GCR upgrades Hospitality Property Fund Limited’s rating to BBB+(ZA); Outlook Stable.

Johannesburg, 18 Oct 2016 — Global Credit Ratings has today upgraded the national scale issuer ratings assigned to Hospitality Property Fund Limited to BBB+$_{(ZA)}$ and A2$_{(ZA)}$ in the long term and short term respectively; with the outlook accorded as Stable.

SUMMARY RATING RATIONALE

Global Credit Ratings (“GCR”) has accorded the above credit ratings to Hospitality Property Fund Limited (“HPF”) based on the following key criteria:

The rating upgrade reflects HPF’s strengthened credit profile and increased portfolio scale following the recently concluded transaction with Tsogo Sun Holdings Limited (“Tsogo”), which brought on 10 established properties, raising the value of its consolidated property investments from R5.3bn at FYE16 to c.R7.1bn. Furthermore, the ratings take cognisance of HPF’s strong anchor shareholder in Tsogo, off which the REIT can leverage on its expertise and track record within the hospitality sector, as well as opening up a potential pipeline of future acquisition opportunities.

Following an uptick in tourist activity, and despite several asset disposals, HPF reported improved rental income growth of 9% to R475m in F16. The performance was also reflective of the good progress made in rebalancing its portfolio towards high-quality, well-located, largely upper-tier hotel properties over the past few years. HPF should continue to benefit from its muli-brand competitiveness and relatively high occupancy levels, whilst the increased income diversity across different asset classes and customer profiles should translate to stronger margins as the growth strategy gains traction in the medium term. While consideration is taken of the newly enlarged portfolio, the fund’s performance remains materially exposed to the flagship Westin property in Cape Town. Nonetheless, this risk is mitigated by the high quality and defensiveness of the asset, with note also taken of the granularity of the remainder of the portfolio.

At FYE16, HPF’s LTV ratio was reported at a conservative 33%. With the Tsogo transaction being ungeared, GCR expects that HPF’s leverage will fall to the lower end of its targeted range of 25%-35% over the intermediate term unless major acquisitions materialise. Other key credit metrics, such as interest coverage and earnings based gearing are also expected to remain at stronger levels due to moderate debt increases and cash flow growth.

GCR expects timely refinancing of forthcoming debt maturities, with comfort derived from sufficient headroom under its existing debt covenants post the Tsogo transaction (with these assets completely unencumbered), as well as the strong network of new banking relationships that can be leveraged from the majority shareholder. The large cash balance at year end and further asset disposals are also noted.

Over the medium term ratings uplift could be derived from continued scale enhancement of the portfolio, leading to growth in rental income and profits, as well as reduced asset concentration.

Downgrade pressure would occur should the REIT experience liquidity challenges or an unexpected drop in demand due to a worsening of market conditions that negatively impacts hotel revenue and thus rental income. A shift toward a more aggressive debt acquisition-oriented growth strategy may also be viewed negatively.

NATIONAL SCALE RATINGS HISTORY		
Initial rating (Nov 2012)		
Long term: BBB-$_{(ZA)}$ Short term: A3$_{(ZA)}$		
Outlook: Stable		
Last rating (Oct 2015)		
Long term: BBB$_{(ZA)}$ Short term: A3$_{(ZA)}$		
Outlook: Stable		

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Criteria for rating corporate entities, updated February 2016

Criteria for rating property funds, updated April 2016

HPF issuer rating reports (2012-2015)

RATING LIMITATIONS AND DISCLAIMERS

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