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FitchRatings

Lider Faktoring A.S.

Key Rating Drivers

Standalone-Driven Rating: Lider Faktoring A.S.'s ratings are driven by its standalone credit profile as a small, independent factoring company in Turkiye. Lider's rating also factors in its sound operational performance in a highly competitive factoring sector dominated by bank subsidiaries, improved diversification of revenues, and revised lower leverage appetite. The company is listed on Borsa Istanbul with a free float of around a third, but is majority-owned by private investors.

Small Independent Factoring Company: Lider's market share of 1.7% at end-2022 places it among the 10 largest Turkish factoring companies. Lider exclusively offers factoring in local currency to local Turkish SMEs. Despite the presence of some large factoring companies, the industry is fragmented, allowing smaller companies to operate in their niches.

Lider fully consolidates Denge Asset Management Company, a non-performing loan (NPL) purchaser with an estimated 4% market share, and accounting for 12% of Lider's assets at end-2022. Lider's debt-management segment performed well in 2022, which Fitch Ratings expects to continue to contribute to revenue diversification and earnings.

Short-Term Local-Currency Balance Sheet: Lider's focus on factoring services in local currency mitigates foreign exchange (FX)-induced credit risks, as the company is not exposed to foreign-currency receivables or FX funding. Borrower concentration is material, but recourse capacity to ultimate originators mitigates concentration risk. Exposure by economic sector is fairly diversified.

Lider's impaired receivables ratio decreased to 1% at end-2022 (2021: 2.9%) due to rapid portfolio growth, and Fitch expects some increase in impaired receivables through the cycle. Impaired receivables are 91% provisioned for, and Fitch believes Lider has the capacity to absorb additional credit losses.

Strong Profitability in 2022: Lider's core pre-tax income/average assets ratio reached a very high 16% in 2022 (2021: 4.6%; 2020: 0.7%). It was supported by sharply increased demand due to a deeply negative interest rate environment, high margins, strong results from its debt-management segment and small credit losses.

Fitch views nominal profitability, together with the high inflationary environment and earnings stability, as critical for Lider's credit profile. Its small scale, reliance on own distribution channels, and focus on SMEs weighs on its profitability at times of increased competition. We expect continued disparity between nominal and inflation-adjusted profitability in the medium term due to high inflation in Turkiye.

Decreasing Leverage: Prudent credit underwriting and profit retention support Lider's capitalisation. Its gross debt/tangible equity ratio improved to 3.4x at end-2022 (end-2021: 4.7x). Fitch does not expect leverage to increase in the short term given volatile market conditions and forecasts it to remain under 7x in its base case.

Short Tenors Mitigate Refinancing Risk: 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, domestic bond issuance, and access to the money market of Istanbul Takas ve Saklama Bankasi A.S. (B/Negative) – the central clearing house of Turkiye. All funding is in Turkish lira, as is the receivables portfolio.

Ratings

National Rating	
National Long-Term Rating	BBB+(tur)

Sovereign Risk (Turkiye)	
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

Applicable Criteria

Non-Bank Financial Institutions Rating Criteria (May 2023)

National Scale Rating Criteria (December 2020)

Related Research

Fitch Affirms Lider at 'BBB+(tur)'; Outlook Stable (June 2023)

Turkiye's Anticipated Economic Policy Shift Will Take Time to Assess (June 2023)

Turkish Factoring Growth, Margins to Weaken on New Regulation (January 2023)

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Key Qualitative Factors

Operating Environment

Specifics of Turkish NBFIs

The non-bank financial market is still developing in Turkiye, with low market depth, and access to medium- and long-term lira funding is almost non-existent, while long-term FC funding is provided mostly by international financial institutions. The regulatory framework for the leasing and factoring sectors is weaker than that for banks and investment firms. The only direct prudential norm for NBFIs is a minimum equity/assets ratio of 3%. Fitch views this as a loose requirement. There are no regulatory requirements regarding liquidity.

