



Rating Action: Moody's downgrades 11 notes in Transsec 4 (RF) Limited and Transsec 5 (RF) Limited

08 Jun 2023

Madrid, June 08, 2023 – Moody's Investors Service ("Moody's") has today downgraded the global scale ratings (GSRs) of 11 notes in Transsec 4 (RF) Limited and Transsec 5 (RF) Limited and affirmed the rating of 2 GSRs. In addition, Moody's has affirmed the national scale rating (NSRs) of 11 notes and downgraded the NSRs of 2 notes. The rating action reflects Moody's revised assessment of financial disruption risk and worse than expected collateral performance.

Moody's affirmed the ratings of the notes that had sufficient credit enhancement to maintain their current ratings.

Issuer: Transsec 4 (RF) Limited

....ZAR 221M Class A3 Notes, Downgraded to Ba1 (sf) / Affirmed Aaa.za (sf); previously on Nov 26, 2020 Affirmed Baa2 (sf) / Aaa.za (sf)

....ZAR 92M Class A4 Notes, Downgraded to Ba1 (sf) / Affirmed Aaa.za (sf); previously on Nov 26, 2020 Affirmed Baa2 (sf) / Aaa.za (sf)

....ZAR 160M Class B Notes, Affirmed B2 (sf) / Baa3.za (sf); previously on Nov 26, 2020 Affirmed B2 (sf) / Baa3.za (sf)

....ZAR 81M Class A7 Notes, Downgraded to Ba1 (sf) / Affirmed Aaa.za (sf); previously on Nov 26, 2020 Affirmed Baa2 (sf) / Aaa.za (sf)

....ZAR 62M Class A8 Notes, Downgraded to Ba1 (sf) / Affirmed Aaa.za (sf); previously on Nov 26, 2020 Affirmed Baa2 (sf) / Aaa.za (sf)

....ZAR 102M Class B2 Notes, Affirmed B2 (sf) / Baa3.za (sf); previously on Nov 26, 2020 Affirmed B2 (sf) / Baa3.za (sf)

Issuer: Transsec 5 (RF) Limited

....ZAR 329M Class A1 Notes, Downgraded to Ba1 (sf) / Affirmed Aaa.za (sf); previously on Nov 29, 2021 Affirmed Baa1 (sf) / Aaa.za (sf)

....ZAR 191M Class A2 Notes, Downgraded to Ba1 (sf) / Affirmed Aaa.za (sf); previously on Nov 29, 2021 Affirmed Baa1 (sf) / Aaa.za (sf)

....ZAR 80M Class A3 Notes, Downgraded to Ba1 (sf) / Affirmed Aaa.za (sf); previously on Nov 29, 2021 Affirmed Baa1 (sf) / Aaa.za (sf)

....ZAR 150M Class B Notes, Downgraded to B2 (sf) / Baa3.za (sf); previously on Nov 29, 2021 Affirmed Ba2 (sf) / Aa2.za (sf)

....ZAR 172M Class A1-2 Notes, Downgraded to Ba1 (sf) / Affirmed Aaa.za (sf); previously on Nov 29, 2021 Definitive

Rating Assigned Baa1 (sf) / Aaa.za (sf)

....ZAR 174M Class A2-2 Notes, Downgraded to Ba1 (sf) / Affirmed Aaa.za (sf); previously on Nov 29, 2021 Definitive Rating Assigned Baa1 (sf) / Aaa.za (sf)

....ZAR 87M Class B2 Notes, Downgraded to B2 (sf) / Baa3.za (sf); previously on Nov 29, 2021 Definitive Rating Assigned Ba2 (sf) / Aa2.za (sf)

Maximum achievable rating is Baa1 (sf) for structured finance transactions in South Africa, driven by the corresponding local currency country ceiling of the country.

