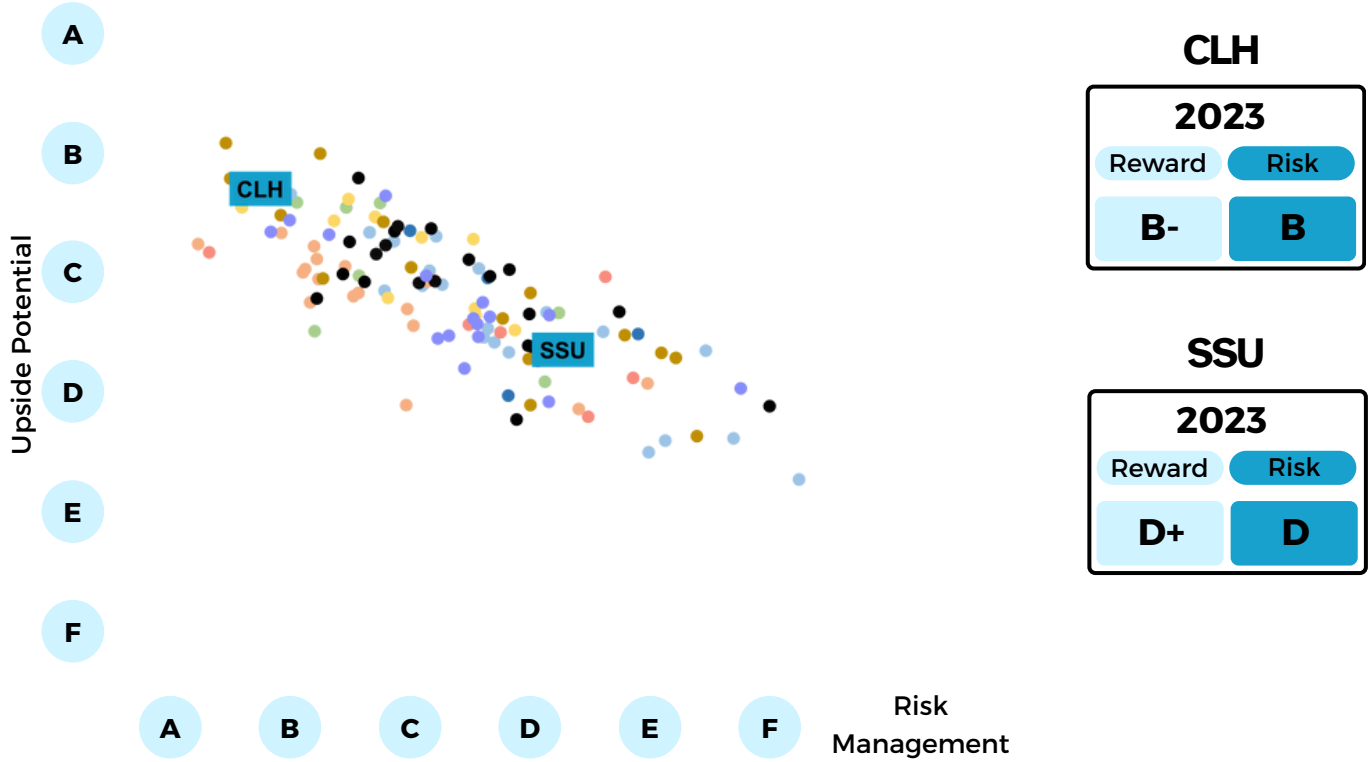


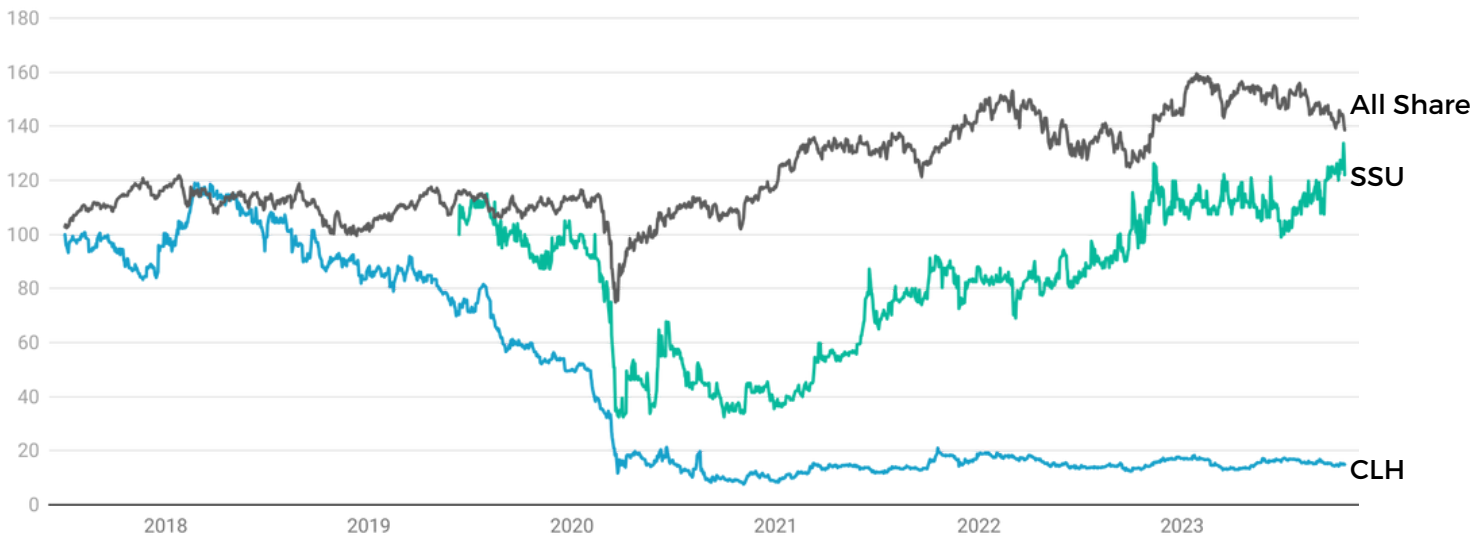
Risk and Reward Analysis

South African Hotels



City Lodge & Southern Sun vs All Share

Share performance over six years



Proven Outperformance

FarSight now covers 136 stocks representing more than 90 percent of the market capitalisation of listed companies in SubSaharan Africa. The graph below shows that the 20 companies we rated best for leadership quality, outperformed the worst 20 companies by more than 210% since we achieved coverage in June 2017. [Top and Bottom performer portfolios are equal weighted and re-constituted at each assessment date, approximately 4 times a year]

