Fitch Ratings

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

Fitch Ratings-London-12 January 2015: Fitch Ratings has affirmed Eko Faktoring A.S.'s (Eko) National Long-term Rating at 'BBB+(tur)' with Stable Outlook.

KEY RATING DRIVERS
Eko's rating reflects its status as a small, independent company operating in Turkey's fragmented factoring sector. Eko's share of the Turkish factoring sector is around 2%.

Eko provides factoring services mainly to small and medium-sized Turkish companies (SMEs) with annual turnover averaging around TRY10m-TRY50m (USD4m-USD22m). Increasingly, Eko is targeting the smaller end of the SME spectrum with a view to boosting margins. This is reducing sector and customer group concentrations. However, impaired receivables, at 8.5% of total receivables at end-1H14, remain higher than sector average of 4.9%. Eko has tightened risk management systems and introduced more stringent underwriting requirements and Fitch considers Eko's reserving policies as prudent and forward-looking.

Eko's overall performance is in line with the sector, achieving net returns, on assets and equity of around 4% and 17%, respectively, during the six months to June 2014. Its margins (around 14% in 1H14) are far higher than the 6% sector average, reflecting the nature of the client base and also the impact of an understatement of funding costs, with certain fees payable on bank borrowings classified as operating costs. Eko's operating costs/average assets ratio stands at around 5.5%, compared with a sector average of 4%. Growth is pre-funded at Eko but expansion in 2014 fell short of management's expectations and the company faced steeper funding costs on bank loans, which took longer to on-lend to customers.

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 maturity of receivables is around 100 days, while the average maturity of both bank borrowings (160 days) and bonds (300 days) is longer. Eko's strategy is to optimise the funding maturity mix over time in the form of short-term bank borrowings and longer-term local bond issues. Providers of bank funding are reasonably diversified and bond issuance in the domestic market provides further diversification. Around one-third of total bank funding lines are not guaranteed by founding shareholders but bonds are issued without shareholder enhancement.

Eko's gross factoring receivables to equity ratio, at 4.2x at end-June 2014, compares well with the sector average of 5.3x. Its equity/assets ratio (21.5%) is higher than the sector average (17.7%) but in Fitch's opinion Eko, and other small, independent operators, could benefit from stronger capital buffers because of their size and risk profile.

Established in 1994, Eko is owned by four founding families, each controlling 15%, some additional individuals and, since 2007, Bancroft Group (BG), a private equity investor, controlling 28.5%.

RATING SENSITIVITIES
Upward potential for the rating is limited, given Eko's small size and market share. However, a continued successful track record of operations and further diversification of funding sources could create moderate upside for Eko's rating.

A significant deterioration in asset quality, gearing or substantial liquidity squeeze may cause a rating downgrade. Eko's ratings are also sensitive to reputation risk related to its shareholders due to their role in facilitating funding

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Additional information is available on www.fitchratings.com.

Applicable criteria, Global Non-Bank Financial Institutions Rating Criteria, dated 17 December 2014 and National Scale Ratings Criteria, dated 30 October 2013, are available on www.fitchratings.com.

Applicable Criteria and Related Research:
Global Financial Institutions Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=732397
National Scale Ratings Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=720082