Lider Faktoring A.S.

Key Rating Drivers

Standalone Strength Drives Rating: Lider Faktoring A.S.'s National Long-Term Rating reflects its position as an established, independent factoring company in Turkey and its record of adapting to changing economic conditions. Lider's rating also factors in a higher leverage appetite than its domestic peers and moderate scale within a highly competitive factoring sector dominated by bank subsidiaries.

Stable National Rating: National scale ratings are an opinion of creditworthiness relative to the universe of issuers and issues within a single country. The Stable Outlook reflects that Lider's credit strength remains resilient compared with its peers in Turkey.

Independent Factoring Company: Lider had a 2% market share in the domestic factoring sector at end-2020, factoring exclusively domestic local-currency receivables of Turkish SMEs. Lider is smaller than bank-owned competitors, but the industry is fragmented, which allows smaller companies to operate adequately in their niches. Lider fully owns Denge Asset Management Company, a debt purchaser with an estimated 3% market share in domestic debt purchasing. It accounted for 12% of Lider's assets at end-2020.

Modest Growth after Pandemic: Lider's balance sheet at end-1H21 remains below its 1H18 peak, due to successive economic crises and persistent volatility. Net receivables increased during 1H21 due to higher demand for working-capital finance. Nonetheless, Fitch Ratings expects growth to be modest in the short term, due to Lider's cautious credit underwriting and increased competition from banks.

Leverage Remains Contained: Balance-sheet shrinkage and profit retention have supported Lider's capitalisation since 1H18. Gross debt/tangible equity was 4.4x at end-1H21 and we do not expect leverage to significantly increase in the short term, despite appetite for higher leverage in the medium to long term. New business opportunities remain limited and leverage should remain under 6x in our base case.

Profitability, Asset Quality Recover: We expect a recovery in lending margins (1.9% in 2020, but about 5% on average between 2016 and 2019) and continued low cost of risk (0% of the gross book in 2020), helping to return profitability in 2021 to pre-pandemic levels. Impaired receivables remained stable in 2020 (3% of gross portfolio), as Lider de-risked its portfolio, and are fully provisioned. However, the concentration by single borrower increased over the past 12 months (its 25 largest borrowers went to about 40% of total receivables from 15%).

Liquid, Fast-Amortising Receivables Book: Lider's short-term balance sheet and the absence of maturity mismatches between assets and liabilities largely mitigate refinancing risk. Lider has a diversified funding base across local banks, central clearing house Istanbul Takas ve Saklama Bankasi A.S. – Takasbank (Takasbank; BB-/Stable) and domestic bonds. All funding is in Turkish lira, as is the receivables portfolio.

Rating Sensitivities

Limited Upside Potential: An upgrade could stem from lower leverage on a sustained basis and a reduction in business volatility, combined with a stronger franchise and scale than domestic peers.

High Leverage, Credit Losses: Higher risk appetite (e.g. foreign-exchange or non-recourse factoring), material credit losses, leverage sustained at a higher level, refinancing difficulties or liquidity constraints could lead to a downgrade.

Ratings

National	
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	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Non-Bank Financial Institutions Rating Criteria (February 2020)

National Scale Rating Criteria (December 2020)

Related Research

Fitch Affirms Lider Faktoring at 'BBB(tur)'; Outlook Stable (July 2021)

Fitch Affirms Turkey at 'BB-'; Outlook Stable (August 2021)

Sovereign Europe Dashboard: Double Hit to Tourism (August 2021)

Turkey Sovereign and Financial Institutions Webinar Highlights (June 2021)

Recovery from Covid-19 Pandemic Evident in Emerging Europe (May 2021)

Analysts

Behruz Ismailov
+49 69 768076 116
behruz.ismailov@fitchratings.com

Luca Vanzini
+49 69 768076 143
luca.vanzini@fitchratings.com

Significant Changes

Turkey's Economy Exceeds Expectations, but Policy Uncertainty Is High

Fitch forecasts Turkey's GDP to grow by 8% in 2021 due to a high carryover effect and resilience in economic activity. Slowing domestic demand in 2H21 will be cushioned by strong export growth and a recovery in the tourism sector. Growth will slow to 3.5% in 2022, because Turkey's current monetary and fiscal policy should avoid exacerbating macroeconomic imbalances.

