

Trading levels continued to recover, particularly in the second half of the financial year, as local and international travel patterns normalised and demand for conferencing and events increased. All regions performed well and exceeded FY20 (pre-Covid-19) levels except the Sandton node, reflecting the delayed recovery in corporate transient travel exacerbated by many companies in the node still operating a hybrid remote-working model.

Excluding the once-off payment of R399 million received from Tsogo Sun Gaming Limited (“TSG”) on implementation of the Separation Agreement (“Separation Payment”), the group achieved total revenue (including discontinued operations) for the year ended 31 March 2023 of R5.1 billion (FY22: R2.7 billion), a growth of 87.6% on FY22 and 13.5% above FY20 revenue of R4.5 billion. Similarly, the group generated Ebitdar (including discontinued operations) of R1.4 billion (FY22: R590 million), significantly higher than FY22 and a growth of 6.2% on FY20 Ebitdar of R1.35 billion. This performance is particularly encouraging considering group occupancy of 51.5% (FY22: 30.6%) for the FY23 year is well below the 59.3% achieved in FY20.

In addition, the group has grown average room rates (“ARR”) by 18.3% and 16.3% from FY22 and FY20, respectively. This is mainly attributable to ARR growth in the group’s core portfolio as well as the consolidation of luxury properties with higher ARR’s such as The Westin Cape Town, Arabella Hotel, Golf & Spa and Mount Grace Hotel & Spa that were previously treated as investment properties. Luxury hotel guests have proven more resilient to prevailing

economic pressures such as inflation and rising interest rates, being influenced more by location and personal preference rather than price. Having reduced the group’s operational gearing through the cost restructuring undertaken during Covid-19, the flow-through from revenue growth to Ebitdar has improved, positively impacting profitability despite lower occupancy.

The group’s Ebitdar margin of 28.3% (excluding the Separation Payment) is well above the prior year margin of 21.8% but below FY20 as a result of the consolidation of hotels previously treated as investment properties.

Notwithstanding the upward trend in trading and return to normalised travel patterns, the group remains heavily exposed to the South African economy which faces slow GDP growth, high unemployment and a lack of policy certainty and solutions to the country’s ongoing energy crisis from government. The continuous load shedding has a detrimental impact on consumer and corporate sentiment.



The group has spent R41 million on diesel in FY23 to power its owned hotels compared to R10 million in FY22 and R11 million in FY20. While not specifically tracked, the group has also seen consistent increases in repairs and maintenance, some of which would relate to generator and other equipment faults caused by load shedding. Repairs and maintenance costs in FY23 of R159 million (FY22: R103 million) has increased by 54.4% and 15.2% on FY22 and FY20, respectively.

Given our learnings from the pandemic, the group can quickly reduce costs in response to revenue contraction and after the refinancing of the group’s debt package and significantly reduced debt levels (refer to Funding capacity and covenants and Corporate activity), a short to medium-term retraction in occupancy no longer poses an existential threat to the group. We will continue the discipline of managing cash flow and liquidity closely and maintaining the cost efficiencies achieved while

at the same time focusing on the completion of various refurbishment projects that were placed on hold, particularly at flagship properties so that we avoid downtime during high-demand periods.

## Corporate activity

The group has implemented two transactions previously reported to shareholders which has resulted in an aggregate reduction in the group's gearing levels by R947 million, strengthening the balance sheet and positioning the group to maximise benefits from the recovery in trading.

The first of these transactions is the implementation of the transaction with TSG on 30 September 2022 which culminated in the termination of the various management and licensing agreements in respect of 15 hotels owned by TSG, the acquisition by the group of the Southern Sun Mbombela and StayEasy Mbombela hotel buildings and related assets and net cash proceeds to the group of R257 million. For further details refer to note 6.

