

# MA Redcape Hotel Fund

## Continuous Disclosure notice

8 July 2024

Since the last quarterly update the MA Redcape Hotel Fund (the Fund) has continued to perform in line with expectations. The operating performance of the hotels has been pleasing and customers continue to value the local entertainment offering.

### Contracts exchanged to sell three hotels for \$136 million

As a continued signal of confidence in the pub sector, the Fund has secured purchasers and exchanged contracts to sell three assets in recent weeks.

The three asset sales, Kings Head Tavern, Eastwood Hotel and Australian Hotel & Brewery have all been sold to established publicans for a combined value of \$136m which is in line with book value generating a blended yield in a 7.0–7.5% range.

### Fund strategy – rebalance portfolio to increase earnings, diversify revenue streams

The rationale to divest of the three hotels is consistent with the established strategy of actively managing the portfolio. At this point in the economic and real estate cycle, there is an opportunity to rebalance the portfolio with the objective of increasing Fund earnings and further diversifying the Fund's revenue streams.

Consistent with this strategy, proceeds from the recent sale of the Fund's Crescent Hotel in Fairfield, sold on a similar yield range, were reinvested in the acquisition of The Criterion Hotel, a leasehold hotel in Sydney's CBD adjacent to the City Town Hall on a yield of approximately 15%. Since its acquisition in April, the Fund's management team has completed a successful operational management transition.

Recent asset sales and subsequent reinvestment in The Criterion Hotel has resulted in the Fund's gearing reducing, strengthening the Fund's balance sheet. The Manager has recommenced its capital expenditure program which has been focused on small refurbishments and a refresh of the EGM offerings. The initial impact has been positive, and together with the investment in The Criterion Hotel, it is expected that this will underpin further earnings growth in FY25 and beyond.

The Fund's manager is currently investigating other opportunities that present similar metrics and benefits to this transaction with the objective of increasing earnings and distributions in the near term.

### June quarter distributions and Priority Redemptions

The Responsible Entity has declared a distribution of 2.30 cents per unit for the June Quarter, up 15% from 2.0 cents distributed in the March Quarter and slightly above the 2.25 cents per unit that was foreshadowed in the March Fund update. The Fund's full year distribution of 8.0 cents per unit reflects a payout ratio of 88% of Underlying Earnings of 9.1 cents per unit.

Having regard to the present trading performance of the Fund's hotels and the strength of its balance sheet, the Fund has commenced facilitating Priority Redemptions<sup>1</sup> and is targeting continuation of its quarterly distribution of 2.30 cents per unit. The Manager will provide more detail on its capital management strategy and redemptions processing in the next quarterly Fund update.

The Manager is confident in its active portfolio management strategy and the Fund's financial capacity to return underlying earnings to a target of 10c per unit in the near term<sup>2</sup> which would be an excellent outcome given the nearly three-fold increase in interest expense over the last two years. This increase alone has impacted Underlying Earnings by nearly 5c per unit.

The MA Redcape Hotel Fund is not alone in facing higher interest expense although the uniqueness of the pub sector in terms of asset liquidity and the ability to actively manage expenses provides the Manager with more options than most to manage challenging environments.

The Fund has independently valued 18 hotels in the past nine months (12 in the past six months), resulting in a portfolio value of \$1.19 billion as of 30 June 2024. This value underpins the Fund's unit price of \$1.48 per unit.

Management would like to thank all Investors for continued investment and support in the Fund.

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#### [More information](#)

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

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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.

<sup>1</sup> Please refer to the continuous disclosure notice dated April 2 2024 and PDS dates April 2 2024 for further details.

<sup>2</sup> Internal forecasts assuming redeployment of a majority of the proceeds into venues on comparable earnings yields to the Criterion.