



# The Hongkong and Shanghai Hotels

## **Investor Presentation**

November 2019

# Disclaimer

This presentation (“Presentation”) is made available by The Hongkong and Shanghai Hotels, Limited (“HSH”) for general purposes only. Nothing contained in this Presentation is intended to constitute a public offer under any legislation or an invitation or inducement to engage in any investment activity. No liability will be accepted for any loss or damage howsoever arising from or in reliance upon the contents of this Presentation. HSH makes no recommendation to buy, sell or otherwise deal in shares of HSH or in any other securities or investments whatsoever and you should neither rely nor act upon, directly or indirectly, any information contained in the Presentation as investment advice in respect of any such investment activity. Any person at any time considering in engaging in investment activity should seek appropriate professional, financial or other advice and not rely on the information contained in the Presentation.



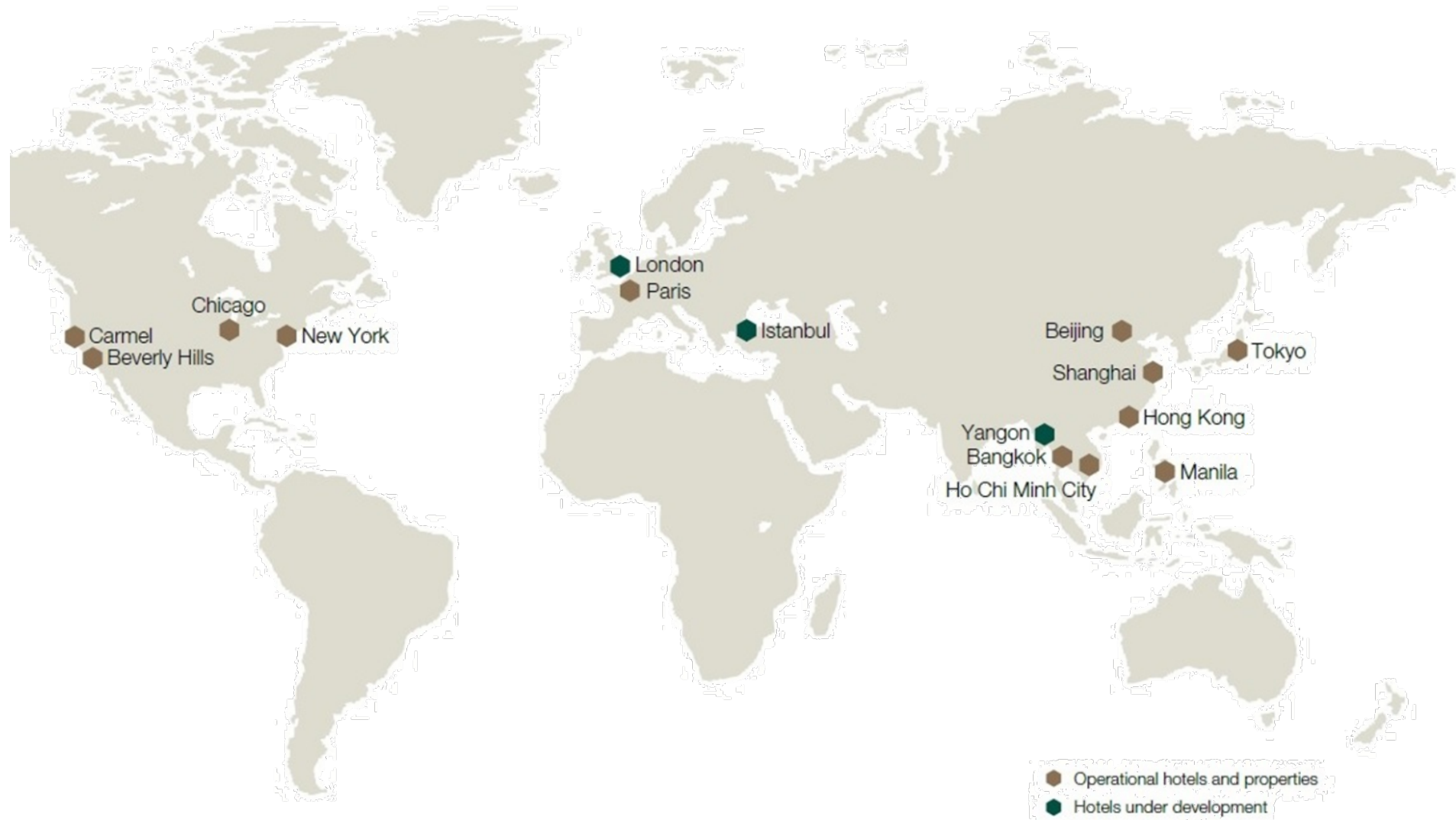


# HSH at a glance

- We are a luxury hospitality and real estate group incorporated in 1866 and listed on the Hong Kong Stock Exchange (00045)
- We own and operate some of the world's finest luxury hotels under The Peninsula brand, as well as strategic real estate assets and tourism assets, including Hong Kong's famous Peak Tram
- Ten operational Peninsula hotels in exceptional city centre locations in Asia, US and Europe, with a further three under development in London, Istanbul and Yangon
- Three divisions including Hotels, Commercial Properties, and Clubs and Services
- HK\$50 billion in total assets

