

CREDIT RATING ANNOUNCEMENT**GCR upgrades Hospitality Property Fund Limited's rating to BBB+(ZA); Outlook Stable.**

Johannesburg, 18 Oct 2016 -- Global Credit Ratings has today upgraded the national scale issuer ratings assigned to Hospitality Property Fund Limited to BBB+(ZA) and A2(ZA) in the long term and short term respectively; with the outlook accorded as Stable.

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 rating upgrade reflects HPF's strengthened credit profile and increased portfolio scale following the recently concluded transaction with Tsogo Sun Holdings Limited ("Tsogo"), which brought on 10 established properties, raising the value of its consolidated property investments from R5.3bn at FYE16 to c.R7.1bn. Furthermore, the ratings take cognisance of HPF's strong anchor shareholder in Tsogo, off which the REIT can leverage on its expertise and track record within the hospitality sector, as well as opening up a potential pipeline of future acquisition opportunities.

Following an uptick in tourist activity, and despite several asset disposals, HPF reported improved rental income growth of 9% to R475m in F16. The performance was also reflective of the good progress made in rebalancing its portfolio towards high-quality, well-located, largely upper-tier hotel properties over the past few years. HPF should continue to benefit from its multi-brand competitiveness and relatively high occupancy levels, whilst the increased income diversity across different asset classes and customer profiles should translate to stronger margins as the growth strategy gains traction in the medium term. While consideration is taken of the newly enlarged portfolio, the fund's performance remains materially exposed to the flagship Westin property in Cape Town. Nonetheless, this risk is mitigated by the high quality and defensiveness of the asset, with note also taken of the granularity of the remainder of the portfolio.

At FYE16, HPF's LTV ratio was reported at a conservative 33%. With the Tsogo transaction being ungeared, GCR expects that HPF's leverage will fall to the lower end of its targeted range of 25%-35% over the intermediate term unless major acquisitions materialise. Other key credit metrics, such as interest coverage and earnings based gearing are also expected to remain at stronger levels due to moderate debt increases and cash flow growth.

GCR expects timely refinancing of forthcoming debt maturities, with comfort derived from sufficient headroom under its existing debt covenants post the Tsogo transaction (with these assets completely unencumbered), as well as the strong network of new banking relationships that can be leveraged from the majority shareholder. The large cash balance at year end and further asset disposals are also noted.

Over the medium term ratings uplift could be derived from continued scale enhancement of the portfolio, leading to growth in rental income and profits, as well as reduced asset concentration. Downgrade pressure would occur should the REIT experience liquidity challenges or an unexpected drop in demand due to a worsening of market conditions that negatively impacts hotel revenue and thus rental income. A shift toward a more aggressive debt acquisition-oriented growth strategy may also be viewed negatively.

NATIONAL SCALE RATINGS HISTORY

Initial rating (Nov 2012)

Long term: BBB⁻(ZA)

Short term: A3^(ZA)

Outlook: Stable

Last rating (Oct 2015)

Long term: BBB^(ZA)

Short term: A3^(ZA)

Outlook: Stable

ANALYTICAL CONTACTS

Primary Analyst

Sheri Few
Senior Analyst
(011) 784-1771
few@globalratings.net

Committee Chairperson

Eyal Shevel
Sector Head: Corporate ratings
(011) 784-1771
shevel@globalratings.net

APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Criteria for rating corporate entities, updated February 2016
Criteria for rating property funds, updated April 2016
HPF issuer rating reports (2012-2015)

RATING LIMITATIONS AND DISCLAIMERS

ALL GCR'S CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://GLOBALRATINGS.NET/UNDERSTANDING-RATINGS](http://GLOBALRATINGS.NET/UNDERSTANDING-RATINGS). IN ADDITION, GCR'S RATING SCALES AND DEFINITIONS ARE ALSO AVAILABLE FOR DOWNLOAD AT THE FOLLOWING LINK: [HTTP://GLOBALRATINGS.NET/RATINGS-INFO](http://GLOBALRATINGS.NET/RATINGS-INFO). GCR'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, PUBLICATION TERMS AND CONDITIONS AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE AT [HTTP://GLOBALRATINGS.NET](http://GLOBALRATINGS.NET).

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

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.
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
Leverage	Or Gearing, 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 Risk	The risk that a company may not be able to take or meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets.
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.
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.
Refinancing	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
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).
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 rating.

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

- The 2016 audited annual financial statements (plus prior four years of comparative numbers)
- A breakdown of debt facilities available and related counterparties, and security pledged at FYE16
- A full breakdown of the property portfolio at 1 September 2016 and management forecasts for F17
- Investor presentations
- Circular to HPF shareholders in respect of the Tsogo transaction and revised listing particulars document
- Other public information

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.

ALL GCR CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS, TERMS OF USE OF SUCH RATINGS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS, TERMS OF USE AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://GLOBALRATINGS.NET/UNDERSTANDING-RATINGS](http://GLOBALRATINGS.NET/UNDERSTANDING-RATINGS). IN ADDITION, RATING SCALES AND DEFINITIONS ARE AVAILABLE ON GCR'S PUBLIC WEB SITE AT WWW.GLOBALRATINGS.NET/RATINGS-INFO. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. GCR'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE UNDERSTANDING RATINGS SECTION OF THIS SITE.

CREDIT RATINGS ISSUED AND RESEARCH PUBLICATIONS PUBLISHED BY GCR, ARE GCR'S OPINIONS, AS AT THE DATE OF ISSUE OR PUBLICATION THEREOF, OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. GCR DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL AND/OR FINANCIAL OBLIGATIONS AS THEY BECOME DUE. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: FRAUD, MARKET LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND GCR'S OPINIONS INCLUDED IN GCR'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND GCR'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND GCR'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL OR HOLD PARTICULAR SECURITIES. NEITHER GCR'S CREDIT RATINGS, NOR ITS PUBLICATIONS, COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. GCR ISSUES ITS CREDIT RATINGS AND PUBLISHES GCR'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING OR SALE.

Copyright © 2013 Global Credit Rating Co (Pty) Ltd. INFORMATION PUBLISHED BY GCR MAY NOT BE COPIED OR OTHERWISE REPRODUCED OR DISCLOSED, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT GCR'S PRIOR WRITTEN CONSENT. Credit ratings are solicited by, or on behalf of, the issuer of the instrument in respect of which the rating is issued, and GCR is compensated for the provision of these ratings. Information sources used to prepare the ratings are set out in each credit rating report and/or rating notification and include the following: parties involved in the ratings and public information. All information used to prepare the ratings is obtained by GCR from sources reasonably believed by it to be accurate and reliable. Although GCR will at all times use its best efforts and practices to ensure that the information it relies on is accurate at the time, GCR does not provide any warranty in respect of, nor is it otherwise responsible for, the accurateness of such information. GCR adopts all reasonable measures to ensure that the information it uses in assigning a credit rating is of sufficient quality and that such information is obtained from sources that GCR, acting reasonably, considers to be reliable, including, when appropriate, independent third-party sources. However, GCR cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall GCR have any liability to any person or entity for (a) any loss or damage suffered by such person or entity caused by, resulting from, or relating to, any error made by GCR, whether negligently (including gross negligence) or otherwise, or other circumstance or contingency outside the control of GCR or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits) suffered by such person or entity, as a result of the use of or inability to use any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained in each credit rating report and/or rating notification are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained in each credit rating report and/or rating notification must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY GCR IN ANY FORM OR MANNER WHATSOEVER.