Heroes, Villains and the All Share

Share performance of the Top and Bottom Quintiles vs the All Share



FarSight has called almost all the companies that failed as a result of poor leadership, with some of the most notable value-destroyers being Steinhoff, Ascendis, Massmart, Woolworths, Pick n Pay, Tongaat, Sasol, Anheuser-Busch and Tiger Brands.

And we called these before they destroyed value for investors and society at large.

All Share

Shareprice performance of the JSE All Share



FarSight Heroes

Shareprice performance of the Fifth Quintile



Second best

Shareprice performance of the Fourth Quintile



Middle

Shareprice performance of the Third Quintile



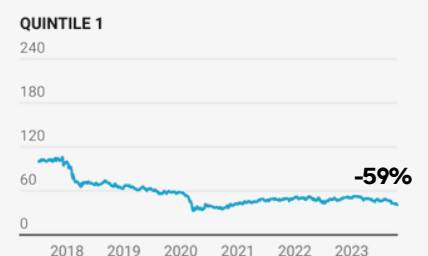
Second Worst

Shareprice performance of the Second Quintile

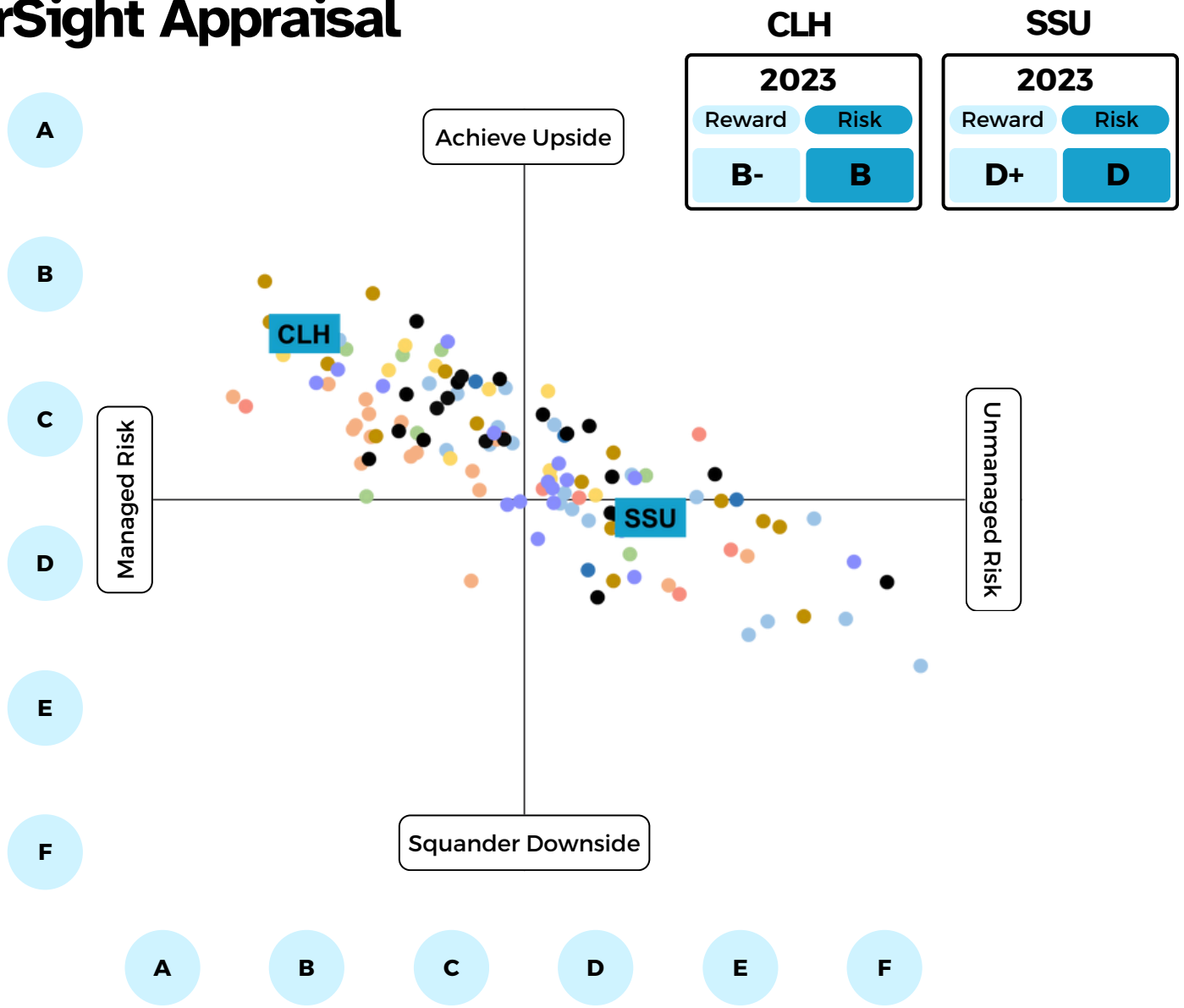


Most Short-sighted

Shareprice performance of the first Quintile



FarSight Appraisal



The FarSight appraisal

The FarSight Appraisal results in a score for a company's ability to achieve on the upside, while managing downside risk. All companies need to find ways to maximise their upside earning potential, while managing their risks to reduce potential losses. The FarSight Appraisal aims to identify those companies with the ability to generate returns that far exceed their risk of failure. Heads I win big, tails I don't lose too much.

