

FITCH AFFIRMS 3 INDEPENDENT TURKISH FACTORING COMPANIES

Fitch Ratings-Frankfurt/London-16 August 2019: Fitch Ratings has affirmed the National Long-Term Ratings of Kapital Faktoring A.S. (Kapital) at 'A-(tur)', Destek Faktoring A.S. (Destek) at 'BBB+(tur)' and Lider Faktoring A.S. (Lider) at 'BBB(tur)'. The Outlooks on Kapital and Destek are Stable and Lider's Outlook has been revised to Stable from Negative.

KEY RATING DRIVERS

NATIONAL RATINGS

The National Ratings reflect the strong capitalisation of all three companies, albeit at different levels. The ratings are also underpinned by sound profitability and adequate liquidity. The volatile operating environment remains a constraining factor in terms of business origination and asset quality pressure.

The Stable Outlooks on the ratings reflect Fitch's expectation that all three issuers' relative credit strengths remain resilient in the currently challenging operating environment.

Kapital, Destek and Lider are the largest independent factoring companies in Turkey, engaging mostly in domestic factoring in local currency. They all have a track record of sound financial metrics and retain a modest, but resilient franchise with Turkish SMEs (Kapital and Lider) and smaller corporates (Destek). However, the factoring industry is small compared with the broader Turkish financial sector and is dominated by larger factoring subsidiaries of banks.

Faced with adverse conditions, all three companies were able to reduce leverage as receivables portfolios amortised rapidly in 2H18, given higher credit risk in the economy and lower demand for factoring services at higher interest rates. Gross debt to tangible equity at end-2018 was 0.7x at Kapital and 5.5x at Lider. Destek's gross debt to tangible equity remained stable (2.7x at end-2018) as the company used portfolio amortisation to accumulate bank deposits in US dollars (27% of total assets) to protect the value of its capital base in foreign currency. Fitch expects modest growth as demand for factoring recovers under lower interest rates.

Profitability continued to be strong, driven by high interest rates in Turkish lira and a large portion of funding from their own equity. Pre-tax income to average assets in 2018 was 14% at Kapital, 3% at Destek and 2% at Lider. Fitch expects profitability to moderate due to lower interest rates and a higher portion of debt funding, as demand recovers.

Funding access proved resilient despite some liquidity pressures in 2H18. Istanbul Takas ve Saklama Bankasi A.S. (Takasbank, BB-/Negative), Turkey's central clearing counterparty, plays a key role in the provision of short-term liquidity. However, all three companies maintain credit lines and guarantees with a diversified pool of local banks and they also benefit from a short-term asset base.

The companies did not report significant credit losses in 2018 and impaired receivable ratios increased mainly due to portfolio contraction. Kapital and Lider are exposed to the more vulnerable SME segment in Turkey, resulting in higher impaired receivable ratios (3.3% and 3.6% at end-2018, respectively). However, Destek has a more concentrated portfolio and had to restructure a few exposures into longer-term receivables. Given their market segment and the state of the economy, Fitch expects credit risks to remain elevated over the short to medium term.

RATING SENSITIVITIES

NATIONAL RATINGS

Upgrade potential is limited for all three companies, given their already very strong financial metrics and their niche business focus. Upgrade potential relative to peers would require either meaningful diversification of their business models or a material decrease in their business volatility. Stronger capitalisation could provide more potential for Destek and Lider.

The ratings of all three companies could be downgraded in case of higher risk appetite as reflected in underwriting standards (e.g. factoring without recourse), increased credit losses given risk concentrations, liquidity gap management and FX exposures. Pressure could also come from reduced wholesale funding availability in the form of fewer credit lines and guarantees from local banks.

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Applicable Criteria

National Scale Ratings Criteria (pub. 18 Jul 2018)

<https://www.fitchratings.com/site/re/10038626>

Non-Bank Financial Institutions Rating Criteria (pub. 12 Oct 2018)

<https://www.fitchratings.com/site/re/10044407>

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