

DRAFT: Bayport Securitisation (RF) Class A (BAYA 77) South African ABS Notes Assigned Ratings; Outstanding Ratings Affirmed

September 27, 2019

Ratings List

Bayport Securitisation (RF)
Ltd.

Class	Rating	Amount (mil. ZAR)*	Interest (%)	Legal final maturity
Class A (BAYA77)	zaAA+ (sf)	200.00	Three-month JIBAR plus 3.75%	Sept. 30, 2022
Class	Rating			
Class A (BAYA57)	zaAA+ (sf)	50.00	Three-month JIBAR plus 5.50%	March 31, 2022
Class A (BAYA58)	zaAA+ (sf)	197.31	Three-month JIBAR plus 5.10%	June 30, 2020
Class A (BAYA60)	zaAA+ (sf)	85.00	12.4%	June 30, 2020
Class A (BAYA61)	zaAA+ (sf)	38.50	Three-month JIBAR plus 5.10%	June 30, 2020
Class A (BAYA62)	zaAA+ (sf)	48.43	Three-month JIBAR plus 4.40%	Sept. 30, 2020
Class A (BAYA63)	zaAA+ (sf)	58.00	Three-month JIBAR plus 4.25%	Sept. 30, 2020
Class A (BAYA64)	zaAA+ (sf)	40.00	Three-month JIBAR plus 4.50%	Sept. 30, 2022
Class A (BAYA65)	zaAA+ (sf)	20.91	Three-month JIBAR plus 4.00%	Sept. 30, 2020
Class A (BAYA66)	zaAA+ (sf)	118.18	Three-month JIBAR plus 4.40%	March 31, 2021
Class A (BAYA67)	zaAA+ (sf)	100.00	11.17%	March 31, 2023
Class A (BAYA68U)	zaAA+ (sf)	160.00	Three-month JIBAR plus 3.75%	June 30, 2021
Class A (BAYA69)	zaAA+ (sf)	125.00	Three-month JIBAR plus 3.75%	June 30, 2021
Class A (BAYA70)	zaAA+ (sf)	33.00	Three-month JIBAR plus 4.30%	June 30, 2021
Class A (BAYA71)	zaAA+ (sf)	172.00	Three-month JIBAR plus 4.25%	June 30, 2021
Class A (BAYA72)	zaAA+ (sf)	275.00	12.18%	March 31, 2026
Class A (BAYA73)	zaAA+ (sf)	352.30	Three-month JIBAR plus 3.94%	March 31, 2022
Class A (BAYA74)	zaAA+ (sf)	120.20	Three-month JIBAR plus 3.80%	June 30, 2024
Class A (BAYA75)	zaAA+ (sf)	129.94	Three-month JIBAR plus 3.65%	June 30, 2022
Class A (BAYA76)	zaAA+ (sf)	27.99	Three-month JIBAR plus 3.65% thereafter	June 30, 2022

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Ratings List (cont.)

Note: Our ratings address timely payment of interest and payment of principal no later than the legal final maturity date. The class A balance reflects the most recent interest payment date.

Overview

- We have assigned our long-term 'zaAA+ (sf)' rating to Bayport Securitisation (RF)'s class A BAYA77 notes.
- At the same time, we have affirmed our 'zaAA+ (sf)' ratings on all of the outstanding class A notes issued previously.
- Bayport Securitisation (RF) securitizes a portfolio of South African consumer loan receivables that Bayport Financial Services 2010 (Pty) originated.

LONDON (S&P Global Ratings) Sept. 30, 2019--S&P Global Ratings today assigned its long-term 'zaAA+ (sf)' credit rating to Bayport Securitisation (RF) Ltd.'s class A BAYA77 notes. At the same time, we have affirmed our 'zaAA+ (sf)' ratings on the outstanding class A notes (see list).

Today's rating actions reflect our credit and cash flow analysis using the most recent available collateral performance data (as of June 2019). We have considered the most recent transaction structure in our analysis, taking into account the new issuance and existing notes' amortization as of the most recent investor report (July 2019).

Bayport Securitisation (RF) securitizes a portfolio of South African consumer loan receivables that Bayport Financial Services 2010 (Pty) Ltd. (Bayport) originated in the ordinary course of its business. The transaction does not have a fixed revolving period; it revolves until the issuer fully repays the outstanding debt, or until an acceleration event occurs. During the revolving period the issuer can issue new notes or repay outstanding notes.

Rating Rationale

Economic outlook

In our credit analysis, we have considered our latest forecasts for South Africa's economy (see "Summary: South Africa," published on May 24, 2019). Economic growth slowed in 2018 to 0.8% and is expected to remain weak in 2019. The forecast for 2019 was revised down to 1.0%. We expect the economy to recover slowly in the medium term and average 1.9% over 2020-2022. We expect the unemployment rate to remain high at about 27.4% in 2019. We have incorporated our expectations for weak economic growth in the country, as well as our view of the unsecured lending market in South Africa, in our credit assumptions applicable to the securitized portfolio.

Credit risk

We have analyzed credit risk by applying our "Global Methodology And Assumptions For Assessing The Credit Quality Of Securitized Consumer Receivables" criteria published on Oct. 9, 2014, to derive our default and recovery assumptions for various rating levels. We considered the most recent performance data available from January 2008 to June 2019. Our analysis showed that

extrapolated default rates improved in consumer loan cohorts originated between 2016 and 2019. The trend in lower default rates can be explained by Bayport's more stringent origination policy standards introduced in mid-2015 and further adjustments to their scorecards in April 2016.

