MOODY'S
INVESTORS SERVICE

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

29 Oct 2019

ZAR 603 million ABS notes newly rated, relating to a portfolio of South African auto leases

Frankfurt am Main, October 29, 2019 -- Moody's Investors Service ("Moody's") has assigned the following definitive ratings to notes newly issued by Transsec 4 (RF) Limited:

....ZAR 88.0M Class A5 Notes due October 2020, Definitive Rating Assigned P-3 (sf) / P-1.za (sf)

....ZAR 270.0M Class A6 Notes due April 2029, Definitive Rating Assigned A2 (sf) / Aaa.za (sf)

....ZAR 81.0M Class A7 Notes due April 2029, Definitive Rating Assigned A2 (sf) / Aaa.za (sf)

....ZAR 62.0M Class A8 Notes due April 2029, Definitive Rating Assigned A2 (sf) / Aaa.za (sf)

....ZAR 102.0M Class B2 Notes due April 2029, Definitive Rating Assigned Ba1 (sf) / Aa3.za (sf)

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

....ZAR 107.0M (current outstanding amount 52.4M) Class A1 Notes due April 2020, Affirmed P-3 (sf) / P-1.za (sf)

....ZAR 300.0M Class A2 Notes due April 2029, Affirmed A2 (sf) / Aaa.za (sf)

....ZAR 221.0M Class A3 Notes due April 2029, Affirmed A2 (sf) / Aaa.za (sf)

....ZAR 92.0M Class A4 Notes due April 2029, Affirmed A2 (sf) / Aaa.za (sf)

....ZAR 160.0M Class B Notes due April 2029, Affirmed Ba1 (sf) / Aa3.za (sf)

RATINGS RATIONALE

The transaction is a cash securitisation of instalment sale agreements also referred to as leases in our analysis, extended to borrowers classified as small and medium sized taxi businesses located in South Africa. The securitisation structure initially closed in March 2019. This is the first tap issuance since the initial closing.

The instalment sale agreements were originated by SA Taxi Holdings (Pty) Ltd ("SA Taxi") 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 fourth public securitisation by the originator. SA Taxi Development Finance (Pty) Ltd is acting as servicer in the transaction.

As of October 2019, the ZAR 1,634 million portfolio backing the notes contained 3,751 contracts with a weighted average seasoning of seven months. The portfolio consists of instalment sale agreements granted to finance new or used minibus taxi vehicles. The portfolio is collateralized by 75.57% new cars and 24.43% used vehicles, and the majority of financed vehicles are Toyota branded. The weighted average interest rate is 23.56% as of the closing date.

The structure does not include a revolving period. The addition of new assets during the tap period of 6 quarters from the initial issuance 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 that the ratings of the new tap issuance should not be lower than the provisional ratings assigned to the equally ranking notes prior to the initial issuance date.

The programme also contains portfolio covenants, compliance with 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's book shows high levels of arrears and repossessions while the economic prospects in South Africa remain weak. Moreover, the portfolio is concentrated in the minibus taxi industry. Furthermore, the issuer advance insurance and car tracking fees on behalf of borrowers in arrears. Finally, the servicer and administrator, SA Taxi Development Finance (Pty) Ltd, 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 Development Finance (Pty) Ltd and Transaction Capital Recoveries (Pty) Ltd are subsidiaries of Transaction Capital Limited but both entities operate completely independently in different business segments of the financial industry.

The transaction has a generally sequential amortisation structure. Subject to certain conditions Class A Notes are paid sequentially in the following order: at first, Class A1 and A5 Notes; secondly, Class A2 and A6 Notes and thirdly, Class A3, A4, A7, A8 Notes. There is no cash reserve in the transaction. Excess spread, principal to pay interest and the liquidity facility are 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 auto lease 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 March 2019. 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 Class A Notes is improvement of the local currency country ceiling of South Africa. Factors that may cause an upgrade of the ratings of Class B2 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.

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 http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1174796 .

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.

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.

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

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.

Armin Krapf
VP - Senior Credit Officer
Structured Finance Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Olga Gekht
Senior Vice President/Manager
Structured Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.