

**CREDIT RATING ANNOUNCEMENT**Hospitality Property Fund Limited –Senior Secured Notes - Ratings Upgraded.

Johannesburg, 15 November 2018 -- Global Credit Ratings ("GCR") has upgraded the *final, public* long-term credit ratings accorded to the following Senior Secured Notes (the "Notes") issued by Hospitality Property Fund Limited ("HPF" or "the Issuer"), under its R5bn Domestic Medium-Term Note ("DMTN") Programme to 'AA<sub>(ZA)</sub>' from 'AA<sub>-(ZA)</sub>', with a 'Stable' Outlook:

- R60m, Senior Secured Floating Rate Notes, Stock Code: HPF06 maturing 20 February 2020;
- R150m, Senior Secured Floating Rate Notes, Stock Code: HPF09 maturing 15 April 2019; 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 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 (46 properties, with an aggregated Open Market Value ("OMV") of R9.0bn) as collateral backing the issue of structurally enhanced debt under the DMTN Programme. 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. Despite the recent (February 2018) addition of four properties to the collateral pool, implying that the pool has grown from 42 properties to 46 properties since GCR's last rating action (also February 2018), the aggregate OMV decreased by R190m over the period March 2017 (previous valuation date) to July 2018 (current valuation date). All portfolio properties are valued annually and independently by Excellerate Real Estate Services (Pty) Limited.

HPF's structurally enhanced debt amounted to R1.86bn at 30 September 2018, comprising the Senior Secured Notes as well as secured debt facilities with The Standard Bank of South Africa ("SBSA"). As such, the Loan-to-Value ratio ("LTV") in respect of the secured utilised debt is 20.57%, which is lower than the financial covenant LTV of 45%. GCR's recovery scenarios and resultant rating assume that the Issuer issues secured debt up to the maximum LTV covenant of 45%.

HPF is in the process of adding four further properties to the collateral pool, such that, post this development, the aggregate security pool OMV is expected to increase by R2.7bn to R11.7bn. GCR did not take these four additional properties into account and its recovery rate model is based on the existing collateral pool of properties.

GCR notes that HPF is exposed to some refinancing risk in the coming half-year, as the R150m HPF09 Notes mature in April 2019. However, HPF has sufficient available and undrawn credit facilities in place with SBSA (amounting to R500m) to settle these Notes.

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.

In September 2018, GCR upgraded the Issuer's rating from 'BBB+(ZA)' to 'A-(ZA)' and maintained a 'Positive' outlook. Seeing as GCR still deems a rating uplift of four national scale notches appropriate for the Senior Secured Notes, given the 'Excellent Recovery Prospects' modelled, the ratings of the Senior Secured Notes have forthwith been upgraded. A Stable outlook was accorded to the ratings of the Senior Secured Notes. Following the recent announcement of the withdrawal of the proposal for the disposal of a portfolio of seven mixed-use casino properties from Tsogo to HPF, no material change to the factors underlying the rating is immediately foreseen.

Should the overall recovery prospects or the rating accorded to the Issuer change, the ratings of the Senior Secured Notes may also change.

The ratings accorded to the Senior Secured Notes relate to ultimate payment of interest and principal (as opposed to timely, akin to an expected loss rating, which is a function of probability of default and loss severity). The ratings exclude an assessment of the ability of the Issuer to pay any (early repayment) penalties. If the rating accorded to the Issuer changes, the ratings of the Senior Secured Notes may also change, but not necessarily in the same scale. The ratings of the Senior Secured Notes may also change if the estimated stressed value of the underlying collateral materially changes. For more information on the Transaction, please refer to GCR's Hospitality Property Fund Limited – New Issuance Report published on 19 February 2018.

## RATINGS HISTORY

Stock Code	Initial Rating	LT Rating	ST Rating	Outlook
HPF06	18 February 2015	A <sub>(ZA)</sub>	n.a	Stable
HPF09	18 April 2016	A <sub>(ZA)</sub>	n.a	Stable
HPF11	19 February 2018	AA <sup>-</sup> <sub>(ZA)</sub>	n.a	Stable

  

Stock Code	Last Rating	LT Rating	ST Rating	Outlook
HPF06	19 February 2018	AA <sup>-</sup> <sub>(ZA)</sub>	n.a	Stable
HPF09	19 February 2018	AA <sup>-</sup> <sub>(ZA)</sub>	n.a	Stable
HPF11	19 February 2018	AA <sup>-</sup> <sub>(ZA)</sub>	n.a	Stable

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## APPLICABLE METHODOLOGIES AND RELATED RESEARCH

- Global Structurally Enhanced Corporate Bonds Rating Criteria (Nov'17)
- 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 New Issuance Report (Feb'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:

- An overview of the income and expenses for each property in the secured portfolio up to 30 September 2018
- Occupancy and rental rates per property for the period ending 30 September 2018
- The Open Market Valuation Reports for the secured properties at 31 July 2018

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