

# Garanti Faktoring A.S.

## Update

### Ratings

#### Foreign Currency

Long-Term IDR	BB
Short-Term IDR	B

#### Local Currency

Long-Term IDR	BB+
Short-Term IDR	B

#### National

Long-Term Rating	AAA(tur)
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#### Support Rating

Support Rating	3
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#### Sovereign Risk

Long-Term Foreign-Currency IDR	BB
Long-Term Local-Currency IDR	BB+
Country Ceiling	BB+

### Outlooks

Long-Term Foreign-Currency IDR	Negative
Long-Term Local-Currency IDR	Negative
National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Local-Currency IDR	Negative

### Financial Data

#### Garanti Faktoring A.S.

	30 Jun 18	31 Dec 17
Total assets (USDm)	612	914
Total assets (TRYm)	2,793	3,452
Total equity (TRYm)	223	213
Net income (TRYm)	10	28
ROAA (%)	0.6	0.9
ROAE (%)	8.9	13.9
Growth of gross receivables (%)	-20.9	18.5
Impaired receivables/gross receivables (%)	7.0	2.8
Debt/tangible equity (x)	11.7	15.5
Equity/total assets (%)	8.0	6.2

### Related Research

[Fitch Downgrades 24 Turkish Banks; Removes from Rating Watch Negative \(July 2018\)](#)

[Turkey Garanti Bankasi A.S. - Ratings Navigator \(June 2018\)](#)

[Turkey \(January 2018\)](#)

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### Key Rating Drivers

**Equalised with Parent:** Garanti Faktoring A.S.'s (GF) Issuer Default Ratings (IDRs) are driven by potential support from its parent, Turkiye Garanti Bankasi A.S. (Garanti; BB/Negative/bb-). Garanti's ratings are driven by support from its controlling shareholder, Banco Bilbao Vizcaya Argentaria, S.A. (A-/Stable). Fitch Ratings considers GF to be a core subsidiary of Garanti given the common branding, high integration and its role within the group. GF's management is drawn from Garanti and risk systems are aligned. GF's Negative Outlook mirrors Garanti's.

**Moderate Cost of Support:** Supporting GF, if needed, would be a moderate burden for Garanti. GF's total assets amounted to 0.7% of Garanti group assets at end-1H18, or about 6% of equity. If Garanti failed to provide support, this could affect its own access to foreign capital.

**Strong Synergies:** GF benefits from its parent's wide and established client base. About 90% of GF's sales originate via Garanti's branches. Cross-border factoring transactions denominated in foreign currencies comprised 23% of factoring receivables at end-1H18, of which 73% were related to major exporters.

**Risk-Averse Deleveraging:** GF implemented a conservative growth strategy with a willingness to sacrifice its market share (moved down to third from being the largest in terms of receivables). The receivables book shrunk by 21% in 1H18 after 19% growth in 2017. Fitch expects that growth will remain stagnant in 2H18-2019 given the volatile macro environment.

**Pressured Asset Quality:** IFRS 9 implementation and deleveraging resulted in a sharp increase in GF's impaired receivables (overdue by 90+ days) ratio to 7% at end-1H18 from 2.8% at the beginning of the year. The short-term nature of GF's balance sheet (96% of assets mature in up to three months), low direct sensitivity to currency fluctuations and large corporate customer base largely mitigate significant asset-quality losses.

**Improving Leverage:** GF's leverage (debt/tangible equity ratio) has moderated to 12x in 1H18 from 21x at end-2014, reflecting slow growth and full profit retention. The equity/assets ratio improved to 8% at end-1H18, still weak, but bank-owned subsidiaries typically operate with high leverage as support from parent banks, in case of need, is likely.

**Wholesale Funded:** Bank borrowings made up 81% of non-equity funding at end-1H18, and are mostly (74%) denominated in Turkish lira. Local short-term bonds made up the remaining 19%. The maturities of assets and liabilities are reasonably matched, and Fitch considers refinancing risk to be limited. GF does not rely on group funding, but would look to Garanti as the lender of last resort.

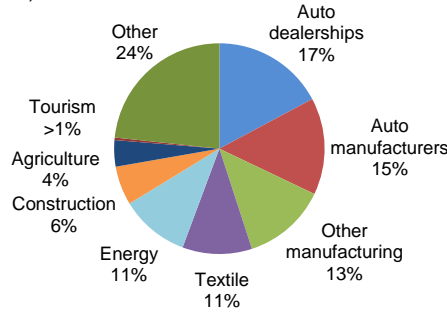
**Sound Profitability:** GF benefits from low overheads due to reliance on the parent's strong distribution channels resulting in a cost/income ratio consistently below 20%. Interest margin, adjusted for foreign-exchange swaps, was strong at 4% in 1H18, but higher IFRS 9 provisions consumed 66% of pre-impairment profit causing return on average assets to decline to 0.6% (2017: 0.9%).

