

City Lodge Hotels' interim revenue hits R1bn

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Highlights:

- Revenue: **R1.0bn**; 2022: R0.8bn ▲ 18%
- Group occupancy: **61%**; 2022: 57% ▲ 4% points
- Earnings per share (EPS): **18.8c**; 2022: 17.1c ▲ 10%
- EPS excl. business interruption receipts and unrealised foreign exchange losses/gains: **20.0c**; 2022: 12.0c ▲ 66%
- Profit for the period: **R107m**; 2022: R98m ▲ 10%
- Dividends declared per share: **6c**; 2022: 5c ▲ 20%
- Financial position – Netcash: **R54.6m**; 2022: Net debt (52.1m)



Commentary:



Andrew Widegger

"It is heart-warming to compare a clear six-month period of pandemic-free operations, with a similar, Covid-19 restriction-free comparable period, as the last remaining restrictions were lifted on 22 June 2022," says Andrew Widegger, CEO of City Lodge Hotels.

The recovery in trading remained robust for the six months ended 31 December 2023, with the group achieving a four percentage points (pp) growth in occupancies to 61% compared to the prior period of 57%, and six p.p. above the same period to 31 December 2019. The new business strategies of best available rates (BAR) and the enhanced food and beverage offer have contributed to an 18% increase in total revenue for the six months, to R1bn (2022: R0.8 billion).

Dhanisha Nathoo, chief financial officer, comments, "The group is in a strong financial position which is reaffirmed by net cash of R54.6m (2022: net debt of R52.1m), and all outstanding borrowings have been settled (2022: R300m) as at 31 December 2023. The group has access to R600m in available debt facilities and the R115m overdraft facility. The loan covenants have been met for all measurement periods during the reporting period."

She adds, “The group remains confident in our strategy and the country's recovery as certainty and stability return to the operating environment. We are well positioned to capitalise on any opportunities and address the many challenges which arise.”

Financial review

Dhanisha attributes revenue performance to a 16% increase in accommodation revenue of R806.7m (2022: R695.3m) and a 36% increase in food and beverage revenue to R188.5m (2022: R138.9m).

“Rooms revenue growth has been achieved through the balancing of occupancy demand and average room rate (ARR). ARR has improved monthly and delivered an average increase of 9% for the six months, compared to the prior period. The food and beverage offer is garnering a loyal patronage as we establish ourselves in the market and now accounts for 19% (2022: 16%) of total revenue,” she explains.

The improvement has been systematic with most hotels trading above pre-Covid levels.

“However, the outlook is obscured by the complexities of operating in the South African economy, which continues to face low GDP growth, high inflation, ongoing loadshedding, and most recently, the upcoming uncertainty of the elections. These negative influences have a direct impact on business and consumer confidence and sentiment,” notes Andrew.

Total operating costs (salaries and wages, property costs, food and beverage costs, rooms related costs and other operating costs) for the six months increased by 19% and by 11% per room sold, compared to the prior period.

“Our people are integral to our service delivery and salaries and wages accounts for 39% of the total operating costs, which increased by 18% due to salary increases, a normalisation of head count and the augmentation of the food and beverage service teams. Rising utility prices over the last year have contributed to the 11% increase in property costs, however these have been partially offset by additional solar usage, and reduced diesel costs,” explains Andrew.

The volume increase in corporate travel bookings and the associated commissions and reservation costs have contributed to the increase of 21% to R110.5m (2022: R91.0m) in rooms-related costs. Food and beverage gross profit margins have improved to 59% from 56% in the prior period. Food and beverage costs are variable in nature and have increased by 27% to R77.8m (2022: R61.1m).

Other operating costs increased by 20% to R142.4m compared to R118.8m in the prior period. The reinvigorated launch during October 2023 of the new City Lodge Hotels branding and payoff-line, “Life is hard. Check into easy”, has won a number of awards and has connected with many South Africans as it adds light and humour to our daily struggles. This reinvestment in marketing and promotional spend and the resumption of back-logged repairs and maintenance schedules have contributed to the other operating cost increases.

“The group continues to maintain a strong culture of cost control, whilst balancing the need to invest and maintain our strategy of food and beverage growth, and maintaining our 59 hotels in tip-top condition,” says Dhanisha.

As a result, City Lodge Hotels generated an increase in EBITDAR (Earnings before interest, income tax, depreciation, amortisation, rent and exceptional items) of 3% for the period to R312.3m (2022: R303.8m), and an EBITDAR margin of 31.2% (2022: 35.8%). EBITDAR for the period, excluding Covid-19 business interruption receipts in the prior year, and unrealised foreign currency gains and losses, for the period increased by 19.4% to R319.1m (2022: R267.3m) and adjusted EBITDAR margin increased slightly to 31.8% (2022: 31.5%). EBITDAR was negatively impacted during the refurbishment of City Lodge Hotel V&A Waterfront during the six months under review as only 50% of the rooms were available.



