Lider Faktoring A.S.

Ratings

National	
National Long-Term Rating	BBB(tur)
Sovereign Risk	
Long-Term Foreign-Currency IDR	B+
Long-Term Local-Currency IDR	B+
Country Ceiling	B+
Outlooks	
National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Local-Currency IDR	Negative

Key Rating Drivers

Standalone Strength Drives Rating: Lider Faktoring A.S.'s (Lider) National Long-Term Rating reflects its standalone business profile as an established, independent factoring company in Turkey and its proven record of adapting to changing economic conditions. Lider's rating also factors in its shrinking market share 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 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-2021, with exclusively domestic local-currency receivables of Turkish SMEs. Lider is smaller than bank-owned competitors, but the industry is fragmented, allowing smaller companies to operate adequately in their niches. Lider fully owns Denge Asset Management Company, a debt purchaser with an estimated 3% market share (and accounting for 11% of Lider's assets at end-2021).

Modest Growth: Lider's assets at end-2021 remain below their 1H18 peak, due to successive economic crises and persistent volatility. Lider has lost some market share in the past years due to a tighter credit appetite, but is growing again due to higher demand for working-capital finance and high inflation in the country. Fitch Ratings expects modest short-term growth, due to Lider's cautious credit underwriting and increased competition from banks.

Contained Leverage: A smaller balance sheet and profit retention have supported Lider's capitalisation since 2018. Its gross debt/tangible equity ratio was 4.7x at end-2021. In our base case, we expect leverage to remain below 6x, despite appetite for higher leverage in the medium-to-long term if macroeconomic conditions stabilise.

Nominal Profitability Rebounds: Resumed credit growth, widening lending margins and low cost of risk (0% of the gross book in 2021) have materially improved Lider's operating efficiency (its cost/income ratio was 55% in 2021, down from 92% in 2020). Fitch expects nominal and inflation-adjusted profitability to remain disconnected in the medium term (pre-tax income to average assets of 4.7% in 2021) due to Turkey's deeply negative real interest rates.

Resilient Asset Quality: Fitch expects that impaired receivables will remain stable at about 3% of the total in the medium term, due to a conservative risk appetite. Impaired receivables are fully provisioned for. Exposure by economic sector is fairly diversified, but concentration by single borrower increased (10 largest borrowers are 13% of the net portfolio or 60% of equity).

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; B+/Negative) and domestic bonds. All funding is in Turkish lira, as is the receivables portfolio.

Rating Sensitivities

Limited Upgrade Potential: An upgrade could stem from a stronger franchise and scale relative to domestic peers, combined with sustained low leverage and limited business volatility.

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

Applicable Criteria

Non-Bank Financial Institutions Rating Criteria (January 2022)

National Scale Rating Criteria (December 2020)

Related Research

Fitch Affirms Lider Faktoring at 'BBB(tur)'; Outlook Stable (June 2022)

Fitch Downgrades Turkey to 'B+'; Outlook Negative (February 2022)

Global Economic Outlook (March 2022)

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Significant Changes

Downgrade of Turkey's Sovereign Rating to 'B+'/Negative

The downgrade of Turkey's Issuer Default Rating to 'B+'/Negative from 'BB-'/Negative in February reflected increasingly frequent and intense episodes of policy-driven financial stress that have increased Turkey's vulnerabilities through high inflation, low external liquidity and weak policy credibility.

Fitch subsequently downgraded the Long-Term Foreign Currency (LTFC) IDR of multiple Turkish banks, mostly to 'B' from 'B+', one notch below Turkey's LTFC IDR. This reflects Fitch's view that government intervention risk in the banking sector, which may impede banks' ability to service FC obligations, remains more likely than a sovereign default.

The operating environment remains an important rating sensitivity for the standalone credit profiles of all Turkish financial institutions given factors including rising inflation, lira weakness, the tightening of external financing conditions, and the lack of policy credibility and uncertainty. Fitch scores the operating environment for Turkish banks and factoring companies at 'b' with a negative outlook, signalling increased risks to macroeconomic and financial stability.

