

Credit Rating Announcement

GCR affirms the national scale Secured Class A Notes ratings of AAA_{(ZA)(sf)} on MW Asset Rentals (RF) Ltd. Outlook Stable.

Rating Action

Johannesburg, 20 June 2019 - GCR Ratings ("GCR") has affirmed the following long-term credit ratings accorded to the following Secured Class A Notes ("Class A Notes") issued by MW Asset Rentals (RF) Ltd (the "Issuer" or the "Transaction") and maintained their Stable outlooks. The affirmation of the ratings follows the surveillance of the performance of the Transaction by GCR.

Security Class	Stock Code	Amount Outstanding	Rating class	Rating scale	Rating	Outlook / Watch
Class A Notes	MWAR01	R450,000,000	Issue Long Term	National	AAA _{(ZA)(sf)}	Stable Outlook
Class A Notes	MWAR02	R300,000,000	Issue Long Term	National	AAA _{(ZA)(sf)}	Stable Outlook
Class A Notes	MWAR03	R200,000,000	Issue Long Term	National	AAA _{(ZA)(sf)}	Stable Outlook

The Transaction has two Subordinated Loans outstanding with an aggregate value of R145,645,00 that are unrated and held by Merchant West (Pty) Ltd.

The credit ratings accorded to the Class A Notes relate to timely payment of interest and ultimate payment of principal. The ratings exclude an assessment of the ability of the Issuer to pay either any (early repayment) penalties or any default interest rate penalties.

Rating Rationale

MW Asset Rentals (RF) Ltd is a R2.5bn Lease Receivables Backed Note Programme that issued R950m Class A Notes to date. The Transaction is in its revolving phase and continues to acquire assets on a monthly basis. The Issuer continues to pay quarterly interest on the Class A Notes and Subordinated Loans. The MWAR01 Notes are scheduled to mature on 22 November 2019.

None of the Early Amortisation Triggers/ Stop Purchase Triggers and Portfolio Covenants were breached over the Review Period (October 2018 to April 2019). The Arrears Reserves, Liquidity Reserves and Capital Reserves continued to be fully funded at the required levels over the same period.

Accounts in arrears remained relatively stable for the six months ending April 2019. GCR calculated the average accounts in arrears for the six-months of R28.6m which is 2,48% of the six-months average portfolio balance, peaking at R32.5m in December 2018. Accounts greater than 90 days in arrears ("NPL") were somewhat erratic due to the expected seasonality from January to March 2019. The calculated six-months average balance NPL was R9.2m at April 2019, being 0,80% of the six-months average portfolio balance.

The dynamic NPL (0,52%) and the total cumulative NPL (1,70%) for the six months ending April 2019 are well below GCR's base case default rate assumption of 6,47%. Dynamic arrears (31 to 90 days) were 2,51% at April 2019. Irrecoverable leases totalled R16.9m (25 accounts) at April 2019 regardless, no new write-offs have taken place since February 2018. Nevertheless, only a total of 33,98% has been recovered for these accounts, albeit the recoveries

processes are not nearing finalisation for most of the accounts. GCR calculated a base case recovery rate assumption of 71,02%.

A total of R14,6m worth of asset were resold (February to April 2019) to the Seller to actively manage "The aggregate Exposure of Leases with an original term of greater than 60 months should not exceed 5% of the Portfolio" covenant, having been reported at 4,97% at April 2019.

The Transaction has a healthy excess spread, partly due to the Weighted Average Yield covenant that has to be maintained above Prime plus 2,00%. The Issuer reported the said covenant at 3,83% for April 2019. The excess spread varies on a month-to-month basis. GCR calculated an annualised excess spread of 14,8% at April 2019.

The portfolio of assets classified under the Mining sector moderated to 8,8% at April 2019 from 9,1% at November 2018. Similarly, the Construction sector decreased to 8,5% at April 2019 from 11,7% at November 2018, primarily due to the amortisation of the said sectors held in the portfolio. Both sectors have been experiencing elevated levels of credit risk that is expected to continue over the medium to long term. The Transaction experienced negligible credit events that stem from the above two sectors.