Interest Cap Regulation

The Central Bank of Turkiye announced new regulatory measures for factoring companies on 31 December 2022. The new regulation requires factoring companies to hold government securities as reserves against their factoring receivables if the interest rate on the receivables exceeds a certain threshold. The overall credit impact of the new rules is likely to be moderately negative. The negative impact on profitability will be partly offset by a moderation in the current unsustainably fast growth. Lider is addressing the price cap impact by increasing its commissions.

Business Profile

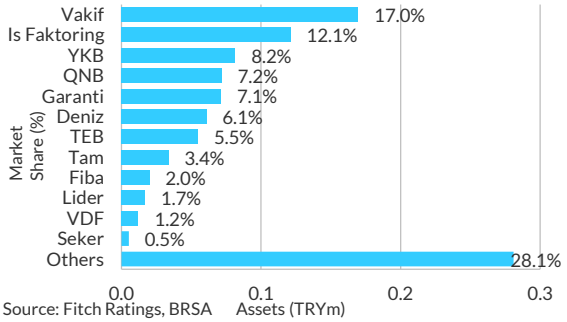
Medium-Sized Independent Factoring Company

Lider is a medium-sized factoring company in Turkiye, with a 1.7% market share by assets at end-2022. The factoring industry is fragmented and dominated by the subsidiaries of larger banks. Lider almost exclusively offers with-recourse domestic factoring. It is specialised in serving SMEs and has a medium-sized, granular client portfolio (end-2022: about 1,500 active clients; end-2021: 1,900). It had 16 branches (2021: 21), covering clients in 50 cities across Turkiye. Demand for factoring was exceptionally strong in Turkiye in 2022, and the company has used this advantage to exit from some low-quality clients (either due to profitability or to risk assessment). It also closed five branches last year.

Small Franchise as NPL Purchaser

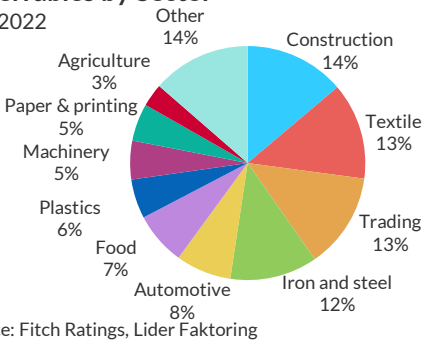
Lider has a smaller subsidiary (Denge Varlik Yonetim AS), which acquires bad retail unsecured debt from local banks – mostly credit card receivables. Denge has a small market share of about 4%. Lider's bad debt portfolio almost doubled in size in 2022, both in terms of book value and expected revenue collection (ERC). The contribution from debt-purchasing operations to Lider's income statement substantially increased to around 40% of total revenues (before interest) last year.

Factoring Companies by Assets & Market Share
End-2022



Source: Fitch Ratings, BRSA

Receivables by Sector
End-2022



Source: Fitch Ratings, Lider Faktoring

SME-Focused Short-Dated Balance Sheet

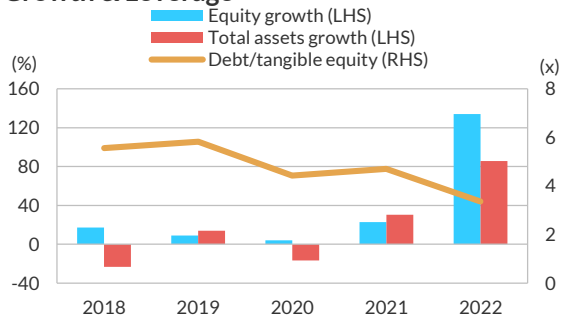
Receivables are well distributed across various sectors. Around 20% are due from large corporates, with the remaining 80% from SME clients. Concentration in large borrowers is slightly higher than average as the largest 20 receivables account for 31% of receivables. Receivables have a short average contractual maturity of around 110 days, a typical feature of the factoring sector.

Lider has adequate corporate governance, in line with its stock exchange listing disclosure requirements. The company is regulated by the Banking Regulation and Supervision Agency, and the Capital Markets Board has oversight on the company due to its bond issuances in the local market.

