

Lider Faktoring A.S.

Update

Ratings

National
Long-Term Rating A-(tur)

Sovereign Risk
Long-Term Foreign-Currency IDR BB+
Long-Term Local-Currency IDR BBB-

Outlooks

National Long-Term Rating Stable
Sovereign Long-Term Foreign-Currency IDR Stable
Sovereign Long-Term Local-Currency IDR Stable

Financial Data

Lider Faktoring A.S.

	30 Jun 17	31 Dec 16
Total assets (USDm)	322.8	304.2
Total assets (TRYm)	1,133.2	1,071.5
Total equity (TRYm)	123.5	112.4
Operating profit (TRYm)	13.9	26.7
Published net income (TRYm)	11.3	21.4
Operating ROAA (%)	2.5	3.1
Operating ROAE (%)	23.6	26.1
Impaired receivables/total receivables (%)	3.3	3.7
Specific provisions/total receivables(%)	100.0	98.9
Equity/total assets (%)	10.9	10.5
Debt/equity	8.1	8.5

Key Rating Drivers

Standalone Strength Drives Ratings: Lider Faktoring A.S.'s National Rating is driven by its position as an established, independent factoring company in Turkey's fragmented factoring sector with a proven record of adapting to changing economic conditions. Lider's ratings also factor in its high leverage and the small absolute size of capital.

Leading Independent Factoring Company: Lider is the fourth-largest independent (not owned by a bank) factoring company in Turkey, controlling 3% of domestic factoring receivables at end-1H17. However, Lider is small relative to Turkey's financial sector in absolute terms. Lider fully consolidates Destek Asset Management Company, which focuses on bad debt purchase and contributed 10% of Lider's assets and 7% of net profit in 1H17.

Focus on SMEs: Lider mainly provides with-recourse factoring services to SMEs, while non-recourse factoring by the supplier financing method amounted to only 2% of receivables. Factoring receivables are mainly in Turkish lira. Lider has been growing quickly since 2015 after the company revised its underwriting standards (46% in 2016 and 7% in 1H17). Asset quality has been reasonable and the impaired receivables ratio (overdue by more than 90 days) represented 3.3% of total receivables in 1H17 and are wholly covered by reserves.

Highly Leveraged: Lider operates with a high leverage, with a debt/equity ratio of 8.1x at end-1H17. The ratio has come down slightly from 2016 (8.5x) thanks to retained earnings and no dividend payment in 2017. The equity/assets ratio was at 11%. Management expects leverage to stay at these levels thanks to internal capital generation amid moderate growth.

Diversified Factoring Book: Lider controls concentrations by borrowers, originators and industries. The book is granular, with the average transaction size of TRY122,000 at end-1H17. The 10 largest borrowers and check originators constituted 8% and 4% of total receivables, respectively. The largest sectoral exposure was textile sector with 14% of total factoring receivables.

Improved Earnings: Lider demonstrates reasonable profitability supported by healthy margins and good asset quality. The company generated about 20% ROAE in both 1H17 and 2016 (2015: 6.4%). Reasonable pre-impairment profits (3% of average receivables at end-1H17) provide a buffer against margin tightening or rise in credit losses. Despite an improvement, Lider's cost/income ratio is higher than the sector average. Fitch Ratings expects Lider to continue decent operational performance but still lag its main peers.

Short-Term Funding; Liquid Book: Lider relies on short-term wholesale funding from banks (78% of total borrowings at end-1H17) and local bonds. Nevertheless, market access has been reasonable and Lider typically uses about two-thirds of its credit lines from Turkish banks, although these are not committed. All funding is mainly in Turkish lira. Liquidity is supported by the short-term balance sheet as the average maturity of receivables was about 85 days.

Rating Sensitivities

Leverage and Asset Quality: Lider's rating is sensitive to a material weakening in asset quality and leverage ratios. Lider's rating could be downgraded if leverage ratios continue to increase. An improvement in leverage ratios and a material strengthening of its franchise could lead to upside potential for Lider's rating.

