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Fitch Rates Turkey's Destek Faktoring 'A+(tur)'; Outlook Stable

Fitch Ratings-London-10 June 2016: Fitch Ratings has assigned Turkey's Destek Faktoring A.S. (Destek) a National Long-term Rating of 'A+(tur)' with a Stable Outlook.

KEY RATING DRIVERS

The rating reflects Destek's position as a leading, independent company in Turkey's fragmented factoring sector. Destek is one of the largest non-bank-owned factoring companies in Turkey in terms of domestic factoring receivables and equity. However, in absolute terms, Destek is small compared with Turkey's financial sector. While Destek's small size and monoline business model somewhat constrain the rating, its solid capitalisation and leverage, adequate profitability and acceptable risk appetite are rating strengths.

Fitch's assessment of Destek's company profile takes into consideration that it is a monoline business where with-recourse factoring receivables made up 96% of its total assets at end-1Q16. Destek mainly targets large Turkish corporates and commercial customers, where competition is intense, in particular from bank-owned factoring companies.

Credit losses to date have been low and Destek's impaired receivables ratio (overdue by 90+ days) reached a low 1% at end-1Q16, which compares well with peers and the sector average (6.1%). However, the rating also captures significant concentration risk in Destek's factoring receivables, which reflects the company's largely corporate customer base and small absolute size.

Leverage and gearing ratios are comfortable for the rating and Destek has consistently operated with a debt/equity ratio of around 2.5x or below. A high profit retention rate and

supportive shareholders have allowed Destek to operate with high capital adequacy ratios (equity/assets: 31% at end-1Q16) and its significant capital buffers should enable it to absorb unexpected losses.

Profitability metrics consistently outperform peers' and the sector averages. Strong earnings generation over volatile interest rate and economic cycles are positive from a credit perspective. However, the consolidation of Destek's investment house subsidiary, Destek Menkul Degerler A.S., somewhat affects performance ratios due to variable gains/losses on trading transactions and a growing cost base. Fitch understands from management that the two entities may be separated in the short-term; however, this should not materially change Destek's business model and performance ratios.

The rating also captures Destek's reliance on typically short-term wholesale funding. Nevertheless, market access has been reasonable and Destek typically utilises around two thirds of its credit lines from Turkish banks, albeit these are not committed.

RATING SENSITIVITIES

Downward rating pressure could arise from significant deterioration in asset quality. In addition, the rating could be downgraded if there is a material increase in leverage or receivables concentrations, in particular if this at the same time leads to pressure on Destek's funding and liquidity profile. However, as long as management continues to develop Destek's profitable business prudently, downward rating pressure should be contained.

A continued successful track record of operations and a diversification of funding sources could create moderate upside for Destek's rating.

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Relevant committee date: 6 June 2016

Additional information is available on www.fitchratings.com

Applicable Criteria

Exposure Draft: Global Non-Bank Financial Institutions Rating Criteria (pub. 14 Apr 2016)

Additional Disclosures

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Endorsement Policy

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