The second transaction was the disposal of the group's Southern Sun Ikoyi hotel in Ikoyi, Nigeria ("Ikoyi Hotels Disposal") to Kasada Albatross Holding ("Kasada") for aggregate proceeds of

US\$32 million, US\$7 million of which was used to settle the group's Mauritian-based US\$-denominated debt. The balance of the proceeds was repatriated back to South Africa and used to settle ZAR-denominated debt. The Ikoyi Hotels Disposal was effective from 1 December 2022 and funds-flow occurred on 12 December 2022. In order to secure the disposal proceeds and provide Kasada with additional time to refinance the hotel's in-country debt of US\$12.8 million, the group agreed to Kasada depositing US\$12.8 million, equating to R230 million, in a Southern Sun controlled bank account in Mauritius to serve as cash held as security against the group's guarantee obligations ("Ikoyi Cash Deposit"). Should the refinancing not be implemented by 30 November 2023, the group has the right to utilise this cash to settle the outstanding external debt balance. The Ikoyi Cash Deposit has been included in cash and cash equivalents as at 31 March 2023 and the related liability to repay Kasada should the hotel's debt be refinanced, has been separately disclosed on the face of the balance sheet. In line with interim reporting, the Southern Sun Ikoyi has been disclosed as a discontinued operation. Refer to note 12 for further information.

The group bought back 10 million SSU shares at an average price of R4.46. Additional buy-backs are intended should the group remain undervalued.

## Review of operations

Following the implementation of the TSG Transaction and the resulting decrease in external management fee income earned by the group, management took the opportunity to review its segmental reporting structure. The disclosure relating to revenue and Ebitdar performance of the **Offshore** segment remains unchanged from prior years. Revenue and Ebitdar relating to **Investment properties – Externally managed** now excludes the Sandton Eye retail space which forms part of the Radisson Blu Gautrain Hotel building, and has been disclosed in the Internally managed segment.

The revenue and Ebitdar relating to the **Sandton Consortium** hotels leased from Liberty 2 Degrees Limited ("L2D") and their partners together with the management fee income earned from the Sandton Convention Centre has been disclosed as a separate segment. While the group reflects the trading revenue and Ebitdar relating to the hotel operations, what is retained in Ebitda after rental payments to L2D and partners is effectively management fee income earned from the hotels and the Sandton Convention Centre along with 1% of the Ebitdar of the hotels. **Internally managed** hotels in South Africa have been

categorised by major province (Western Cape, KwaZulu-Natal, Gauteng and Other) to better reflect the group's geographical footprint. Hotel Ebitdar is disclosed before the deduction of internal management fees and after external management fee income earned from hotels managed for third-party owners in the respective province. This provides more meaningful information about the cash generated by the group from a particular province and how performance is influenced by events taking place in that province. The **Other** segment includes hotel properties located in outlying regions including Mpumalanga, Eastern Cape, Kimberley, Bloemfontein and Polokwane. The reallocation of external management fee income into the respective provinces means that the **Manco** segment now reflects the unallocated cost of providing the various central services to the business including among others, sales, marketing, information technology, development, human resources and finance. This segment also includes the net cost of the group's frequentGuest loyalty rewards programme. For further details on the group's segmental analysis, refer to page 33.

Total income from continuing operations for the year ended 31 March 2023 of R5.4 billion (FY22: R2.6 billion) ended R2.8 billion above the prior year with a R1.7 billion and R577 million increase in hotel rooms' revenue and food and

beverage revenue respectively. Other revenue ended R425 million above the prior year at R667 million, and apart from the overall improvement in trading levels with management fee, conferencing, parking and spa income all increasing compared to the prior year, other revenue also includes the Separation Payment received on implementation of the transaction with TSG (refer to Corporate activity) as per IFRS 15, *Revenue from Contracts with Customers*.

The group generated Ebitdar from continuing operations of R1.4 billion (FY22: R559 million, a R850 million increase on the prior year and equating to an Ebitdar margin of 28.3% (if the Separation Payment is excluded from total income) compared to 21.5% in the prior year. It is important to note that while the take-on of eight hotel operations managed by Marriott and Radisson between FY20 and FY22 (Arabella Hotel, Golf & Spa, Hazyview Sun, The Edward, Mount Grace Hotel & Spa, Southern Sun The Marine, Garden Court Victoria Junction, Radisson Blu Gautrain and The Westin Cape Town) improved the group's ARR's, the consolidation of trading revenue and expenses in the group's results has a dilutionary impact on Ebitdar margin. The same applies to the conversion of the Sandton Consortium hotels from managed properties to leased properties on 1 November 2019. This is because rental and management fee income from these hotels were included in revenue which flowed through to Ebitdar at a margin of 100%.

