

Kapital Faktoring A.S.

Update

Ratings

National
Long-Term Rating A-(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

Kapital Faktoring A.S.

	31 Dec 18	31 Dec 17
Total assets (USDm)	258	549
Total assets (TRYm)	1,361	2,074
Total equity (TRYm)	771	646
Net income (TRYm)	184	125
Impaired loans/gross loans (%)	3.3	1.8
ROAA (%)	10.7	6.9
ROAE (%)	26.0	20.3
Gross debt/tangible equity (x)	0.7	2.2
Equity/total assets (%)	56.6	31.2

Source: Fitch Ratings, Fitch Solutions

Key Rating Drivers

Standalone Strength Drives Ratings: The National Rating on Kapital Faktoring A.S. (KF) is driven by its position as a leading, independent company in Turkey's fragmented factoring sector and by its track record of robust financial metrics. The rating also reflects KF's highly specialised business model in a volatile economic environment.

Leading Franchise, Small Scale: KF is a leading independent non-bank-owned factoring company in Turkey, controlling over 5% of domestic factoring receivables at end-2018. It was the largest factoring company in terms of total equity and profits in 2018. However, KF is small relative to Turkey's financial sector.

Reduces Risk Appetite: KF significantly reduced its balance sheet in 2018 given sharp macroeconomic volatility and economic slowdown. Net receivables decreased by 35% in 2018 following 35% growth in 2017. Fitch Ratings expects a slight upturn in growth in 2H19 driven by lower funding costs.

Higher-Risk Segment: KF mainly targets the SME and micro-commercial customer segments. These are more vulnerable to economic cycles, while competition for stronger clients has intensified by bank-owned factoring companies.

Rising Credit Risks: KF provides factoring services in local currency and mostly on a recourse basis. Exposure by economic sectors and by names (the five largest customers accounted for 8% of the portfolio) is fairly diversified. The impaired receivables ratio increased to 3.3% at end-2018 from 1.8% a year earlier partly due to the portfolio contraction and one-off effect of IFRS 9 adoption. Reserve coverage remained strong at 105% of impaired receivables.

Robust Profitability and Efficiency: KF's low leverage and strong operational efficiency underpin its long record of robust performance. Turkey's high interest-rate environment strengthened KF's net interest margin to 15.1% in 2018 from 9.7% a year earlier. Low headcount and no branch network result in a strong cost/income ratio consistently below 15%. The return on average assets reached 11% in 2018.

Strong Capitalisation: KF operates with solid capital and leverage ratios, despite regular dividend pay-outs. Sharp deleveraging, robust internal capital generation (19% in 2018) and the absence of foreign-exchange risks provide significant capital buffers to absorb unexpected losses. The equity/assets ratio was 57% at end-2018 and gross debt/tangible equity ratio was 0.7x.

Mitigated Refinancing Risk: KF's strong capitalisation, reduced risk appetite for growth, the short-term nature of the balance sheet and tested access to domestic debt markets largely mitigate liquidity and refinancing risks. KF increased its reliance on stable funding from Takasbank (BB-/Negative), which accounted for 95% of total borrowings at end-2018. Receivables represented 98% of the balance sheet and had an average maturity of 80 days at end-2018.

Rating Sensitivities

Limited Upside: Upgrade potential is limited, but diversification of the business model 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

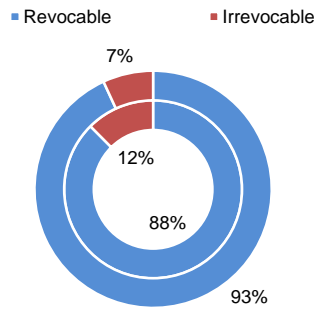
[Fitch Affirms 3 Independent Turkish Factoring Companies \(August 2019\)](#)
[Fitch Downgrades Turkey to 'BB-'; Outlook Negative \(July 2019\)](#)
[Turkey \(May 2019\)](#)

