytics and machine learning to inform our pricing decisions. Our new BI tool helps to analyse key clients, track new business and personalise offerings for guests, corporate clients and agents.

Despite the unwind and indirect repurchase of the **B-BBEE** shares, and the challenging financial conditions that focused all available resources on ensuring the sustainability of the group, we secured a B-BBEE level 5 rating. As the group recovers from the detrimental impact of the last two years of Covid, we are reinvesting in transformation initiatives, which should aid in securing an improved B-BBEE scorecard in the next reporting cycle.

Directorate

The group welcomes **Andrew Lapping** as a new member of the board, remuneration committee and audit committee following his appointment at the last Annual General Meeting (AGM) held on 25 November 2021.The group would also like to thank **Vincent Rague** for his many years of loyal service and valued contribution to the board and group, following his retirement at the last AGM.

Outlook

South Africa has remained on **Covid-19** alert level 1 since 1 October 2021, and on 30 December 2021 government further removed all curfew and alcohol restrictions. Internationally, there has been a move by some countries in Europe towards removing almost all Covid-19 mandates and restrictions. These developments have been in response to the significantly reduced severity of infections, hospitalisations and deaths among fully vaccinated individuals during the fourth wave of infections.

January occupancies had a slow start with total group occupancies at 30%, however demand has gained momentum as more **corporates and government departments** return to their offices and travel schedules resume to re-ignite operational capacity which has lagged over the past two years. The group has re-opened all its 56 South African hotels, and has six of the seven hotels opened in the rest of Africa. To date, for the month of February, South African occupancies are running at 46%. We anticipate improved monthly occupancy and pricing recovery during the next two trading quarters.

The group looks forward to completing the disposal of its East Africa operations before the end of April. The proceeds will be applied to strengthen our financial position and enable us to resume hotel refurbishment plans. The **CLHG family** remains committed to providing outstanding accommodation services and **welcoming our guests** to tantalise their taste buds with our new food and beverage offerings.

Further reading:
- City Lodge Results Six Months Ended 31 December 2021
- Investor Presentation - December 2021

- **Father's Day deals to spoil all the dads at City Lodge Hotels** 30 May 2024
- **City Lodge Hotels' Clifford Ross inducted into Fedhasa Hall of Fame** 15 May 2024
- **Planet vs. Plastics: City Lodge Hotels' eco-initiatives make sustainability easy** 23 Apr 2024
- **Sleep Easy with City Lodge Hotels! Bedtime Stories for Business People launched** 20 Mar 2024
- **Calling all last resorters: City Lodge Hotels' quarterly break saves the day!** 14 Mar 2024

City Lodge Hotel

City Lodge Hotel Group has a variety of hotels dedicated to providing you with comfort at a level that suits you. With 5 Courtyard Hotels (480 rooms), 19 City Lodge Hotels (3281 rooms), 12 Town Lodges (1507 rooms) and 23 Road Lodges (2 272 rooms), the Group has a total of 7540 rooms and ranks among the 250 largest hotel chains in the world. We are dedicated to providing quality accommodation for business, leisure and 'bleisure' travellers in South Africa, Namibia, Botswana and Mozambique. From basic, functional rooms to magnificent luxury studios, we have the range and experience to give you unbelievable service and exceptional accommodation at a price you can afford and in a location near to where you want to be. Go to www.clhg.com for more information.

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