

Company News

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Hospitality green light mooted over Tsogo share deal

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HOSPITALITY Property Fund (HPF)'s shareholders are likely tomorrow to vote in favour of a new capital structure and a share deal that would see it become the hotel arm of gaming and leisure group Tsogo Sun.

Hospitality's A and B share structure, which was developed to offer different risks and rewards to shareholders, has been controversial, with the holders of B shares losing out on income payouts.

Tsogo wants to inject 10 hotels valued at almost R1.8bn into Hospitality in exchange for more than 50% of Hospitality's ordinary shares, on condition it adopts a single-share structure.

Shareholders will vote on the share structure and Tsogo deal tomorrow,

with results expected on Monday. Hospitality listed in 2006 and initially provided strong returns to investors. The fund benefited from a healthy tourism sector leading up to the 2010 Soccer World Cup, but then struggled to earn profits and consistently pay dividends to shareholders.

Investors who own A shares are paid dividends first — capped at the consumer price index or 5%, whichever is lower.

B shareholders receive the balance. With Hospitality earning little income in the past few years, the B shareholders' distribution growth has fallen.

Hospitality's recently appointed CEO, Vincent Joyner, said yesterday that he was confident shareholders would vote in favour of the new single-share structure.

"Having an A-B dual share struc-

ture has proven to be contentious. When HPF listed in 2006, the structure was designed to suit certain needs. However, things have changed in the Reit sector and it would be best for us to have a single share structure.

"If the share structure is changed to a single structure and we have the tie-up with Tsogo, Hospitality's share price will rerate," said Mr Joyner.

Tsogo Sun said it would proceed with asset-injection only in exchange for shares if the A and B shareholders voted in favour of scrapping the dual-unit structure.

Mr Joyner said Hospitality owned 16 hotels and had an asset base worth about R5bn. Hospitality listed with 16 hotels worth R1.2bn, but the quality of its assets had improved substantially. If the Tsogo Sun deal went ahead, it would have 26 hotels in its portfolio.

Tsogo owns other hotels that it

could inject into Hospitality.

"We can become a platform for Tsogo's hotel properties. It would be an exciting partnership. Through the deal, five Tsogo directors would join HPF's board," Mr Joyner said.

Hospitality's prized hotels include The Westin Cape Town, Radisson Blu in Granger Bay and The Crownne Plaza in Rosebank, Johannesburg.

Mr Joyner said Hospitality would consider developing new hotels, but this might happen only in about three years' time. "Right now it's more expensive to build than to buy."

Grindrod Asset Management's chief investment officer, Ian Anderson, said Hospitality needed to grow its portfolio substantially to be a specialised fund that was sizeable and one that gained support from institutional investors.

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Joyner. Picture:
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