How to interpret the score?

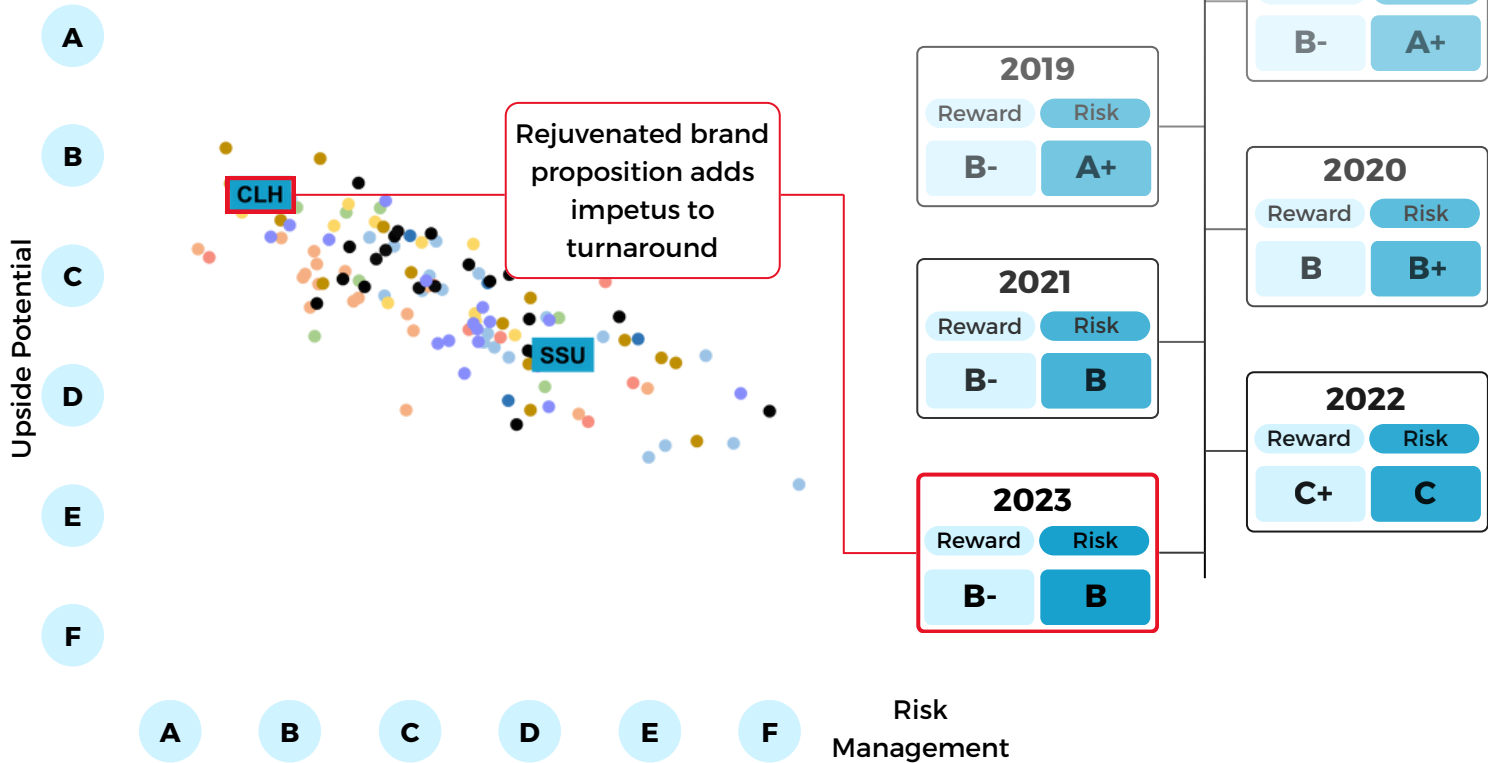
Companies in the top-left quadrant (A, B or C on both axes) show more sincere engagement and more strategic response to their most critical value drivers than those in the bottom-right quadrant (D, E or F on both axes).






A high FarSight Appraisal is an indication of a company enjoying tailwinds, and of our confidence in its leadership's ability to achieve its upside potential, while managing down the risks.

Conversely, a low FarSight Appraisal is an indication of a company facing headwinds, and of low confidence in the company's ability to make good on its value drivers, and with low ability to manage the risks threatening significant value destruction.

City Lodge Hotels Limited

Leisure | South Africa | JSE: CLH



- | | | | | |
|---|---|---|---|---|
| Chairman | Deputy Chairman | CEO | CFO | COO |
|  |  |  |  |  |
| Bulelani Ngcuka | Frank Kilbourn | Andrew Widegger | Dhanisha Nathoo | Lindiwe Siddo |

Description

City Lodge Hotels operates about 60 hotels in South Africa, Botswana, Mozambique, and Namibia, focusing on business nodes, such as near airports.

Backstory

From around 2017, City Lodge faced increasing competition, especially from Airbnb, but was most dramatically affected by the COVID-19 pandemic, being forced to shut down most hotels during the lock-downs. In order to restore financial stability, City Lodge sold its East African portfolio and has concentrated on catering to domestic leisure travel, considering the drop-off in business and international travel.

Strategy

City Lodge is focusing on refreshing its brand, expanding its footprint beyond South Africa, opening new-concept Courtyard Hotels, growing its food and beverage offerings, and optimising performance.

Declared value proposition

"Provide our external customers with uniquely superior products and services and our internal customers with the support they need to achieve the group's objectives."