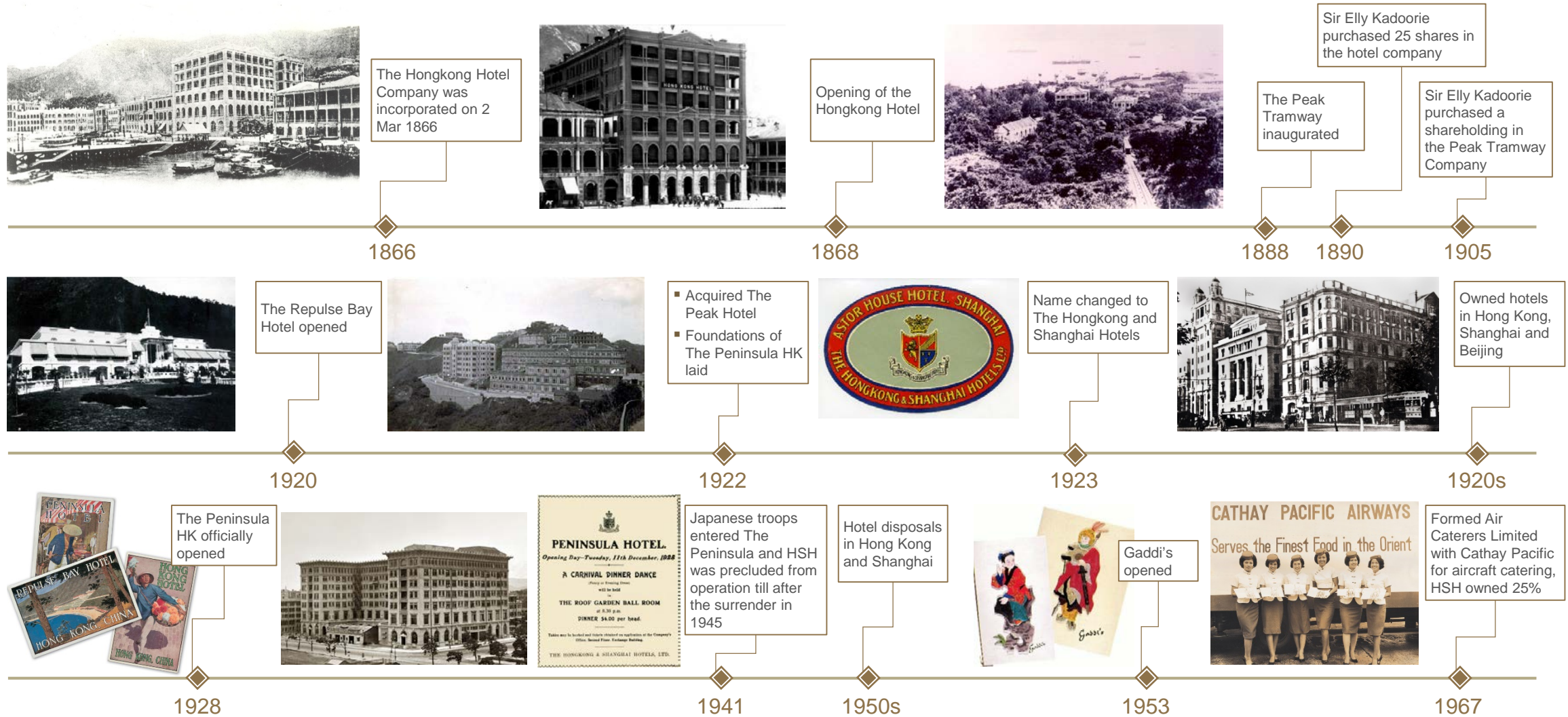


# Footprint in major global gateway cities



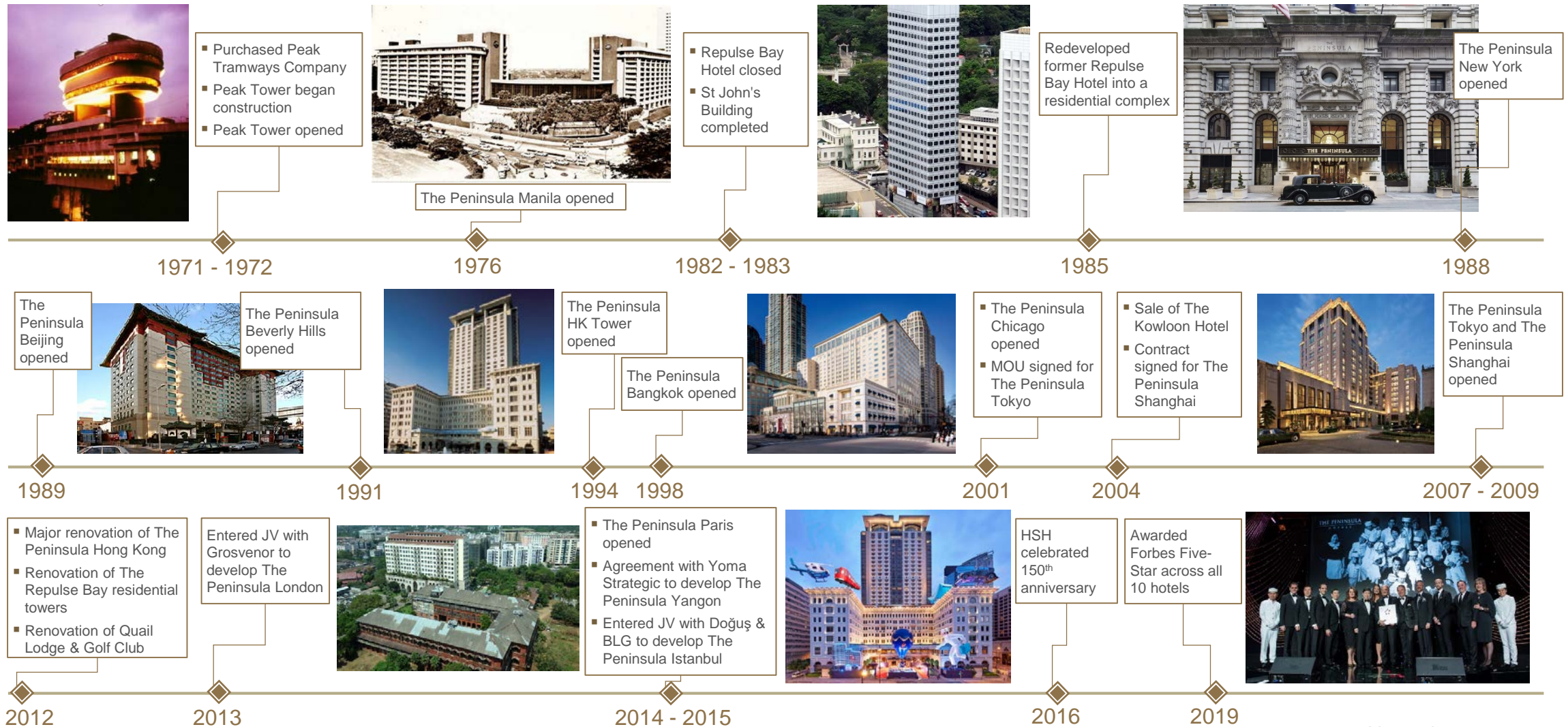


# One of the world's oldest hotel companies





# With history spanning more than 150 years





# Key strategic objectives

- Primary focus on high-end luxury consumers
- Long-term owner-operator of a small portfolio of some of the world's finest luxury hotels
- Majority of future growth from “The Peninsula” branded businesses
- Long-term value creation from developing and holding prime real estate in exceptional locations
- Balance between hotel and non-hotel assets and asset heavy and asset light operations
- Strong balance sheet and prudent financial ratios to insure against potential volatility







Our portfolio



# The Peninsula Hotels



The Peninsula Hong Kong

Established: 1928

Rooms: 300 Ownership: 100%



The Peninsula Shanghai

Established: 2009

Rooms: 235 Ownership: 50%



The Peninsula Beijing

Established: 1989

Rooms: 230 Ownership: 76.6%



The Peninsula Tokyo

Established: 2007

Rooms: 314 Ownership: 100%



The Peninsula Bangkok

Established: 1998

Rooms: 370 Ownership: 50%



The Peninsula Manila

Established: 1976

Rooms: 469 Ownership: 77.4%



The Peninsula New York

Established: 1988

Rooms: 235 Ownership: 100%



The Peninsula Chicago

Established: 2001

Rooms: 339 Ownership: 100%



The Peninsula Beverly Hills

Established: 1991

Rooms: 195 Ownership: 20%



The Peninsula Paris

Established: 2014

Rooms: 200 Ownership: 20%

# Commercial Properties



The Repulse Bay Hong Kong  
(residential and arcade)

Established: 1976 & 1989  
GFA: 1,058,455 sqf Ownership: 100%



The Peninsula Office Tower  
Hong Kong

Established: 1994  
GFA: 75,082 sqf Ownership: 100%



The Peak Tower Hong Kong  
(retail)

Established: 1996  
GFA: 116,768 sqf Ownership: 100%



21 avenue Kléber, Paris, France  
(office & retail)

Established: 2013  
GFA: 44,218 sqf Ownership: 100%



St. John's Building Hong Kong  
(office)

Established: 1983  
GFA: 71,400 sqf Ownership: 100%



The Landmark, Ho Chi Minh City,  
Vietnam (office & residential)

Established: 1994  
GFA: 175,903 sqf Ownership: 70%



# Clubs and Services



Peninsula Merchandising

Established: 2003

Ownership: 100%



The Peak Tram Hong Kong

Established: 1888

Ownership: 100%



Peninsula Clubs and Services

Established: 1977

Ownership: 100%



Thai Country Club  
Bangkok, Thailand

Established: 1996

Ownership: 100%



Quail Lodge & Golf Club  
Carmel, USA

Established: 1997

Ownership: 100%



Tai Pan Laundry  
Hong Kong

Established: 1980

Ownership: 70%

# Projects under development



The Peninsula London

Ownership: 100%



The Peninsula Istanbul

Ownership: 50%



The Peninsula Yangon

Ownership: 70%





# Creating stakeholder value





# Continuous asset enhancement program

2012 – 2013

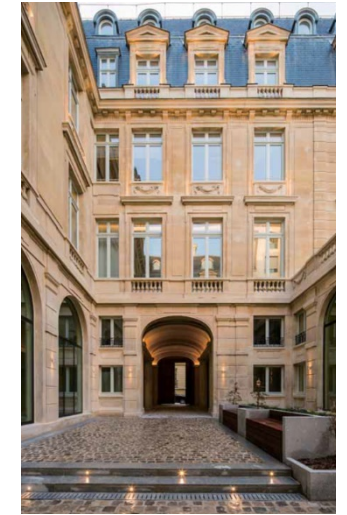
**The Peninsula Hong Kong**  
17-month room renovation program and expansion of Verandah restaurant



**Quail Lodge**  
Full lodge renovation including improvements to the golf course



**21 avenue Kléber**  
Property acquisition and subsequent full refurbishment



2014 – 2016



- **The Peninsula Chicago**  
Room renovation
- **The Peninsula New York**  
Combined five rooms to create the Fifth Avenue Suite



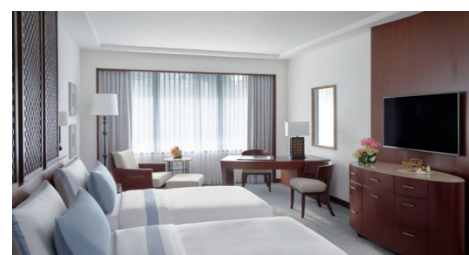
**The Peninsula Beijing**  
Hotel renovation combined 525 rooms into a 230 room all suite hotel



2017 – Present



**The Peninsula Chicago**  
Designed and built the new rooftop bar



**The Peninsula Manila**  
Rooms soft refurbishment

**Quail Lodge**  
Building solar farm to harness energy

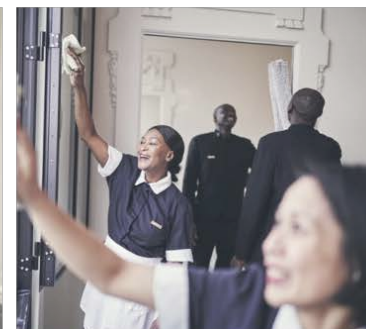
**Peak Tram**  
Full upgrade





# Investing in our people

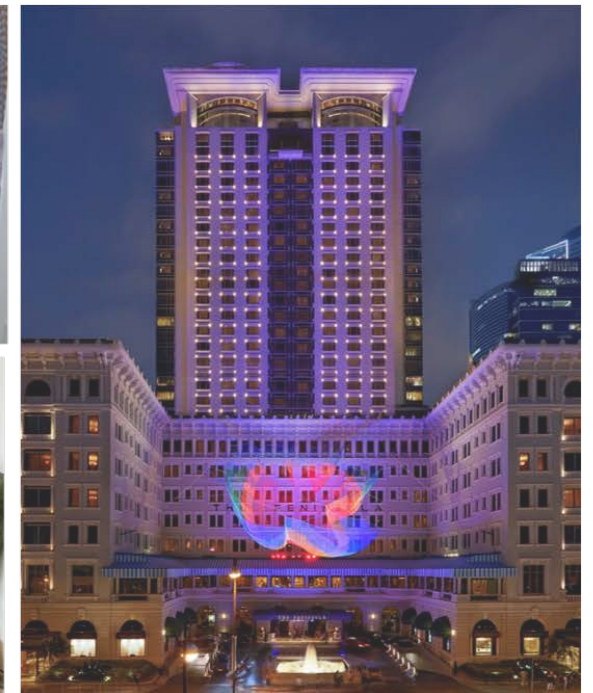
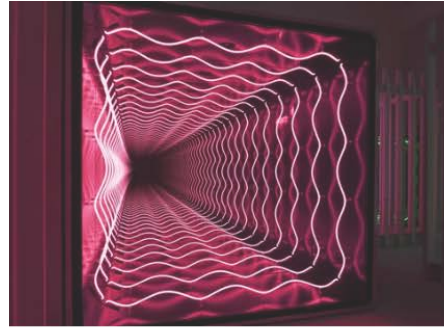
- People are the heart and soul of our company
- Emphasis on recruiting and retaining the best people
- WorkPlace 2025 initiative to modernize the work place – three pillars of respecting our culture and heritage, embracing innovation and driving business performance
- Diverse and inclusive culture
- Hiring of strong leaders
- Growth of mental and physical well-being programs
- Internal cross exposure programs
- High employee engagement and satisfaction