Analysts

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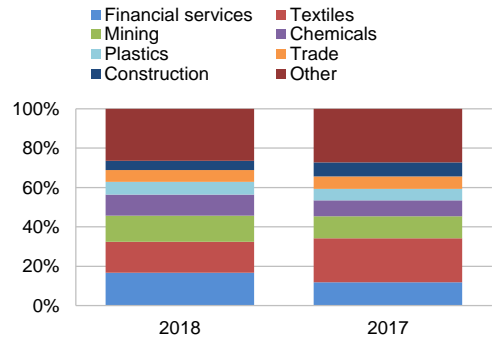
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Receivables by Type



Outer Circle: end-2018; Inner Circle: end-2017
Source: Fitch Ratings, Kapital Faktoring A.S.

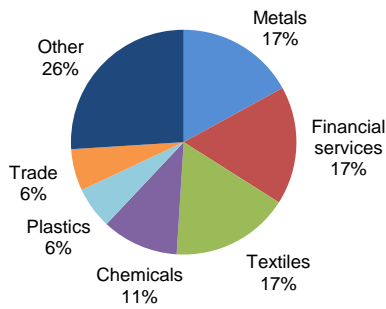
Transactions by Sector



Source: Fitch Ratings, Kapital Faktoring A.S.

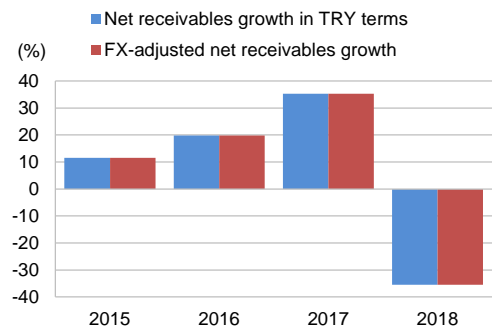
Receivables by Sector

End-2018



Source: Fitch Ratings, Kapital Faktoring A.S.

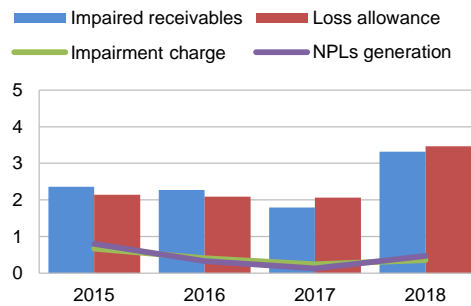
Key Growth Metrics



Source: Fitch Ratings, Kapital Faktoring A.S.

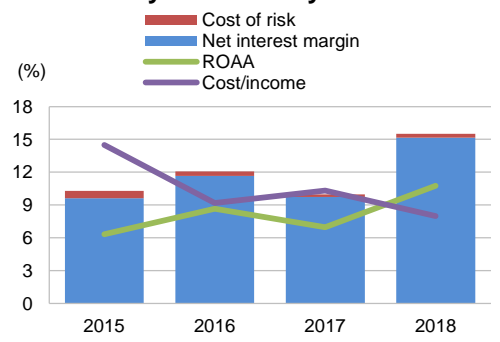
Credit Quality

(% of gross loans)



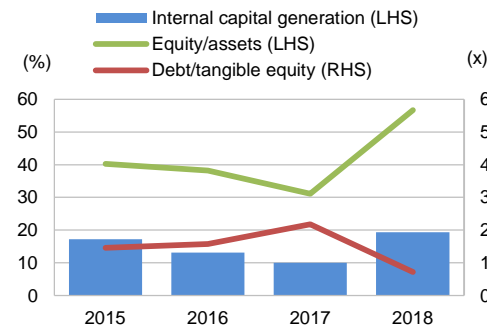
Source: Fitch Ratings, Kapital Faktoring A.S.

Profitability & Efficiency



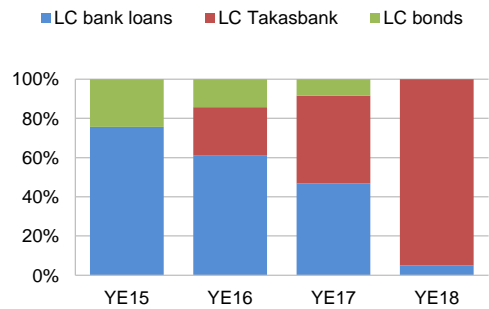
Source: Fitch Ratings, Kapital Faktoring A.S.