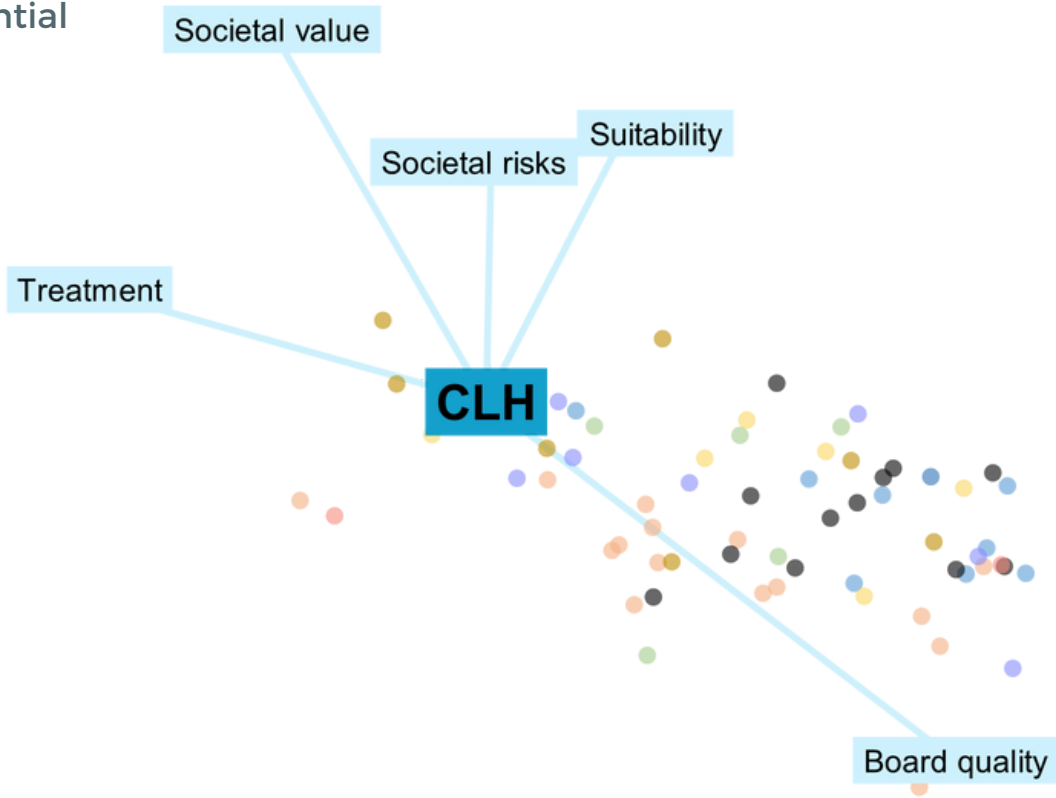
City Lodge Hotels Limited

Leisure | South Africa | JSE: CLH

CLH Push & Pull Factors

The critical issues driving upside potential and threatening downside risk

Upside Potential



Downside Risk

City Lodge Limited vs All Share



FarSighted but Underperforming?

City Lodge's shareprice has been falling since early 2018 with a sharp drop spurred by the impact of Covid-19 on the hospitality industry. Unlike many of City Lodge's similarly rated peers, the company's shareprice has not rebounded as industries have returned to pre-Covid levels of output, so why does the company enjoy such a high rating?

FarSight's analysis of upside potential and downside risk is explicitly forward-looking and City Lodge's engaged, balanced and insightful responses to its most material issues is a reflection of a company that may be underpriced given its upside potential.

City Lodge Hotels Limited

Leisure | South Africa | JSE: CLH

Exposure

Response

Product Suitability

1

Prior year reporting was light on definitive strategies to deal with long-term trends, such as work from home, virtual meeting preferences, and rising cost of travel, raising the exposure to product suitability. Post-pandemic occupancy rates improved to 56% (2022: 38%).

Renewal of robust refurbishment cycle, with the completion of Courtyard Hotel Waterfall City, refurbishment of Road Lodge Richard's Bay, and the refurbishment of City Lodge Hotel V&A Waterfront in progress, plus a further 10 hotels due in 2024.

Societal Risks

2

Dislocations in the global economy, affecting energy and supply chains. Tightening interest rates and rising inflation. In SA: weak political leadership, collapsing infrastructure, failure of municipalities and uncertainty re looming elections, may affect inbound tourism.

Strong enunciation of the risks facing the company, with useful responses summarised.

Board Quality

3

Existentially tough trading conditions during and after the Covid pandemic place substantial demands on board quality. There were no changes to the board during the year. Ms N Medupe appointment to the audit committee received only 50% shareholder approval.

Detailed reporting on key risks facing the group offset by boilerplate reporting on board evaluation and effectiveness, but defends long tenure as necessary to manage the cyclicity of the tourism industry. Post-year-end, Stuart Morris retired after a 17 year tenure.

Societal Value Proposition

4

Dramatic shifts in hospitality post Covid demand not only affected product suitability, but has also required re-strategising around a compelling and well communicated value proposition in keeping with the company's strong brand and reputation.

City Lodge has responded to the 'Bleisure' trend, driven by remote work models, enabling people to extend work trips into mini-vacations. In response, the group is reimagining its spaces to offer work-friendly environments and rich leisure experiences, with a new brand strategy, "check into easy."

Treatment of Customers

5

How has City Lodge stayed on top of customer service as it adjusts to new operating trends?

City Lodge has shifted from fixed room rates to a Best Available Rate (BAR) philosophy, aimed at yielding the best price against demand, though it justifies this policy as "selling to the right customer, at the right time, for the right price." Customer satisfaction KPIs a component of executive remuneration.

City Lodge Hotels Limited

Leisure | South Africa | JSE: CLH

Exposure

Response

Energy

6

As the world transitions away from fossil fuels, energy utilities, especially SA's Eskom, have struggled to maintain reliability and cost efficiency, raising the onus on City Lodge to generate and/or supply its own power systems for reliability, energy efficiency, and green credentials.

