

**CREDIT RATING ANNOUNCEMENT****Hospitality Property Fund Limited –Senior Secured Notes – New Ratings Assigned, Existing Ratings Affirmed**

Johannesburg, 17 April 2019 -- Global Credit Ratings ("GCR") has accorded a *final, public* long-term credit rating of 'AA<sub>(ZA)</sub>' with a 'Stable' Outlook to the following Notes (the "New Notes") issued by Hospitality Property Fund Limited ("HPF" or the "Issuer") on 17 April 2019, under its R10bn Domestic Medium-Term Note ("DMTN") Programme:

- R300m, Senior Secured Floating Rate Notes, Stock Code: HPF12, maturing 31 March 2024

The New Notes have been issued to refinance the R80m HPF08 Unsecured Notes and the R150m HPF09 Secured Notes which matured on 15 April 2019.

Concurrently, GCR affirmed the *final, public* long-term credit ratings of 'AA<sub>(ZA)</sub>' with a 'Stable' Outlook accorded to the following existing Notes issued by HPF (the "Existing Notes"):

- R60m, Senior Secured Floating Rate Notes, Stock Code: HPF06, maturing 20 February 2020; and
- R600m, Senior Secured Floating Rate Notes, Stock Code: HPF11, maturing 31 March 2023

It is important to highlight that only the notes are rated; not the Programme. The ratings of structurally enhanced corporate bonds differ from the ratings of the 'A<sub>(ZA)</sub>'-rated senior unsecured debt of the Issuer as they reflect loss severity, i.e., recoverability in the event of default.

**RATING RATIONALE**

To date, the Issuer has ceded the vast majority of its property portfolio (50 properties, with an aggregate Open Market Value ("OMV") of R11.7bn) as collateral backing the issue of secured debt under the DMTN Programme. The cessions of four of these properties occurred in December 2018, such that, since the rating of HPF's secured notes were last reviewed (November 2018), the collateral pool has grown by R2.7bn (from R9.0bn to R11.7bn). The mortgage bonds in respect of all of the ceded properties were registered in favour of the Security SPV. Additionally, all related rights to and interests in the ceded properties, including bank accounts and insurance proceeds, were ceded *in securitatem debiti* to the Security SPV, which may realise this security for the benefit of the Issuer's secured creditors, including the secured noteholders. All portfolio properties are valued annually and independently by Excellerate Real Estate Services (Pty) Limited. The valuations used for this rating analysis are the same as those used for the previous (November 2018) surveillance and are dated 31 July 2018.

Prior to 15 April 2019, HPF's secured debt amounted to R1.86bn, comprising the Senior Secured HPF06 (R60m), HPF09 (R150m) and HPF11 (R600m) notes as well as utilised secured debt facilities with Standard Bank ("SBSA") of R1.05bn. As such, the Loan to Value ratio ("LTV") in respect of the secured debt was 15.89%, which is considerably lower than the financial covenant LTV of 45%. Until such date, HPF also had unsecured corporate notes in issue of R80m (the HPF08 notes). HPF has additional an additional available but unutilised secured debt facility with SBSA of R500m.

The secured HPF09 notes of R150m, as well as the unsecured HPF08 notes of R80m, reached final maturity and were repaid in full on 15 April 2019. Therefore, on 17 April 2019, HPF issued new debt constituting R300m of secured notes (the HPF12 notes). Thus, HPF's total net debt increased by R70m - its secured debt increased by R150m to 1.93bn, and its unsecured debt decreased by R80m to zero. The effect of the new issuance on the secured debt financial covenant LTV is an increase of 1.28%, from 15.89% to 17.18%.

The current rating action includes a review of the existing HPF06 and HPF11 notes' ratings as well as the assignment of a rating to the new HPF12 issuance.

It is important to note that GCR's recovery scenarios and resultant rating assume that the Issuer issues secured debt up to the maximum LTV covenant of 45%.

The ratings of the Senior Secured Notes are derived by applying a notching-up approach, starting from the long-term senior unsecured corporate credit rating of the Issuer. The number of notches granted is dependent on the recovery prospects in the event of default and enforcement in a fire-sale scenario, as modelled by GCR, assuming, as mentioned, that secured debt is in issue at the maximum covenant LTV of 45%.

In September 2018, GCR upgraded the Issuer's rating from 'BBB<sub>(ZA)</sub>' to 'A<sub>(ZA)</sub>' and maintained the 'Positive' outlook. GCR observed no change in recovery prospects and consequently to the Issuer's rating upgrade, in November 2018, upgraded the ratings of the Senior Secured Notes (HPF06, HPF09 and HPF11) to 'AA<sub>(ZA)</sub>' and accorded a 'Stable' outlook.