Policy Drives Economic Uncertainty

Turkey's aggressive monetary policy easing in spite of rising inflation led to severe depreciation of the Turkish lira in 4Q21, fuelling inflationary pressures. The authorities' policy response, including foreign exchange- (FX) protected deposits, has not eased Turkey's macroeconomic and financial stability risks, in Fitch's view. The risk of further negative movement remains, given policy uncertainty in the run-up to the 2023 elections and Turkey's large external financing needs amid tighter global financing conditions.

The lira depreciated by 44% against the US dollar in 2021 after peaking at 50% in mid-December, primarily following the central bank's policy rate being cut by 500bp to 14% in September 2021. Inflation also reached 36% in December 2021, rising to 73.5% yoy by May 2022. Fitch forecasts average inflation of 64% in 2022, but rising international commodity prices, backward indexation, failure of the authorities to rein in expectations and additional exchange-rate volatility represent risks that our inflation forecast may be revised upwards.

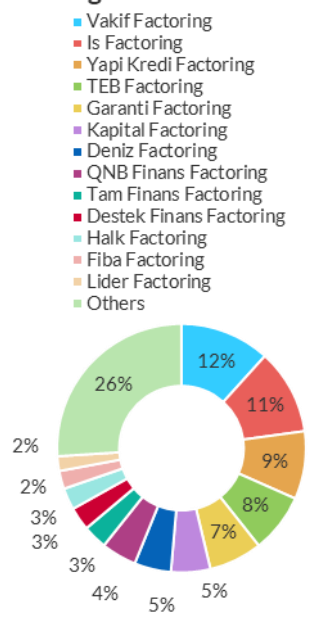
Business Profile

Independent Factoring Company

Lider is a small factoring company in Turkey, discounting only domestic receivables in local currency with recourse. Lider caters to Turkish SMEs (about 1,900 clients at end-2021) through 21 branches. The majority of Lider's factoring derives from small transactions to companies engaged in manufacturing and construction, but single-name concentrations are high due to Lider's recent portfolio de-risking and preference for established customers.

Debt purchase and collection makes up under 20% of Lider's gross revenue and will remain a minor profit contributor in the medium term, given the dominant position of the two largest debt purchasers (over half of the industry). However, Turkish banks resumed sales of impaired loans in 2021 and Lider has already bought portfolios of unsecured retail impaired loans.

Factoring Market Share



Data: Market share by net factoring receivables at end-2021.
Source: Fitch Ratings, BRSA

Qualitative Assessment

Operating Environment

Fragmented Factoring Industry

Factoring was about 1% of total banking sector assets at end-2021, with 52, mostly small, factoring companies active in the sector. The use of factoring in Turkey is limited (5% of GDP in 2021), but volumes grew by 32% in 2021, driven by a swift recovery from the pandemic and a high inflation rate.

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

Management & Strategy

Public Listing Supports Corporate Governance

Six private individuals hold about 60% 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-owned companies because of the bank's adherence to Borsa Istanbul's standards. Lider has a seven-member board of directors, including two independent directors and three board committees.

Risk Profile

Prudent Underwriting, Cautious Growth

Lider has a prudent 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.

Current growth plans are modest, aimed at defending Lider's capital amid hightened credit risk in Turkey. Lider de-risked its portfolio after 2018 and plans to keep its leverage (gross debt to equity) under 5x until the macroeconomic conditions normalise, despite high demand for factoring due to deeply negative real interest rates.

Financial Metrics

Asset Quality

Proactive Client Retention Mitigates Impaired Loans Origination

Fitch expects Lider's impaired loans to remain close to 3% in 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 2021 (provision coverage of 100% at end-2021). Impaired loans are bought at about 15% of their nominal value, and collections are sound in relation to the estimate.

Earnings & Profitability

Own Network, Lower Rates Weigh on Profitability

Lider's operational efficiency (cost/income ratio of 55% in 2021) is just under double the industry average of 30%–40% for 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.

Nominal profitability should improve in the next 12 to 18 months, due to higher rates, larger volumes and sound cost controls, but it will remain under pressure in inflation-adjusted terms. Recoveries from bad debt collection (TRY47 million in 2021) support total revenues, but are still a small share.

