



Credit Rating Announcement

GCR Withdraws an Existing Rating, Assigns a New Rating and Affirms Existing Ratings of Notes Issued by MW Asset Rentals (RF) Ltd, Outlooks Stable

Rating Action

Johannesburg, 22 February 2021 - GCR Ratings ("GCR") has assigned the following national scale long term issue credit rating and outlook to the following Notes (the "New Notes") issued by MW Asset Rentals (RF) Ltd (the "Issuer"), under its R2.5bn Lease Receivables Backed Note Programme (the "Transaction"), on 22 February 2021:

Security Class	Stock Code	Amount Outstanding	Rating class	Rating scale	Rating	Outlook
Class A Notes	MWAR06	R500,000,000	Long Term Issue	National	AAA _(ZA) (sf)	Stable

The Issuer used the proceeds from the New Notes to refinance the R300m MWAR02 Notes that have a Scheduled Maturity Date of 22 February 2021 and to purchase additional Participating Assets.

GCR has concurrently affirmed the national scale long term issue credit ratings and outlooks accorded to the following Class A Notes issued by the Issuer. The affirmation of the ratings follows the surveillance of the performance of the Transaction by GCR and assessment of the impact of the new issue on the ratings of the existing Notes:

Security Class	Stock Code	Amount Outstanding	Rating class	Rating scale	Rating	Outlook
Class A Notes	MWAR03	R200,000,000	Long Term Issue	National	AAA _(ZA) (sf)	Stable
Class A Notes	MWAR04	R450,000,000	Long Term Issue	National	AAA _(ZA) (sf)	Stable
Class A Notes	MWAR05	R300,000,000	Long Term Issue	National	AAA _(ZA) (sf)	Stable

GCR has withdrawn the rating assigned to the R300m Class A Notes (MWAR02).

Security Class	Stock Code	Amount Outstanding	Rating class	Rating scale	Rating	Outlook
Class A Notes	MWAR02	R300,000,000	Long Term Issue	National	WD	n.a.

The Transaction has four Subordinated Loans outstanding with an aggregate value of R221,339,156. These are unrated and held by Merchant West (Pty) Ltd (as the Subordinated Loan Provider). Merchant West (Pty) Ltd is also the Originator, Seller and Servicer of the Transaction.

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 has issued R1.45bn Class A Notes to date.

The Issuer continues to pay quarterly interest on the Class A Notes and Subordinated Loans. The Transaction is in its revolving phase and continues to acquire assets monthly. None of the Transaction's Stop Purchase Triggers and Portfolio Covenants had been breached as of December 2020.

GCR had previously noted the three-month average Non-Performing Loan ("NPL") Stop Purchase trigger that tracked close to the 3% limit. GCR noticed that the Seller recently started re-purchasing a larger proportion of NPL accounts in response.

The Transaction's Liquidity Reserve, Capital Reserve and Arrears Reserve were maintained at their required levels covering August to December 2020.

GCR considered the cumulative default rates, recovery rates and their timing vectors for this Transaction by analysing the historical vintage data. GCR received default and recovery data that covers the period from April 2009 to November 2020. GCR calculated the default base cases by extrapolating the monthly vintage curves up to 90 months. GCR applied the latest default base case, that reflected a simple average of 2.51% with a half of the standard deviation of 3.81% added thereto, which was then adjusted by 5% due to the Servicer hit adjustment, resulting in a default base case of 4.64%.

The default base case of 4.64% was then rebased for the aging of the latest pool cut (as at 22 February 2021) inclusive of the new assets to be purchased that had 3.34% in arrears assets, resulting in an adjusted base case default rate of 4.68%. The 22 February 2021 pool cut had 0.79% (R14.6m) of NPL accounts. The nominal value of NPL accounts was ejected from the cash flow model directly as accounts defaulting in month one and subject to recoveries thereafter.

GCR noted an improvement of the extrapolated recovery rates which is attributed to the reopening of the courts in Q3 2020 and Merchant West's active management of its arrears and NPL status accounts. GCR calculated a weighted average recovery rate of 96.46% with a standard deviation of 9.20%. GCR conservatively maintained the recovery base case assumption of 68.45%. This was adjusted further downward for the covenanted 3% of the portfolio that may be held outside of the Common Monetary Area ("CMA"), with zero recoveries assumed on this 3%. The adjusted recovery base case rate modelled by GCR is 66.39%.