Capitalisation & Leverage



Source: Fitch Ratings, Kapital Faktoring A.S.

Non-Equity Funding



Source: Fitch Ratings, Kapital Faktoring A.S.

Related Criteria

Non-Bank Financial Institutions Rating Criteria (October 2018)

Balance Sheet

(TRYm)	2014	2015	2016	2017	2018
Assets					
Cash & equivalents	3	7	1	2	7
Gross receivables	1,165	1,299	1,556	2,104	1,378
Memo: Impaired receivables included above	21	31	35	38	46
Less: Receivable loss allowances	25	28	33	43	48
Net receivables	1,140	1,271	1,523	2,060	1,330
Goodwill and intangible assets	1	1	1	1	2
Deferred tax assets	1	1	2	1	2
Fixed assets	4	1	7	8	8
Other assets	1	8	1	2	12
Total assets	1,150	1,289	1,536	2,074	1,361
Liabilities					
Short-term debt	690	755	918	1,403	552
Total borrowings	690	755	918	1,403	552
Deferred tax liabilities	0	0	0	0	0
Other liabilities	16	15	31	25	38
Total liabilities	707	770	949	1,428	590
Total equity	443	519	587	646	771
Total liabilities and equity	1,150	1,289	1,536	2,074	1,361

Source: Fitch Ratings, Kapital Faktoring A.S.

Income Statement

(TRYm)	2014	2015	2016	2017	2018
Revenue					
Interest income	159	192	262	316	451
Other income	6	6	12	5	7
Total revenue	164	198	274	321	458
Expenses					
Interest expense	59	76	99	142	194
SG&A expenses	13	18	16	18	21
Impairment charges	1	8	6	4	6
Total expenses	73	102	121	165	221
Pre-tax income	91	97	153	156	237
Income tax	18	20	31	31	52
Net income	73	77	122	125	184

Source: Fitch Ratings, Kapital Faktoring A.S.

Summary Analytics

	2014	2015	2016	2017	2018
Asset quality metrics (%)					
Impaired receivables/gross receivables	1.8	2.4	2.3	1.8	3.3
Receivable loss allowances/impaired receivables	120.8	90.7	92.1	115.5	104.6
Impaired receivables less loss allowances/tangible equity	-1.0	0.5	0.5	-0.9	-0.3
Receivables impairment charges/average gross receivables	0.1	0.7	0.4	0.2	0.4
Growth of gross receivables	35.6	11.6	19.8	35.2	-34.5
Impaired receivables generation	0.1	0.8	0.3	0.1	0.5
Earnings and profitability metrics (%)					
Pre-tax income/average assets	9.2	7.9	10.8	8.7	13.8
Pre-tax income/average equity	22.0	20.1	27.6	25.3	33.4
Net income/average assets	7.3	6.3	8.7	6.9	10.7
Net income/average equity	17.6	16.0	22.1	20.3	26.0
Operating expenses/operating revenues	12.1	14.5	9.2	10.3	8.0
Impairment charges/pre-impairment op. profit	1.5	7.8	3.6	2.7	2.5
Interest income/average gross receivables	15.7	15.6	18.4	17.3	25.9
Interest expense/average debt	10.4	10.5	11.9	12.2	19.9
Net interest income/average net receivables (NIM)	10.1	9.6	11.7	9.7	15.1
Risk adjusted NIM	10.0	8.9	11.3	9.5	14.8
Capitalisation and leverage metrics (%)					
Debt/tangible equity (x)	1.6	1.5	1.6	2.2	0.7
Tangible equity/tangible assets	38.4	40.2	38.1	31.1	56.5
Equity/total assets	38.5	40.3	38.2	31.2	56.6
Funding and liquidity metrics (%)					
Short-term debt/total debt	100.0	100.0	100.0	100.0	100.0

Source: Fitch Ratings, Kapital Faktoring A.S.

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