Capitalisation & Leverage

Low Business Origination Drives Deleveraging, but Leverage Appetite Remains

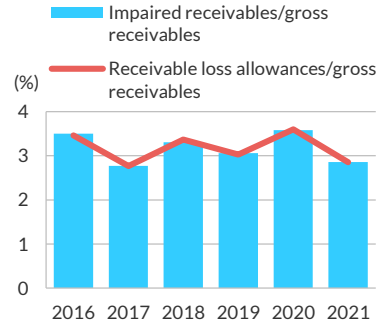
Fitch expects leverage to stay below 6x in the next 12-to-18 months, due to a tight risk appetite and to the planned profit retention (at least until end-2022). Lider has had a higher leverage appetite in the past (9.8x at end-1H18), but it has consistently adopted a revised strategy given the hightened macroeconomic vulnerabilities.

Funding, Liquidity & Coverage

Fast-Amortising Book Mitigates Short-Term Wholesale Funding

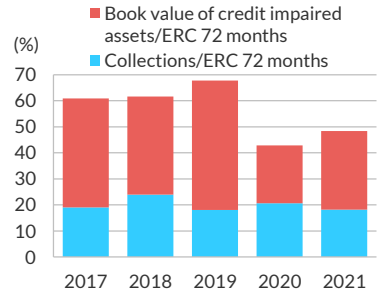
Fitch views Lider's short-dated funding profile (76% of receivables due within 90 days at end-2021) as broadly aligned with its assets cycle of about 110 days. Lider's funding is diversified between 20 local banks and Takasbank. Lider has kept access to banks through numerous crises and Fitch does not expect a lower access to funding in the medium term. Lider resumed domestic bond issuances in 4Q21, despite lower demand for TRY-denominated fixed-income securities. Fitch expects bonds to remain a modest portion of total debt in the medium term.

Asset Quality - Factoring



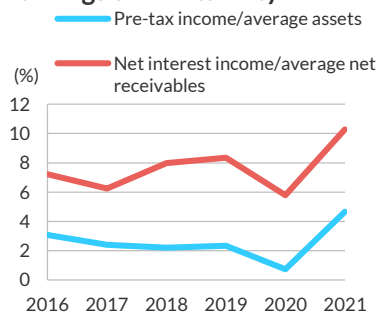
Source: Fitch Ratings, Lider Faktoring A.S.

Asset Quality - Debt Purchasing



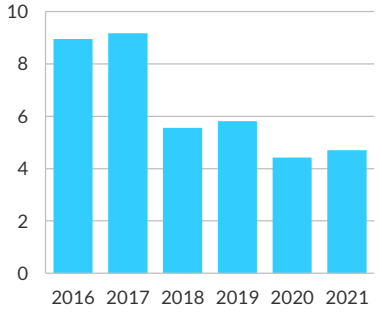
Source: Fitch Ratings, Lider Faktoring A.S.

Earnings & Profitability



Source: Fitch Ratings

Debt/Tangible Equity (x)



Source: Fitch Ratings

Income Statement

(TRYm)	2021	2020	2019	2018	2017	2016	2015	2014
Revenues								
Interest & fee income from factoring	223	144	205	299	193	152	125	123
Income from credit impaired assets	47	36	39	46	29	0	0	0
Interest & fee expenses on funding	-168	-124	-162	-260	-152	-93	-80	-75
Net interest margin	**102**	**55**	**81**	**85**	**70**	**59**	**45**	**48**
Net impairment expenses	-1	-3	-10	-8	1	-4	-11	-8
Net interest margin after credit costs	**101**	**52**	**72**	**77**	**70**	**54**	**34**	**40**
Labour cost	-36	-33	-33	-34	-30	-24	-22	-23
Operating expenses	-20	-17	-17	-20	-13	-6	-5	-8
Other income	5	6	3	2	1	2	1	0
Earnings before taxes	**51**	**8**	**25**	**25**	**28**	**27**	**8**	**9**
Taxes	-12	-1	-7	-5	-5	-5	-1	-2
Net profit	**38**	**7**	**18**	**20**	**23**	**21**	**6**	**7**

Source: Fitch Ratings, Lider Faktoring A.S.

