Lider Faktoring A.S.

Key Rating Drivers

Standalone-Driven Rating: Lider Faktoring A.S.'s ratings are driven by its Standalone Credit Profile (SCP) as a small, independent factoring company in Turkiye. Its ratings consider its sound operating performance in a highly competitive factoring sector dominated by bank subsidiaries, improved diversification of revenues, good asset quality and increasing, although still-small capital base. The company is listed on Borsa Istanbul with a free float of about 40%, but is majority-owned by private investors.

Small Independent Factoring Company: Lider's receivables market share of 2.0% at end-2023 places it among the 10 largest Turkish factoring companies. The company offers factoring in local currency to local Turkish SMEs.

NPL Subsidiary Performs Strongly: Lider fully consolidates Denge Asset Management Company, a non-performing loan (NPL) purchaser with an estimated 3% market share, and accounting for 13% of Lider's assets at end-2023. Lider's debt management arm performed well in 2023, due mainly to revaluation gains on receivables although we expect earnings from this subsector to moderate in 2024.

Short-Term Local-Currency Balance Sheet: Lider's factoring services in local currency mitigate FX credit risks, either from receivables or funding. Concentration in single, large clients is moderate and recourse to ultimate originators helps when it comes to concentration risk. Exposure by economic sector is fairly diversified.

Lider's impaired-to-gross receivables ratio decreased to 0.5% at end-2023 from 1.0% at end-2022 largely due to rapid portfolio growth. We expect an increase in impaired receivables through the cycle. Impaired receivables are 106% provisioned for, and we believe that the company has the capacity to absorb additional credit losses.

Strong Profitability in 2023: Lider's core pre-tax income/average assets ratio reached a high 25% in 2023 (2022: 16%). It was supported by a continued rise in receivables (2023: 93%), high margins, strong results from its fully consolidated debt-purchasing subsidiary and limited credit losses.

Given the boost of high inflation in Turkiye to nominal profitability, inflation-adjusted profitability and earnings stability are critical for Lider's credit profile. Its small scale, reliance on its own distribution channels, focus on SMEs and volatility at its debt-purchasing subsidiary may weigh on its profitability at times of increased market stress.

Improving Leverage Ratio: Prudent credit underwriting, full profit retention and high profits from the debt-purchasing subsidiary support consolidated capitalisation. Lider's gross debt-to-tangible equity ratio improved to 2.7x at end-2023, from 3.4x at end-2022. Fitch does not expect leverage to increase rapidly over the short term, given volatile market conditions, and forecasts it to remain under 7x in its base case.

Limited 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+/Positive) - 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	Positive
Sovereign Long-Term Local-Currency IDR	Positive

Applicable Criteria

National Scale Rating Criteria (December 2020)

Non-Bank Financial Institutions Rating Criteria (January 2024)

Related Research

Fitch Affirms Lider at 'BBB+(tur)'; Outlook Stable (April 2024)

Turkish NBFIs Have a Challenging Year Ahead (April 2024)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A material and sustained deterioration in the standalone credit profile, such as sustained excessive portfolio growth resulting in leverage consistently above 7.0x; weakened capitalisation; increased operational volatility; higher risk appetite; materially higher credit losses; refinancing difficulties or liquidity constraints may lead to a downgrade.

Deterioration of the above factors relative to domestic peers could lead to a downgrade of the National Rating. Also, Fitch's recalibration of its the mapping of these ratings could result in a revision.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

The potential for an upgrade is limited, unless there is a substantial improvement in the operational environment (most likely to be driven by an upgrade of the sovereign), in conjunction with Lider strengthening its business profile and franchise relative to domestic peers', while maintaining low leverage and strong operational performance.

Also, Fitch's recalibration of its National Rating mapping may result in a revision of these ratings.

Key Qualitative Factors

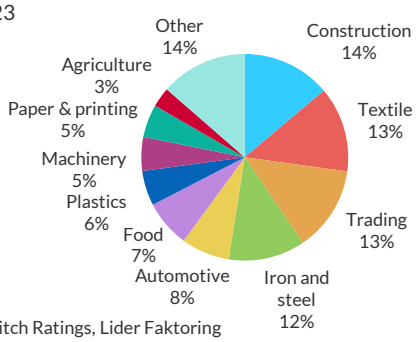
Operating Environment

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 foreign-currency funding mostly from international financial institutions. The regulatory framework for leasing and factoring is weaker than that for banks and investment companies. The only direct prudential norm for NBFIs is a minimum equity-to-assets ratio of 3%. We view this as a loose requirement. There are no regulatory requirements for liquidity.

