MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns provisional ratings to South African auto ABS notes to be issued by Transsec 3 (RF) Limited

Global Credit Research - 17 Oct 2017

ZAR 528 million ABS notes provisionally rated, relating to a portfolio of South African auto leases

London, 17 October 2017 -- Moody's Investors Service ("Moody's") has assigned the following provisional ratings to notes to be issued by Transsec 3 (RF) Limited:

....ZAR [70]M Class A1 Notes due November 2018, Assigned (P)P-3 (sf) / (P)P-1.za (sf)

....ZAR [130]M Class A2 Notes, due November 2027, Assigned (P)A2 (sf) / (P)Aaa.za (sf)

....ZAR [110]M Class A3 Notes, due November 2027, Assigned (P)A2 (sf) / (P)Aaa.za (sf)

....ZAR [124]M Class A4 Notes, due November 2027, Assigned (P)A2 (sf) / (P)Aaa.za (sf)

....ZAR [94]M Class B Notes, due November 2027, Assigned (P)Ba1 (sf) / (P)Aa3.za (sf)

Moody's has not assigned a rating to the ZAR [72]M 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 owned by Transaction Capital Limited (NR). This is the fifth public securitisation by the Originator. The Originator is also acting as servicer in the transaction.

As of September 2017, the ZAR 421.7 million provisional portfolio backing the notes contained 1,043 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 78.6% new cars and 21.4% used vehicles, and the majority of financed vehicles are Toyota Seskifile. The weighted average interest rate is 24.2% 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 equally ranking 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 can not 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. The issuer will advance insurance and car tracking fees on behalf of borrowers in arrears. 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 industries.

The transaction has a generally sequential amortisation structure with a possibility of all notes except for A1 notes paying pro-rata subject to occurrence of step-up date and 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.

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 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.

The ratings address the expected loss posed to investors by the legal final maturity of the notes. In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal by legal final maturity. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed but may have a significant effect on yield to investors.

LOSS AND CASH FLOW ANALYSIS:

Moody's used its cash-flow model Moody's ABSCORE as part of its quantitative analysis of the transaction. Moody's ABSCORE model enables users to model various features of a standard European ABS transaction -- including the specifics of the default distribution of the assets, their portfolio amortisation profile, yield as well as the specific priority of payments, swaps and reserve funds on the liability side of the ABS structure.

STRESS SCENARIOS:

In rating auto leases ABS, expected mean loss rate and PCE are two key inputs that determine the transaction cash flows in the cash flow model. Parameter sensitivities for this transaction have been calculated in the following manner: We tested 9 scenarios derived from the combination of mean lessee loss: 6.0% (base case), 7.0% (base case + 1.0%), 8.0% (base case + 2.0%) and PCE: 28.0% (base case), 31.0% (base case + 3.0%), 34.0% (base case + 6.0%). The 6.0% / 28.0% scenario would represent the base case assumptions used in the initial rating process.

At the time the rating was assigned, the model output indicated that the Class A3 and Class A4 notes would have achieved Baa1 (sf) if the PCE was as high as 34.0% with a mean loss rate as high as 8.0% (all other factors unchanged).

Parameter sensitivities provide a quantitative/model indicated calculation of the number of notches that a Moody's rated structured finance security may vary if certain input parameters used in the initial rating process differed. The analysis assumes that the deal has not aged. It is not intended to measure how the rating of the security might migrate over time, but rather how the initial model output for the Class A3 and A4 notes might have differed if the two parameters within a given sector that have the greatest impact were varied. Model output results for the Class A1, A2 to B notes are shown in the pre-sale report for this securitization.

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_1060333 .

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.

Moody's describes its loss and cash flow analysis in the section "Ratings Rationale" of this press release.

Moody's describes the stress scenarios it has considered for this rating action in the section "Ratings Rationale" of this press release.

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt 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.

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