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Lider has withstood various crises in Turkiye; it has deleveraged its factoring portfolio, remained profitable, and limited credit losses despite its focus on riskier SME. Lider has shown sufficient cost discipline and retained a good access to funding. It is diversifying its business franchise through growth in the debt-management segment. However, the continuously challenging operating environment prevents the company from implementing its long-term strategy and consumes managerial time over short-term challenges. The avoidance of credit risk and the deeply negative interest rates are also affecting Lider's strategy, because Lider's market share is reducing as a consequence.

Growth & Leverage



Source: Fitch Ratings, Lider Faktoring

Risk Profile

Cautious Growth in Current Environment

In order to avoid excessive credit risk, Lider has consistently maintained a comfortable leverage of 4x–5x over the three years to 2022. Leverage improved further to 3.4x at end-2022. The very fast asset growth (end-2022: 86%) was mainly driven by the high inflationary environment in Turkiye. Despite fast growth, leverage did not deteriorate, indicating a prudent risk appetite. We believe that Lider could increase its leverage appetite in more favourable macroeconomic conditions to achieve scale and efficiency.

No Direct FX Risk; Limited Interest Rate Risk

Lider operates exclusively in local currency. All its receivables and funding are in lira. However, FX risk may still come indirectly, through asset quality when the clients' and originators' payment capacity is negatively affected by currency depreciation. Lider's factoring receivables are short-term, and most of its funding sources are also short-term with maturities within three to four months. All of its factoring receivables and funding have fixed rates. Hence, the company runs a matched balance sheet, where assets and liability maturities are matched and interest rate risk is low.

Financial Profile

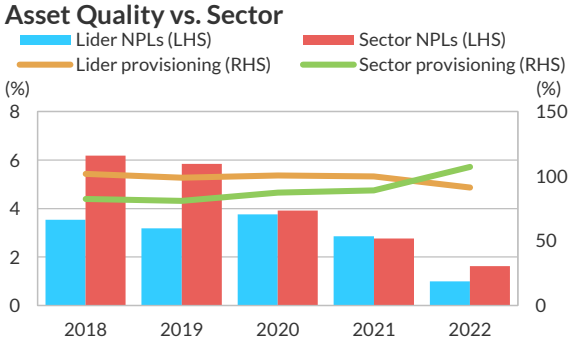
Asset Quality

Lider's NPL ratio has been fairly stable since 2017, at between 3% and 3.8%, and significantly improved in 2022 to 1.0% at end-2022, mainly due to high growth. We expect some deterioration in asset quality in 2023, and potentially in 2024, mainly due to the low base effect, higher interest rates, volatile currency and slower growth. NPL generation and loan impairment costs at Lider are lower than the sector averages. Provision coverage is solid, at 100%, on average. Provisioning expenses have been low over the past four years (0.4% of average gross receivables, on average).

Lider has a TRY268 million net book of bad loans, with TRY573 million ERC over the next 72 months. Collections have been improving over the past few years and collections exceeded the opening balance in 2022. Collections have averaged 20% of the 72-month ERC over the past four years. We view the bank's growth targets for the bad debt segment as ambitious, with Denge's portfolio acquisition expected to increase by 35% in 2023 and 45% in 2024.

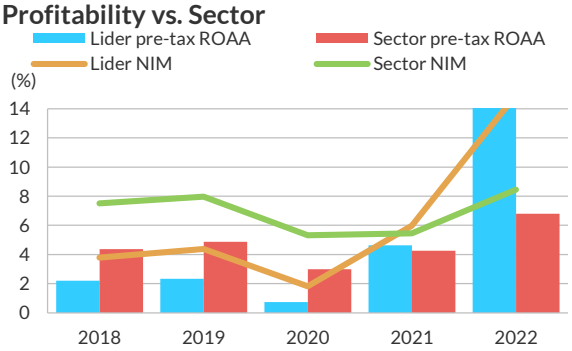
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Asset Quality vs. Sector