Policy uncertainty increased in March and remains high after the abrupt dismissal of the central bank governor, the third since July 2019, leading to sharp lira depreciation, portfolio outflows and tighter financing conditions. The new governor has kept the policy rate steady at 19% since March, while maintaining its predecessor's commitment to a flexible exchange rate and to the use of the one-week repo rate as main policy instrument. Credit and fiscal policies also remain aligned with the objective to reduce inflation (18.95% in July 2021), but we expect some fiscal and monetary relaxation ahead of general elections due by 2023.

Company Profile

Medium-Sized Independent Factoring Company

Lider is a medium-sized factoring company in Turkey, discounting only domestic receivables with recourse and in local currency. Lider caters to Turkish SMEs (about 1,800 clients at end-1H21) through 21 branches. The majority of Lider's factoring derives from small transactions to companies enganged in manufacturing and construction, but single-name concentrations are high due to Lider's recent portfolio de-risking and preference for established customers.

Bad debt purchase and collection is under 20% of Lider's gross revenue and will remain a minor profit contributor in the medium term, given the dominant position of Turkey's largest two debt purchasers (over half of the industry) and because we do not expect banks to sell significant amounts of impaired loans in the next 12 months to avoid the crystallisation of losses.

Qualitative Assessment

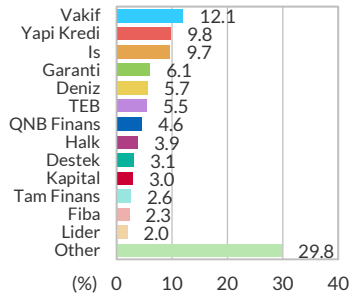
Operating Environment

Fragmented Factoring Industry

Factoring represented about 1% of total banking sector assets at end-2020, with 55, mostly small, companies active. Transparency has improved since 2014 with the establishment of a central invoice registry, in which all invoices and cheques issued in Turkey must be registered. The use of factoring in Turkey is limited (3% of GDP in 2020) and factoring volumes contracted by 13% due to the pandemic. Demand for working capital as the economy recovers in 2021 and lower credit supply will support higher transaction volumes in the medium term.

Turkish factoring companies have a low exposure to foreign currency, but their reliance on wholesale, often short-term, funding highlights refinancing risks. Factoring companies are active users of the local bond market with short-term debt (up to 18 months, but usually not longer than six months), besides sourcing credit from Takasbank under bank guarantees.

Market Share by Assets
End-2020



Source: Fitch Ratings, BRSA

Management & Strategy

Sound Management Team

Lider's management is sound and has sufficient skills and experience. Turnover is very low and the chief executive has been in his role since 2002. The management team consists of six members and there is a degree of key-person risk in relation to the chief executive, given Lider's size and the absence of a parent bank that could provide a wider pool of managerial talent.

Lider plans to maintain its market share, limit credit risk and improve capitalisation. Growth plans are modest and seek to maintain market share amid price competition from banks and to select the best credit risk. Strategic objectives are consistently delivered.

Public Listing Supports Corporate Governance

Six private individuals hold about 70% of Lider's shares (including all Class A shares with the right to appoint half of the supervisory board). The remaining shares are listed on the domestic stock exchange. Corporate governance is stronger than at other rated family businesses owing

to the adherence to Borsa Istanbul's standards. Lider has a seven-member board of directors, including two independent directors, and three board committees.

Risk Appetite

Prudent Underwriting, Cautious Growth

Lider has a conservative risk appetite, discounting only domestic receivables, denominated in lira and with recourse. Underwriting is centralised in Istanbul, ensuring consistency across the portfolio, but local branches can reject applicants in a first vetting step. Industry exposure is reviewed through the cycle to minimise credit risk.

Portfolio growth is very volatile, thanks to the quick amortisation of receivables and Lider's opportunistic expansion. Lider has contracted materially since its peak in 2Q18, responding to lower demand and higher credit risk. Lider aggressively expanded until early 2018 and would do so again under favourable conditions, in Fitch's view. Credit growth has picked up recently (7% in 1H21), due to rebounding economic activity, but we do not expect further acceleration in the next 18 months, as Lider first needs to re-establish its client relations (Lider stopped lending to about 40% of its client base in the past two years to de-risk its portfolio).

Financial Metrics

Asset Quality

Proactive Client Retention Mitigates Impaired Loans Origination

Fitch expects Lider's impaired loans to remain close to 3% over the next 12 months. Lider's clients are SMEs with limited access to bank finance or larger bank-owned factoring companies. Lider focused on retaining its most creditworthy clients in the past two years, which allowed it to keep its net credit costs at 0% in 2020. Provision coverage is solid (100% at end-1H21) and guarantees cover 113% of its portfolio at end-1H21 (i.e. customer cheques and notes).

