City Lodge Hotels Limited
Incorporated in the Republic of South Africa
Registration number: 1986/002864/06
Share code: CLH ISIN: ZAE000117792
("City Lodge" or the "company" or the "group")

Unaudited interim report for the six months ended 31 December 2020

- Revenue R215,6m
  2019: R809,3m (-73%)

- Earnings per share (EPS) -132,7c
  2019: 126,4c (-205%)

- Headline earnings per share (HEPS) -62,6c
  2019: 126,4c (-149%)

- Normalised diluted headline EPS -54,2c
  2019: 184,8c (-129%)

- Dividends declared per share Nil
  2019: 153,0c

Commentary

The nearly 12 months of the Covid-19 pandemic and the associated lockdown measures by governments across the world has had a devastating impact on individuals and economies. The industries worst affected by these measures have been travel and hospitality. These interim results reflect the continued challenges faced by the industry through prolonged lockdown measures and the impact of reduced travel confidence due to the uncertainty of further infection waves and subsequent lockdown measures to control the spread of infections.

The group has seen a steady improvement in occupancies since the last quarter of the 2020 financial year, which ended on 4% for the quarter, when almost all hotels were temporarily suspended of services, except for those hotels providing quarantine facilities to repatriated citizens, and essential and critical business continuity services. As South Africa progressed to the lockdown level 1 - Risk Adjusted Strategy (RAS) by September and domestic and eventually international travel restrictions eased, the group's occupancies gradually improved to 28% and 27% occupancies of the total inventory at all 62 hotels in November and December, respectively, and 35% and 34% of total available rooms at open hotels in November and December respectively. The group continues to review demand when assessing whether to reopen hotels and to date has 42 hotels open in South Africa and four hotels open in the rest of Africa, i.e. 74% of the hotels in its portfolio.

These challenges resulted in average occupancies of 17% for the group for the six months to 31 December 2020, a 37 percentage point decline compared to 54% in the previous financial period. In South Africa, where the group has the majority of its hotels, occupancies decreased from 57% in the previous financial year to 18%, and 29% based on open hotels only.

Total revenue decreased by 73% to R215,6 million, while operating costs, excluding depreciation and amortisation, decreased by 34%, and by 48% excluding unrealised foreign exchange losses on intercompany loans. The operating cost reductions were mainly due to the cost containment measures put in place from April 2020, to mitigate the extent of the losses arising from minimal revenues.

Depreciation and amortisation on owned assets decreased by 4%, while depreciation on right-of-use assets decreased by 19%, mainly due to the impact of impairments recognised in the prior year. Interest expense rose by R3,0 million mainly due to interest expense on lease liabilities, offset by lower BEE preference dividends, due to the lower prime interest rates.

The group incurred a net loss after tax of R550,4 million (2019: profit of R46,3 million) which includes exceptional losses of R290,9 million (2019: Rnil), net of tax, related to the impairment of property, plant and equipment along with right-of-use assets of some hotels. This is primarily due to the impact of the Covid-19 pandemic and the prolonged lockdown measures and travel restrictions enforced by governments to control the spread of the virus. The additional impairments for the period are based on management's assessment of the extremely slow recovery of business and international leisure travel and tourism in East Africa. The hospitality industry there is highly dependent on the North American and European source markets which have been the worst impacted by the Covid-19 pandemic, and the second wave of infections has delayed any short-term recovery prospects.

Normalised headline earnings decreased by 399% to a loss of R240,6 million. Diluted and undiluted normalised HEPS decreased by 129% to a loss of 54.2 cents.

Normalised headline earnings and normalised diluted HEPS comprise headline earnings adjusted for the effects of transactions relating to the BEE SPVs and those of a non-recurring and/or core nature. They are the responsibility of the directors of City Lodge and have been provided for illustrative purposes only. Due to their nature, normalised headline earnings and normalised diluted HEPS usually differ from City Lodge's HEPS.

During the year City Lodge successfully raised proceeds of R1,2 billion through a fully subscribed rights offer which closed on 21 August 2020. The net proceeds of the rights offer has been used to repay a portion of amounts owing under its secured facilities and settlement of the company's guarantee of the BEE SPV's interest-bearing borrowings, preference shares and accrued interest and dividends totalling R764,5 million, as at 14 December 2020. The remaining funds have been utilised to improve liquidity and support the working capital requirements of the group during the Covid-19 pandemic.

The group has also secured access to a R700 million loan facility with the group's funders of which R170 million remains undrawn as at the end of December 2020, and secured a waiver of the original debt covenants for the June 2021 measurement period.

Development activity

South Africa

The directors and management are excited to open the new Courtyard Hotel Waterfall City, the group's 63rd hotel, on 1 March 2021. The new flagship of the Courtyard brand, which is located in the lively and vibrant Waterfall City in Midrand, marks a significant milestone in hotel design and development. It features the latest technological innovation, state-of-the-art conference facilities and a full culinary team preparing delectable cuisine.

The hotel will open initially with all restaurants, 100-seater conference centre, gym, co-meeting areas, 84 bedrooms and four suites, with the remaining floors and 80 rooms opening in phases during the next few months according to demand. The property is to receive a four-star Green Building Council SA certification that validates the sustainability initiatives implemented during the design, construction and procurement phase.

The Courtyard Hotel Rosebank refurbishment was completed in December 2020, ready to welcome guests to its reopening of the refreshed, eclectic and trendy rooms in January 2021.

All other pipeline developments have been put on hold due to the cash constraints resulting from the pandemic.

Strategic opportunities

East Africa

The board received an unsolicited non-binding approach for the proposed acquisition of City Lodge's East African operations, comprising of its four hotels situated in Kenya and Tanzania. The board is continuing negotiations on the proposed disposal.

Outlook

The second wave of infections and the return to lockdown adjusted Level 3 RAS in December 2020 has impacted the steady occupancy growth observed in the last quarter of 2020. January 2021 occupancy expectations were underwhelming due to some travel demand impediments in South Africa, as a result of the lockdown adjusted level 3 beach closures, curfews and alcohol restrictions. However, with the further easing of some of these lockdown measures in late January, and the drop in new infections, February occupancies have seen a steady improvement.

While we anticipate a slow recovery of the hospitality sector, we are encouraged that vaccination roll-out programmes across the world are gaining momentum. South Africa has recently begun its vaccination programme. These actions are expected to lead to improved travel confidence and boost the recovery of the sector.

The group has embraced the need to innovate and create a safer, healthier stay for all guests through its industry-leading hygiene and safety protocols, and the introduction of technology enhancements that reduce direct contact and touch, through the development of the web and App-based online check-in, online Covid-19 pre-screening, and QR code menu and service selection. We remain ready to warmly and safely welcome our guests.

Dividends
Having regard to the continued impact of the Covid-19 pandemic on the group's operations and the minimal revenue earned since the declaration of a national state of disaster in South Africa on 15 March 2020, the board has determined that no dividend shall be paid in respect of the period ended 31 December 2020, and does not intend to pay dividends in the short term. The declaration of future dividends remains subject to satisfying solvency and liquidity requirements.

Additional information
This short-form announcement is the responsibility of the directors and is only a summary of the information in the full announcement and does not contain full or complete details. The full announcement is available on the company's website www.clhg.com. The full announcement can also be accessed directly using the following JSE link: https://senspdf.jse.co.za/documents/2021/jse/isse/CLH/ie2020.pdf. Any investment decision should be based on the full announcement published on JSE link and on the company's website.

For and on behalf of the board

Bulelani Ngcuka   Andrew Widegger
Chairman   Chief executive officer

26 February 2021

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