Source: Fitch Ratings, Lider Faktoring, BRSA

Profitability vs. Sector



Source: Fitch Ratings, Lider Faktoring, BRSA

Earnings and Profitability

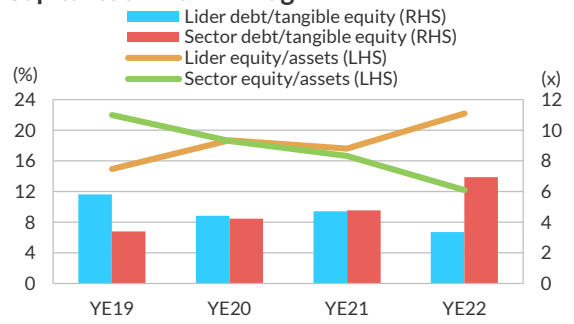
Lider has begun diversifying its revenues with debt-purchasing operations, but still relies on factoring for most of its revenues. The company is consistently profitable and 2022 performance was exceptionally strong (16% pre-tax income/assets ratio), driven by very strong margins on the factoring business and high level of collections on the debt-management segment. At the same time, profitability is quite volatile through the years (2021 pre-tax income/assets ratio: 4.7%; 2020: 0.7%). The company reports that the debt-management segment will continue to grow and they strategically plan to increase diversification.

Capital and Leverage

Lider's leverage ratio decreased further to 3.4x at end-2022 (2021: 4.7x). The company has been operating with relatively low leverage over the past five years compared to previous periods (9.2x at end-2017). Stronger capitalisation is mainly driven by deleveraging and improved internal capital generation in 2022. The volatile operating environment and policy interventions constrain opportunistic business growth, and thus leverage, in the medium term. Lider does not plan to distribute dividends.

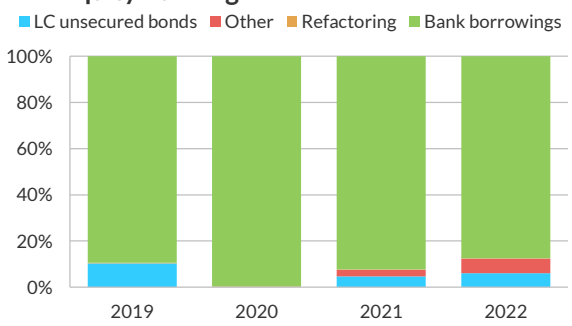
Turkish Factoring firms have to comply with two main capital regulatory requirements: a minimum paid-in capital amount of TRY50 million and a gearing (receivables to equity) ratio above 3% (which we view as very loose). We believe Lider's current capitalisation provides a sizeable buffer to absorb losses.

Capitalisation & Leverage



Source: Fitch Ratings, Lider Faktoring, BRSA

Non-Equity Funding



Source: Fitch Ratings, Lider Faktoring

Funding and Liquidity

Wholesale Funding from Local Banks

Lider is mainly funded by short-term bank loans (88% of total liabilities at end-2022) and bonds issued (6%). All of Lider's funding is short term (93% due within 90 days), aligned with the short cycle of its assets (approximately 110 days). Lider started to tap into the local bond market in 2021, and the share of short-term unsecured local-currency bonds in total funding reached 6% at end-2022. Local bonds have short-term maturities, in line with the business model.

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Financials

Income Statement

(TRYm)	2017	2018	2019	2020	2021	2022
Revenues						
Interest & fee income from factoring	193	299	205	144	223	509
Income from credit impaired assets	29	46	39	36	47	187
Interest & fee expenses on funding	-152	-260	-162	-124	-168	-304
Net interest income	**70**	**85**	**81**	**55**	**102**	**392**
Net impairment expenses	1	-8	-10	-3	-1	0
Net interest income after provisions	**70**	**77**	**72**	**52**	**101**	**392**
Personnel expenses	-30	-34	-33	-33	-36	-66
Operating expenses	-13	-20	-17	-17	-20	-49
Other income	1	2	3	6	5	5
Earnings before taxes	**28**	**25**	**25**	**8**	**50**	**282**
Taxes	-5	-5	-7	-1	-12	-75
Net profit	**23**	**20**	**18**	**7**	**38**	**207**

Source: Fitch Ratings, Fitch Solutions, Lider Faktoring A.S.

