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CREDIT RATING ANNOUNCEMENT

GCR upgrades Hospitality Property Fund Limited's rating to A-$_{(ZA)}$; Positive outlook.

Johannesburg, 27 September 2018 -- Global Credit Ratings has today upgraded the national scale Issuer ratings assigned to Hospitality Property Fund Limited to A-$_{(ZA)}$ and A1-$_{(ZA)}$ 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 ratings upgrade considers HPF's enlarged and more diversified portfolio of hotels that target multiple price segments. This follows two significant property transactions concluded with the Tsogo Sun Holdings Limited group ("Tsogo"), its controlling shareholder since FY17, bringing the portfolio to 53 properties at a combined value of R12.6bn at FY18 from R5.3bn in FY16.

GCR also notes the recently announced proposed transaction to acquire seven premium casino precincts from Tsogo (termed project Aurora) worth c.R23bn by March 2019. The transaction would materially transform HPF and further improve its business risk profile by significantly enhancing the REIT's scale and diversifying its assets and revenue sources. To this end, the Positive rating outlook reflects the expectation of a strengthening in HPF's credit risk profile post the Aurora transaction, but action will only be taken once the ultimate structure is finalised and the impact on credit metrics is clearer.

HPF's rental growth and earnings have been buttressed by robust acquisition-driven throughput over the last two years, although underlying performance of the stable portfolio has evidenced weakness amidst difficult trading conditions of late, particularly in key leisure nodes. While occupancy and demand are expected to be relatively flat going forward, HPF's ownership of certain prime assets provides the fund with moderate pricing power.

Despite the rampant acquisitive growth strategy, HPF's financial profile remains conservative, with credit risk metrics having shown improvement over the past two years. To this end, the transactions have been funded largely via share issuances, resulting in the low net LTV of 12% at FY18 (FY17: 19%). Earnings-based gearing also registered at a modest 188% (FY17: 246%), giving rise to solid gearing headroom to withstand susceptibility to volatile hospitality-oriented cash flows. Net interest cover has strengthened to 5x (FY17: 4x), compared with levels of around 2.5x historically.

The ratings also reflect successful refinancing and lengthening of debt maturities, with HPF displaying no material debt maturities over the next two years. Counterbalancing this somewhat is the very high asset encumbrances under the new general SPV, which is considered a liquidity weakness. However, comfort derived from ample headroom under existing debt covenants and the significant overcollateralization, while unutilised committed facilities are sufficient for planned near term capex outlays.

HPF's ratings could potentially be upgraded by multiple notches post finalisation of the project Aurora deal. The magnitude of the rating change will be dependent on the degree of strengthening in the credit risk profile should the financial profile evolve significantly better (or worse) than initially outlined. Negative rating pressure could be precipitated by sustained weakness in earnings and or more aggressive financial policies. GCR would also be concerned with any deterioration in the liquidity profile.

NATIONAL SCALE RATINGS HISTORY

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

Last rating (October 2017)
Long term: BBB+$_{(ZA)}$
Short term: A2$_{(ZA)}$
Outlook: Positive

ANALYTICAL CONTACTS

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Global Master Criteria for Rating Corporate Entities, updated February 2018
Global Criteria for Rating Property Funds and Commercial Real Estate Companies, Updated February 2018
HPF Issuer rating reports (2012-17)

RATING LIMITATIONS AND DISCLAIMERS

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.
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.
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.
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.
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.
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.
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

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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.

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

- The 2018 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 FY18
- Investor presentations
- SENS circular in respect of Acquisition of Casino Precincts and withdrawal of cautionary announcement

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.