City Lodge has completed Phase 2 of its solar installations with a total of 41 hotels now powered by solar renewable energy, or 16.3% of group's energy requirements. Battery storage installations have recently been completed at two hotels. No energy intensity reporting.

Talent Management

7

While City Lodge has low employee turnover, the improvement in the hospitality sector in SA raises competition for talent. How has leadership followed through on promises to restore salaries after the salary reductions implemented during Covid?

The CEO has focuses on aligning corporate culture with the changing needs of City Lodge's guests and business, "emphasising the importance of rapid adaptation, innovation and accountability." The CEO, COO and CFO work with teams to create a new ethos centered on agility, ease and flexibility in serving clients.

Systems Integrity

8

Vulnerable to late delivery of hotel refurbishments, or running over budget due to inflationary increases in building costs, supply shortages and logistic challenges, as well as poor municipal service delivery. Customer management systems raise exposure to cyber-attack.

While IT governance is discussed in reasonable detail in the governance report, there is limited reporting on customer ID protection and data privacy. Acknowledgement of global risks delaying City Lodge's capital programme. IT value-add a component of executive remuneration.

Fair Labour

9

With hospitality being a people business, the attitude of front-line staff is critical to delighting customers and ultimate value creation. How is City Lodge maintaining fair treatment of its staff?

The CEO assures that salaries have been fully reinstated. Lined to the issue of Talent (above), City Lodge reports in detail in the management of employees, including value proposition, leadership development, well-being and the WOW programme for service excellence.

Equity

10

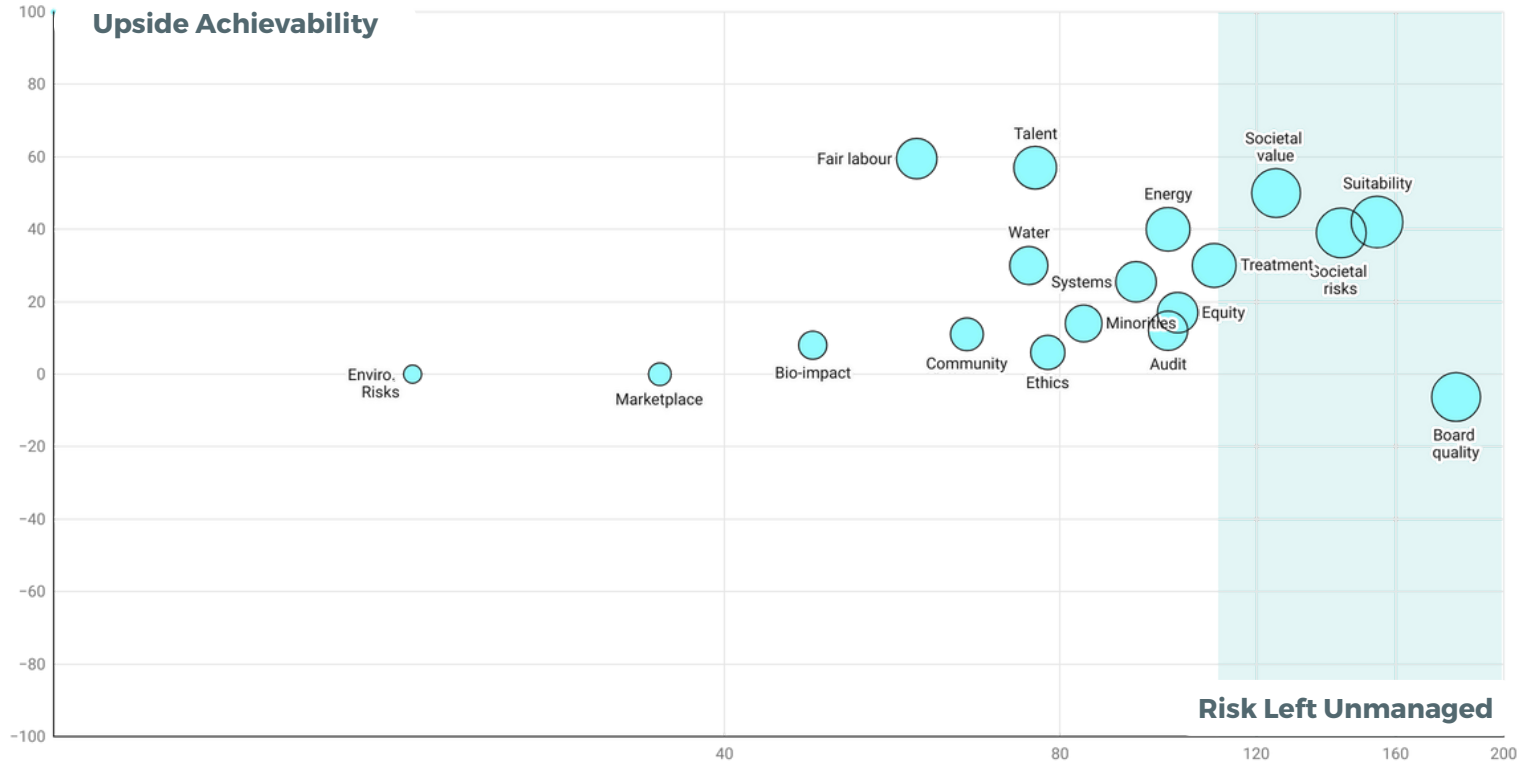
How is City Lodge responding to criticisms that its BEE deal has been value destructive for shareholders and entered the period at Level 5?

City Lodge makes no mention of shareholder concerns with the unwinding of the BEE deal, but managed to achieve an improved B-BBEE rating of Level 3 from Level 5 in the previous year.