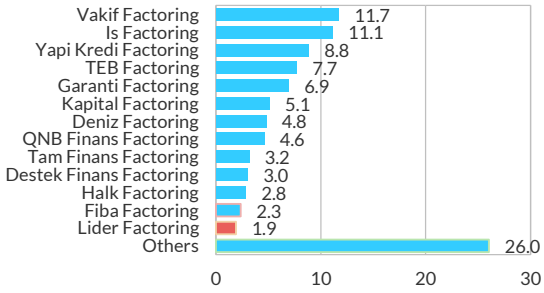
The impact of the interest cap regulation that was introduced at the end of 2022 was short-lived and all factoring companies managed to offset the impact by increasing commissions.

Receivables by Sector
End-2023



Source: Fitch Ratings, Lider Faktoring

Factoring Companies by Receivables
End-2021



Source: Fitch Ratings, BRSA

Medium-Sized Independent Factoring Company

Lider is a medium-sized factoring company in Turkiye, with a 2.0% market share by assets at end-2023. 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-2023: about 2,100 active clients). It had 15 branches (2022: 16), covering clients in 50 cities across Turkiye.

Small Franchise as NPL Purchaser

Lider has a smaller subsidiary (Denge Varlik Yonetim AS), which acquires bad unsecured retail debt from local banks – mostly credit card receivables. Denge has a small market share of about 4%. Lider's bad debt portfolio continues to increase rapidly, doubling in size in 2023 in book value and expected revenue collection (ERC). The contribution from debt-purchasing operations to gross revenues (before interest expenses) was high, at about 29% last year (2022: 27%).

SME-Focused Short-Dated Balance Sheet

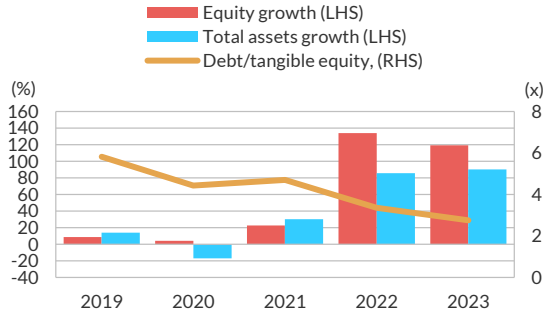
Receivables are well distributed across various sectors. About 20% are due from large corporates, with the remaining 80% from SME clients. Concentration in large borrowers is moderate as the largest 20 receivables account for 21% of

receivables at end-2023 (end-2022: 31%). Receivables have a short average contractual maturity of around 120 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 trading shares in the stock market and local bond issuances.

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. The avoidance of credit risk and the competitive market are also affecting Lider's execution, and Lider's market share is low as a consequence.

Growth & Leverage



Source: Fitch Ratings, Lider Faktoring

Risk Profile

Cautious Growth in Current Environment

To avoid excessive credit risk, Lider consistently maintained a comfortable leverage of 3x–5x in the last three financial years and leverage improved further to 2.7x at end-2023. The very fast asset growth (end-2023: 90%) was mainly driven by the high inflationary environment in Turkiye and growth in debt management segment. Despite fast growth, leverage did not deteriorate, indicating a prudent risk appetite. Lider plans to 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.

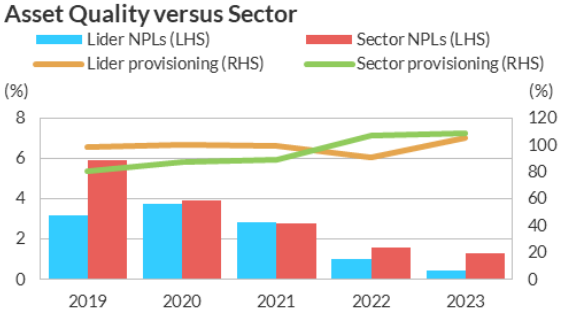
Financial Profile

Asset Quality

Lider's NPL ratio markedly improved in 2022 and 2023, and reduced to 0.5% at end 2023 (end-2022: 1.0%), mainly due to high growth and prudent underwriting practices in 2023. We expect some deterioration in asset quality in 2024, mainly due to the low base effect, higher interest rates and slower economic growth. New NPL generation levels and loan impairment charges at Lider are lower than the sector averages. Provision coverage is solid, at 100%, on average. Net provisioning expenses have been very low over the past four years (0.2% of average gross receivables, on average).

