

Lider Faktoring A.S.

Update

Ratings

National
Long-Term Rating BBB(tur)

Sovereign Risk
Long-Term Foreign-Currency IDR BB-
Long-Term Local-Currency IDR BB-
Country Ceiling BB-

Outlooks

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

Financial Data

Lider Faktoring A.S.

	31 Dec 18	31 Dec 17
Total assets (USDm)	188	344
Total assets (TRYm)	996	1,297
Total equity (TRYm)	156	133
Net income (TRYm)	20	23
Impaired loans/gross loans (%)	3.6	2.9
ROAA (%)	1.7	1.9
ROAE (%)	13.7	18.7
Debt/tangible equity (x)	5.5	9.1
Equity/total assets (%)	15.6	10.2

Source: Fitch Ratings, Fitch Solutions

Key Rating Drivers

Standalone Strength Drives Ratings: Lider Faktoring A.S.'s (LF) National Rating is driven by the entity's position as an established, independent factoring company in Turkey and its proven record of adapting to changing economic conditions. LF's ratings also factor in its appetite for high leverage and moderate scale within a highly competitive factoring sector dominated by bank-owned companies. The Stable Outlook reflects Fitch Ratings' expectation that LF's relative credit strength remains resilient in the challenging operating environment.

Independent Factoring Company: LF is the fourth-largest independent (not owned by a bank) factoring company in Turkey, controlling 3% of domestic factoring receivables at end-2018. However, LF is small relative to Turkey's financial sector. LF fully consolidates Destek Asset Management Company, which focuses on bad debt purchase and contributed 12% of LF's assets at end-2018.

Deleveraging in Challenging Environment: LF significantly reduced its balance sheet in 2018 in light of a sharp macroeconomic volatility and economic slowdown. Net receivables decreased by 30% in 2018 following 23% growth in 2017. We expect a slight upturn in growth in 2H19 driven by lower funding costs.

Resilient Asset Quality: LF provides factoring services in local currency. This mitigates foreign-exchange-induced credit risks. Almost all factoring transactions are on a recourse basis. The book is granular with the 10 largest receivables originators accounting for low 6% of the book at end-2018. Exposure by economic sectors is fairly diversified. The impaired receivables ratio increased to 3.6% by end-2018 from 2.9% a year earlier largely driven by the shrinkage of the book. Impaired receivables were fully provisioned.

High Costs, Adequate Profitability: LF's small scale, its reliance on own distribution channels and focus on SMEs results in relatively high operating costs (the cost/income ratio was 65% in 2018). However, healthy margins (the net interest margin was 3.9% in 2018) and low cost of risk (0.4% of the gross book in 2018) lead to adequate bottom-line profitability. The return on average assets declined to 1.7% in 2018, but remained sound.

Improving Leverage: Balance-sheet shrinkage supported LF's capitalisation in 2018. The gross debt/tangible equity ratio improved to 5.5x at end-2018 from 9.1x at end-2017.

Liquid Book Mitigates Refinancing Risk: LF's short-term balance sheet and the absence of maturity mismatches between assets and liabilities largely mitigate refinancing risks. The average maturity of receivables and borrowings was 90 and 110 days, respectively, at end-2018. LF continues to diversify its funding base with funding from Takasbank (BB-/Negative) and through domestic bond issuance. All funding is in Turkish lira, as is the receivables portfolio.

Rating Sensitivities

Limited Upside: Upgrade potential is limited, but stronger leverage and a material reduction in business volatility could lead to an upgrade.

Credit Losses Negative: Higher risk appetite (e.g. foreign exchange or non-recourse factoring), material credit losses, refinancing difficulties or liquidity constraints would lead to a downgrade.