City Lodge Hotels Limited

Leisure | South Africa | JSE: CLH

City Lodge Hotels Issue Mapping



Mapping City Lodge Hotels' Issues

The graph above maps out City Lodge Hotels' issues across three dimensions:

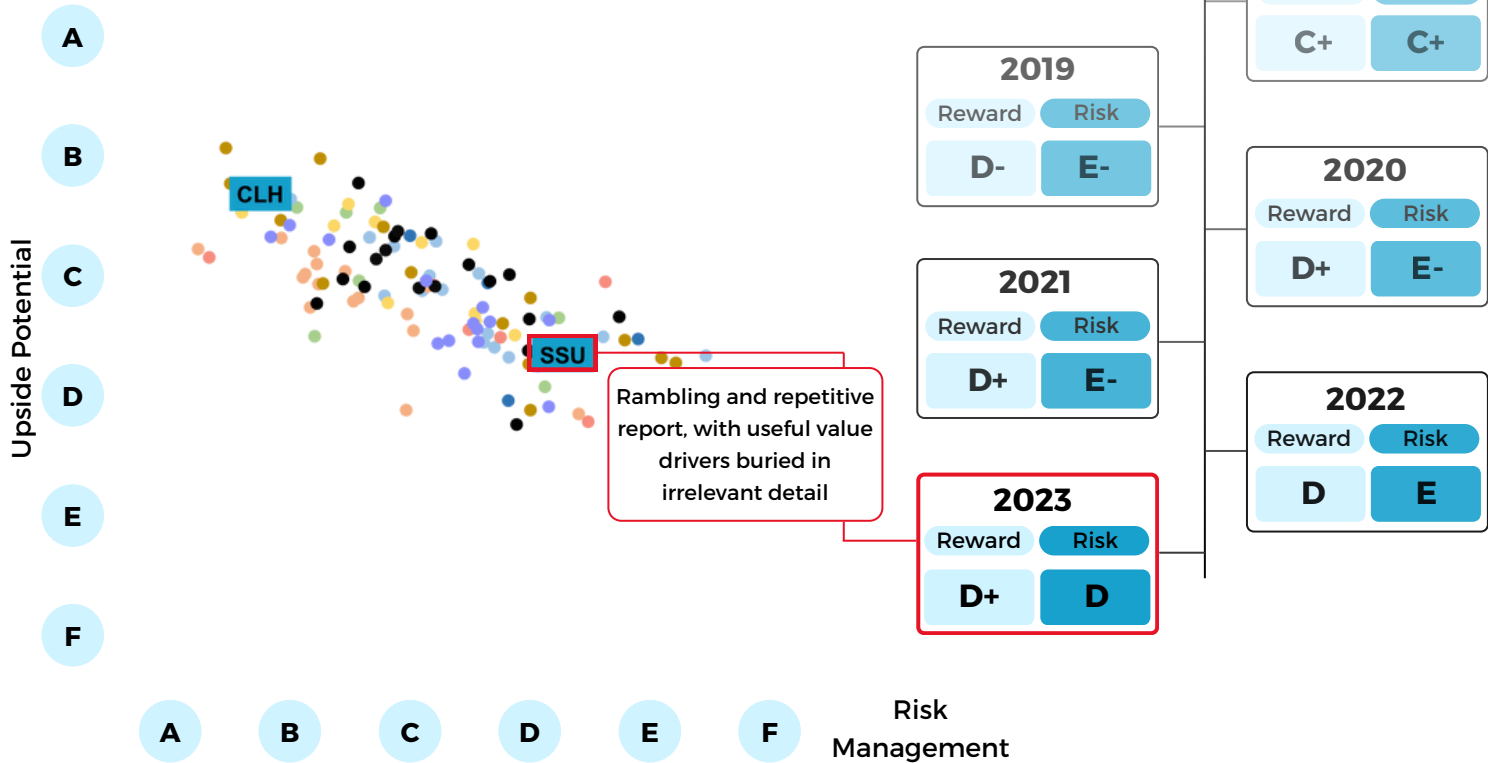
- **Bubble size:** the importance of the issue as a value driver
- **Vertical axis:** Upside Achievability reflects our confidence in the company's ability to drive value from the potential upside
- **Horizontal axis:** Risk left unmanaged reflects our confidence in the company's ability to mitigate downside risk. The further out the bubble, the more overwhelming the risk and the more vulnerable the company.

City Lodge Hotels has performed well on aggregate, but this view of risk reveals areas of vulnerability. A conservative approach to valuation might suggest concentrating your appraisal of the company's prospects on specific risks, such as board quality and product suitability, which on their own, could destroy significant value for the shareholder.

The highlighted section of the graph identifies one issue of high vulnerability: **Board Quality**.

Southern Sun Ltd

Leisure | South Africa | JSE: SSU



Chairman



John Copelyn

CEO



Marcel von Aulock

CFO



Laurelle McDonald

Description

Formerly known as Tsogo Sun Hotels, Southern Sun operates 107 hotels in South Africa, Mozambique, the Seychelles, Tanzania, the United Arab Emirates, and Zambia. Of these, it wholly-owned 75 hotels. South Africa accounts for 80% of sales.

Backstory

Southern Sun suffered dramatically during the COVID-19 pandemic, with travel restrictions and lock-downs resulting in low occupancy rates and revenue losses. Its recovery strategy was to refurbish existing flagship hotels rather than expand operations. The business achieved total income growth in 2024 of 19% and EBITDA growth of 32%.

Strategy

Continue reducing debt levels and making the most of the properties it has in its portfolio, and to focus on customer delivery.

Declared value proposition

"Our vision is to be the leading hospitality group in southern Africa by creating exceptional experiences at every one of our distinctive destinations."