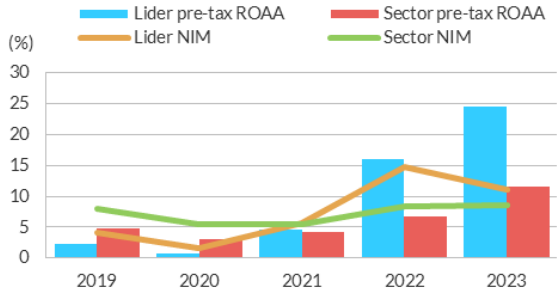
Lider's NPL management portfolio has a book value of TRY537 million (end 2023), with TRY1,1110 million ERC over the next 120 months. Collections have been improving over the past few years however the data is distorted by very high inflation in Turkiye hence collections exceeding the opening balance in 2022 and 2023. We believe that debt collection segment provides increasingly more revenue diversification.

Asset Quality versus Sector



Source: Fitch Ratings, Lider Faktoring, BRSA

Profitability versus Sector



Source: Fitch Ratings, Lider Faktoring, BRSA

Earnings and Profitability

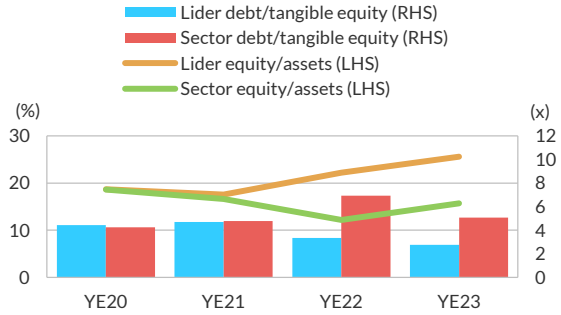
Lider began diversifying revenues with debt-purchasing operations, but still relies on factoring for most of its revenues. The company is consistently profitable and 2023 performance was exceptionally strong (pre-tax income-to-assets ratio 2023: 27%, 2022: 17%), driven by very good margins on factoring and high level of income from debt purchasing. Debt purchasing profits are mainly driven by the revaluation of receivables for inflation and are not sustainable. We expect these profits to moderate although the effect of diversification will remain intact.

Capital and Leverage

Lider's leverage ratio improved further to 2.7x at end-2023 (end-2022: 3.4x). 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 2023. It does not plan to distribute dividends.

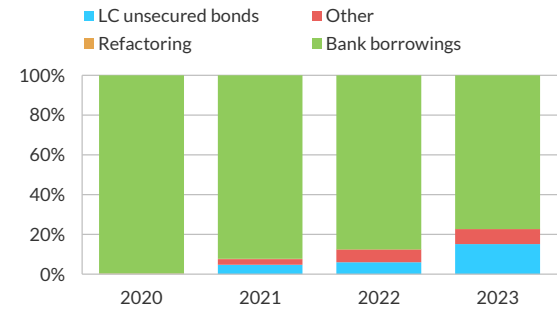
Turkish factoring companies have to comply with two main capital regulatory requirements: a minimum paid-in capital amount of TRY50 million and a gearing (receivables to equity) ratio above 3% (which we view as very loose). We believe Lider's capitalisation provides a sizeable buffer to absorb losses.

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 (78% of liabilities at end-2023) and bonds issued (15%). All of its funding is short term (91% due within 90 days including bonds issued), aligned with the short cycle of its assets (about 125 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 15% at end-2023. Local bonds have short-term maturities, in line with the business model.