Related Research

Fitch Affirms Destek and Lider; Outlook Stable (October 2017)

Analysts

Aslan Tavitov
+44 20 3530 1788
aslan.tavitov@fitchratings.com

Ahmet Kilinc
+44 20 3530 1272
ahmet.kilinc@fitchratings.com

Lider Faktoring (TRYth)	IFRS 2014	IFRS 2015	IFRS 2016	IFRS 1H17
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Income Statement

Revenue				
Revenue from services				
Interest income	109,087	113,859	143,534	95,369
Insurance premiums				
Operating lease income				
Net gain (loss) on disposal of assets				
Other Income & Investment Income	460	1,529	2,394	782
Net Gain (loss) on Other Securities				
Net Fees and Commissions	13,237	10,421	6,949	2,426
Other Non-operating Income (Expense)				
Total Revenue	122,784	125,810	152,877	98,577

Expenses				
Interest expense	74,359	79,130	91,745	64,016
Depreciation expense	312	272	245	221
Provision (Recoveries) for credit losses	8,249	11,322	4,969	412
SG&A (Operating) Expenses	30,381	27,216	29,137	19,995
Insurance losses and loss adjustment expenses				
Asset impairment				
Non-recurring Expense				
Other expenses	278	90	112	-
Total Expenses	113,579	118,030	126,208	84,644

Income				
Income before tax	9,205	7,780	26,669	13,933
Income tax	1,816	1,407	5,301	2,603
Income after tax	7,389	6,373	21,368	11,330
Other				
Discontinued operations				
Noncontrolling interest				
Net Income	7,389	6,373	21,368	11,330
Memo: Common Dividends Relating to the Period	-	24,000	12,000	-

Related Criteria

[Global Non-Bank Financial Institutions
Rating Criteria \(March 2017\)](#)

Lider Factoring	IFRS	IFRS	IFRS	IFRS
(TRYth)	2014	2015	2016	1H17
Balance Sheet				
Assets				
Cash and cash equivalents	201	655	8,434	3,063
Restricted cash				
Short-term investments / marketable securities				
Inventories				
Commercial financing receivables	792,595	614,383	899,848	961,301
Problem receivables	19,723	31,947	34,265	32,772
Total Receivables	812,318	646,330	934,113	994,073
Allowance for losses on receivables and other	(19,723)	(29,951)	(33,879)	(32,772)
Total Net Receivables	792,595	616,378	900,234	961,301
Net property, plant, and equipment	24,760	27,512	33,026	33,608
Client loans			107,442	113,123
Goodwill				
Other intangibles	103	81	162	565
Deferred tax asset	3,718	5,291	6,118	6,334
Derivative financial instruments		57	-	-
Other receivables				
Assets held for sale or re-lease		57	372	335
Current tax assets	4,061	1,258	1,258	1,258
Prepaid expenses	13,048	13,268	13,879	12,987
Other assets	82	123	581	614
Total Assets	838,567	664,681.033	1,071,506	1,133,188
Liabilities				
Asset-backed commercial paper				
Other asset-backed short-term debt	21,895	23,421	23,429	23,682
Asset-backed long-term debt				
Credit facilities	559,170	422,405	751,804	777,902
Secured Debt	581,065	445,825	775,233	801,584
Unsecured commercial paper				
Subordinated debt				
Unsecured Debt	144,551	119,167	174,534	198,839
Total Debt	725,616	564,993	949,767	1,000,423
Derivative financial instruments				
Deferred income taxes			582	550
Payables to parent/affiliates				
Income taxes payable	1,645	1,535	1,982	1,159
Reserves for pensions and other	2,120	3,087	4,006	4,744
Pref. shares and hybrid capital accounted for as debt				
Other liabilities	2,046	3,303	2,799	2,786
Total Liabilities	731,427	572,917	959,136	1,009,662
Equity				
Common stock	30,000.0	30,000	30,000	30,000
Additional paid-in capital	5,873.8	5,874	5,874	5,874
Other Comprehensive Income (Loss)	25,548	30,878	36,757	37,672
Retained earnings	45,719	25,012	33,681	43,546
Total Equity	107,140	91,764	112,370	123,526
Total Liabilities and Equity	838,567	664,681.033	1,071,506	1,133,188