Ebitdar from **Externally managed – Investment properties** of R149 million (FY22: R58 million) relates to the four remaining investment properties not operated or managed by the group, being Birchwood Hotel & Conference Centre, the Radisson Blu Waterfront Hotel, Champagne Sports Resort and Kopanong Hotel & Conference Centre. On a like-for-like basis and excluding the Garden Court Victoria Junction hotel that transferred to owner-occupied property, plant and equipment in October 2021, rental income improved by R96 million compared to a R53 million rental income in the prior year, which reflects the improvement in trading, particularly at the Birchwood Hotel and Conference Centre and the Radisson Blu Waterfront Hotel. The former was supported by government groups and conferencing business particularly in the lead-up to elections, while the latter benefited from increased international leisure and corporate travel to Cape Town over the summer season.

The **Sandton Consortium** segment reflects the trading performance of the Sandton Sun and Towers complex and the Garden Court Sandton City leased from L2D and partners, along with management fee income earned from the Sandton Convention Centre. This segment generated revenue of R521 million (FY22: R215 million) and Ebitdar of R147 million (FY22: R1 million) for the year ended 31 March 2023. During FY22, while the hotels were still recovering from the impact of Covid-19, the leases remained suspended with

L2D and partners covering any Ebitdar losses and the group forgoing management fee income and cost recoveries. As the groups and conferencing and corporate segments began to recover during the first half of FY23, and these hotels became economically viable, the leases were reinstated and the hotels have been star performers in Gauteng, thanks to their location and the increased demand for events and conferencing at the Sandton Convention Centre. After rent, the group retained Ebitda of R22 million (FY22: R1 million) relating to the Sandton Consortium properties for the year ended 31 March 2023.

Overall, revenue and Ebitdar generated by the **Internally managed** South African hotel portfolio owned and leased by the group for the year was R4.0 billion (FY22: R2.1 billion) and R1.1 billion (FY22: R397 million) respectively. All regions performed significantly better relative to the prior year, given the impact of the Delta variant of Covid-19 and the rioting in KwaZulu-Natal between June and July 2021. Various sporting and government events along with the African Travel Indaba and two Mining Indabas held in May 2022 and February 2023 as well as increasing demand from international and domestic corporate conferencing and leisure transient travel, made a significant contribution to the group's performance across the provinces for the year. The group generated revenue and Ebitdar from the **Western Cape** of R1.5 billion (FY22: R569 million) and

R512 million (FY22: R62 million) respectively. The revenue and Ebitdar contribution from **KwaZulu-Natal** was R961 million (FY22: R710 million) and R281 million (FY22: R213 million) respectively.

The corporate transient travel segment has been the slowest to return to pre-Covid-19 levels which is partly a function of companies continuing to contain travel costs in this uncertain economic environment and partly attributable to the slow transition from remote working to a complete return to offices. Our view is that corporate transient travel will eventually normalise. As a result of this phenomenon, Gauteng has lagged other provinces in terms of recovery, particularly nodes outside of the OR Tambo International Airport and the Sandton central business district. The group's revenue and Ebitdar from **Gauteng** for the year ended 31 March 2023 amounted to R995 million (FY22: R447 million) and R177 million (FY22 Ebitdar loss: R5 million) respectively. The group's Rosebank hotels have struggled due to lack of corporate conferencing and transient travel in a competitive market as a result of additional capacity that has been added. In response, the group is planning a refurbishment of the Southern Sun Rosebank bedrooms to align them with the look-and-feel of the refurbished lobby which was launched as part of the hotel's rebranding to a Southern Sun. The group is excited about the opportunities presented by the rebranding of the Holiday Inn Sandton to a core Southern Sun brand in Sandton and our



relationships with sporting bodies, corporates and government should give this hotel more traction in the market.

