



GCR Assigns New Ratings and Affirms Existing Ratings of Notes Issued by MW Asset Rentals (RF) Ltd; Outlook Stable.

Rating Action

Johannesburg, 07 September 2020 - 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 04 September 2020:

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

The Issuer will use the proceeds from the New Notes 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 contemplated issue on the ratings of the existing notes:

Security Class	Stock Code	Amount Outstanding	Rating class	Rating scale	Rating	Outlook
Class A Notes	MWAR02	R300,000,000	Issue Long Term	National	AAA _{(ZA)(sf)}	Stable
Class A Notes	MWAR03	R200,000,000	Issue Long Term	National	AAA _{(ZA)(sf)}	Stable
Class A Notes	MWAR04	R450,000,000	Issue Long Term	National	AAA _{(ZA)(sf)}	Stable

The Transaction has two Subordinated Loans outstanding with an aggregate value of R145,645,00. A third Subordinated loan of R45,754,156 has been advanced, bringing the total to R191,399,156. 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 issued R1.25bn of 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 on a monthly basis. None of the Transaction's Stop Purchase Triggers and Portfolio Covenants were breached as at July 2020.

The monthly portfolio arrears (31 to 90 days) have increased to 5.61% in July 2020 having reached an all-time high of 7.54% (R90.5m) in June 2020, up from April and May 2020 at 6.40% and 6.57% respectively. The three-month average Non-Performing Loan ("NPL") Stop Purchase trigger tracked close to the 3% limit being reported at 2.97% at July 2020 – the main driver being the July 2020 NPLs. The May and June 2020 ratios being calculated at 2.18% and 2.48% respectively. There is a possibility that this trigger will be breached in the absence of substantial NPL remedial action. This debt issuance will result in performing Instalment Sale Agreements ("ISAs") being added to the existing securitised asset portfolio. Please note that for the purpose of assigning a rating to the Notes, GCR models the transaction in an amortising phase and thus incorporates this possibility.

The Transaction's Liquidity Reserve, Capital Reserve and Arrears Reserve were maintained at their required levels covering the same period.

GCR considered the cumulative default rates, recovery rates and their timing vectors for this Transaction by analysing the historical vintage data. Default and recovery rates were derived by the extrapolation of data from April 2009 to July 2020. GCR recalculated the default base cases by extrapolating the monthly vintage curves up to 90 months. The result being a simple average of 2.98% with a standard deviation of 5.03%. GCR applied half of the standard deviation to the simple average to arrive at a 5.50% default base case which was then adjusted by 5% due to the Servicer hit adjustment resulting in a recalculated base case of 5.77%. The new base case is lower than the base case (6.47%) initially formulated by GCR. While GCR received updated cumulative default data from the originator that extend beyond the term of ISAs, it was deemed more accurate to exclude the data points beyond such term from the extrapolation calculations of the cumulative default curves. Also given the large amount of performance data available to GCR on the asset portfolio and the lower portion of outlaying curves, GCR decided to revert to a monthly vintage analysis as opposed to a bi-annual analysis which had a smoothing effect on the default data.

The 5.77% was then rebased for the aging of the latest pool cut inclusive of the new assets to be purchased that had 4.16% in arrears assets, resulting in a 5.83% adjusted base case default rate. GCR also tested the previous default base case rate (6.47%) with the ratings being unchanged. The latest pool cut inclusive of the new assets to be purchased had 2.57% of NPL status. This NPL portion (R40.7m) was directly injected into the cash flow model. GCR also tested for the July 2020



servicer report that had R46.9m NPL accounts.

Although the recovery data provided exhibited some improvements, the recovery base case assumption was retained at 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 continued marginal decline in the base case prepayment rate, based on data from April 2015 to July 2020, to 9.52%. GCR conservatively 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 134.61% for July 2020.

The Transaction has a healthy excess spread, due to the ACR and the minimum Weighted Average Yield covenant of Prime plus 2.00% amongst others. The Weighted Average Yield (less prime) on the ISAs were reported at 5.95% which is a substantial increase from 3.85% at February 2020. The noticeable increase was observed from March 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 was applied to this transaction’s amortising Pre-Enforcement Priority of Payments. The cash flow analysis indicates that the Transaction is able to withstand the stresses and assumptions for a rating commensurate with a ‘AAA_{(ZA)(sf)}’ rating scenario.

Analytical contacts

Primary analyst	Corné Els	Senior Structured Finance & Securitisation Analyst
Johannesburg, ZA	CorneE@GCRratings.com	+27 11 784 1771
Secondary analyst	Siyuan Lu	Structured Finance & Securitisation Analyst
Johannesburg, ZA	SiyuanL@GCRratings.com	+27 11 784 1771
Committee chair	Yohan Assous	Sector head: Structured Finance & Securitisation
Johannesburg, ZA	Yohan@GCRratings.com	+27 11 784 1771

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 - Nov '19
MW Asset Rentals (RF) Ltd Indicative Ratings Announcement - Sep '20
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	MWAR02	Initial	National	AAA _{(ZA)(sf)}	Stable Outlook	Mar. 2018
		Last	National	AAA _{(ZA)(sf)}	Stable Outlook	Sep. 2020
Class A Notes	MWAR03	Initial	National	AAA _{(ZA)(sf)}	Stable Outlook	Nov. 2018
		Last	National	AAA _{(ZA)(sf)}	Stable Outlook	Sep. 2020
Class A Notes	MWAR04	Initial	National	AAA _{(ZA)(sf)}	Stable Outlook	Nov. 2019
		Last	National	AAA _{(ZA)(sf)}	Stable Outlook	Sep. 2020
Class A Notes	MWAR05	Initial	National	AAA _{(ZA)(sf)}	Stable Outlook	Sep. 2020
		Last	National	AAA _{(ZA)(sf)}	Stable Outlook	Sep. 2020

Glossary

Affirmation	See GCR Rating Scales, Symbols and Definitions.
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.
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.



Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Capital	The sum of money that is invested to generate proceeds.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.
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.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
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.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Proceeds	Funds from issuance of debt securities or sale of assets.

Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Receivables	Any outstanding debts, current or not, due to be paid to a company in cash.
Recovery	The action or process of regaining possession or control of something lost. To recoup losses.
Rent	Payment from a lessee to the lessor for the temporary use of an asset.
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.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Security	One of various instruments used in the capital market to raise funds.
Servicer	A transaction appointed agent that performs the servicing of mortgage loans, loan or obligations.
Spread	The interest rate that is paid in addition to the reference rate for debt securities.
Stock Code	A unique code allocated to a publicly listed security.
Subordinated Loan	A loan typically given by the Issuer to the securitisation vehicle that is more junior than a junior tranche.
Surveillance	Process of monitoring a transaction according to triggers, covenants and key performance indicators.
Timely Payment	The principal debt, interest, fees and expenses being repaid promptly in accordance with the contractual obligation.
Transaction	A transaction that enables an Issuer to issue debt securities in the capital markets. A debt issuance programme that allows an Issuer the continued and flexible issuance of several types of securities in accordance with the programme terms and conditions.
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.
Weighted	The weight that a single obligation has in relation to the aggregated pool of obligations. For example, a single mortgage principal balance divided by the aggregated mortgage pool principal balance.
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 were 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; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the ratings are for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

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 face-to-face 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 rating included:

- Servicer Reports from September 2019 to July 2020;
- Pool cut as at July & 15 August 2020;
- Static Default and Recovery rates to July 2020;
- Prepayment Rates to July 2020;
- Signed and Executed Applicable Pricing Supplement for the MWAR05 Notes;
- Signed Transaction Legal Opinion;
- SENS announcements.