Related Research

[Fitch Affirms 3 Independent Turkish Factoring Companies \(August 2019\)](#)
[Fitch Downgrades Turkey to 'BB-'; Outlook Negative \(July 2019\)](#)
[Turkey \(May 2019\)](#)

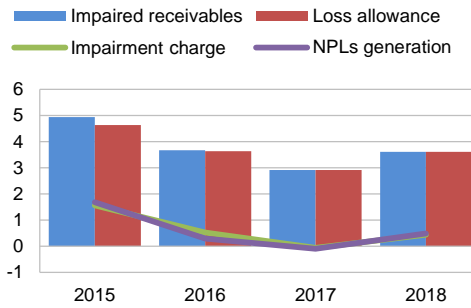
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Credit Quality

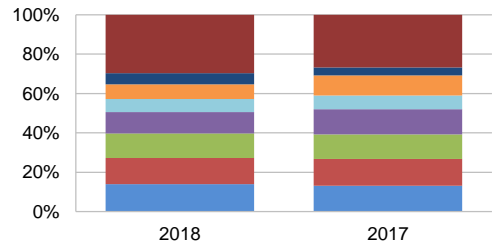
(% of gross loans)



Source: Fitch Ratings, Lider Faktoring A.S.

Transactions by Sector

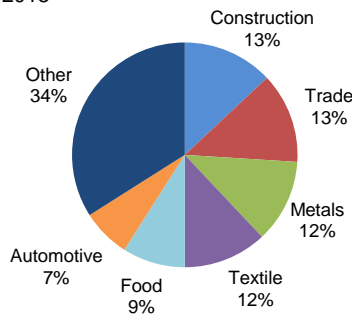
■ Textile ■ Construction ■ Metals
 ■ Trade ■ Food ■ Automotive
 ■ Machinery ■ Other



Source: Fitch Ratings, Lider Faktoring A.S.

Receivables by Sector

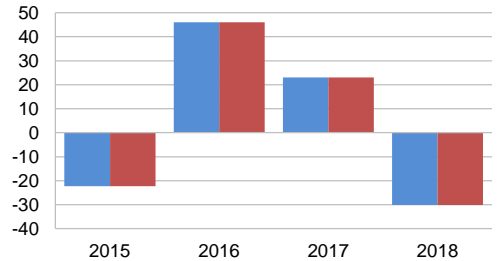
End-2018



Source: Fitch Ratings, Lider Faktoring A.S.

Key Growth Metrics

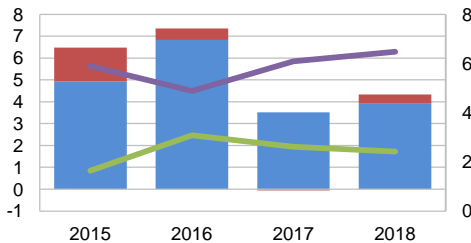
■ Net receivables growth in TRY terms (%)
 ■ FX-adjusted net receivables growth (%)



Source: Fitch Ratings, Lider Faktoring A.S.

Profitability & Efficiency

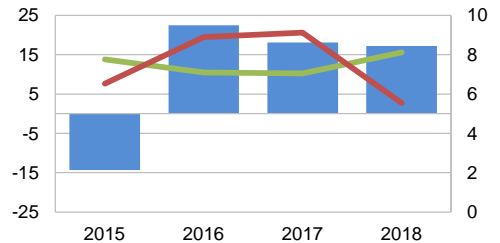
■ Cost of risk (LHS) ■ Net interest margin (LHS)
 ■ ROAA (LHS) ■ Cost/income (RHS)



Source: Fitch Ratings, Lider Faktoring A.S.

Capitalisation & Leverage

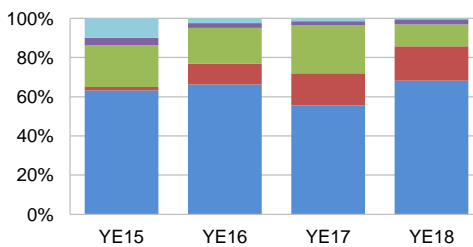
■ Internal capital generation (LHS) ■ Equity/assets (LHS)
 ■ Debt/tangible equity (RHS)



Source: Fitch Ratings, Lider Faktoring A.S.