Financials

Income Statement

	31 Dec 23 Year end (USD 000) Audited	31 Dec 23 Year End (TRY 000) Audited	31 Dec 22 Year end (TRY 000) Audited	31 Dec 21 Year end (TRY 000) Audited	31 Dec 20 Year end (TRY 000) Audited
Revenues					
Interest income on loans	30,150	888,361	494,575	215,025	135,329
Other interest income	307	9,041	3,398	2,370	1,643
Net fees and commissions	10,687	314,881	-4,336	3,765	5,403
Net gains/(losses) on trading, FX and derivatives	95	2,790	176	1,393	145
Other operating income	16,662	490,939	187,927	48,486	38,892
Total gross operating revenues	**57,900**	**1,706,012**	**681,740**	**271,039**	**181,412**
Other interest expense	20,180	594,608	284,686	163,404	121,297
Total interest expense	**20,180**	**594,608**	**284,686**	**163,404**	**121,297**
Total net operating revenues	**37,720**	**1,111,404**	**397,054**	**107,635**	**60,115**
Memo: net interest income	10,276	302,794	213,287	53,991	15,675
Expenses					
Depreciation and amortisation of own assets	96	2,817	3,826	4,423	1,385
Personnel expenses	5,155	151,887	66,457	35,605	33,360
Other operating expenses	4,468	131,637	44,769	15,810	15,881
Total operating expenses	**9,718**	**286,341**	**115,052**	**55,838**	**50,626**
Pre-impairment/provision operating profit	**28,002**	**825,063**	**282,002**	**51,797**	**9,489**
Impairment charges (reversals) on loans and finance leases	400	11,794	375	1,331	2,839
Operating profit	**27,601**	**813,269**	**281,627**	**50,466**	**6,650**
Non-recurring income	n.a.	n.a.	n.a.	n.a.	0
Pre-tax income	**27,601**	**813,269**	**281,627**	**50,466**	**6,650**
Income tax expense	8,380	246,907	74,751	12,304	338
Net income (including non-controlling interests)	**19,222**	**566,362**	**206,876**	**38,162**	**6,312**
Remaining other comprehensive income gains/(losses)	1,252	36,902	84,537	1,813	45
Fitch comprehensive income	**20,474**	**603,264**	**291,413**	**39,975**	**6,357**
Exchange rate		USD1 = TRY29.4650	USD1 = TRY18.7133	USD1 = TRY13.3367	USD1 = TRY7.4256

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

Balance Sheet

	31 Dec 23 Year end (USD 000) Audited	31 Dec 23 Year end (TRY 000) Audited	31 Dec 22 Year end (TRY 000) Audited	31 Dec 21 Year end (TRY 000) Audited	31 Dec 20 Year end (TRY 000) Audited
Assets					
Loans and leases					
Gross customer loans and other receivables	118,577	3,493,852	1,814,343	1,037,757	766,163
Gross loans and finance leases	118,577	3,493,852	1,814,343	1,037,757	766,163
Memo: impaired loans, leases and receivables included above	563	16,592	18,155	29,675	28,759
Less: loss allowances for loans, leases and receivables	591	17,427	16,563	29,675	28,759
Net loans and finance leases	**117,986**	**3,476,425**	**1,797,780**	**1,008,082**	**737,404**
Loans held for sale and portfolio investments	18,235	537,299	268,193	131,462	112,986
Other earning assets					
Investments in securities	n.a	n.a	n.a	n.a	0
Total interest earning assets	**117,986**	**3,476,425**	**1,797,780**	**1,008,082**	**737,404**
Investment in property (gross)	1	26	n.a	6,362	n.a
Investments in property (net)	1	26	92	6,362	n.a
Other assets					
Cash and equivalents	2,245	66,149	34,208	10,496	19,767
Foreclosed assets	n.a	n.a	167	n.a	n.a
Property, plant and equipment	7,919	233,322	176,490	58,892	57,564
Other intangibles	179	5,275	2,179	677	658
Deferred tax assets	n.a	n.a	n.a	4,334	4,780
Other assets	735	21,668	4,333	10,270	11,410
Total assets	**147,300**	**4,340,164**	**2,283,442**	**1,230,575**	**944,569**
Liabilities and equity					
Debt and deposits					
Secured short-term debt (including finance lease liabilities)	87,465	2,577,143	1,589,493	947,755	755,538
Unsecured short-term debt	15,599	459,629	101,495	46,667	0
Short-term borrowings (maturing within 12 months)	**103,065**	**3,036,772**	**1,690,988**	**994,422**	**755,538**
Unsecured LT debt	n.a	n.a	0	n.a	n.a
Long-term borrowings (maturing after 12 months)	**n.a**	**n.a**	**0**	**n.a**	**n.a**
Total borrowings	**103,065**	**3,036,772**	**1,690,988**	**994,422**	**755,538**
Total debt and deposits	**103,065**	**3,036,772**	**1,690,988**	**994,422**	**755,538**
Accounts payable, accrued expenses	325	9,577	3,719	1,869	1,343
Deferred tax liabilities	3,067	90,381	25,334	n.a	n.a
Other liabilities	3,180	93,686	56,917	17,836	11,215
Total liabilities	**109,637**	**3,230,416**	**1,776,958**	**1,014,127**	**768,096**
Equity					
Common stock	8,614	253,800	135,000	90,000	90,000
Statutory and restricted reserves	887	26,132	15,756	13,848	13,551
Retained earnings	19,222	566,362	206,876	38,162	6,312
Fixed asset revaluations and other accumulated OCI	8,941	263,454	148,852	74,438	66,610
Total equity excluding hybrid capital accounted for as equity	**37,664**	**1,109,748**	**506,484**	**216,448**	**176,473**
Total equity	**37,664**	**1,109,748**	**506,484**	**216,448**	**176,473**
Total liabilities and equity	**147,300**	**4,340,164**	**2,283,442**	**1,230,575**	**944,569**
Exchange rate		USD1 = TRY29.4650	USD1 = TRY18.7133	USD1 = TRY13.3367	USD1 = TRY7.4256