Earnings & Profitability

Own Network, Lower Rates Weigh on Profitability

Lider's operational efficiency (cost/income ratio of 66% in 1H21) is about double the industry average (30%-40% in recent years), which weighs on our assessment of its profitability. Lider caters to the labour-intensive SME segment and relies on its own branch network, while bank-owned competitors originate most of their business through their parent banks' franchises.

We expect profitability to recover in 2021 and 2022, thanks to higher rates and larger volumes. Recoveries from the bad debt collection (TRY20 million in 1H21) support total revenue, but still represent a small share of this.

Capitalisation & Leverage

Low Business Origination Drives Deleveraging, but Leverage Appetite Remains

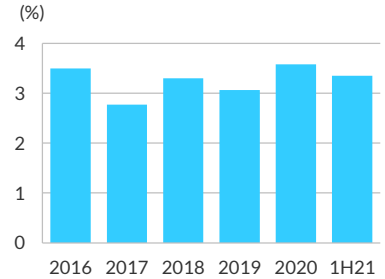
Fitch expects leverage to remain under 6x in the next 12 to18 months, due to limited business opportunities and to the planned dividend retention (at least until end-2021). However, we take into account Lider's opportunistic growth in the past and we do not exclude that Lider would re-lever in the medium term. Leverage is now significantly below its last peak (9.8x at end-1H18), when Lider temporarily breached its internal capitalisation target of 10% equity to assets.

Funding, Liquidity & Coverage

Fast-Amortising Book Mitigates Short-Term, Wholesale Funding

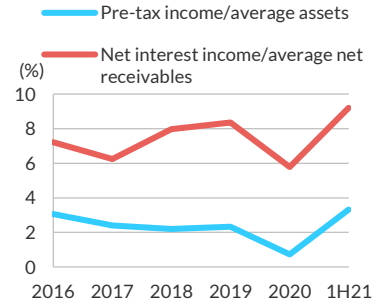
In Fitch's view, Lider's short-dated funding profile (54% of receivables were due within 90 days at end-1H21) is broadly aligned with the short cycle of its assets (about 110 days). Lider's funding is sufficiently diversified between 16 local banks and Takasbank. Lider has kept access to banks through the crisis and we do not expect lower access to funding in the medium term. Lider has no outstanding domestic bond, due to lower funding needs during the pandemic, but we expect it to resume issuance during 2021, once available limits with local banks are fully drawn.

Asset Quality
Impaired receivables/gross receivables



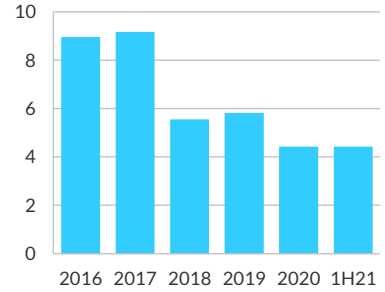
Source: Fitch Ratings

Earnings & Profitability



Source: Fitch Ratings

Debt/Tangible Equity (x)



Source: Fitch Ratings

Income Statement

(TRYm)	1H21	2020	2019	2018	2017	2016	2015	2014
Revenue								
Interest and fee income from factoring	98	144	205	299	193	152	125	123
Income from credit impaired assets	20	36	39	46	29	0	0	0
Interest and fee expenses on funding	-77	-124	-162	-260	-152	-93	-80	-75
Net interest margin	**41**	**55**	**81**	**85**	**70**	**59**	**45**	**48**
Net impairment expenses	0	-3	-10	-8	1	-4	-11	-8
Net interest margin after credit costs	**41**	**52**	**72**	**77**	**70**	**54**	**34**	**40**
Labour cost	-17	-33	-33	-34	-30	-24	-22	-23
Operating expenses	-10	-17	-17	-20	-13	-6	-5	-8
Other income	3	6	3	2	1	2	1	0
Earnings before taxes	**16**	**8**	**25**	**25**	**28**	**27**	**8**	**9**
Taxes	-4	-1	-7	-5	-5	-5	-1	-2
Net profit	**12**	**7**	**18**	**20**	**23**	**21**	**6**	**7**

Source: Fitch Ratings, Lider Faktoring A.S.

Note: Fitch used Lider's audited IFRS accounts for all periods until end-2020. The values for 1H21 are based on Lider's semi-annual accounts in local GAAP.

