



## GCR maintains Delta Property Fund Limited's Senior Secured Notes on 'Rating Watch'.

Johannesburg, 1 August 2016 — Global Credit Ratings ('GCR') has maintained the 'Rating Watch' status accorded to the A+<sub>(ZA)</sub> rating of the Senior Secured Notes issued by Delta Property Fund Limited (the 'Issuer') under its R2bn DMTN programme. The Issuer currently has the following Senior Secured Notes in issue (the 'Notes'):

ZAR 462 million, Senior Secured Floating Rate Notes, maturing 09 December 2016, stock code DLTB02.

The Notes were issued on 09 December 2013, with a subsequent tap issuance completed on 9 March 2015. GCR affirmed the 'A+<sub>(ZA)</sub>' rating accorded to the Notes, and placed the rating on 'Rating Watch' on 29 April 2016.

The Review Date for the rating of the Notes was scheduled for 29 July 2016. The Issuer has recently advised GCR that it is in the process of finalising negotiations for lease renewals; the potential disposal of two properties in the secured portfolio and the substitution thereof. Accordingly, GCR has maintained the 'Rating Watch' status as it is currently awaiting the required information from the Issuer, in order to complete an accurate analysis of the transaction. GCR has been advised by the Issuer that the information should be received during the coming weeks and as such, GCR expects to receive the finalised documentation and to conclude the rating review by 31 August 2016.

### **RATING RATIONALE**

The Senior Secured Notes issued under the Issuer's R2bn DMTN Programme was arranged by Nedbank Capital, a division of Nedbank Limited. The rating of the Senior Secured Notes was derived by applying a notching up approach, starting from the long term Issuer rating. Based on fundamentals and prospects of the Issuer, GCR accorded a long term 'BBB+(ZA)' national scale Issuer rating with a 'Stable' outlook. A rating uplift of 3 national scale notches was deemed appropriate in this particular transaction, given the "Superior Recovery Prospects" equating to a 'A+<sub>(ZA)</sub>' rating on the Senior Secured Notes. The rating relies on the recoveries from the properties contained within the security portfolio. The property portfolio is largely constituted of offices predominately occupied by the government and state-owned enterprises, with some diversification benefits drawn from the inclusion of a hospital and a number of industrial properties.

The rating accorded to the Senior Secured Notes relates to ultimate payment of the principal and interest (as opposed to timely, akin to an expected loss rating, which is a function of probability of default and loss severity). If the ratings accorded to the Issuer change, the rating of the Senior Secured Notes may also change, but potentially not in the same scale. The rating excludes an assessment of the ability of the Issuer to pay any (early repayment) penalties. For more information on the Transaction, please refer to GCR's Delta Property Fund Limited R462m Senior Secured



Floating Rate Notes Surveillance Report published on 29 April 2016.

### **NATIONAL SCALE RATINGS HISTORY**

<b>Stock Code</b>	<b>Initial Rating</b>	<b>Long Term Rating</b>	<b>Short Term Rating</b>	<b>Outlook</b>
DLTB02	11 December 2013	A <sub>+(ZA)</sub>	n.a	Stable
<b>Stock Code</b>	<b>Last Rating</b>	<b>Long Term Rating</b>	<b>Short Term Rating</b>	<b>Rating Watch</b>
DLTB02	29 April 2016	A <sub>+(ZA)</sub>	n.a	Yes

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### **APPLICABLE METHODOLOGIES AND RELATED RESEARCH**

Global Structurally Enhanced Corporate Bonds Rating Criteria (Oct'15);

Criteria for Rating Property Funds (May'16);

Criteria for Rating Corporate Entities (Feb'16);



Delta Property Fund Limited's Corporate Rating Report (Jul'16);  
 Delta Property Fund Limited R462m Senior Secured Floating Rate Notes - Press Release (Mar'16);  
 Delta Property Fund Limited R462m Senior Secured Floating Rate Notes - Surveillance Report (Apr'16);

## **RATING LIMITATIONS AND DISCLAIMERS**

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## **GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S STRUCTURED FINANCE GLOSSARY**

