

MA Redcape Hotel Fund

Continuous Disclosure notice Strategic Progress Update and Underlying Earnings Outlook

11 September 2024

The Manager continues to execute its strategy to rebalance the portfolio and shape its profile to meet the changing nature of current and forecast economic conditions. Recent sale proceeds are being redeployed into high quality assets that complement the portfolio and enhance the earnings yield of the Fund. The Manager is currently progressing due diligence to acquire approximately \$120 million in assets which are higher yielding and have attractive risk return characteristics. These assets are in-line with the strategic objective of further diversifying the Fund's portfolio by geography and earnings mix.

The Manager has commenced negotiations with the Fund's lenders for the extension of its \$350 million debt tranche due to expire in December 2025. Initial discussions have been positive, and the Manager is anticipating completion in the coming months. The Fund has strong support from its existing lenders and additional interest to participate in the Fund's debt pool.

The growth capex program is underway with an additional \$20 million targeted to be deployed in the current financial year, taking the total to over \$30 million for FY25. The capex program targets minimum returns of over 15% on expenditure.

The weighted capitalisation rate of the Fund's venues has expanded from 6.6% to 7.6% since cyclical peaks in June 2022. Given the extensive independent valuations underpinning the current capitalisation rate and the contemporary and robust transactional evidence in the pub sector, the Manager has a high level of confidence in the valuations and believe that the Fund is well placed to benefit from earnings growth and a more stable interest rate environment.

In a demonstration of the quality of the assets and the resilience of the pub sector, the Fund's trading performance was strong across the June quarter with like-for-like¹ venue earnings² up 7.0% on the prior year with performance continuing into the current quarter.

Subject to successful completion of the above initiatives and sustained trading performance, the Manager is positioning the Fund to target FY25 pro forma underlying earnings to exceed 10.5 cents per unit per annum³. This compares to 9.12 cents per unit in FY24, a 15% uplift. The Manager is targeting further growth for FY26.

These targets build on the Fund's track record which has delivered a 12.3% per annum total return since inception⁴ and demonstrates its earnings resilience and that of the general pub sector. The Fund has had continued like-for-like normalised⁵ venue earnings growth since inception, including over the past two years despite uncertain economic conditions, high inflation and rising interest rates.

Priority redemptions

The Responsible Entity is mindful that some long-term investors who have been with the Fund since inception and have enjoyed the benefit of the Fund's strong returns and growth, may seek to crystallise some of their investment, regardless of Fund performance. The Responsible Entity is aware a redemption back log may constrain the Fund's prospects of future new equity inflows. Accordingly, the Manager is progressing strategies to further accelerate Priority Redemptions.

To assist the acceleration of redemptions, the Manager has contracted to sell a further two assets⁶ for total consideration of \$73 million⁷ at a blended yield of around 7% which is in line with current book values. The sales proceeds will go equally towards accelerating redemptions and debt reduction to ensure gearing remains within the target range of 40% to 50%.

More details around the revised redemptions timetable will be communicated in the near future.

More information

If you have any questions regarding your investment, please speak to your financial adviser or contact Client Services via clientservices@mafinancial.com or +61 2 8288 5594.

1. Like- for-like venues include all venues that were operating during the entire period and excludes venues that were acquired or divested.
2. Venue earnings before interest, tax, depreciation, amortisation, management fees and group expenses. Past performance is not a reliable indicator of future performance and investors should read the Fund's Product Disclosure Statement for further details.
3. These are targets only and may not be achieved and are subject to risks as detailed in the Fund's Product Disclosure Statement, which could impact actual performance. Investors should refer to the Fund's Product Disclosure Statement for further detail on the various risks associated with an investment in the Fund.
4. The Funds Inception Date was 10 July 2017. Past performance is not a reliable indicator of future performance and investors should read the Fund's Product Disclosure Statement for further details.
5. Adjusted to allow for COVID-19 related closure periods.
6. Vauxhall Inn and Wattle Grove Hotel.
7. Less transaction costs.

This statement has been issued by MA Redcape Hotel Fund RE Ltd (ACN 610 990 004) (AFSL 505932), the issuer and responsible entity of the MA Redcape Hotel Fund (which comprises the MA Redcape Hotel Trust I, ARSN 629 354 614 and the MA Redcape Hotel Trust II, ARSN 629 354 696) (Fund). Redcape Hospitality Pty Ltd (ACN 619 297 228) is the appointed Manager of the Fund. This is provided for informational purposes only.