Dhanisha Nathoo

The group has generated a 10% increase in profit for the period of R107.3m (2022: R97.9m), and earnings per share (EPS) of 18.8 cents (2022: 17.1 cents). EPS (excluding the business interruption receipts in the prior year and unrealised foreign exchange gains and losses) increased by 66% to 20.0 cents (2022: 12.0 cents).

Headline earnings per share is 18.8 cents per share, compared to 17.1 cents per share in the prior period.



City Lodge Hotel V&A Waterfront - refurbished room

Capital allocation

In line with the group's strategy to return capital and value to its shareholders, the group acquired 0.3 million shares at an average price of R4.71 per share in December through the odd-lot offer. In addition, during November and December 2023, the group acquired a further 1.7 million shares at an average price of R4.44. The cost of the share repurchases totalled R9m, and following cancellation of these shares in December 2023, the overall shares in issue net of treasury shares are 569.6 million. The group continues to buy back shares on a systematic basis, and has acquired a further 2.0 million shares to date in the third quarter of the financial year.

In addition, the group is buoyed by the recent positive results, debt-free balance sheet, the positive cashflow forecasts and the continued recovery of the hospitality sector. The board has declared an interim cash dividend of 6.00 cents per share (2022: 5.00 cents).

Andrew further, "We are focussed on generating the best value from our well-equipped and optimally positioned portfolio of hotels, which enable us to deliver exceptional service and an easy and seamless experience to our guests. To do this, we have embarked on key refurbishments and sustainable and resilient energy and water solutions during the period."

This includes:

- Phased refurbishment of rooms at City Lodge Hotel at OR Tambo International Airport.
- Completed the major revamp of the 207-room City Lodge Hotel V&A Waterfront, which includes a complete renovation and refurbishment of the bedrooms. The refurbishment of the commercial area is due to commence in March 2024.
- Completed phase 2 of our solar installations in December 2023, bringing the total to 41 hotels with access to solar renewable energy, and a total generating capacity of 2.6MW or 16.3% of the group's energy requirements.
- Battery storage has been added to two hotels as part of a battery pilot programme.
- The water supply resilience strategy has delivered a further three new boreholes and filtration plants, bringing the total number of such installations to seven, and a further 14 filtration plants are planned to existing boreholes during the next 12 months.
- Point-of-sale devices were launched in July 2023 at all our restaurants which have improved service, processing of

orders, guest satisfaction and up-selling revenue.

Going concern

The condensed unaudited consolidated interim financial statements are prepared on the going concern basis. Based on cashflow forecasts, available cash resources and debt facilities, the board of directors of City Lodge believes that the group has sufficient resources to continue as a going concern in a responsible and sustainable manner.

Directorate

The group bid farewell to Stuart Morris, who elected to retire from the board at the last Annual General Meeting held on 23 November 2023 after 17 years of distinguished service.

The board and management of City Lodge Hotels expresses their sincere appreciation to Stuart for his dedicated service and leadership, commitment, and valued contribution to the company, and wish him well for the future.

Outlook

“The pending South African government elections has created uncertainty, and business and consumers are cautious with their budgets. January 2024 has had a slow start, with group occupancies of 42% (January 2023 - 43%) and up to 22 February 2024 of 59% with a strong projected finish to the end of the month (February 2023 - 59%),” says Andrew.

Average room rates however, have held the gains seen in the recent months. January and February ARR was on average 9% higher compared to the prior period. In addition, food and beverage revenues continue to outperform expectations, with revenue up 12% and 18% in January and February to date, respectively, compared to the prior periods.

“Following the completion of Phase 2 of the group's sustainable, renewable energy initiative, together with the borehole and filtration plant roll-out, we look forward to more stable power supply and a reduction in electricity and municipal water usage,” he notes.

The sale of the City Lodge Hotel Sandton, Katherine Street, property is still in progress. The due diligence has been concluded; however there are still a few conditions precedent to be fulfilled prior to transaction completion.

“The pipeline of capital projects over the next six months will continue to deliver strategic reinvestment into key properties in the portfolio, to ensure that our value proposition continues to simplify, satisfy, and exceed guest expectations, after all, ‘Life is hard. Check into easy’,” concludes Dhanisha.

" 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

" Cheers to St Patrick's Day! Guinness specials and more at City Lodge Hotels! 11 Mar 2024

City Lodge Hotel

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