

Rating Action: Moody's assigns definitive ratings to South African auto ABS notes issued by Transsec 4 (RF) Limited

13 Mar 2019

ZAR 880 million ABS notes rated, relating to a portfolio of South African auto leases

London, 13 March 2019 -- Moody's Investors Service ("Moody's") has assigned the following definitive ratings to notes issued by Transsec 4 (RF) Limited:

...ZAR 107M Class A1 Notes, due April 2020, Definitive Rating Assigned P-3 (sf) / P-1.za (sf)

...ZAR 300M Class A2 Notes, due April 2029, Definitive Rating Assigned A2 (sf) / Aaa.za (sf)

...ZAR 221M Class A3 Notes, due April 2029, Definitive Rating Assigned A2 (sf) / Aaa.za (sf)

...ZAR 92M Class A4 Notes, due April 2029, Definitive Rating Assigned A2 (sf) / Aaa.za (sf)

...ZAR 160M Class B Notes, due April 2029, Definitive Rating Assigned Ba1 (sf) / Aa3.za (sf)

Moody's has not assigned a rating to the ZAR 120M Subordinated Loan, which will also be issued at closing of the transaction.

RATINGS RATIONALE

The transaction is a cash securitisation of instalment sales agreements extended to borrowers classified as small and medium sized taxi businesses located in South Africa.

The loans were originated by SA Taxi Development Finance (Pty) Ltd ("SA Taxi"), the "Originator", through Potpale Investments (RF) (Pty) Ltd, a special purpose warehousing vehicle. The Originator is not rated, and is ultimately majority owned by Transaction Capital Limited (NR). This is the sixth public securitisation issuance by the Originator. SA Taxi is also acting as servicer in the transaction.

As of March 2019, the ZAR 999.4 million portfolio backing the notes contained 2,289 contracts with a weighted average seasoning of four months. The portfolio consists of instalment sale agreements granted to finance new or used minibus taxi vehicles. The portfolio is collateralized by 73.6% new cars and 26.4% used vehicles, and the majority of financed vehicles are Toyota Seskifile. The weighted average interest rate is 23.7% as of the closing date.

The structure does not include a revolving period. Addition of new assets during the tap period of 6 quarters from the initial issue date is subject to issuance of newly rated notes. Moody's will review the additional portfolios before assigning ratings to the additional tap notes. The programme conditions suggest such ratings should not be lower than the provisional ratings assigned to the class of notes prior to the initial issue date.

The programme also contains portfolio covenants compliance which is a condition of tap issuances. Under the portfolio covenants the share of contracts collateralized by used vehicles cannot exceed 30% and minimum margin over prime rate is 13%.

The transaction benefits from credit strengths such as the granularity of the portfolio and experience of SA Taxi in origination and securitisation of minibus taxi financing agreements.

However, Moody's notes that the transaction features some credit weaknesses. Historical performance data on SA Taxi book shows high levels of arrears and repossessions while the economic prospects in South Africa remain weak. Moreover, the portfolio is also highly concentrated in the minibus taxi industry. Furthermore, the issuer will advance insurance and car tracking fees on behalf of borrowers in arrears. Finally, the servicer and administrator, SA Taxi, is unrated and the risk of disruption is mitigated - to a limited degree -- by the appointment of Transaction Capital Recoveries (Pty) Ltd as a back-up servicer. Both SA Taxi and Transaction Capital Recoveries (Pty) Ltd are subsidiaries of Transaction Capital Limited but both entities operate completely independent in different business segments of the financial industries.

The transaction has a generally sequential amortisation structure with a possibility of all notes except for Class A1 Notes paying pro-rata subject to satisfactory performance. There is no cash reserve in the transaction. Principal to pay interest and the liquidity facility will be the transaction's primary sources of liquidity.

MAIN ASSUMPTIONS

Moody's determined the portfolio lifetime mean loss rate of 6.0% and portfolio credit enhancement ("PCE") of 28.0%. The mean loss rate captures our expectations of performance considering the current economic outlook, while the PCE captures the loss we expect the portfolio to suffer in the event of a severe recession scenario. Mean loss and PCE are parameters used by Moody's to calibrate its lognormal portfolio loss distribution curve and to associate a probability with each potential future loss scenario in its ABSROM cash flow model to rate consumer loans ABS.

The portfolio expected mean loss level of 6.0% is worse than the EMEA auto leases/loans average and is based on Moody's assessment of the lifetime expectation for the pool taking into account (i) historical performance of the originator's book, (ii) the current and future macroeconomic environment in South Africa, (iii) potential increase in the share of contracts collateralized by used vehicles during the further tap period, and (iv) benchmarking with other EMEA auto ABS transactions.

The PCE of 28.0% is worse than EMEA auto ABS on average and is based on Moody's assessment of the pool taking into account (i) historical performance of the originator's book, (ii) the current and future macroeconomic environment in South Africa, (iii) potential increase in the share of contracts collateralized by used vehicles during the further tap period, and (iv) benchmarking with other EMEA auto ABS transactions.

The PCE of 28.0% results in an implied coefficient of variation ("CoV") of 80.9%.

METHODOLOGY

The principal methodology used in these ratings was 'Moody's Global Approach to Rating Auto Loan- and Lease-Backed ABS' published in October 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The Credit Rating for Transsec 4 (RF) Limited was assigned in accordance with Moody's existing Methodology entitled 'Moody's Global Approach to Rating Auto Loan- and Lease-Backed ABS', dated 6th October 2016. Please note that on 14th November 2018, Moody's released a Request for Comment, in which it has requested market feedback on potential revisions to its Methodology for Auto ABS. If the revised Methodology is implemented as proposed, the Credit Rating on Transsec 4 (RF) Limited are not expected to be affected. Please refer to Moody's Request for Comment, titled 'Proposed Update to Moody's Global Approach to Rating Auto Loan- and Lease-Backed ABS' for further details regarding the implications of the proposed Methodology revisions on certain Credit Ratings.

Factors that would lead to an upgrade or downgrade of the ratings:

Factors that may cause an upgrade of the ratings of Class A Notes is improvement of the local currency country ceiling of South Africa. Factors that may cause an upgrade of the rating of Class B Notes include significantly better than expected performance of the pool together with an increase in credit enhancement of notes.

Factors that may cause a downgrade of the ratings of the notes include (i) deterioration of the local currency country ceiling of South Africa, or (ii) significantly worse than expected performance of the pool, or (iii) servicing transfer to the back-up servicer.

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rating categories over different investment horizons, please see https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1113601 .

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

The analysis relies on an assessment of collateral characteristics to determine the collateral loss distribution, that is, the function that correlates to an assumption about the likelihood of occurrence to each level of possible losses in the collateral. As a second step, Moody's evaluates each possible collateral loss scenario using a model that replicates the relevant structural features to derive payments and therefore the ultimate potential losses for each rated instrument. The loss a rated instrument incurs in each collateral loss scenario, weighted by assumptions about the likelihood of events in that scenario occurring, results in the expected loss of the rated instrument.

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