# Partnership with contemporary art

- Position HSH as a vanguard in the art world
- Collaboration with contemporary artists both locally and globally
- Launched Art in Resonance in 2019 – A 'travelling gallery' that supports the cultural ecosystem
  - Newly commissioned works by emerging and midcareer artists
  - New artists added every year
  - Travels and grows between The Peninsula's ten locations and hotels under development in London, Istanbul and Yangon
- Local collaboration with artists and partnership with curators, art fairs and exhibitions





# The Peninsula Signature Events

- Organized by The Peninsula Hotels, dedicated to creating world-class bespoke events at our properties
- Sponsored The Peninsula Classics Best of the Best Award since 2015
  - Amongst the top automotive awards in the world
  - Brings together eight of the concours circuits' elite best of show winners from around the globe
- Quail Lodge & Golf Club hosts four annual automotive-themed events
  - The Quail, A Motorsports Gathering
  - The Quail Rally
  - The Quail Motorcycle Gathering
  - The Quail Ride

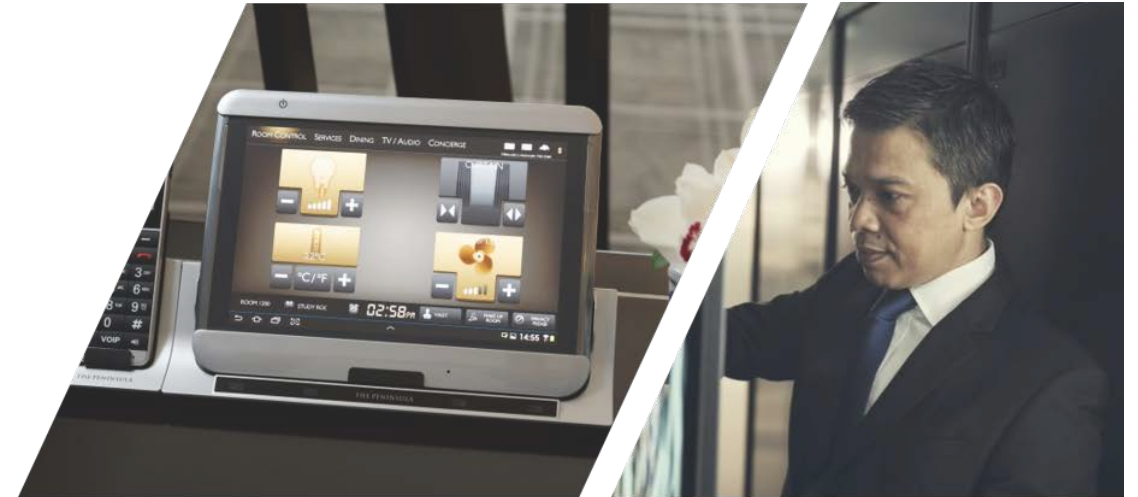




# Embarking on a digital transformation

- Committed to driving technology transformation across HSH
- Five departmental pillars spanning Operations, Sales & Marketing, Research & Technology, Finance and Human Resources
- Five year roadmap to drive transition from current best practice into a truly data-driven company
- Enhance guest and operations through digitization and data analytics
- Possibilities of delivery robots, voice recognition, virtual assistant, digital butler, virtual reality features

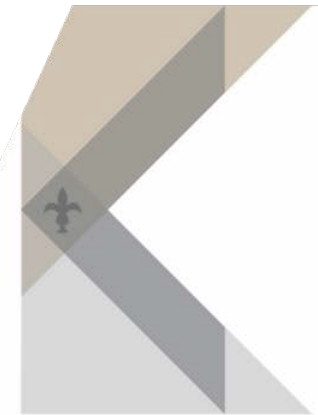
2016/17	Put in place initial business tools for data analysis – BigDATA
2017/18	Start of digital transformation, looking at Business Intelligence software, data analytics
2018/19	Enhance CRM
2019/20	Roll out to all operations





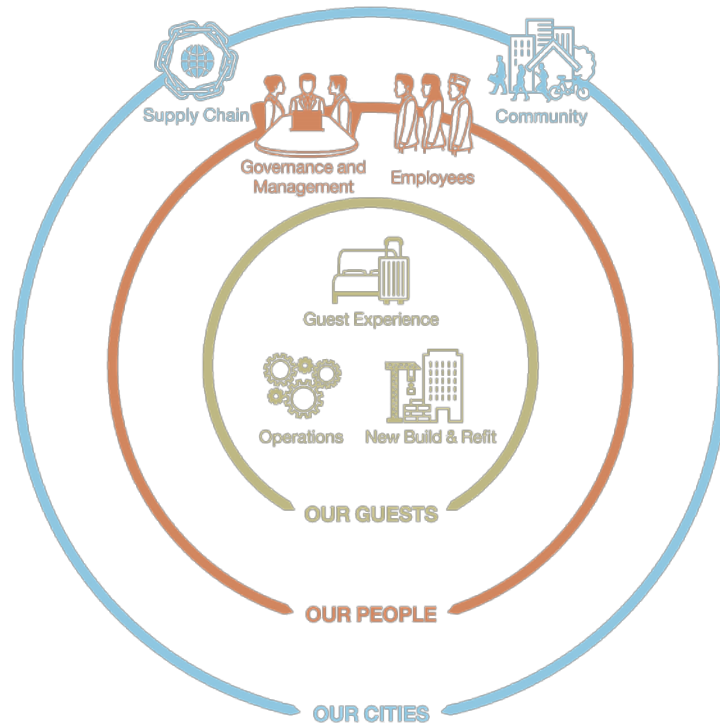
# HSH Kaleidoscope Lab where heritage meets innovation

- Launched HSH Kaleidoscope Lab program #1
- A startup initiative developed in collaboration with Stanford Research Institute
- Unique 12-week program of coaching, mentorship and commercial assistance to technology-based companies to define what's next in tech for luxury hotels
- Attracted over 70 applicants; 6 shortlisted finalists subsequently pitched their ideas to a panel of HSH executives and industry experts with two winners selected in Feb 2019
- At the end of the program, the start ups will pitch their product to HSH to secure a pilot or commercial deal