Non-Equity Funding

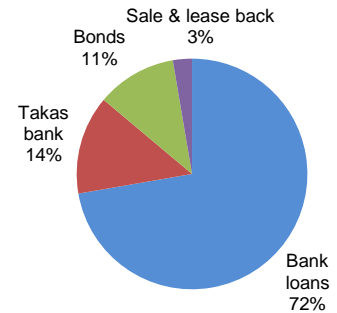
■ LC bank loans ■ LC Takasbank
 ■ LC bonds ■ LC sale & lease back
 ■ FC bank loans



Source: Fitch Ratings, Lider Faktoring A.S.

Funding Breakdown

End-2018



Source: Fitch Ratings, Lider Faktoring A.S.

Related Criteria

Non-Bank Financial Institutions Rating
 Criteria (October 2018)

Balance Sheet

(TRYm)	2014	2015	2016	2017	2018
Assets					
Cash & equivalents	0	1	8	9	23
Gross receivables	812	646	934	1,141	804
Memo: Impaired receivables included above	20	32	34	33	29
Less: Receivable loss allowances	20	30	34	33	29
Net receivables	793	616	900	1,108	775
Goodwill and intangible assets	0	0	0	1	1
Deferred tax assets	4	5	6	6	5
Fixed assets	25	28	33	38	69
Other assets	17	15	124	135	123
Total assets	839	665	1,072	1,297	996
Liabilities					
Short-term debt	601	510	894	1,120	810
Long-term debt	102	53	55	33	18
Total borrowings	704	564	948	1,152	828
Deferred tax liabilities	0	0	1	1	0
Other liabilities	28	9	10	12	12
Total liabilities	731	573	959	1,165	840
Total equity	107	92	112	133	156
Total liabilities and equity	839	665	1,072	1,297	996

Source: Fitch Ratings, Lider Faktoring A.S.

Income Statement

(TRYm)	2014	2015	2016	2017	2018
Revenue					
Interest income	109	114	144	184	292
Other income	13	12	8	36	47
Total revenue	123	126	152	220	339
Expenses					
Interest expense	74	79	92	149	255
SG&A expenses	31	27	29	43	54
Impairment charges	8	11	4	-1	4
Total expenses	113	118	125	191	314
Pre-tax income	9	8	27	28	25
Income tax	2	1	5	5	5
Net income	7	6	21	23	20

Source: Fitch Ratings, Lider Faktoring A.S.

Summary Analytics

	2014	2015	2016	2017	2018
Asset quality metrics (%)					
Impaired receivables/gross receivables	2.4	4.9	3.7	2.9	3.6
Receivable loss allowances/impaired receivables	100.0	93.8	98.9	100.0	100.0
Impaired receivables less loss allowances/tangible equity	0.0	2.3	0.4	0.0	0.0
Receivables impairment charges/average gross receivables	1.2	1.6	0.5	-0.1	0.4
Growth of gross receivables	34.2	-20.4	44.5	22.2	-29.6
Impaired receivables generation	-0.2	1.7	0.3	-0.1	0.5
Earnings and profitability metrics (%)					
Pre-tax income/average assets	1.3	1.0	3.1	2.4	2.2
Pre-tax income/average equity	9.0	7.8	26.1	23.2	17.5
Net income/average assets	1.0	0.8	2.5	1.9	1.7
Net income/average equity	7.2	6.4	20.9	18.7	13.7
Operating expenses/operating revenues	63.7	59.0	48.8	60.9	64.8
Impairment charges/pre-impairment op. profit	47.3	59.3	13.4	-2.5	14.2
Interest income/average gross receivables	15.4	15.6	18.2	17.7	30.0
Interest expense/average debt	12.5	12.5	12.1	14.2	25.8
Net interest income/average net receivables (NIM)	5.0	4.9	6.8	3.5	3.9
Risk adjusted NIM	3.8	3.3	6.3	3.6	3.5
Capitalisation and leverage metrics (%)					
Debt/tangible equity (x)	6.8	6.5	8.9	9.1	5.5
Tangible equity/tangible assets	12.4	13.1	10.0	9.8	15.1
Equity/total assets	12.8	13.8	10.5	10.2	15.6
Funding and liquidity metrics (%)					
Short-term debt/total debt	85.5	90.5	94.2	97.2	97.9

Source: Fitch Ratings, Lider Faktoring A.S.

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