Our credit analysis assumptions remain unchanged since our previous review of the transaction (see "Bayport Securitisation (RF) Class A South African ABS Notes Assigned Ratings; Outstanding Ratings Affirmed," published on July 1, 2019).

Base Case And Stressed Default And Recovery Assumptions

	Default rate	Recovery rate
Base case (%)	40.00	5.00
Stressed assumptions (%)		
zaAAA	48.00	4.25
zaAA+	46.40	4.30

Our worst-case pool assumption only considers consumer loans because the cellular loans were discontinued in March 2015 and make up an insignificant portion of the current pool balance--about 1.6% based on the July 2019 investor report (compared with 1.7% in April 2019). The performance of the cellular loans is comparable with consumer loans.

Operational risk

We consider the risk related to the servicer to be mitigated at the rating level assigned to the notes in line with our criteria (see "Global Framework For Assessing Operational Risk In Structured Finance Transactions," published on Oct. 9, 2014). In our view, severity risk (the effect of servicer disruption) is moderate, and portability risk (the inability to replace the servicer) is high. Considering the securitized product, the key transaction party in this transaction, and the availability of the warm back-up servicer--Transaction Capital Recoveries Proprietary Ltd. (formerly known as MBD Credit Solutions [PTY] Ltd.)--since closing, the operational risk constrains the maximum potential ratings achievable for the notes at a global scale 'A+' level (corresponding to the national level of 'zaAAA').

Cash flow analysis

Our cash flow model reflects our assessment of the transaction's payment structure and our credit and cash flow assumptions, including the issuance of the additional class A notes on Sept. 30, 2019. We applied our "Global Framework For Cash Flow Analysis Of Structured Finance Securities" criteria, published on Oct. 9, 2014, to the cash flow stresses at each rating level. The class A BAYA77 notes are floating-rate amortizing notes with a legal final maturity date in Sept. 2022. Our cash flow analysis considered the transaction's structural features, including the credit enhancement that the available cash and performing balance provide.

Our analysis indicates that the available credit enhancement for the outstanding rated class A notes is sufficient to mitigate the credit and cash flow risks at the 'zaAAA' rating level, corresponding to the global 'BB+ (sf)' rating, unchanged since our June 2019 review. However, our ratings on the class A notes are constrained at 'zaAA+ (sf)' by the application of our sovereign risk criteria.

Counterparty risk

We have analyzed the transaction's exposure to counterparty risk in accordance with our current counterparty criteria (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019).

The transaction is exposed to the credit risk of Standard Bank of South Africa Ltd. acting as the transaction bank account provider. We consider that the transaction documents adequately mitigate this risk at the 'zaAAA' rating level in line with our counterparty criteria.

The transaction is also exposed to the servicer in relation to commingling risk. The servicer is an unrated entity. We model commingling risk as a liquidity stress, given the strong structural features aimed at limiting commingling risk exposure.

Legal risk

We consider the issuer to be bankruptcy remote, in line with our legal criteria (see "Structured Finance: Asset Isolation And Special-Purpose Entity Methodology," published on March 29, 2017). We have received legal information that provides assurance that the sale of the assets would survive the seller's insolvency.

Rating stability

Under our scenario analysis, we ran two stress scenarios and assessed the transaction's performance. The results of our scenario analysis are commensurate with our credit stability criteria (see "Methodology: Credit Stability Criteria," published on May 3, 2010). In addition, our ratings on the class A notes address frequent changes in the capital structure, thereby maintaining rating stability.

Sovereign risk

Under our structured finance ratings above the sovereign criteria, we treat the type of collateral being securitized (South African unsecured consumer loans) as having moderate sensitivity to South African sovereign risk (see "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published on Jan. 30, 2019).

In addition, to account for the severe level of economic stress we expect to accompany a sovereign default, when rating above sovereign, in line with our sovereign risk criteria, we also assessed whether the notes can withstand a sovereign default stress.

We used our standard 'A' run (on a global scale rating) to replicate the impact of the sovereign default scenario. The transaction does not pass our sovereign default stress; therefore the ratings on the notes are constrained to the sovereign rating level.

Our ultimate rating assigned in the transaction is derived from the application of our criteria. It is the lower of (i) the rating as capped by our sovereign risk criteria, (ii) the rating as capped by our counterparty criteria, or (iii) the rating that the class of notes can attain under our global consumer ABS criteria.

When we apply our stresses under our global consumer ABS criteria, the class A notes are able to withstand up to a 'zaAAA (sf)' rating scenario. However, in this transaction, our ratings on the class

A notes are constrained at 'zaAA+ (sf)' by the application of our sovereign risk criteria. As such, we have assigned our long-term 'zaAA+ (sf)' ratings to the new class A notes, and we have affirmed our 'zaAA+ (sf)' ratings on the existing class A notes.

Related Criteria

- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | General: Methodology: Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Or Sale Of Collateral Upon A Nonmonetary EOD, March 2, 2015
- Criteria | Structured Finance | ABS: Global Methodology And Assumptions For Assessing The Credit Quality Of Securitized Consumer Receivables, Oct. 9, 2014
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Criteria - Structured Finance - General: Global Framework For Cash Flow Analysis Of Structured Finance Securities, Oct. 9, 2014
- Criteria - Structured Finance - General: Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012
- General Criteria: Methodology: Credit Stability Criteria, May 3, 2010
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- Summary: South Africa, May 24, 2019
- Bayport Securitisation (RF) Class A South African ABS Notes Assigned Ratings; Outstanding Ratings Affirmed, July 1, 2019
- S&P Global Ratings' National And Regional Scale Mapping Specifications, June 25, 2018
- 2017 EMEA ABS Scenario And Sensitivity Analysis, July 6, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016

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