MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns definitive ratings to South African auto ABS notes issued by Transsec 5 (RF) Limited

29 Nov 2021

ZAR 508 million ABS notes newly rated, relating to a portfolio of South African auto leases

London, 29 November 2021 -- Moody's Investors Service ("Moody's") has assigned the following definitive ratings to notes newly issued by Transsec 5 (RF) Limited:

....ZAR 75M Class Omega 2 Notes due December 2022, Definitive Rating Assigned NP (sf) / P-1.za (sf)

....ZAR 172M Class A1-2 Notes due June 2031, Definitive Rating Assigned Baa1 (sf) / Aaa.za (sf)

....ZAR 174M Class A2-2 Notes due June 2031, Definitive Rating Assigned Baa1 (sf) / Aaa.za (sf)

....ZAR 87M Class B2 Notes due June 2031, Definitive Rating Assigned Ba2 (sf) / Aa2.za (sf)

Moody's has affirmed the ratings of the following outstanding Notes:

....ZAR 90M (current outstanding amount ZAR 67.3M) Class Omega Notes due June 2022, Affirmed NP (sf) / P-1.za (sf); previously on May 26, 2021 Definitive Rating Assigned NP (sf) / P-1.za (sf

....ZAR 329M Class A1 Notes due June 2031, Affirmed Baa1 (sf) / Aaa.za (sf); ; previously on May 26, 2021 Definitive Rating Assigned Baa1 (sf) / Aaa.za (sf);

....ZAR 191M Class A2 Notes due June 2031, Affirmed Baa1 (sf) / Aaa.za (sf); ; previously on Jul 7, 2021 Upgraded to Baa1 (sf) / Aaa.za (sf);

....ZAR 80M Class A3 Notes due June 2031, Affirmed Baa1 (sf) / Aaa.za (sf); ; previously on Jul 7, 2021 Upgraded to Baa1 (sf) / Aaa.za (sf);

....ZAR 150M Class B Notes due June 2031, Affirmed Ba2 (sf) / Aa2.za (sf); previously on May 26, 2021 Definitive Rating Assigned Ba2 (sf) / Aa2.za (sf)

Moody's has not assigned ratings to the outstanding ZAR 60M Class C Notes, to the newly issued ZAR 35M Class C2 Notes or to the Subordinated Loan, which has been increased by ZAR 61M as part of this tap issuance.

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. This is the first tap issuance out of the programme since closing in May 2021.

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 owned by Transaction Capital Limited (NR). This is the seventh public securitisation by the Originator. SA Taxi is also acting as servicer in the transaction.

As of 22 November 2021, the ZAR 1,580 million portfolio backing the notes contained 3,211 contracts with a weighted average seasoning of around seven months. The portfolio consists of instalment sale agreements granted to finance new or used minibus taxi vehicles. The portfolio is collateralized by 69.0% new vehicles and 31.0% used vehicles, and the majority of financed vehicles are Toyota Ses'fikile. The weighted average interest rate is 20.3% as of the definitive pool 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 ratings assigned to the equally ranking notes prior to the latest issue date.

The compliance with the portfolio covenants of the programme is a condition of tap issuances. Under the portfolio covenants the share of contracts collateralized by used vehicles cannot exceed 40%.

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's book shows high levels of arrears and repossessions while the economic prospects in South Africa remain weak. Moreover, the portfolio is also 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 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 industry.

The transaction has in general a sequential amortisation structure but with the possibility to amortise Classes A and B pro rata, subject to satisfactory performance. Principal to pay interest and the liquidity facility will be the transaction's primary sources of liquidity. There is no cash reserve in the transaction. SA Taxi collects all payments under the agreements in this pool into collection accounts under the name of Keywood (RF) (Pty) Limited, a dedicated collection special-purpose vehicle (SPV). As part of this issuance Capitec Bank Limited (NR) is added as a collection account bank.

MAIN ASSUMPTIONS

Moody's determined the portfolio lifetime mean loss rate of 7.75% and portfolio credit enhancement ("PCE") of 30.0%. 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 7.75% 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 30.0% 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 30.0% results in an implied coefficient of variation ("CoV") of 86.6%.

Today's action has considered the coronavirus pandemic's significant impact on South African economic activity and the ongoing effect on the performance of consumer assets. It will take several years for real economic output to recover to the pre-pandemic level of activity with a stronger recovery impeded by the risk of new waves of infections and limited vaccine access and distribution.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

METHODOLOGY

The principal methodology used in these ratings was "'Moody's Global Approach to Rating Auto Loan- and Lease-Backed ABS" published in September 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBS_1264141 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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

Factors that may cause an upgrade of the ratings of the Class Omega, Class A and B Notes include improvement of the local currency country ceiling of South Africa. Factors that may cause an upgrade of the rating of Class C 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, (ii) significantly worse than expected performance of the pool, or (iii) servicing transfer to the back-up servicer.

Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in May 2016 entitled "Mapping National Scale Ratings from Global Scale Ratings". While NSRs have no inherent absolute meaning in terms of default risk or expected loss, a historical probability of default consistent with a given NSR can be inferred from the GSR to which it maps back at that particular point in time. For information on the historical default rates associated with different global scale rating categories over different investment horizons, please see https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1280297 .

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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.

Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows. Moody's weights the impact on the rated instruments based on its assumptions of the likelihood of the events in such scenarios occurring.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288235 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Carmen Brunetti Llavona
Analyst
Structured Finance Group
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Armin Krapf
VP - Senior Credit Officer
Structured Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454