



Fitch Affirms Destek and Lider; Outlook Stable

Fitch Ratings-London-13 October 2017: Fitch Ratings has affirmed Destek Faktoring A.S.'s (Destek) and Lider Faktoring A.S.'s (Lider) National Long-Term Ratings at 'A+(tur)' and 'A-(tur)', respectively, with Stable Outlooks.

KEY RATING DRIVERS

The ratings of Destek and Lider are driven by their standalone strength. The two factoring companies collectively controlled 6% of domestic receivables in Turkey's factoring sector at end-1H17, reflecting their small size relative to Turkey's financial sector. The ratings of each of the companies reflect their monoline business models, with recourse factoring making up nearly all of the companies' assets and revenue. This results in earnings sensitivity to economic cycles in Turkey. The ratings also factor in the potential volatility of the balance sheet ratios given the short-term nature of the companies' assets and liabilities.

The factoring sector remains small in Turkey, making up only 1.2% of total banking sector assets at end-1H17. Bank-owned factoring subsidiaries, which enjoy better funding access and risk systems, have increased competition significantly in recent years. The impaired receivables-to-gross receivables ratio (end-1H17: 4.2%) for the factoring sector is higher than the banking sector average (3.1%) and reflects the generally higher-risk customer base of factoring companies, weaker underwriting standards and more seasoned portfolios. The companies opting for factoring credit are usually unbanked micro-enterprises and SMEs that require liquidity to cover a range of cash, tax and working capital needs.

Destek's 'A+(tur)' rating reflects the company's leading, independent franchise (3% of sector assets at end-1H17), solid capitalisation and a track record of sound financial metrics. Credit losses have been limited and the impaired receivables ratio (overdue by 90+ days) was a low 0.9% at end-1H17.

Destek's capitalisation and leverage ratios are comfortable for the rating, with debt/equity falling to a low 2x at end-1H17 (end-2016: 2.1x; mainly due to the separation of a former brokerage subsidiary). Strong internal capital generation (18% at end-1H17) and supportive shareholders have allowed Destek to operate with high capital adequacy ratios (equity/assets: 33%, at end-1H17) and significant capital buffers should enable it to absorb unexpected losses.

Destek's rating, however, also captures significant borrower concentration in factoring receivables, as the 25 largest borrowers accounted for a high 68% of total receivables at end-1Q17 (equivalent to 2x equity). This reflects the company's strategy of targeting larger corporate customers.

Lider's rating of 'A-(tur)' reflects the company's established franchise (3% of sector assets at end-1H17), improved recent performance and experienced management. However, the rating also reflects its significantly higher leverage than peers, with the debt-to-equity ratio reaching 8.1x at end-1H17 (end 2015: 6.2x). The increase in leverage stems from large dividend payments in recent years (no dividend in 2017) and rapid growth in factoring receivables since 2015 (CAGR: 43%).

Lider's asset quality and profitability metrics are reasonable. Impaired receivables represented a low 3.3% of total receivables at end-1H17 and were fully provisioned for. The portfolio is fairly diversified by borrower and sector.

The ratings of Destek and Lider also capture their reliance on typically short-term funding from Turkish banks and local bonds, making them vulnerable to a change in sentiment towards factoring companies in general, or a specific company in particular. Destek's liquidity position is more dependent on market access given the somewhat longer maturities of the company's receivables book and greater use of short-term funding. However, market access for both companies has been reasonable.

RATING SENSITIVITIES

Fitch believes independent factoring companies are more vulnerable to asset quality deterioration than their bank-owned peers, which could lead to liquidity and performance pressures. Both companies' ratings could be downgraded as a result of a marked deterioration in the operating environment that causes significant asset quality deterioration and puts pressure on performance.

Destek's rating could also be downgraded upon further increases in receivables concentration. Lider's rating could also be downgraded if there is a further increase in leverage.

Destek's rating is unlikely to be upgraded given the already high rating for the company's business profile. However, for both companies, a material strengthening of their franchises or a sustainable diversification of funding sources could create moderate rating upside.

Contact:

Primary Analyst
Aslan Tavitov
Director
+44 20 3530 1788
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Secondary Analysts
Huseyin Sevinc (Destek)
Associate Director
+44 203 530 1027

Ahmet Kilinc (Lider)
Associate Director
+44 203 530 1272

Committee Chairperson
James Watson
Managing Director
+7 495 956 9901

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

Global Non-Bank Financial Institutions Rating Criteria (pub. 10 Mar 2017) (<https://www.fitchratings.com/site/re/895236>)
National Scale Ratings Criteria (pub. 07 Mar 2017) (<https://www.fitchratings.com/site/re/895106>)

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