The **Other** region includes outlying hotels situated in Mpumalanga, Eastern Cape, Kimberley, Bloemfontein and Polokwane. These hotels are well supported by government groups and conferencing business as well as sporting events and have consistently performed well throughout the pandemic. This region generated revenue and Ebitdar for the FY23 year of R562 million (FY22: R403 million) and R161 million (FY22: R127 million) respectively.

Total revenue for the continuing operations in the **Offshore** division of hotels of R378 million (FY22: R214 million) for the year largely relates to the Southern Sun Maputo, Mozambique which benefited mainly from oil and gas-related business; and Paradise Sun, thanks to support from the European market. Trading at the Southern Sun, The Ridge in Zambia was muted due to its reliance on corporate travel from South Africa with much of the demand directed to the outlying mining regions as opposed to the city. In response to these dynamics, expenses have been tightly controlled. In the owned offshore portfolio only the Southern Sun Dar es Salaam, Tanzania remains closed, however,

conditions in-country have improved, and the group continues to monitor levels of demand for an indication that re-opening the hotel would be feasible. The continuing operations of the offshore division generated Ebitdar of R76 million (FY22: R21 million, which included R12 million insurance proceeds).

Combined South African and offshore hotel trading statistics, excluding hotels managed on behalf of third-party owners and those leased by third parties, are as follows:

For the year ended 31 March	2023	2022	2020
Occupancy (%)	51.5	30.6	59.3
Average room rate (R)	1 268	1 072	1 090
RevPar (R)	652	328	647
Rooms available ('000) <sup>^</sup>	5 081	5 008	4 314
Rooms sold ('000)	2 615	1 530	2 560
Rooms revenue (Rm)*	3 314	1 641	2 791

<sup>^</sup> The increase in rooms available from FY22 to FY23 relates to the transfer of the Garden Court Victoria Junction with effect from October 2021, from investment properties to owner-occupied property, plant and equipment. The increase in rooms available from FY20 to FY23 relates to the transfer of Arabella Hotel, Golf & Spa, Hazyview Sun, The Edward, Mount Grace Hotel & Spa and Southern Sun The Marine to internally managed, the inclusion of The Westin Cape Town and Radisson Blu Gautrain Hotel as part of the group's owned portfolio as well as the inclusion of the Sandton Consortium hotels for a full year compared to five months in FY20.

\* Trading statistics have not been adjusted to exclude discontinued operations and rooms revenue is the total revenue generated from continuing and discontinued operations.

The **Manco** segment is now effectively a cost centre and revenue for this segment reflects the net impact of how the group accounts for its frequentGuest loyalty rewards programme. The expense relating to rewards issued are reclassified from hotel marketing costs to other revenue in the Manco segment. Income relating to reward forfeitures are offset against this expense. At an Ebitdar level the reclassification of the issued rewards to revenue eliminate, and only the reward forfeitures remain to offset costs relating to central services provided to the group's South African hotels, including among others, sales, marketing, information technology, development, human resources and finance services. Manco costs net of reward forfeitures for the year ended 31 March 2023 were R94 million compared to R97 million in the prior year. The Manco segment also includes once-off items such as the Separation Payment of R399 million included in revenue in the current year and business interruption insurance proceeds of R179 million included in Ebitdar in the prior year.

Property and equipment rental expense of R154 million (FY22: R16 million) represents the variable portion of lease payments including the impact of rent concessions in the prior year and modifications. Excluding the impact of IFRS 16, the group incurred cash rent of R288 million for the year compared to R146 million in the prior comparative year. The overall increase in the group's rent expense reflects the normalisation in trading and the reinstatement of the leases over the Sandton Consortium.

Exceptional gains for the period of R668 million (FY22 loss: R44 million) relate to the Separation Payment received on implementation of the transaction with TSG as well as the profit on the Ikoyi Hotels Disposal of a combined R658 million (refer to the Corporate activity section) together with upward revaluations of investment properties and reclassification of interest rate hedges to the income statement of R32 million in aggregate, net of losses on disposal of property, plant and equipment, trademark impairments, restructuring costs and transaction costs totalling R22 million.