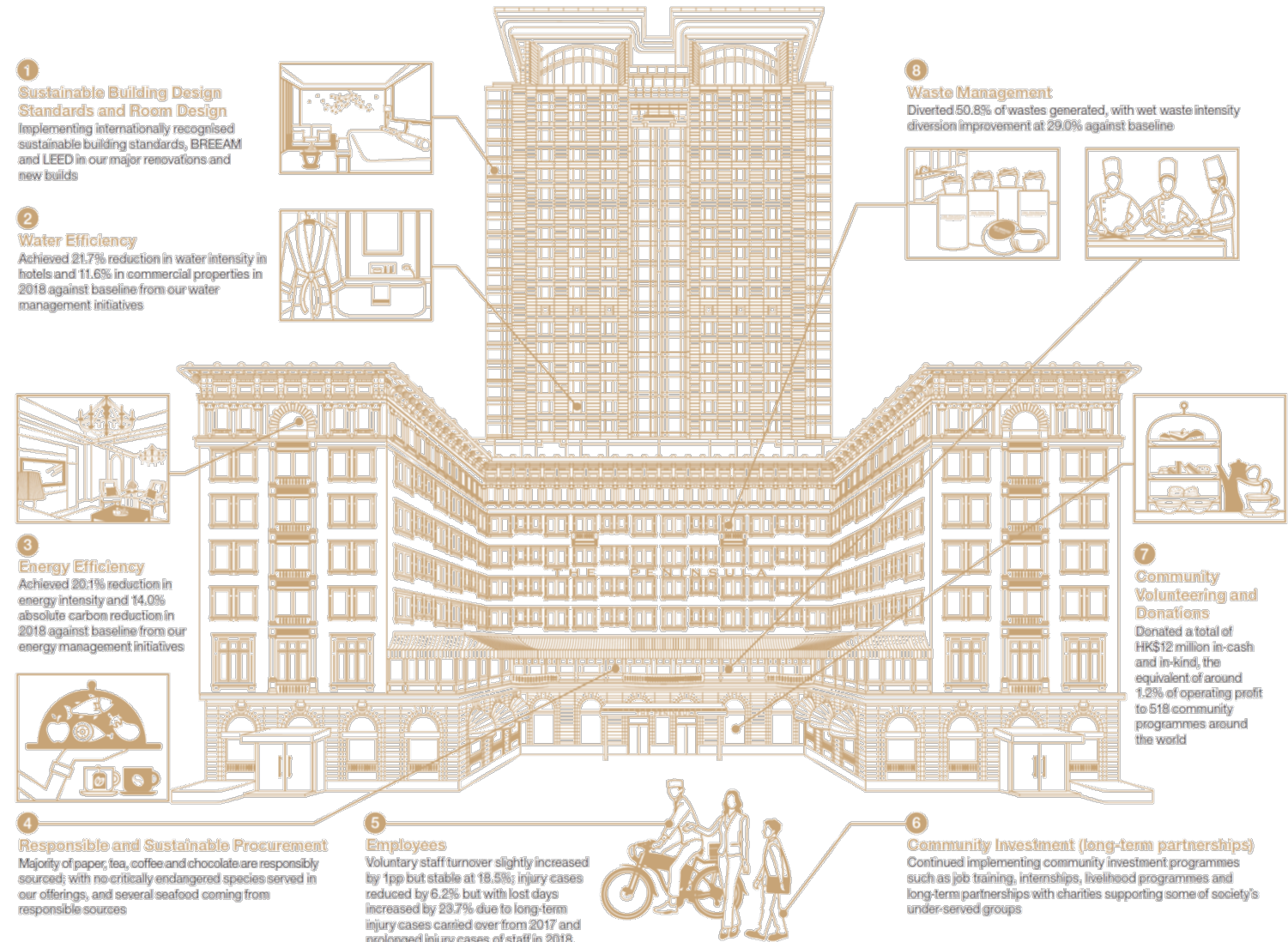


KALEIDOSCOPE LAB

# Sustainable luxury vision 2020



Over 85% of our commitments are on track







# Investing for the future

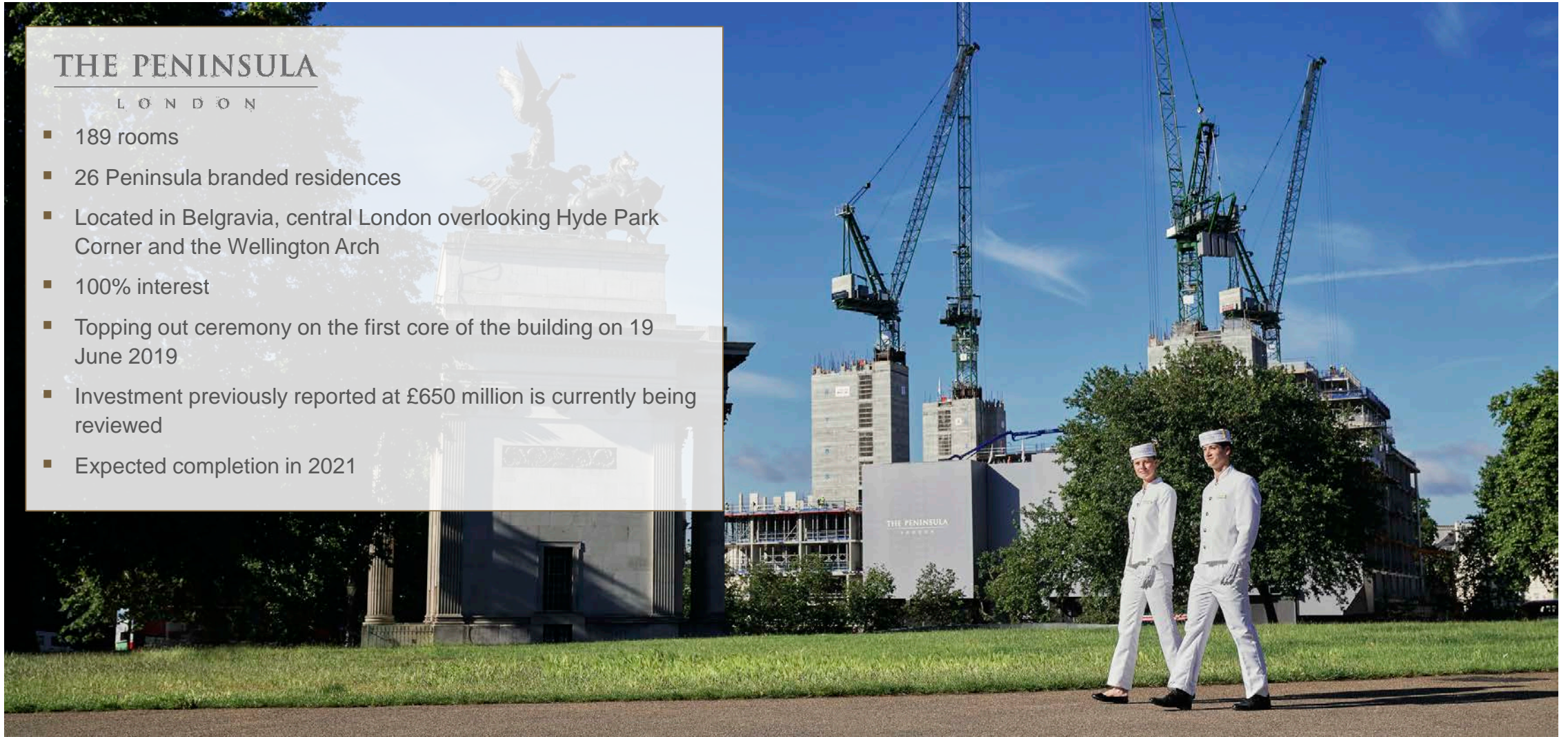


# The Peninsula London

## THE PENINSULA

L O N D O N

- 189 rooms
- 26 Peninsula branded residences
- Located in Belgravia, central London overlooking Hyde Park Corner and the Wellington Arch
- 100% interest
- Topping out ceremony on the first core of the building on 19 June 2019
- Investment previously reported at £650 million is currently being reviewed
- Expected completion in 2021



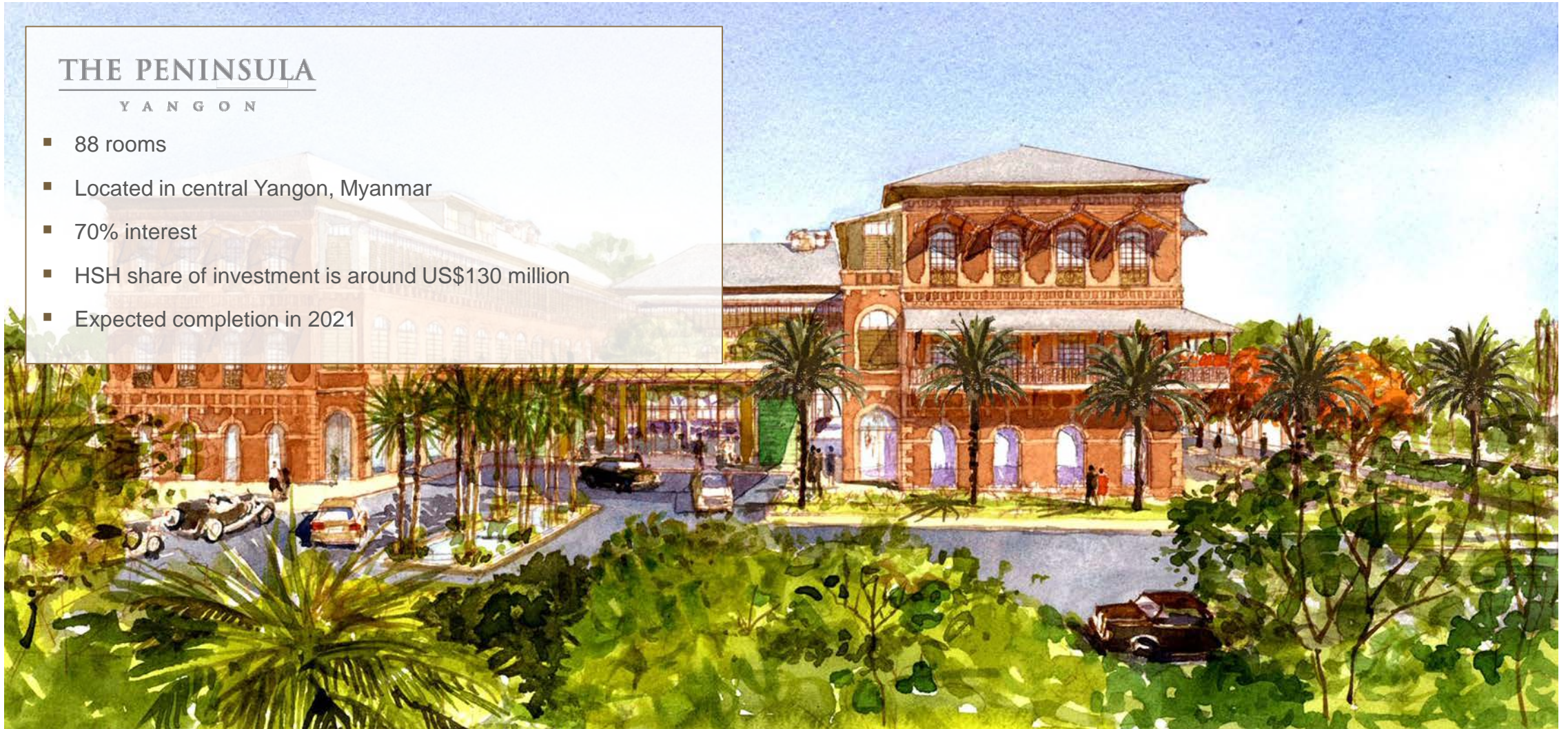


# The Peninsula Yangon

## THE PENINSULA

Y A N G O N

- 88 rooms
- Located in central Yangon, Myanmar
- 70% interest
- HSH share of investment is around US\$130 million
- Expected completion in 2021