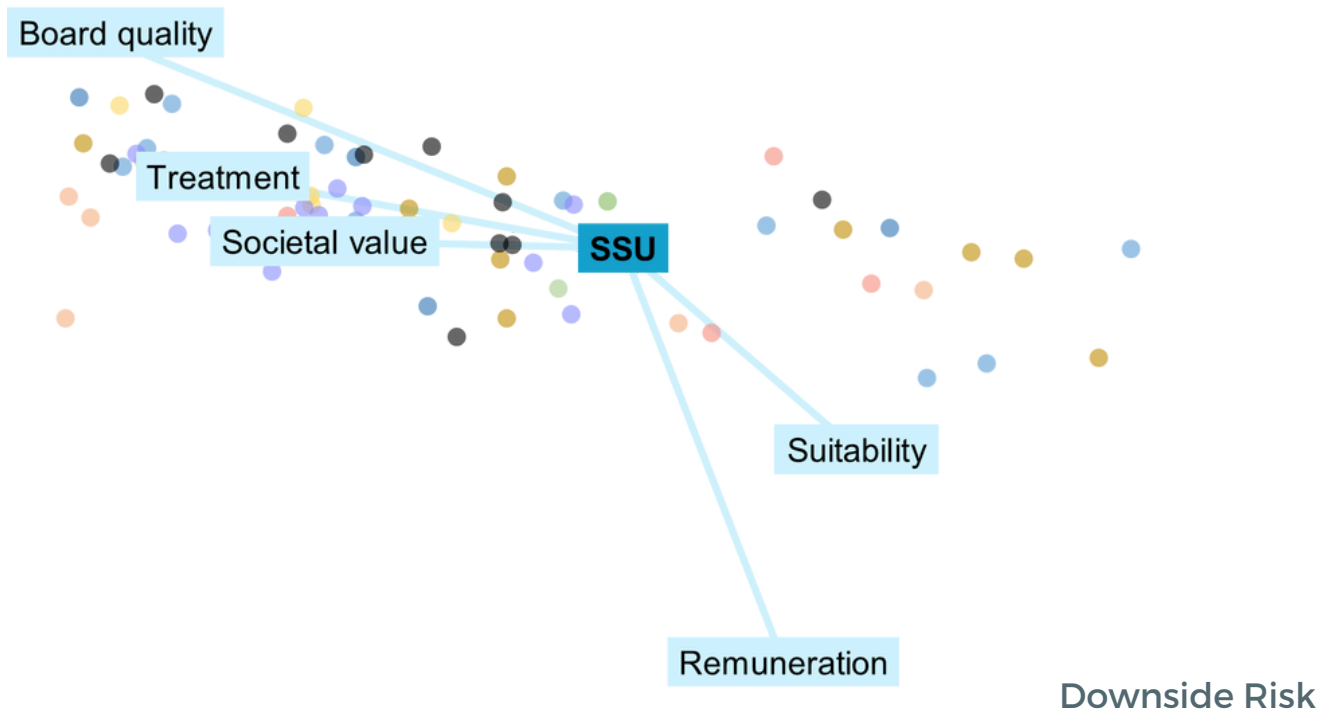
Southern Sun Ltd

Leisure | South Africa | JSE: SSU

SSU Amoeba

The critical issues driving upside potential and threatening downside risk

Upside Potential



Southern Sun Ltd vs All Share

Share performance over six years



Enjoying post-Covid Tailwinds

Southern Sun's share performance took a significant knock during Covid-19 as the hospitality industry in South Africa suffered the severe drought of tourism, coupled with the myriad shocks felt across the economy. Southern Sun's shareprice has since rebounded, despite a poor appraisal by FarSight - so what is happening here?

FarSight's analysis of upside potential and downside risk is explicitly forward-looking and Southern Sun's patchy, poor and compliance heavy approach to reporting indicates a company that may be enjoying the tail winds of an industry getting back to pre-Covid levels of output, but may be fragile to future shocks in the environment.

Southern Sun Ltd

Leisure | South Africa | JSE: SSU

Exposure

Response

1

Product Suitability

How does Southern Sun plan to re-orientate its customer value proposition to remain relevant in the post-Covid operating environment?

Useful itemisation of risks and drivers impacting on product relevance, e.g. nature of technology offerings, quality of physical products, location, appeal of restaurants, and availability in response to travel patterns. In response, a commitment to a rolling five-year refurbishment process, under the responsibility of key personnel.

2

Board Quality

Existentially tough trading conditions during and after the Covid pandemic place substantial demands on board quality. Three of the 5 independent non-executives are over 60 and the Chairman and CEO are both long-tenured. Chairman arguably overcommitted.

As in prior years, superficial reporting on competence, viewpoint diversity and leadership succession. Superficial independent board evaluation with no strategy or action items listed to improve board effectiveness - particularly in the area of industry expertise.

3

Societal Value Proposition

Dramatic shifts in hospitality post Covid demand not only affected product suitability, but has also required re-strategising around a compelling and well communicated value proposition, especially given the change in the group's brand from Tsogo Sun Hotels.

Reporting promotes its unique selling propositions of "creating memorable experiences, providing quality products and delivering trusted service with flair." No significant discussion around assessing the value proposition for relevance to emerging trends.

4

Treatment of Customers

How has Southern Sun stayed on top of customer service as it adjusts to new operating trends? General Data Protection Regulation (GDPR) and Protection of Personal Information Act (POPIA) regarding the use of customers' personal and credit card data and the protection of data from cyber theft demands sensitive and secure treatment.

Leadership asserts "a focus on service delivery... where [our] people follow commitments to customers, suppliers and colleagues to be consistent, be present and show respect." a 'frequentGuest' programme is employed to improve response to trends. Useful reporting on customer privacy.

5

Remuneration

STI metrics are narrow, generic, one dimensional, inter-related and measured exclusively through EBITDAR and adjusted earnings, with no operational, strategic or ESG metrics. Given HCI's significant ownership stake in the business, incentives to drive material issue performance is raised as an issue.

As in prior years, little evidence that performance against material issues are being appropriately incentivised. For both STI and LTI, metrics are disclosed, however targets are not disclosed. Application of discretion is poorly articulated. Lack of independence unaddressed.