The modelled recovery rate has declined immaterially since the last (November 2018) rating action, from 90.0% to 89.6%. Such recovery prospects remain in the *Superior* range and GCR maintained its four-notch uplift from the Issuer's rating.

Tsogo is intending to unbundle and separately list its hotel business (of which HPF is a subsidiary) from its gaming business in an attempt to unlock value. Should the overall recovery prospects or the rating accorded to the Issuer change, the ratings of the Senior Secured Notes may also change.

## RATINGS HISTORY

Stock Code	Initial Rating	LT Rating	ST Rating	Outlook
HPF06	18 February 2015	A <sub>(ZA)</sub>	n.a	Stable
HPF11	19 February 2018	AA <sub>-(ZA)</sub>	n.a	Stable
HPF12	2 April 2019	AA <sub>(ZA)</sub>	n.a	Stable

  

Stock Code	Last Rating	LT Rating	ST Rating	Outlook
HPF06	15 November 2018	AA <sub>(ZA)</sub>	n.a	Stable
HPF11	15 November 2018	AA <sub>(ZA)</sub>	n.a	Stable
HPF12	n.a	n.a	n.a	Stable

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## APPLICABLE METHODOLOGIES AND RELATED RESEARCH

- Global Structurally Enhanced Corporate Bonds Rating Criteria (Nov'18)
- Global Criteria for Rating Property Funds (Feb'18)
- Global Master Criteria for Rating Corporate Entities (Feb'18)
- HPF Corporate Rating Report (Sep'18)
- HPF Senior Secured Notes Surveillance Report (Nov'18)

## RATING LIMITATIONS AND DISCLAIMERS

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## **GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S STRUCTURED FINANCE GLOSSARY**

Bond	A long-term debt instrument issued by either: a company, institution or the government to raise funds.
Collateral	An asset pledged as security in event of default.
Corporate Credit Rating	A credit rating accorded to a corporate entity.
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.
Creditor	A credit provider that is owed debt obligations by a debtor.
Debt	An obligation to repay a sum of money.
Default	A default occurs when: 1.) The Borrower is unable to repay its debt obligations in full; 2.) A credit-loss event such as charge-off, specific provision or distressed restructuring involving the forgiveness or postponement of obligations; 3.) The borrower is past due more than 90 days on any debt obligations as defined in the transaction documents; 4.) The obligor has filed for bankruptcy or similar protection from creditors.
Floating Rate Notes	Debt securities that have a periodic interest rate reset in relation to the reference rate, i.e. JIBAR.
Insurance	Provides protection against a possible eventuality.
International Scale Rating LC	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
Issuer	The party indebted or the person making repayments for its borrowings.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
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.
Loss	A tangible or intangible, financial or non-financial loss of economic value.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Notching	A movement in ratings.
Noteholder	Investor of capital market securities.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Proceeds	Funds from issuance of debt securities or sale of assets.
Property	Movable or immovable asset.
Real Estate	Property that consists of land and / or buildings.
Recovery	The action or process of regaining possession or control of something lost. To recoup losses.
Repayment	Payment made to honour obligations in regards to a credit agreement in the following credited order: 3.) Satisfy the due or unpaid interest charges; 4.) Satisfy the due or unpaid fees or charges; and 5.) To reduce the amount of the principal debt.
Secured Creditor	A creditor that has specific assets pledged as collateral that will receive the proceeds in the event of default.
Secured Debt	Debt backed with or secured by collateral to reduce lending risk and thus the interest rate charged.
Security	An asset deposited or pledged as a guarantee of the fulfilment of an undertaking or the repayment of a loan, to be forfeited in case of default.
Senior	A security that has a higher repayment priority than junior securities.
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.
Stock Code	A unique code allocated to a publicly listed security.
Transaction	A transaction that enables an Issuer to issue debt securities in the capital markets. A debt issuance programme that allows an Issuer the continued and flexible issuance of several types of securities in accordance with the programme terms and conditions.
Ultimate Payment	A measure of the principal debt, interest, fees and expenses being repaid over a period of time determined by recoveries.
Valuation	An assessment of the property value, with the value being compared to similar properties in the area.

## SALIENT FEATURES OF ACCORDED RATINGS

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

The Issuer and the Arranger participated in the rating process via written correspondence. The quality of information received was considered adequate and has been independently verified where possible.

The ratings above were solicited by the Issuer of the Transaction. GCR has been compensated for the provision of the ratings.

The credit ratings have been disclosed to the Issuer.

The information received from the Arranger and other reliable third parties to accord the credit ratings included:

- Occupancy and rental rates per property for the period ending 31 January 2018
- The Open Market Valuation Reports for the secured properties at 31 July 2018
- A summary of outstanding debt and facilities as at March 2019

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