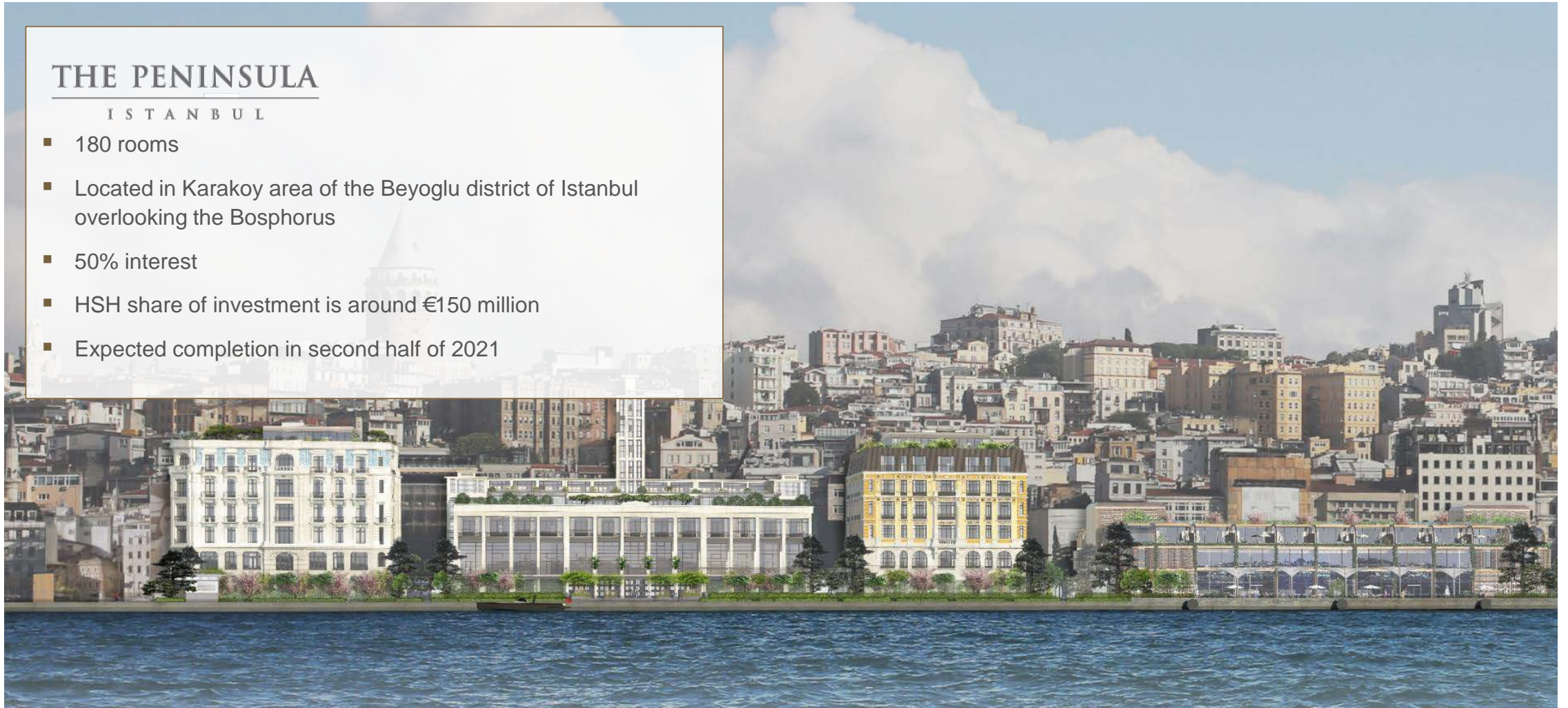


# The Peninsula Istanbul

## THE PENINSULA

I S T A N B U L

- 180 rooms
- Located in Karakoy area of the Beyoglu district of Istanbul overlooking the Bosphorus
- 50% interest
- HSH share of investment is around €150 million
- Expected completion in second half of 2021





# Peak Tram upgrade project

## Overview

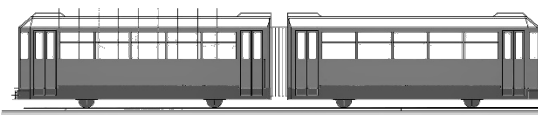
- Over 130 years of operation serving more than 6 million passengers a year
- HK\$684m investment by HSH
- Replace current 120-capacity tramcars with 210-passenger tramcars
- Replace haulage and control systems, lay new track rails and strengthen track foundations and bridges
- Refurbish termini to create additional queueing capacity at the lower terminus in a more comfortable and entertaining environment
- Upgrade surrounding public area
- Business will continue to be impacted in 2020 from service suspension
- Significantly improves visitor experience and enhances Hong Kong's tourism image in the long term

## Benefits

- ✓ Increase capacity by 75% from 120 to 210 passengers per trip
- ✓ Reduce passengers waiting times by over 70%
- ✓ Eliminate queues from the public areas outside the lower and upper termini
- ✓ Covered and temperature-controlled waiting area for up to 1,300 people
- ✓ Improve disability access



New tramcar scale reference



Current tramcar - 5th generation

## Timetable

End of 2018	Site works commenced
23 April to 21 July 2019	Completed first service suspension
<b>Q3 2020 for c.5 months</b>	<b>Second planned service suspension</b>
<b>Early 2021</b>	<b>New Peak Tram system commences service</b>



REFINING A CLASSIC  
**AN ICON  
IS REBORN**

經典重新演繹 再創矚目地標

THE PEAK TRAM  
山頂纜車



For Reference Only  
圖片只供參考



# 2019 Interim results recap





# 1H 2019 Financial results

(HK\$ million)			(restated)		
Six months ended 30 June	2019	2018	Change		
Revenue	<b>2,791</b>	2,850	▼	2%	
Operating costs	<b>(2,181)</b>	(2,120)	▲	3%	
EBITDA	<b>610</b>	730	▼	16%	
Profit attributable to shareholders	<b>254</b>	630	▼	60%	
Underlying profit	<b>148</b>	241	▼	39%	
EPS (HK cents)	<b>16</b>	40	▼	60%	

- Revenue decline is modest in light of soft operating environment and Peak Tram suspension
- Operating cost increase relatively modest in light of new projects
- High fixed cost base and operating leverage led to significant drop in profit attributable to shareholders

Note: Post adoption of HKFRS 16.

# 1H 2019 Earnings contribution by division

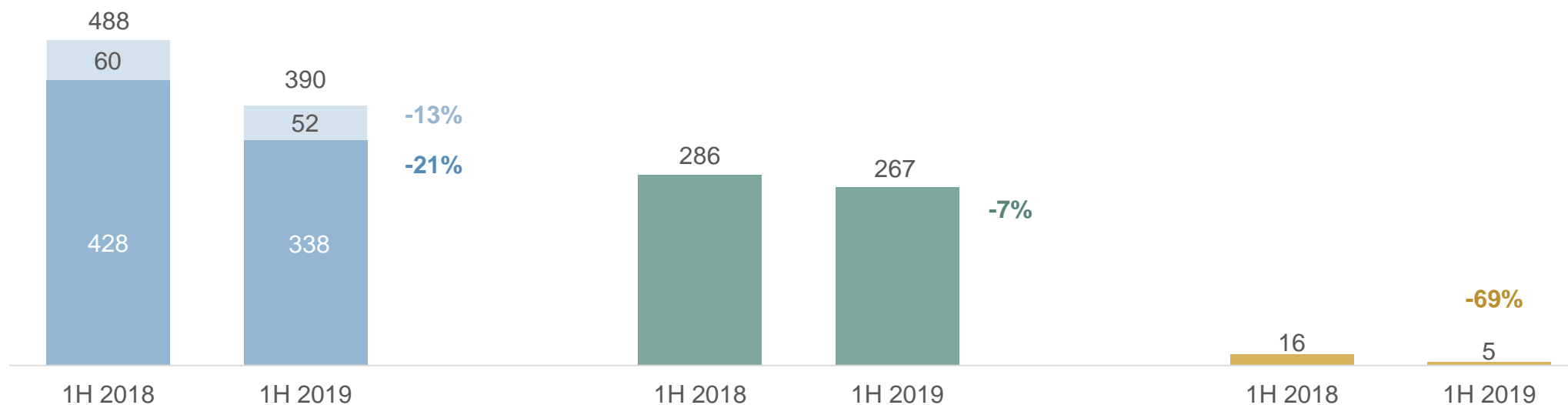
EBITDA (HK\$m)

Hotels

Effective share – PSH, PBH, PPR

Commercial Properties

Clubs & Services



- Hotels negatively impacted by softer markets, particularly Hong Kong and New York
- Leasing business in hotels remains stable
- Hotel division remains the largest earnings contributor at 59%

- Growth in residential leasing
- Peak Tower negatively impacted by suspension of the Peak Tram
- Commercial Properties is the second largest earnings contributor at 40%

- Impacted by Peak Tram suspension
- Peninsula Merchandising experiencing softer retail sales