Supplementary Information	2014	2015	2016	1H17
Average Assets	725,014	751,624	868,094	1,102,347
Average Equity	102,424	99,452	102,067	117,948
Tangible Equity	103,320	86,391	106,090	116,627
Total Portfolio	792,595	616,378	900,234	961,301
Average Portfolio	708,784	729,324	790,221	964,093
Profitability	2014	2015	2016	1H17
Return on Average Assets	1.0%	0.8%	2.5%	2.1%
Return on Average Equity	7.2%	6.4%	20.9%	19.2%
Pre-Tax Profit Margin	7.5%	6.2%	17.4%	14.1%
Net Interest Income/ Average Earning Assets	4.3%	5.6%	5.7%	6.5%
Operating Profit/Average Equity	9.0%	7.8%	26.1%	23.6%
Operating Profit/Average Assets	1.3%	1.0%	3.1%	2.5%
Efficiency Ratio (cost-to-income)	81.0%	83.3%	56.4%	59.7%
Interest Coverage	112.4%	109.8%	129.1%	121.8%
Asset Quality	2014	2015	2016	1H17
Managed Portfolio Growth	36%	-22%	46%	56%
Growth of Total Assets	37%	-21%	61%	70%
Provision Expense / Receivables	2.4%	4.6%	3.6%	3.3%
Leverage and Capital Metrics	2014	2015	2016	1H17
Equity / Assets	13%	14%	10.5%	10.9%
Debt / Equity	6.8	6.2	8.5	8.1
Debt / Tangible Equity	7.0	6.5	9.0	8.6
Tangible Common Equity/Tangible Assets	12%	13%	10%	10%
Secured Debt / Total Debt	80%	79%	82%	80%
Unsecured Debt / Total Debt	20%	21%	18%	20%
Dividends	2014	2015	2016	1H17
Dividend Distributions	0	24,000	12,000	0
Delinquencies	2014	2015	2016	1H17
Past due 0-3 months	2,911	4,775	2,990	1,069
Past due 3-6 months	1,147	2,754	3,639	4,233
Past due 6-12 months	4,747	6,108	6,984	6,180
Past due over 1 year	10,918	18,309	20,652	21,290
Total Doubtful Receivables	19,723	31,947	34,265	32,772
Specific Allowance	19,723	29,951	33,879	32,772
Write-offs	9,628	0	193	0
Asset Quality	2014	2015	2016	1H17
Impaired Receivables/ Total Receivables	2.1%	4.9%	3.7%	3.3%
Specific Provisions/ Total Receivables	100%	94%	98.9%	100.0%
Written off Receivables/Total Receivables	1%	0%	0%	0%
Additional Ratios	2014	2015	2016	1H17, annual
Profitability				
Operating Income / Average Receivables	17%	17%	19%	20%
Cost of borrowing	12%	12%	12%	15%
OPEX / Average Receivables	4.3%	3.7%	3.7%	4.1%
Pre-Impairment Profit / Receivables	2.5%	2.6%	4.0%	3.0%
Funding				
Borrowing / Total Liabilities	99%	99%	99%	99%
Performing Receivables / Borrowing	109%	109%	95%	96%
Cash / Total Liabilities	0.0%	0.1%	0.9%	0.3%
Capital				
Unreserved 90+ NPLs / Total Equity	0.0%	2.2%	0.3%	0.0%
Asset Quality				
NPL origination	1.0%	2.0%	0.3%	0.2%
Impairment Expense / Pre-Impairment Profit	47%	59%	16%	3%

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