RATINGS RATIONALE

The rating action is prompted by increased financial disruption risk and expected deterioration in collateral performance. The taxi industry in South Africa is negatively affected by the current economic environment, and unlikely to rebound at a rate in line with original expectations. The industry's profitability remains stressed due to elevated fuel prices, vehicle price increases, and persistently low commuter volumes, among others. This will negatively impact performance going forward but also potentially limit the number of entities that would be able and willing to service this type of portfolio. Moody's has increased key collateral assumptions, namely the portfolio Expected Loss (EL) and PCE assumptions to reflect expected deterioration in performance going forward.

Increased financial disruption risk

Today's rating actions took into consideration the notes' exposure to relevant counterparties, such as SA Taxi Development Finance (Pty) Ltd ("SA Taxi") (NR) acting as servicer. The rating of the notes is constrained by financial disruption risk as a result of deterioration in market conditions in the taxi industry in South Africa. As a response to the adverse environment, Transaction Capital Limited (the parent company of SA Taxi) has accelerated the process to restructure and rebase its taxi division, SA Taxi. SA Taxi is acting as servicer in Transsec 4 (RF) Limited and Transsec 5 (RF) Limited. Moody's considers that the decentralized servicing of these portfolios becomes more complex and linked to a sufficient expertise in the taxi industry. Assets are only transferable with substantial difficulty, in line with Moody's classification of low transferability. The current back-up servicing arrangements in the transaction are linked to the parent company of SA Taxi. Given the higher operational risk in these transactions, the limited number of entities that could service the portfolio in the event of servicer disruption and the lower attractiveness of this sector in terms of prospects and profitability, Moody's considers that the highest rating achievable in these transactions in terms of operational risk would be capped at Ba1 in the global scale rating.

Revision of Key Collateral Assumptions:

As part of the rating action, Moody's reassessed its default probability and recovery rate assumptions for the portfolio reflecting the collateral performance to date and expectations for future performance.

The performance of the transactions has continued to deteriorate since closing. In Transsec 4 (RF) Limited, total delinquencies have increased in the past year, with 90 days plus arrears currently standing at 34.1% of current pool balance. Cumulative losses currently stand at 7.0% of original pool balance plus additions, up from 4.6% a year earlier.

In Transsec 5 (RF) Limited, total delinquencies have increased in the past year, with 90 days plus arrears currently standing at 33.4% of current pool balance. Cumulative losses currently stand at 1.8% of original pool balance plus additions, up from 0.45% a year earlier.

Moody's has increased the expected loss assumption in both deals to 14.0% and 16.9% of original balance respectively for Transsec 4 and Transsec 5 from 11.6% and 7.75% respectively as a result of both recently observed and the anticipated deterioration in collateral performance. Moody's increased the mean default assumption as a percentage of current pool balance to 35% in both deals, translating into a mean default assumption of 42.9% and

37.4% of the original pool balance in Transsec 4 and Transsec 5 respectively.

Moody's has decreased the recovery rate assumption from 55% to 45%, reflecting higher uncertainties on recoveries following the repositioning of the business by SA Taxi and increased the PCE from 30% to 35% in both transactions.

The principal methodology used in these ratings was "Moody's Global Approach to Rating Auto Loan- and Lease-Backed ABS" published in November 2022 and available at <https://ratings.moodys.com/rmc-documents/391531>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

Factors that would lead to an upgrade or downgrade of the ratings:

Factors or circumstances that could lead to an upgrade of the ratings include (1) performance of the underlying collateral that is better than Moody's expected, (2) an increase in available credit enhancement, (3) improvements in the credit quality of the transaction counterparties and (4) a decrease in sovereign risk.

Factors or circumstances that could lead to a downgrade of the ratings include (1) an increase in sovereign risk, (2) performance of the underlying collateral that is worse than Moody's expected, (3) deterioration in the notes' available credit enhancement and (4) deterioration in the credit quality of the transaction counterparties.

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 August 2022 entitled "Mapping National Scale Ratings from Global Scale Ratings Methodology". 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_1280297.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

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