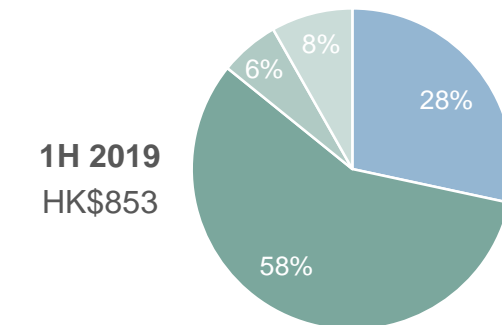
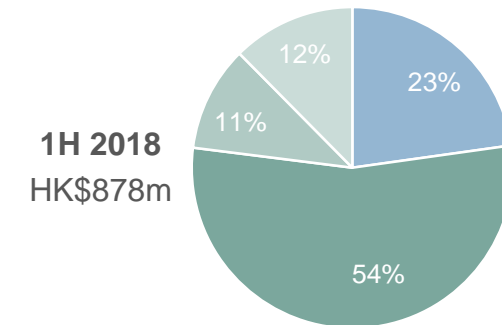
# Capital expenditure shifting to new hotel developments

## Cash flow summary

(HK\$ million)		(restated)
Six months ended 30 June	2019	2018
EBITDA	610	730
Tax payment	(8)	(12)
<b>Net cash generated from operating activities before changes in working capital</b>	<b>602</b>	<b>718</b>
Changes in working capital	40	(6)
Capital expenditure on existing assets		
The Peak Tram upgrade project	(54)	(7)
Others	(188)	(193)
<b>Net cash inflow after capital expenditure on existing assets</b>	<b>400</b>	<b>512</b>
Capital expenditure on new projects and investment		
The Peninsula London	(490)	(476)
The Peninsula Yangon	(51)	(93)
Capital injection in to the Istanbul joint venture	(70)	(109)
<b>Net cash outflow before dividends, other payments and financing activities</b>	<b>(211)</b>	<b>(166)</b>

## Capex distribution

■ Existing assets ■ London ■ Yangon ■ Istanbul



# Conservative capital structure and strong balance sheet

## Healthy debt profile

**2.3%**

Weighted average  
gross interest rate

**3.2 years**

Average debt  
duration

**9.3x**

Cash interest  
coverage

**79%**

Fixed to floating  
interest rate ratio

**12%**

Net debt to  
total assets

**16%**

Net debt to  
shareholders equity

Note: Debt related metrics exclude lease liabilities.

## Strong balance sheet

(HK\$ million) As at 30 June	2019	2018 (restated)
Total cash	842	1,178
Total assets	52,229	51,724
Total debt	7,206	7,095
Net debt	6,364	5,917
Shareholders equity	38,797	38,664
Total equity	39,389	39,200





# Outlook





# Outlook

- Disruption to business from Hong Kong protests since late June and Hong Kong outlook remains uncertain
- Considerable portion of our earnings come from more stable rental based businesses
- The Peninsula London Residences started marketing
- We have a conservative capital structure and a strong balance sheet
- We remain committed to building a long-term sustainable business. We will continue to invest in our assets and our people
- Remain optimistic for the long term. We believe the business will benefit from a largely upgraded asset portfolio and opening of the new hotels in London, Istanbul and Yangon from 2021 onwards







# Q & A





# Appendices



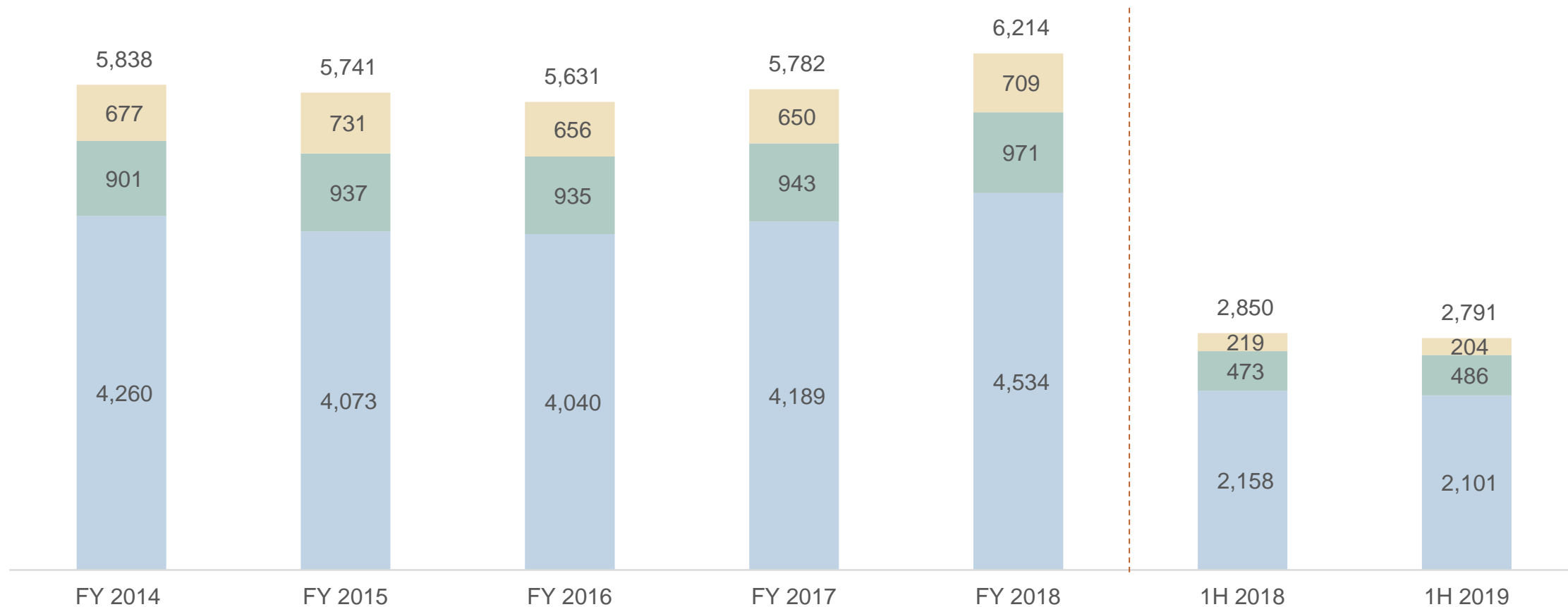
# Group revenue breakdown

Revenue (HK\$m)

Hotels

Commercial Properties

Clubs and Services

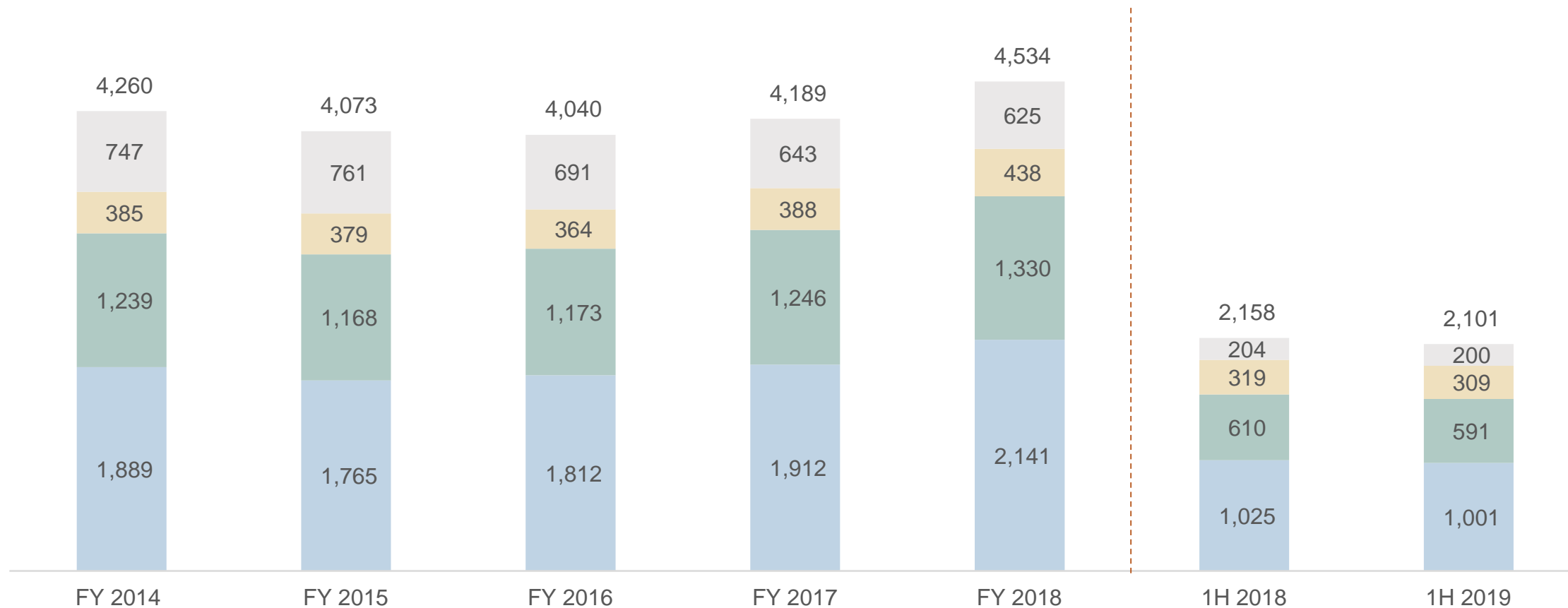


Note: Consolidated revenue, excludes share of JV and Associates.