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

Summary Analytics

	31 Dec 23 Year end	31 Dec 22 Year end	31 Dec 21 Year end	31 Dec 20 Year end
Asset quality ratios (%)				
Impaired loans and finance leases/gross loans and finance leases (%)	0.5	1.0	2.9	3.8
Loss allowances/impaired loans and finance leases (%)	105.0	91.2	100.0	100.0
Impaired loans and finance leases less loss allowances/tangible equity (%)	-0.1	0.3	n.a.	0.0
Net charge-offs/average gross loans and finance leases (%)	0.5	1.0	n.a.	n.a.
Residual value gains (losses)/book value of assets sold (%)	n.a.	n.a.	n.a.	n.a.
Growth of gross loans and finance leases yoy (%)	92.6	74.8	35.4	n.a.
Loss allowances/gross loans and finance leases (%)	0.5	0.9	2.9	3.8
Impairment charges on loans and finance leases/average gross loans and finance leases (%)	0.5	0.0	0.1	n.a.
Earnings and profitability ratios (%)				
Pre-tax income/average assets (%)	26.8	16.6	4.6	n.a.
Pre-tax income/average equity (%)	105.4	86.4	25.7	n.a.
Operating expenses/total net revenue (%)	25.8	29.0	51.9	84.2
Pre-tax operating income/revenue (%)	47.7	41.3	18.6	3.7
Net interest income/avg. Earning assets (%)	11.7	14.5	6.2	n.a.
Impairment charges/pre-impairment op. Profit (%)	1.4	0.1	2.6	29.9
Capitalisation and leverage ratios				
Total funding/tangible equity (x)	2.7	3.4	4.6	4.3
Tangible equity/tangible assets (%)	25.5	22.1	17.5	18.6
(Net income - dividends - share repurchases)/beginning equity (%)	111.8	95.6	21.6	n.a.
Corporate debt/tangible equity (x)	2.7	3.4	4.6	4.3

	31 Dec 23 Year end	31 Dec 22 Year end	31 Dec 21 Year end	31 Dec 20 Year end
Funding, liquidity and coverage ratios				
Unsecured funding/total funding (%)	15.1	6.0	4.7	0.0
Short-term funding/total funding (%)	100.0	100.0	100.0	100.0
Short-term corporate debt/total corporate debt (%)	92.5	99.9	100.0	100.0
Dividends/net income (%)	n.a.	n.a.	n.a.	n.a.
(Liquid assets + undrawn committed facilities)/short-term funding (x)	0.0	0.0	0.0	0.0
(Liquid assets + undrawn committed facilities + adjusted EBITDA)/short-term corporate debt (x)	0.5	0.4	0.2	0.2
Secured debt/total assets (%)	59.4	69.6	77.0	80.0
Liquid assets/total assets (%)	1.5	1.5	0.9	2.1

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

SOLICITATION & PARTICIPATION STATUS

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