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Balance Sheet

(TRYm)	2017	2018	2019	2020	2021	2022
Assets						
Cash & equivalents	9	23	11	20	10	34
Gross factoring receivables	1,141	804	964	766	1,038	1,814
Memo: impaired receivables included above	33	28	31	29	30	18
Less: receivable loss allowances	-33	-29	-30	-29	-30	-17
Net factoring receivables	**1,108**	**775**	**934**	**737**	**1,008**	**1,798**
Credit impaired assets	122	120	115	113	131	268
Other loans and receivables	12	1	0	0	0	2
Fixed assets	39	69	67	67	68	177
Intangible assets	1	1	0	1	1	2
Current tax assets	0	0	0	1	0	0
Deferred tax assets	6	5	5	5	4	0
Other assets	1	1	1	1	8	2
Total assets	**1,297**	**996**	**1,134**	**944**	**1,231**	**2,283**
Liabilities						
Borrowings	847	713	804	710	918	1,480
Issued securities	284	92	99	0	47	101
Leasing liabilities	22	22	48	44	28	107
Factoring liabilities	2	3	2	2	2	2
Interest-bearing liabilities	**1,154**	**830**	**953**	**756**	**994**	**1,691**
Current tax liabilities	2	0	2	0	5	23
Deferred tax liabilities	1	0	0	0	0	25
Other liabilities	8	10	11	13	14	37
Total liabilities	**1,165**	**840**	**965**	**768**	**1,014**	**1,777**
Total equity	**133**	**156**	**169**	**176**	**216**	**506**
Total liabilities and equity	**1,297**	**996**	**1,134**	**944**	**1,231**	**2,283**

Source: Fitch Ratings, Fitch Solutions, Lider Faktoring A.S.

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Summary Analytics

(%)	2017	2018	2019	2020	2021	2022
Asset quality metrics						
Impaired receivables/gross receivables	2.9	3.5	3.2	3.8	2.9	1.0
Receivable loss allowances/impaired receivables	100.0	101.9	98.8	100.5	99.8	91.2
Gross factoring impairment charges/average gross factoring receivables (YTD)	0.1	0.6	0.6	0.1	0.5	0.3
Recoveries/opening impaired receivables (YTD)	6.5	3.7	12.1	3.4	13.1	10.9
Factoring receivables in FX	1.8	0.8	1.0	1.5	2.1	0.0
NPL generation	-0.1	0.8	1.2	0.3	0.2	0.1
Collections/opening credit-impaired assets	31.9	39.3	29.3	30.6	42.4	106.4
Collections/ERC 72 months	19.0	23.9	18.1	20.7	18.1	51.5
Book value of credit impaired assets/ERC 72 months	60.9	61.7	67.7	42.8	48.4	46.8
Earnings and profitability metrics						
Pre-tax income/average assets	2.4	2.2	2.3	0.7	4.6	16.0
Pre-tax income/average equity	23.2	17.5	15.3	4.4	25.7	77.9
Operating expenses/operating revenues	62.0	63.8	61.6	92.1	54.5	29.3
Operating expenses/average assets	3.7	4.7	4.7	4.9	5.1	6.5
Net impairment charges/pre-impairment op. profit	-1.0	9.2	11.9	5.2	1.3	0.1
Interest income/average gross receivables	18.6	30.7	23.2	16.6	24.7	35.7
Interest expense/average debt	14.4	26.2	18.2	14.5	19.1	22.6
Net interest margin	3.4	3.8	4.4	1.8	6.0	15.0
Capitalisation and leverage metrics						
Debt/tangible equity (x)	9.2x	5.6x	5.8x	4.4x	4.7x	3.4x
Tangible equity/tangible assets	9.7	15.1	14.5	18.2	17.3	22.1
Equity/total assets	10.2	15.6	14.9	18.7	17.6	22.2
Impaired receivables less loss allowances/tangible equity	0.0	-0.4	0.2	-0.1	0.0	0.3
Funding and liquidity metrics						
Unsecured debt/total debt	24.6	11.1	10.4	0.0	4.7	6.0
Short-term debt/total debt	95.3	94.6	96.7	100.0	100.0	100.0
Debt due in 90 days/total debt	73.9	77.0	88.8	87.3	78.1	92.5
Net debt due in 90 days/factoring receivables due in 90 days	114.5	106.5	139.1	125.5	107.5	139.3

Source: Fitch Ratings, Fitch Solutions, Lider Faktoring A.S.

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