### Rating Sensitivities

**Institutional Support:** GF's IDRs are equalised with those of its parent, so both upside and downside rating potential depend on movements in Garanti's IDRs. GF's IDRs could be downgraded if a change of Garanti's strategy reduced GF's importance, although this is not Fitch's base case.

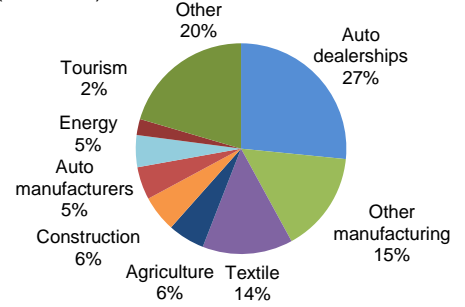
- GF is 81.8% owned by Garanti, the third-largest bank in Turkey, which had total assets of about TRY385bn at end-1H18. Türkiye İhracat Kredi Bankası A.S. (Turk Eximbank; BB-/Negative) owns 9.8% and 8.4% is publicly listed.

### Transaction Volume by Sector (2017)



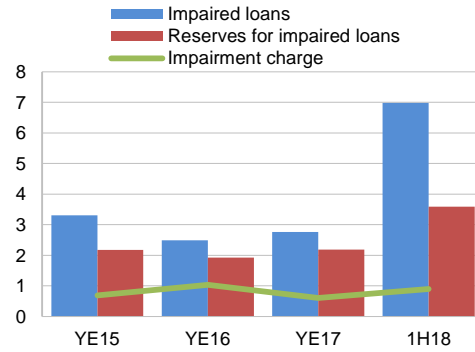
Source: Company data, Fitch

### Factoring Receivables by Sector (End-2017)



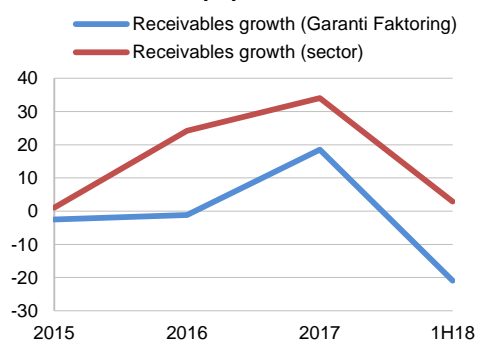
Source: Company data, Fitch

### Credit Quality (% of Gross Loans)



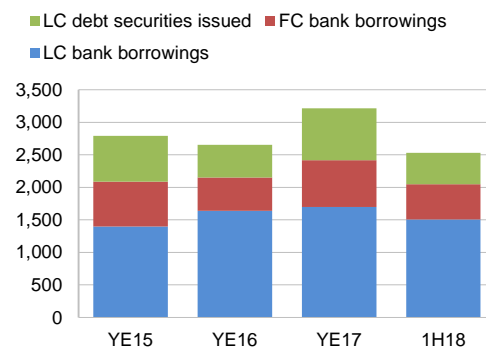
Source: Company data, Fitch

### Credit Growth (%)



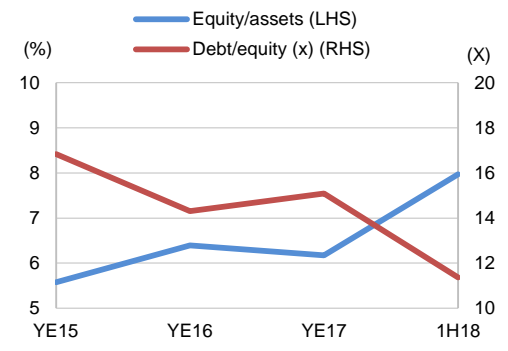
Source: Company data, Fitch

### Non-Equity Funding (TRYm)



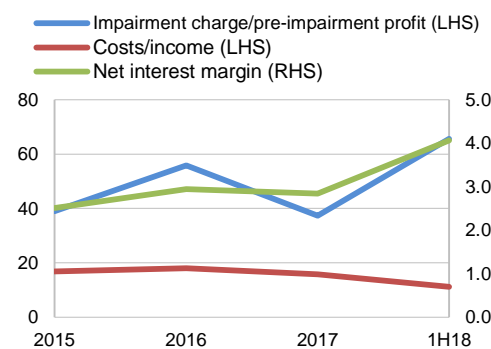
Source: Company data, Fitch

### Capitalisation & Leverage



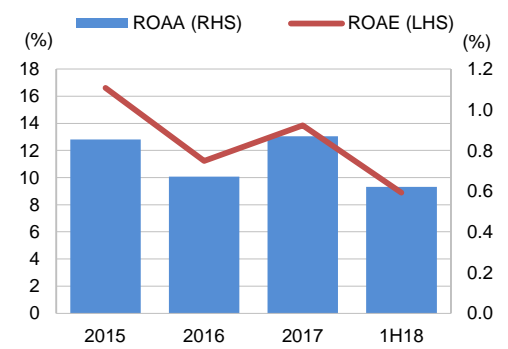
Source: Company data, Fitch

### Margins & Cost Efficiency (%)



Source: Company data, Fitch

### Key Profitability Metrics



Source: Company data, Fitch

### Related Criteria

Non-Bank Financial Institutions Rating Criteria (June 2018)