Southern Sun Ltd

Leisure | South Africa | JSE: SSU

Exposure

Response

Societal Risks

6

Dislocations in the global economy, affecting energy and supply chains. Tightening interest rates and rising inflation. In SA: weak political leadership, collapsing infrastructure, failure of municipalities and uncertainty re looming elections, may affect inbound tourism.

Leadership acknowledges the challenges of load shedding, the cost of diesel, high interest rates, poor business confidence and municipal dysfunctionality. Countering these, leadership is confident that forthcoming large events are cause for optimism.

Minorities

7

What reassurance can the board give that the concentration of power and authority on the board does not create an echo-chamber, compromising the quality of decision-making and threatening minority shareholder rights?

Reporting acknowledges the non-independence of the Chairman. Despite an LID on the board, lack of independence is not dealt with substantively, considering HCI's significant shareholding and the concentration of power and authority on the board (G Ncgobo listed as independent). Significant share repurchases.

Talent Management

8

Given the rebound in the tourism industry, competition for top talent is increasing the materiality of this issue. How does Southern Sun report on and motivate an employee value proposition to attract and retain talent? This extends also to the attitude of front-line staff, so critical to delighting customers and ultimate value creation.

Useful itemisation of risks impacting on human resources, but vague and partially irrelevant responses in bullet form. The chapter on key talent areas generally lacks purpose and strategic discussion.

Systems Integrity

9

The group entered the period with a significant debt burden of R2.8bn. A number of refurbishments are planned for the future.

Leadership report that the separation from TSG, as well as the sale of the Ikoyi hotel in Nigeria, combined with better than expected trading, reduced the net debt position to R1.3bn. Current refurbishments highlighted, but vague as to timelines and delivery performance. CFO asserts improved agility to maintain cashflow in downturns.

Energy

10

As the world transitions away from fossil fuels, energy utilities, especially SA's Eskom, have struggled to maintain reliability and cost efficiency, raising the onus on Southern Sun to generate and/or supply its own power systems for reliability, energy efficiency, and green credentials.

Detailed reporting on Scope 1, 2 and 3 emissions, but lacking in relevance to operational concerns, e.g. around energy reliability.

Southern Sun Ltd

Leisure | South Africa | JSE: SSU

Southern Sun Issue Mapping



Mapping Southern Sun's Issues

The graph above maps out Southern Sun's issues across three dimensions:

- Bubble size: the importance of the issue as a value driver
- Vertical axis: Upside Achievability reflects our confidence in the company's ability to drive value from the potential upside
- Horizontal axis: Risk left unmanaged reflects our confidence in the company's ability to mitigate downside risk. The further out the bubble, the more overwhelming the risk, the more vulnerable the company.

Southern Sun's has middling performance on aggregate, but this view of risk reveals areas of vulnerability. A conservative approach to valuation might suggest concentrating your appraisal of the company's prospects on specific risks, such as talent, product suitability, audit, remuneration and treatment of minorities, which on their own, could destroy significant value for the shareholder.

The highlighted section of the graph identifies the issues of high vulnerability: Board Quality, Talent, Product suitability, Audit, Remuneration and Treatment of minorities.

High Level Overview of South African Hotels

The Industry

Amid economic uncertainties, geopolitical tensions and the global pandemic hangover, the retail industry has experienced high unemployment rates, inflationary pressures, and low consumer confidence. While interest rates may have peaked, the continued high inflationary environment has seen customers buckling under high levels of debt, with severe repercussions for the local travel and leisure sector.

The Hospitality Industry

The hospitality industry faces intense competition. One of the biggest threats for hotels has been Airbnb and similar apartment sharing websites. Airbnb has syphoned demand from hotels and limited-service properties in key markets and high tourist areas. With more technological advancements, entry barriers are lowered, and new competitors and disruptors are appearing in the market. However, The Tourism Amendment Bill 2019 was issued in the Government Gazette on 12 April 2019. The Bill proposes to regulate 'short-term home rentals' under the Tourism Act. This means home-sharing apps such as Airbnb and their hosts will soon be regulated in South Africa.

The industry faces several challenges with rising global food and fuel pricing affecting not only operating expenses but guest affordability as well. With travel budgets reduced to save costs and individuals preserving disposable income in a rising interest rate environment, the increasing cost of transport due to rising fuel prices is a major travel deterrent, particularly for international and corporate travel. The southern African hospitality industry is at a critical juncture where it must navigate changing guest needs, optimise value creation, and ensure operational resilience in a post-pandemic world.

City Lodge Hotels

City Lodge primarily caters to business travellers and tourists seeking comfortable, no-frills accommodation. Of all the companies in the sector that were hammered by the pandemic, City Lodge must be near the top of the list for the most severe impact. Post Covid, CLH has focused on filling its rooms tapping into the local tourism and business travel market. However, the downside is decreased South African consumer spending and the sharp increase in the cost of fuel for a road trip or catching a domestic flight. Although most important meetings justify the time and cost of travel in an environment of video-calls and load-shedding, businesses remain overly sensitive to travel costs.

It is hard to overstate just what a terrible deal City Lodge's 2008 Black economic empowerment (BEE) transaction has been, principally for shareholders. In 2020 the total value of the BEE SPV shareholding was R161 million. The amount outstanding in terms of transaction funding was R750-million as it requested shareholder approval of a R1.2-billion rights issue. Thanks to that capital raise, the sale of the East African operations and vastly improved operating conditions, debt has been reduced to R300m in interest-bearing facilities.

Southern Sun

Formerly known as Tsogo Sun Hotels, the group was recently renamed and restructured with more hotels under management and full ownership of the Hospitality Property Fund portfolio, in which it previously held a 59% stake. In April 2022, the Company commenced rebranding its business operations from "Tsogo Sun Hotels" to "Southern Sun Limited". The Company and Southern Sun Hotel Interests (SSHI) concluded a Separation Agreement with TSG, in terms of which it will no longer manage the fifteen hotels owned by TSG.