Balance Sheet

(TRYm)	2021	2020	2019	2018	2017	2016	2015	2014
Assets								
Cash & equivalents	10	20	11	23	9	8	1	0
Gross factoring receivables	1,038	804	1,000	862	1,199	980	676	843
thereof: doubtful receivables	30	29	31	28	33	34	32	20
Expected credit loss	-30	-29	-30	-29	-33	-34	-30	-20
Unearned income on factoring transactions	-68	-37	-36	-59	-58	-46	-30	-31
Net factoring receivables	**1,008**	**737**	**934**	**775**	**1,108**	**900**	**616**	**793**
Credit impaired assets	131	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	8	1	1	1	1	2	2	5
Total assets	**1,231**	**944**	**1,134**	**996**	**1,297**	**1,072**	**665**	**839**
Liabilities								
Borrowings	918	710	804	713	847	752	422	559
Issued securities	47	0	99	92	284	175	119	145
Leasing liabilities	28	44	48	22	22	22	22	21
Factoring liabilities	2	2	2	3	2	1	1	1
Interest-bearing liabilities	**994**	**756**	**953**	**830**	**1,154**	**950**	**565**	**726**
Current tax liabilities	5	0	2	0	2	2	2	2
Deferred tax liabilities	0	0	0	0	1	1	0	0
Other liabilities	14	13	11	10	8	7	6	4
Total liabilities	**1,014**	**768**	**965**	**840**	**1,165**	**959**	**573**	**731**
Total equity	**216**	**176**	**169**	**156**	**133**	**112**	**92**	**107**
Total liabilities and equity	**1,231**	**944**	**1,134**	**996**	**1,297**	**1,072**	**665**	**839**

Source: Fitch Ratings, Lider Faktoring A.S.

Summary Analytics

	2021	2020	2019	2018	2017	2016	2015	2014
Asset quality metrics (%)								
Impaired receivables/gross receivables	2.9	3.6	3.1	3.3	2.8	3.5	4.7	2.3
Receivable loss allowances/impaired receivables	99.8	100.5	98.8	101.9	100.0	98.9	93.8	100.0
Gross factoring impairment charges/average gross factoring receivables (YTD)	0.5	0.1	0.5	0.5	0.1	0.6	1.6	2.8
Recoveries/opening impaired receivables (YTD)	13.1	3.4	12.1	3.7	6.5	2.7	5.5	58.0
Factoring receivables in FX	2.1	1.5	1.0	0.8	1.8	2.9	9.3	7.0
Growth of gross receivables (YTD)	29.1	-19.7	16.0	-28.1	22.4	45.0	-19.9	34.4
Collections/opening credit-impaired assets	42.4	30.6	29.3	39.3	31.9	n.a.	n.a.	n.a.
Collections/ERC 72 months	18.1	20.7	18.1	23.9	19.0	n.a.	n.a.	n.a.
Book value of credit impaired assets/ERC 72 months	48.4	42.8	67.7	61.7	60.9	n.a.	n.a.	n.a.
Earnings and profitability metrics (%)								
Pre-Tax income/average assets	4.7	0.7	2.3	2.2	2.4	3.1	1.0	1.3
Net income/average equity	19.5	4.1	11.1	13.7	18.7	20.9	6.4	7.2
Operating expenses/operating revenues	54.5	92.1	61.6	63.8	62.0	50.1	60.9	64.0
Operating expenses/average assets	5.1	4.9	4.7	4.7	3.7	3.4	3.7	4.2
Net impairment charges/pre-impairment operating profit	1.3	5.2	11.9	9.2	-1.0	7.0	25.1	17.2
Interest income/average gross receivables	24.2	15.9	22.0	29.0	17.7	18.3	16.5	16.7
Interest expense/average debt	19.1	14.5	18.2	26.2	14.4	12.3	12.4	12.1
Loan yield - cost of funding	5.1	1.4	3.8	2.8	3.3	6.0	4.1	4.6
Capitalisation and leverage metrics								
Debt/tangible equity (x)	4.7x	4.4x	5.8x	5.6x	9.2x	9.0x	6.5x	7.0x
Tangible equity/tangible assets (%)	17.3	18.2	14.5	15.1	9.7	10.0	13.1	12.4
Equity/total assets (%)	17.6	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
Debt due in 90 days/total debt	75.9	87.3	88.8	77.0	73.9	59.6	40.1	56.3
Net debt due in 90 days/factoring receivables due in 90 days	104.5	125.5	139.1	106.5	114.5	95.6	65.0	80.3

Source: Fitch Ratings, Lider Faktoring A.S.

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