

BEE is on Hospitality's menu

September 5, 2006

By Roy Cokayne

Pretoria - Hospitality Property Fund, South Africa's first specialist listed property fund invested exclusively in hotels and resorts, is set to enhance its black economic empowerment (BEE) status.

Gerald Nelson, a director of Hospitality, said on Friday that the objective of the company was to increase its BEE shareholding to 25.1 percent, which was prescribed by the property charter. In the short term the company hoped to improve its BEE shareholding to between 18 and 20 percent, he said.

Nelson confirmed the fund had already started negotiations with a BEE entity and would probably make an announcement "within the next two weeks" that would coincide with an announcement on a number of new acquisitions.

"We're trying to find the right mix of property yield and funding costs that enable us to do it [the BEE deal] on a basis that has the least dilutionary impact for shareholders."

Hospitality Property Fund last month reported it was in final negotiations for an acquisition of a prime landmark hotel when it released its financial results for its first four and a half month period as a listed company.

Its A-linked units, which have an escalating preferred claim to earnings, received a distribution of 37.40c a unit, the maximum achievable for this unit.

B-linked units, which receive the balance of the earnings after settlement of the A-linked unit distribution entitlement, received a distribution of 45.12c a linked unit. This was 17.6 percent higher than forecast.

A private placement by Hospitality prior to its listing, which raised R512.6 million, was almost eight times oversubscribed. It received applications worth R3.8 billion.

Nobuntu Investments, a majority black-owned company, owned 14 percent of the A-linked units in Hospitality at listing. This has now declined to 12.5 percent of market capitalisation.

Nelson said this was due to the two different share classes and their relative valuation in terms of the company's market capitalisation.

The fund would have to continuously top up its BEE shareholding when it did acquisitions that were partly funded by the issue of new linked units to keep its BEE shareholding at the same level, he said.

Hospitality previously considered the possible acquisition of the listed City Lodge hotel group but decided not to proceed with the transaction at that stage. In a different market and with different relative valuations for the two companies, Hospitality might reconsider this transaction if City Lodge's management was amenable to it.

Hospitality rose 43c to R12.44 yesterday.