Net finance costs of R306 million (FY22: R351 million) include interest on capitalised leases of R132 million (FY22: R128 million) and have reduced because of the reduction in the group's net interest-bearing debt levels, despite rising base interest rates (margins on the group's refinanced facilities were in-line with or in some cases, less than, the margins on the term loans and notes that were settled).

The share of profit from associates of R25 million (FY22: R26 million) reduced by R1 million, but includes net impairments of R10 million (comprising investment property impairments of R15 million net of fair value gains on interest rate hedges of R5 million) in the current year and upward revaluations of investment properties of R11 million in the prior year. The base can be attributable to improving trading conditions. Hotel trading in the UK has recovered quickly, particularly in the regional markets but discount rates on investment properties have increased.

The income tax expense for the year of R270 million (FY22 credit: R2 million) relates mainly to the tax raised on the Separation Payment received from TSG as well as increased trading levels during the year. The group's operating subsidiaries remain in assessed loss positions although much of the loss has been utilised by the gain relating to the Separation Payment from TSG. Deferred income tax assets amounting to R312 million have been recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable.

Group adjusted headline profit from continuing operations for the year at R431 million (FY22 loss: R132 million) has improved by R563 million. The adjustments include the reversal of the post-tax and non-controlling interest impacts of the exceptional gains noted above. The weighted average number of shares in issue has reduced slightly from the prior year due to the group's acquisition of 10 million SSU shares (refer to Corporate activity) and the resultant adjusted headline earnings per share from continuing operations is 29.2 cents (FY22 loss: 9.0 cents).

## **Funding capacity and covenants**

In December 2022, the group successfully concluded the refinancing of its debt package with the aim of simplifying the security structure, further extending the facility tenures to between three and five years and reintroducing normalised covenants.

Total facilities of R2.5 billion were raised across all four major South African banks with R2.1 billion of the proceeds applied towards the settlement of term loans in Hospitality Property Fund Limited ("HPF") of R400 million and the settlement of outstanding HPF notes of R1.7 billion. The HPF corporate note programme was delisted with effect from 30 November 2022 and funds flow and settlement of the HPF term loans and note programme occurred on 9 December 2022. Refer to note 11.1 for further details.

Interest-bearing debt net of cash at 31 March 2023 totalled R1.3 billion (excluding the Ikoyi Cash Deposit – refer to the Corporate activity section), which is R1.5 billion less than the 31 March 2022 balance of R2.8 billion.

## **Going concern**

The condensed reviewed consolidated financial statements are prepared on the going-concern basis. Based on the cash flow forecasts, available cash resources and facility headroom, management believes that the group has sufficient resources to continue operations as a going concern in a responsible and sustainable manner. Refer to note 11 for further details.

The board of directors of the company has assessed the cash flow forecasts and is of the view that the group has sufficient liquidity to meet its obligations over the next 12 months.

## **Prospects**

We are encouraged by trading levels over the last six months which have continued into April and May 2023. The impact of a winter with a severely constrained electricity system is unknown. Having successfully strengthened the group's balance sheet over the past year, we are able to withstand short-term trading volatility but will continue to maintain the discipline of managing liquidity and capital allocation prudently. The group's strategy is to continue reducing debt levels and making the most of the properties we have in our portfolio, many of which are irreplaceable, and to focus on our customer delivery.

## **Dividend**

The directors considered it prudent to retain cash resources to ensure that the group can meet its obligations until trading and occupancies normalise and the threat of increased load shedding during winter subsides. Accordingly, the directors have not declared a final cash dividend for the year ended 31 March 2023.

## **Events occurring after the balance sheet date**

The directors are not aware of any other matter or circumstance arising since the balance sheet date and the date of this report.

## **Presentation**

Shareholders are advised that a presentation on the results for the year ended 31 March 2023 will be held on Thursday, 25 May 2023 at 10:00 via Microsoft Teams, and those wishing to join can find the link to the presentation on the company's website at [www.southern.sun.com/investors](http://www.southern.sun.com/investors).

**Marcel von Aulock**  
*Chief Executive Officer*  
25 May 2023

**Laurelle McDonald**  
*Chief Financial Officer*