GCR observed a recent increase of prepayment rates - in August and November 2020. Utilising the data from April 2015 to December 2020 reported a simple average of 7.13% and a standard deviation of 5.43%. GCR maintained the initial prepayment base case assumption of 10.55%.

GCR modelled the asset portfolio at its covenant level of 128% Asset Cover Ratio ("ACR"). The ACR was reported at 138.00% for December 2020.

The Transaction continues to report healthy excess spread which has been augmented by the assets acquired through the August 2020 tap issuance and relatively stable senior costs. The Weighted Average Yield (less Prime) on the ISAs (Instalment Sale Agreements) was reported at higher than 5.50% from July to December 2020.

GCR's cash flow analysis reflects the application of the respective rating scenario stresses as per GCR's Criteria for Rating Consumer Asset Backed Securities which were applied in adherence with the Transaction's amortising Pre-Enforcement Priority of Payments. The cash flow analysis indicates that the Transaction can withstand the stresses and assumptions for a rating commensurate with a 'AAA_(ZA)(sf)¹' rating scenario.

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Related criteria and research

Criteria for Rating Structured Finance Transactions – Sep '18

Criteria for Rating Consumer Asset Backed Securities – Sep '18

Criteria for Rating Financial Institutions – May '19

MW Asset Rentals (RF) Ltd New Issuance Report and Ratings Announcement – Sep '20

MW Asset Rentals (RF) Ltd Indicative Ratings Announcement – Feb '21

Nedbank Ltd Financial Institution – Jul '20

Ratings history

MW Asset Rentals (RF) Ltd

Security class	Stock code	Review	Rating scale	Rating	Outlook	Date
Class A Notes	MWAR03	Initial	National	AAA _{(ZA)(sf)}	Stable Outlook	Nov. 2018
		Last	National	AAA _{(ZA)(sf)}	Stable Outlook	Feb. 2021
Class A Notes	MWAR04	Initial	National	AAA _{(ZA)(sf)}	Stable Outlook	Nov. 2019
		Last	National	AAA _{(ZA)(sf)}	Stable Outlook	Feb. 2021
Class A Notes	MWAR05	Initial	National	AAA _{(ZA)(sf)}	Stable Outlook	Sep. 2020
		Last	National	AAA _{(ZA)(sf)}	Stable Outlook	Feb. 2021
Class A Notes	MWAR06	Initial	National	AAA _{(ZA)(sf)}	Stable Outlook	Feb. 2021
		Last	National	AAA _{(ZA)(sf)}	Stable Outlook	Feb. 2021

Glossary

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.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Coupon	The interest paid on a bond expressed as a percentage of the face value. If a bond carries a fixed coupon, the interest is usually paid on an annual or semi-annual basis. The term also refers to the detachable certificate entitling the bearer to the interest payment.
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 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.
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.
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.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Originator	An entity that created assets and hold on balance sheet for securitisation purposes.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Performing	An obligation that performs according to its contractual 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.
Prepayment Rate	The rate of prepayment in relation to the pool of obligations. Also called prepayment speed.
Prepayment	Any unscheduled or early repayment of the principal of a mortgage/loan.
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.
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.
Servicer	A transaction appointed agent that performs the servicing of mortgage loans, loan or obligations.
Subordinated Loan	A loan typically given by the Issuer to the securitisation vehicle that is more junior than a junior tranche.
Timely Payment	The principal debt, interest, fees and expenses being repaid promptly in accordance with the contractual obligation.
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.
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 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; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

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 virtual 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 ratings included:

- Servicer Reports from August 2020 to December 2020;
- Pool cut as at December 2020, 23 January 2021 and 22 February 2021;
- Static Default and Recovery rates to November 2020;
- Prepayment Rates to December 2020;
- Final Applicable Pricing Supplement for the MWAR06 Notes;
- Signed Bring Down Legal Opinion; and
- SENS announcements.

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