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Related criteria and research

Global Master Structured Finance Rating Criteria, updated September 2018

Global Consumer Asset Backed Securitisation (ABS) Rating Criteria, updated September 2018

Global Master Criteria for Rating Banks and Other Financial Institutions, March 2017

MW Asset Rentals (RF) Ltd New Issuance Report, November 2018

Nedbank Ltd Financial Institution Rating Report, May 2018

Ratings history

MW Asset Rentals (RF) Ltd						
Security class	Stock code	Review	Rating scale	Rating class	Outlook	Date
Class A Notes	MWAR01	Initial	National	AAA(ZA)(sf)	Stable	Mar. 2018
		Last	National	AAA(ZA)(sf)	Stable	Nov. 2018
Class A Notes	MWAR02	Initial	National	AAA(ZA)(sf)	Stable	Mar. 2018
		Last	National	AAA(ZA)(sf)	Stable	Nov. 2018
Class A Notes	MWAR03	Initial	National	AAA(ZA)(sf)	Stable	Nov. 2018
		Last	National	AAA(ZA)(sf)	Stable	Nov. 2018

Glossary

Affirmation	See GCR Rating Scales, Symbols and Definitions.
Amortisation	From a liability perspective, the paying off of debt in a series of instalments over a period of time. From an asset perspective, the spreading of capital expenses for intangible assets over a specific period of time (usually over the asset's useful life).
Arrears Reserve	An accounting provision made in a reserve fund for arrears.
Arrears	An overdue debt, liability or obligation. An account is said to be 'in arrears' if one or more payments have been missed in transactions where regular payments are contractually required.
Asset/Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Capital	The sum of money that is invested to generate proceeds.
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.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due.
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
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.
Excess Spread	The net weighted average interest rate receivable on a pool of assets being greater than the weighted average interest rate payable for the debt securities.
Experience	A term used to describe the relationship, usually expressed as a percent or ratio, of premiums to claims for a plan, coverage, or benefits for a stated time period.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Issuer	The party indebted or the person making repayments for its borrowings.
Lease	Conveyance of land, buildings, equipment or other assets from one person (lessor) to another (lessee) for a specific period of time for monetary or other consideration, usually in the form of rent.
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	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.
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.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Receivables	Any outstanding debts, current or not, due to be paid to a company in cash.

Recovery	The action or process of regaining possession or control of something lost. To recoup losses.
Rent	Payment from a lessee to the lessor for the temporary use of an asset.
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.
Reserve	(1) An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders. (2) An amount allocated for a special purpose. Note that a reserve is usually a liability and not an extra fund. On occasion a reserve may be an asset, such as a reserve for taxes not yet due.
Reserves	A portion of funds allocated for an eventuality.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Security	One of various instruments used in the capital market to raise funds.
Spread	The interest rate that is paid in addition to the reference rate for debt securities.
Stock Code	A unique code allocated to a publicly listed security.
Subordinated Loan	A loan typically given by the Issuer to the securitisation vehicle that is more junior than a junior tranche.
Surveillance	Process of monitoring a transaction according to triggers, covenants and key performance indicators.
Timely Payment	The principal debt, interest, fees and expenses being repaid promptly in accordance with the contractual obligation.
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.
Weighted Average	An average resulting from the multiplication of each component by a factor reflecting its importance or, relative size to a pool of assets or liabilities.
Weighted	The weight that a single obligation has in relation to the aggregated pool of obligations. For example, a single mortgage principal balance divided by the aggregated mortgage pool principal balance.
Yield	Percentage return on an investment or security, usually calculated at an annual rate.

SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the ratings were 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 are for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

The credit ratings have been disclosed to Issuer and Arranger. The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings.

Issuer participated in the rating process via face-to-face management meetings, teleconferences and/or other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Issuer and other reliable third parties to accord the credit rating included:

- Servicer Reports from October 2018 to April 2019; and
- SENS announcements.

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