# Hotels – Revenue breakdown

Revenue (HK\$m)

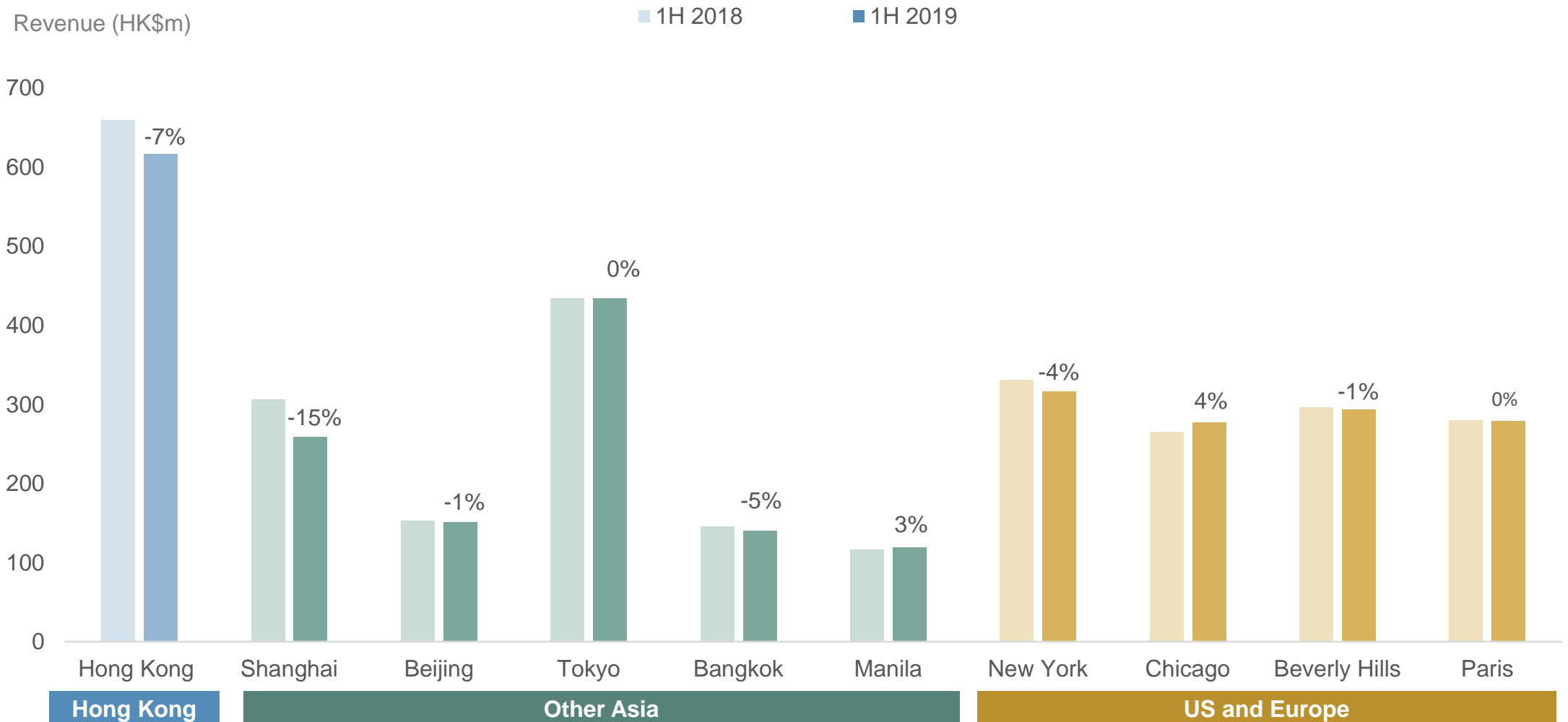
Rooms Food & Beverage Others Shopping Acrades and Office



Note: Consolidated revenue, excludes share of JV and Associates.



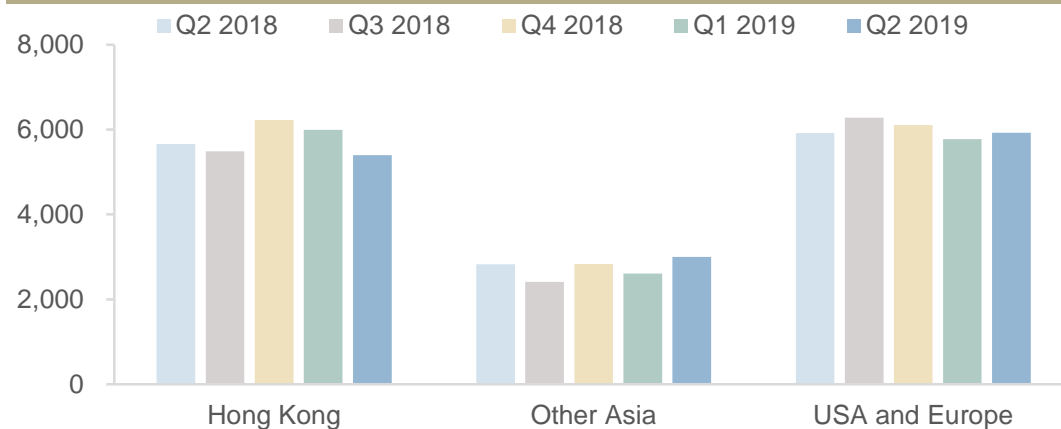
# Hotels – Revenue by property



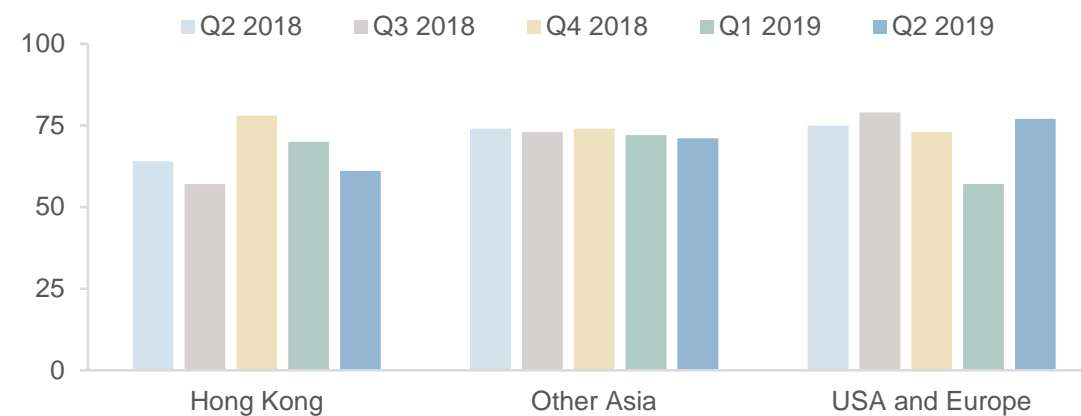
# Hotels – Quarterly operating statistics



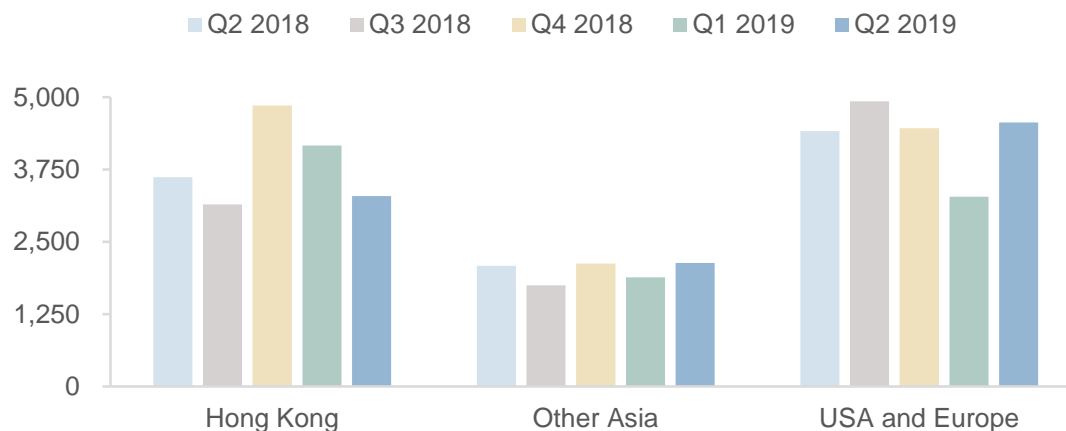
Average room rate (HK\$)



Occupancy rate (%)



RevPAR (HK\$)

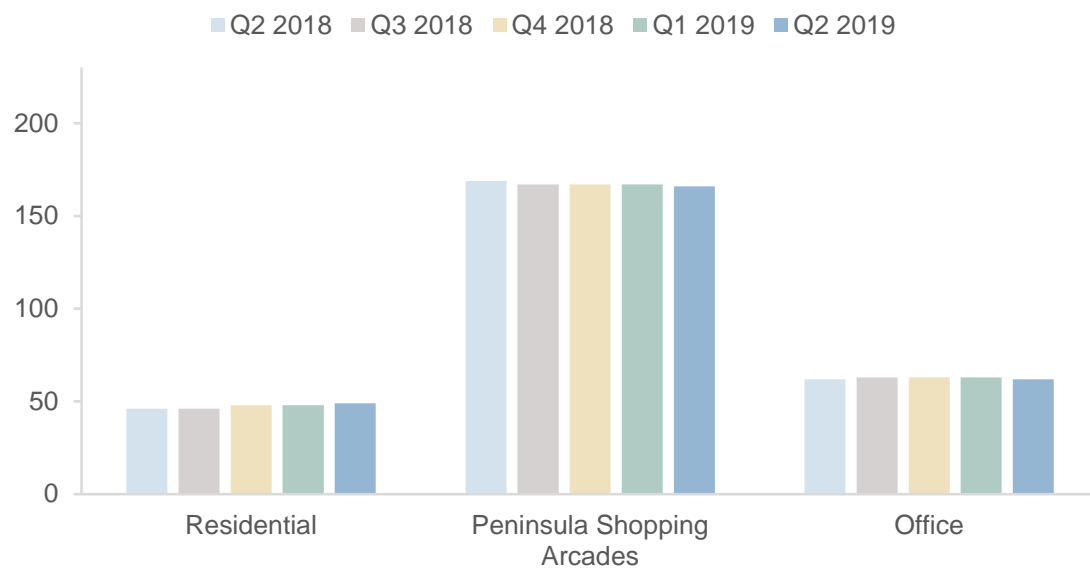


Note: Includes JV and Associates hotels.

