



Fitch Downgrades Lider to 'BBB(tur)'; Outlook Negative

Fitch Ratings-London-16 August 2018: Fitch Ratings has downgraded Lider Faktoring A.S.'s (Lider) National Long-Term Rating to 'BBB(tur)' from 'A-(tur)'. The Outlook is Negative.

KEY RATING DRIVERS

The downgrade reflects deterioration in the operating environment in Turkey, which together with Lider's own performance, drives the rating. We view the volatile economic environment in Turkey as exerting a negative impact on Lider through its core clientele of SMEs and in respect of its funding access from local banks.

Lider was operating with a high debt-to-tangible equity of 9.2x at end-2017, up from 9.0x at end-2016. The company's profitability has improved in the past two years, but a high dividend payout ratio has weakened internal capital generation.

Lider's business model assumes short tenor assets, with even shorter funding. Its liquidity gap in 0-3 months bucket was around TRY100 million at end-2017. Lider mainly relies on short-term wholesale funding from banking and local bond issuance. In the event of a domestic liquidity squeeze, Fitch would expect Lider's refinancing risk to increase, limiting the company's business origination.

Lider's asset quality has recovered from its low point in 2015. However, we expect this to come under pressure as the focus on SMEs makes Lider susceptible to the volatile economy. Asset quality could deteriorate within a short period of time, due to the short-term nature of factoring receivables.

Lider has established limits on exposure to individual borrowers, originators and industries and its assets currently have limited concentration. The top 10 customers and originators constituted 10.6% and 4.5% of total receivables, respectively, at end-2017.

Lider was able to preserve an adequate return on average equity in 2017 of 19%. The margin was squeezed by an increased funding cost against a flat yield. The return on average assets weakened to 1.9% (2.5% in 2016) but still compared well with Lider's peers. The recently acquired subsidiary - Destek Asset Management - contributed TRY2.8 million of net income in 2017, representing 12% of Lider's consolidated net income. Higher provisioning and lower business volumes could

constrain future profitability.

RATING SENSITIVITIES

Further weakening of the Turkish economic environment could lead to deterioration of Lider's creditworthiness compared with some other local issuers, as it is an independent factoring provider serving mainly SME clients, which are less resilient. More stable conditions would support a revision of the Outlook to Stable.

Lider's rating is also sensitive to a material weakening in asset quality and increase in leverage ratios. Refinancing difficulties or liquidity constraints would also lead to a rating downgrade.

Conversely, if Lider's funding structure is further diversified with a longer maturity, it could lead to a positive rating action. An improvement in leverage ratios and material strengthening of the company's franchise could also result in rating upside.

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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. 22 Jun 2018)
(<https://www.fitchratings.com/site/re/10034715>)

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