Balance Sheet

(TRYm)	1H21	2020	2019	2018	2017	2016	2015	2014
Assets								
Cash and equivalents	10	20	11	23	9	8	1	0
Gross factoring receivables	859	804	1,000	862	1,199	980	676	843
thereof: doubtful receivables	29	29	31	28	33	34	32	20
Expected credit loss	-29	-29	-30	-29	-33	-34	-30	-20
Unearned income on factoring transactions	n.a.	-37	-36	-59	-58	-46	-30	-31
Net factoring receivables	**830**	**737**	**934**	**775**	**1,108**	**900**	**616**	**793**
Credit impaired assets	112	113	115	120	122	107	0	0
Other loans and receivables	0	0	0	1	12	14	13	12
Fixed assets	68	67	67	69	39	33	28	25
Intangible assets	1	1	0	1	1	0	0	0
Current tax assets	0	1	0	0	0	0	0	0
Deferred tax assets	4	5	5	5	6	6	5	4
Other assets	2	1	1	1	1	2	2	5
Total assets	**1,027**	**944**	**1,134**	**996**	**1,297**	**1,072**	**665**	**839**
Liabilities								
Borrowings	772	710	804	713	847	752	422	559
Issued securities	0	0	99	92	284	175	119	145
Leasing liabilities	48	44	48	22	22	22	22	21
Factoring liabilities	2	2	2	3	2	1	1	1
Interest-bearing liabilities	**822**	**756**	**953**	**830**	**1,154**	**950**	**565**	**726**
Current tax liabilities	2	0	2	0	2	2	2	2
Deferred tax liabilities	0	0	0	0	1	1	0	0
Other liabilities	13	13	11	10	8	7	6	4
Total liabilities	**837**	**768**	**965**	**840**	**1,165**	**959**	**573**	**731**
Total equity	**191**	**176**	**169**	**156**	**133**	**112**	**92**	**107**
Total liabilities and equity	**1,027**	**944**	**1,134**	**996**	**1,297**	**1,072**	**665**	**839**

Source: Fitch Ratings, Lider Faktoring A.S.

Note: Lider's other liabilities include mainly provisions for employees benefits (TRY9.3 million at end-1H21).

Summary Analytics

	1H21	2020	2019	2018	2017	2016	2015	2014
Asset-quality metrics (%)								
Impaired receivables/gross receivables	3.3	3.6	3.1	3.3	2.8	3.5	4.7	2.3
Receivable loss allowances/impaired receivables	100.0	100.5	98.8	101.9	100.0	98.9	93.8	100.0
Gross factoring impairment charges/average gross factoring receivables (YTD)	0.2	0.1	0.5	0.5	0.1	0.6	1.6	2.8
Recoveries/opening impaired receivables (YTD)	4.4	3.4	12.1	3.7	6.5	2.7	5.5	58.0
Factoring receivables in FX	1.3	1.5	1.0	0.8	1.8	2.9	9.3	7.0
Growth of gross receivables (YTD)	6.9	-19.7	16.0	-28.1	22.4	45.0	-19.9	34.4
Collections/opening credit-impaired assets	n.a.	30.6	29.3	39.3	31.9	n.a.	n.a.	n.a.
Earnings and profitability metrics (%)								
Pre-tax income/average assets	3.3	0.7	2.3	2.2	2.4	3.1	1.0	1.3
Net income/average equity	13.6	4.1	11.1	13.7	18.7	20.9	6.4	7.2
Operating expenses/operating revenue	66.5	92.1	61.6	63.8	62.0	50.1	60.9	64.0
Net impairment charges/pre-impairment operating profit	0.0	5.2	11.9	9.2	-1.0	7.0	25.1	17.2
Interest income/average gross receivables	23.5	15.9	22.0	29.0	17.7	18.3	16.5	16.7
Interest expense/average debt	19.4	14.5	18.2	26.2	14.4	12.3	12.4	12.1
Capitalisation and leverage metrics								
Debt/tangible equity (x)	4.4x	4.4x	5.8x	5.6x	9.2x	9.0x	6.5x	7.0x
Tangible equity/tangible assets (%)	18.2	18.2	14.5	15.1	9.7	10.0	13.1	12.4
Equity/total assets (%)	18.6	18.7	14.9	15.6	10.2	10.5	13.8	12.8
Impaired receivables less loss allowances/tangible equity (%)	0.0	-0.1	0.2	-0.4	0.0	0.4	2.3	0.0
Funding and liquidity metrics (%)								
Unsecured debt/total debt	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Short-term debt/total debt	100.0	100.0	96.7	94.6	95.3	92.3	87.6	77.5

Source: Fitch Ratings, Lider Faktoring A.S.

Note: Profitability ratios for 1H21 are annualised.

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