Agent	An agreement where one party (agent) concludes a juristic act on behalf of the other (principal). The agent undertakes to perform a task or mandate on behalf of the principal.
Arranger	Usually an Investment bank that advises and constructs a transaction and acts as a conduit between the transaction parties: Client, Issuer, Credit Rating Agency, Investors, Legal Counsel and Servicers.
Bond	A long term debt instrument issued by either: a company, institution or the government to raise funds.
Capital	The sum of money that is used to generate proceeds.
Corporate Credit Rating	A credit rating accorded to a corporate entity.
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit Rating Agency	An entity that provides credit rating services.
Credit Risk	The probability or likelihood that a borrower or issuer will not meet its debt obligations. Credit Risk can further be separated between current credit risk (immediate) and potential credit risk (deferred).
Debt	An obligation to repay a sum of money.
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 X days on any debt obligations as defined in the transaction documents; 4.) The obligor has filed for bankruptcy or similar protection from creditors.
Floating Rate Notes	Debt securities that have a periodic interest rate reset in relation to the reference rate, i.e. JIBAR.

Forecast	A calculation or estimate of future financial events.
International Scale Rating LC	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
Issuer	The party indebted or the person making repayments for its borrowings.
Junior	A security that has a lower repayment priority than senior securities.
Lease	Agreement or temporary use and enjoyment of a corporeal thing (movable or immovable property) the whole or part thereof for rent. The essential elements of a contract of lease are: 1.) Undertaking of lessor to give the lessee the use and enjoyment of something; 2.) Agreement between the lessor and lessee that the lessee's right to use and enjoyment is temporary; and 3.) Lessee's undertaking to pay a sum or rent.
Long-Term Rating	A long term rating reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
Loss	A tangible or intangible, financial or non-financial loss of economic value.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
National Scale Rating	The national scale provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, a 'AAA' long term national scale rating will typically be assigned to the lowest relative risk within that country, which in most cases will be the sovereign state.
Obligation	The title given to the legal relationship that exists between parties to an agreement when they acquire personal rights against each other for entitlement to perform.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Property	Movable or immovable asset.
Provision	An amount set aside for expected losses to be incurred by a creditor.
Rating Outlook	A Rating outlook indicates the potential direction of a rated entity's rating over the medium term, typically one to two years. An outlook may be defined as: 'Stable' (nothing to suggest that the rating will change), 'Positive' (the rating symbol may be raised), 'Negative' (the rating symbol may be lowered) or 'Evolving' (the rating symbol may be raised or lowered).
Rating Watch	Indicates that a rating is under review for possible change in the short term and the movement may be either positive or negative.
Recovery	The action or process of regaining possession or control of something lost. To recoup losses.
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.
Securities	Various instruments used in the capital market to raise funds.
Security	An asset deposited or pledged as a guarantee of the fulfilment of an undertaking or the repayment of a loan, to be forfeited in case of default.
Senior	A security that has a higher repayment priority than junior securities.
Short-Term Rating	A short term rating is an opinion of an issuer's ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.
Stock Code	A unique code allocated to a publicly listed security.



Structured Finance	A method of raising funds in the capital markets. A Structured Finance transaction is established to accomplish certain funding objectives whilst reducing risk.
Surveillance	Process of monitoring a transaction according to triggers, covenants and key performance indicators.
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.

## **SALIENT FEATURES OF ACCORDED RATINGS**

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

The Issuer and the Arranger participated in the rating process via face-to-face meetings, teleconferences and other written correspondence. Furthermore, the quality of info received was considered adequate and has been independently verified where possible.

The credit rating/s has been disclosed to the Issuer and the Arranger with no contestation of the rating.

The rating/s above were solicited by the Issuer of the Transaction; GCR has been compensated for the provision of the ratings.

The information received from the Arranger and other reliable third parties to accord the credit ratings included the latest Issuer's audited annual financial statements for the year ending February 2014; the financials for the year ended 29 February 2016; an overview of the property portfolio serving as security for the Senior Secured Notes as per 29 February 2016; a performance forecast of the property portfolio serving as security for the Senior Secured Notes for the period beginning 31 March 2016 and ending 28 February 2017; the applicable Valuation Reports effective at 1 March 2016; and the relevant executed Transaction documents together with the relevant final signed legal and tax opinions .