

FITCH RATES TURKEY'S EKO FAKTORING 'BBB+(TUR)'; OUTLOOK STABLE

Fitch Ratings-London-15 January 2014: Fitch Ratings has assigned Eko Faktoring A.S. (Eko) a National Long-term Rating of 'BBB+(tur)' with a Stable Outlook.

KEY RATING DRIVERS

Eko's rating reflects its position as a small, independent company in Turkey's fragmented factoring sector.

Eko provides factoring services to SMEs, which represent about 35% of its receivables book. Concentrations by customer group and sector can be high and impaired receivables (12.9% of total receivables at end-September 2013) are considerably higher than the 4.9% sector average. However, Eko's impaired receivables ratio is not directly comparable with the ratio reported by some of its peers because Eko does not write off impaired receivables. The company's provisioning policies are prudent and forward-looking. Full reserves are established once a receivable is considered doubtful, which Fitch views as positive.

Margins (around 13% at end-September 2013) are well above the sector average (6.6%) but bottom line performance indicators achieved by Eko are in line with the sector average.

Liquid assets usually represent a low proportion (less than 10%) of total assets, a characteristic of Turkey's factoring sector. Factoring companies operate with short-term balance sheets. At Eko, the average maturities of receivables range from 100 to 120 days, while funding lines extend, on average, to 120 days, and contractual maturity gaps tend to be positive. Eko is reliant on short-term bank funding, although this is reasonably diversified by lender, and bond issuance in the domestic market provides further diversification. The founding shareholders guarantee funding provided by Turkish banks but bonds are issued without shareholder enhancement.

Eko's gross factoring receivables to equity ratio, at 4.2x at end-September 2013, compares well with the 4.8x sector average. Its equity/assets ratio (25.3%) is higher than the sector average (21%) but in Fitch's opinion Eko, and other small, independent operators, would benefit from more robust capital buffers because of their size and risk profile.

Established in 1994, Eko is owned by four founding individual shareholders (each controlling 15%) and since 2007 by Bancroft Group (BG), a private equity investor, controlling 28%. The company has grown rapidly and new management, appointed in 2011, plans continued robust expansion.

RATING SENSITIVITIES

A continued successful track record of operations and further diversification of funding sources could create moderate upside for Eko's rating. However, upward rating potential is limited, given Eko's size and market position, and reliance on short-term funding.

A liquidity squeeze or significant deterioration in asset quality would be negative rating drivers. However, as long as management continues to develop its profitable business prudently, downward rating pressure should be contained. Eko's ratings are also sensitive to reputation risk related to its shareholders due to their role in facilitating funding.

Contact:

Primary Analyst
Janine Dow
Senior Director
+44 20 3530 1464
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Secondary Analyst
Banu Cartmell
Director
+ 44 203 530 1109

Committee Chairperson
James Watson
Managing Director
+7 495 956 6657

Media Relations: Hannah Huntly, London, Tel: +44 20 3530 1153, Email: hannah.huntly@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable criteria,'National Scale Ratings Criteria', dated 30 October 2013, 'Global Financial Institutions Rating Criteria Exposure Draft', dated 27 November 2013, 'Global Financial Institutions Rating Criteria', dated 15 August 2012, and 'Finance and Leasing Company Criteria', dated 12 December 2012, are available at www.fitchratings.com.

Applicable Criteria and Related Research:

National Scale Ratings Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=720082

Global Financial Institutions Rating Criteria Exposure Draft

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=714136

Global Financial Institutions Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686181

Finance and Leasing Companies Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=696720

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