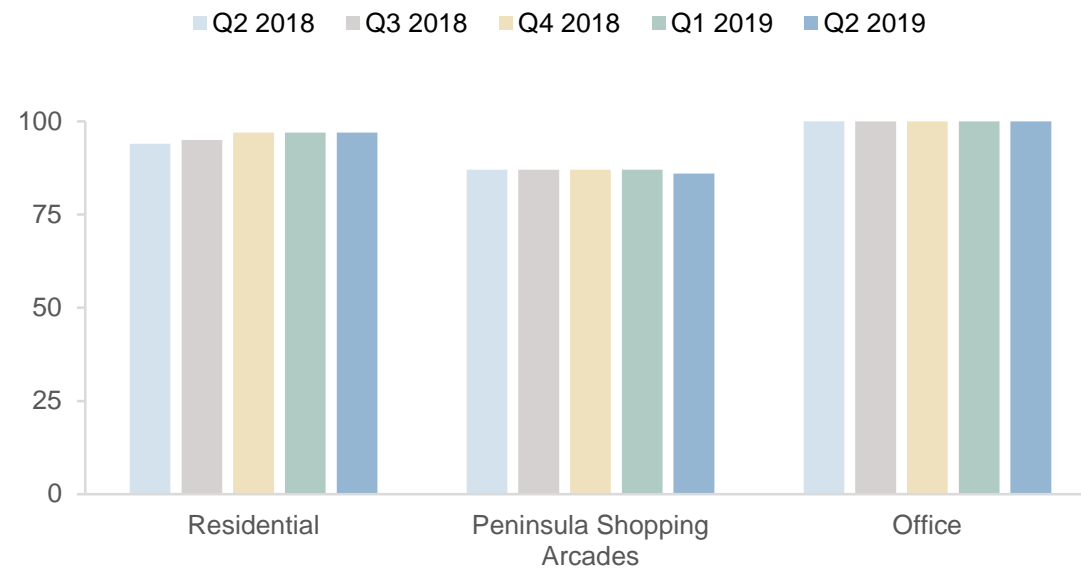


# Leasing – Quarterly operating statistics

Average monthly yield per sqf (HK\$)

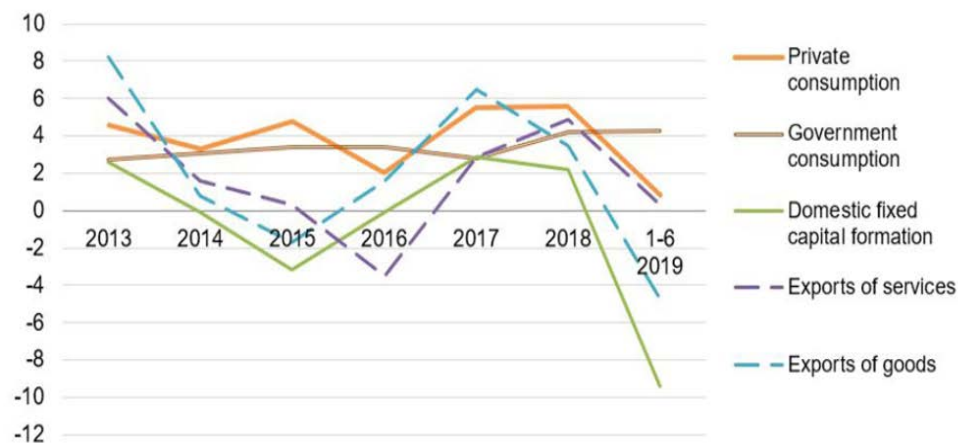


Occupancy rate (%)

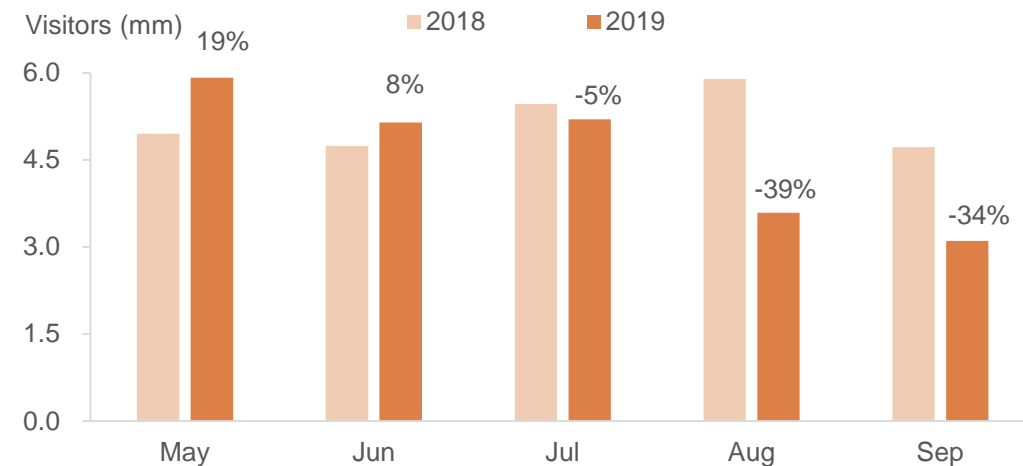


# Hong Kong YTD macro data

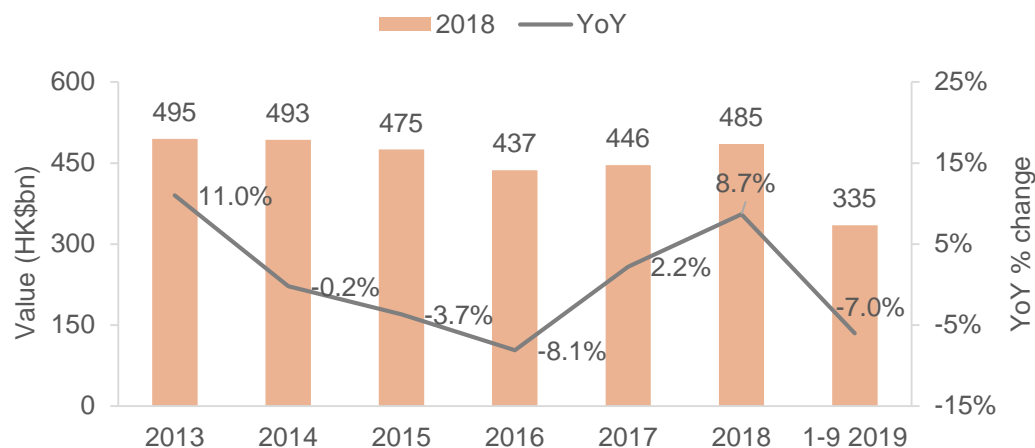
Real GDP growth by selected components (yoy change)



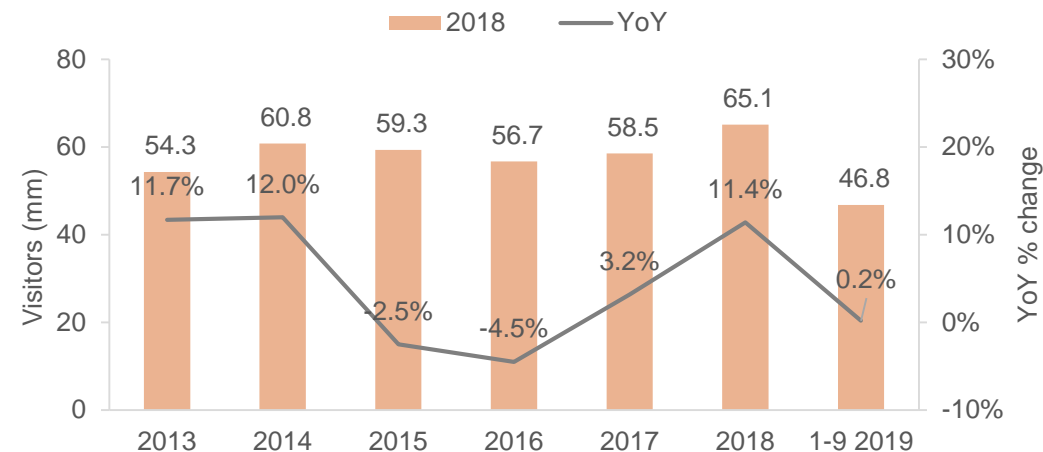
Monthly visitor arrivals (yoy change)



Retail sales



Total visitor arrivals



Source: Hong Kong Immigration Department; Hong Kong Census and Statistics Department.