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CREDIT RATING ANNOUNCEMENT

GCR affirms Hospitality Property Fund Limited's rating of BBB+$_{(ZA)}$; Positive outlook.

Johannesburg, 13 October 2017 -- Global Credit Ratings has today affirmed the national scale Issuer ratings assigned to Hospitality Property Fund Limited of BBB+$_{(ZA)}$ and A2$_{(ZA)}$ in the long term and short term respectively; with the outlook accorded as Positive.

SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit ratings to Hospitality Property Fund Limited ("HPF") based on the following key criteria:

The scale of the fund has grown materially over the last two years, underpinned by large property acquisitions following the takeover by Tsogo Sun Holdings Limited ("Tsogo"), the largest hotel and gaming operator on the JSE, as a controlling shareholder. Acquisition of the second Tsogo portfolio of R4.6bn in July 2017 has raised the value of property investments to c.R12.7bn, versus R8.1bn at FY17 and R5.3bn at FY16. The deal adds quality assets, further broadening HPF's income diversity across different brands, hotel grades and customer profiles. The ratings take cognisance of Tsogo as a strong anchor shareholder in HPF, with proven real estate credentials, liquidity support and a substantial property stable.

Robust demand, particularly in the Western Cape due to upbeat tourist activity, boosted occupancy rates thus supporting revenue per available room and cash flow growth. With the portfolio largely weighted to upper-tier hotel properties, sound organic growth is expected to ensue in tandem with robust acquisition-driven increases in rental revenue. Nonetheless, these positive factors are offset by the structural volatility in the lodging economic cycle, whilst the underlying performance of the much larger REIT is only likely to be evident over the medium term as the new portfolios are effectively bedded down. Cognisance is also taken of the fact that trading conditions are expected to remain challenging for the local hospitality sector in view of weak economic fundamentals and expected growth in new room supply in key leisure nodes.

Prior to the Tsogo transactions, the marquee asset, the Westin in Cape Town, made up 27% of the portfolio's carrying value , but now contributes a much lower 15% of the enlarged portfolio, whilst no other property accounts for more than 10%. The increased granularity is positively considered, as it mitigates the risk of material rental compression if occupancy rates of an individual asset fall sharply. However, HPF still presents concentration in comparison to most highly rated REITs.

With the Tsogo transactions being ungeared, HPF's LTV ratio closed FY17 at a conservative 21% (FY16: 33%), while net earnings based gearing moderated to 280% (FY16: 356%). These metrics fall within thresholds for highly rated REITs, with management intending to manage the LTV around the 25% to 30% level over the rating horizon unless major debt funded capex materialises.

Furthermore, HPF has to date made progress in strengthening the funding base by lengthening the debt expiry profile and improving financing costs. The REIT's next significant debt maturity will be its R600m secured note in February 2018, with some liquidity comfort derived from sufficient headroom under existing debt covenants and the significant overcollateralisation under the new general SPV despite the very high asset encumbrances. Nonetheless, it is noted that unutilised committed facilities remain limited.

Capitalising on bedding down the enlarged portfolio, property upgrades and new acquisitions to achieve stronger cash flows that would sustain credit risk metrics at levels associated with 'A' band rated REITs could provide ratings uplift going forward. Downgrade pressure would occur should the REIT experience liquidity challenges or an unexpected drop in demand that causes profitability to weaken materially. A shift towards an aggressive debt acquisition-oriented growth strategy would also be viewed negatively.

NATIONAL SCALE RATINGS HISTORY

Initial rating (November 2012)
Long term: BBB-$_{(ZA)}$
Short term: A3$_{(ZA)}$
Outlook: Stable

Last rating (October 2016)
Long term: BBB+$_{(ZA)}$
Short term: A2$_{(ZA)}$
Outlook: Stable

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH
Global Master Criteria for Rating Corporate Entities, updated February 2017
Criteria for Rating Property Funds, updated February 2017
HPF Issuer rating reports (2012-16)

RATING LIMITATIONS AND DISCLAIMERS

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S CORPORATE GLOSSARY

Capital	The sum of money that is invested to generate proceeds.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Gearing	With regard to corporate analysis, gearing (or leverage) refers to the extent to which a company is funded by debt and can be calculated by dividing its debt by shareholders' funds or by EBITDA.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Loan to value	The principal balance of a loan divided by the value of the property funded. LTVs can be computed as the loan balance to current property market value, or the original property market value.
Long-Term Rating	A long term rating reflects an issuer’s ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation’s current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
REIT	Real Estate Investment Trusts are JSE listed companies that own operate and manage a real estate portfolio consisting of income producing property (office parks, industrial parks or retail centres).
Risk	The possibility that an investment or venture will make a loss or not make the returns expected. There are many different types of risk including basis risk, country risk, credit risk, currency risk, economic risk, inflation risk, liquidity risk, market or systemic risk, political risk, settlement risk and translation risk.

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Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Short-Term Rating	A short term rating is an opinion of an issuer's ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

Hospitality Property Fund Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to Hospitality Property Fund Limited with no contestation of the ratingS.

The information received from Hospitality Property Fund Limited and other reliable third parties to accord the credit ratings included:

- The 2017 audited annual financial statements (plus prior four years of comparative audited numbers)
- A breakdown of debt facilities available and related counterparties, and security pledged at September 2017
- A full breakdown of the property portfolio at September 2017
- Investor presentations
- Circular to HPF shareholders in respect of the second Tsogo transaction

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.