**Balance Sheet**

**BRSA accounting standards**

**(TRY 000)**

	<b>End-2015</b>	<b>End-2016</b>	<b>End-2017</b>	<b>End-1H18</b>
<b>Assets</b>				
Cash and cash equivalents	40,419	9,603	19,197	57,033
Finance receivables	0	0	0	0
Factoring receivables	2,850,203	2,834,789	3,359,984	2,578,479
Other (problem) receivables	97,431	72,388	95,335	193,724
Total receivables	2,947,634	2,907,177	3,455,319	2,772,203
Allowance for losses on receivables and other	-64,026	-55,953	-75,553	-99,517
<b>Total net receivables</b>	<b>2,883,608</b>	<b>2,851,224</b>	<b>3,379,766</b>	<b>2,672,686</b>
Net property, plant, and equipment	1,354	2,309	1,939	2,102
Other intangibles	3,751	5,219	5,491	6,607
Deferred tax asset	14,365	22,135	15,585	39,777
Derivative financial instruments	11,869	394	19,327	485
Prepaid expenses	3,210	3,310	3,705	3,116
Other assets	11,945	5,258	6,871	11,391
<b>Total assets</b>	<b>2,970,521</b>	<b>2,899,452</b>	<b>3,451,881</b>	<b>2,793,197</b>
<b>Total assets in (USDm)</b>	<b>1,280</b>	<b>816</b>	<b>914</b>	<b>612</b>
<b>Liabilities</b>				
Credit facilities (bank borrowings)	2,087,102	2,149,447	2,418,755	2,047,564
Total secured debt	2,087,102	2,149,447	2,418,755	2,047,564
Other short-term debt (local bonds)	702,552	503,619	795,583	482,171
Other long-term debt (local bonds)	0	0	0	0
Total unsecured debt	702,552	503,619	795,583	482,171
<b>Total debt</b>	<b>2,789,654</b>	<b>2,653,066</b>	<b>3,214,338</b>	<b>2,529,735</b>
Derivative financial instruments	1,304	31,051	2,018	10,538
Deferred tax liabilities	0	0	0	0
Income taxes payable	0	6,947	0	3,787
Reserves for pensions and other	3,908	5,176	5,833	6,558
Other liabilities	9,893	17,759	16,706	19,900
<b>Total liabilities</b>	<b>2,804,759</b>	<b>2,713,999</b>	<b>3,238,895</b>	<b>2,570,518</b>
<b>Equity</b>				
Paid-in capital	79,500	79,500	79,500	79,500
Retained earnings	86,262	105,953	133,486	143,179
<b>Total equity</b>	<b>165,762</b>	<b>185,453</b>	<b>212,986</b>	<b>222,679</b>
<b>Total equity in (USDm)</b>	<b>71</b>	<b>52</b>	<b>56</b>	<b>49</b>
<b>Total liabilities and equity</b>	<b>2,970,521</b>	<b>2,899,452</b>	<b>3,451,881</b>	<b>2,793,197</b>

Source: Financial statements, Fitch

## Income Statement

BRSA accounting standards

(TRY 000)	2015	2016	2017	1H18
<b>Revenue</b>				
Interest income	219,605	224,955	265,181	198,398
Other income & investment income	2,755	1,533	1,692	1,029
Net fees and commissions	16,061	10,404	8,651	-2,531
<b>Total revenue</b>	<b>238,421</b>	<b>236,892</b>	<b>275,524</b>	<b>196,896</b>
<b>Expenses</b>				
Interest expense	217,288	199,781	237,779	164,928
Provision (recoveries) for credit losses	20,288	30,056	20,801	24,889
Loss (gain) on derivative instruments & FX	-71,114	-59,285	-61,198	-28,019
SG&A (operating) expenses	40,135	42,532	43,286	22,066
<b>Total expenses</b>	<b>206,597</b>	<b>213,084</b>	<b>240,668</b>	<b>183,864</b>
Income before tax	31,824	23,808	34,856	13,032
Income tax	6,394	4,092	7,253	3,339
Income after tax	25,430	19,716	27,603	9,693
<b>Net income</b>	<b>25,430</b>	<b>19,716</b>	<b>27,603</b>	<b>9,693</b>

Source: Financial statements, Fitch

## Key Ratios

(%)	2015	2016	2017	1H18
<b>Earnings and profitability</b>				
Cost/income	16.8	18.0	15.7	11.2
Net interest margin adjusted for FX swaps	2.5	2.9	2.8	4.1
Return on average assets	0.9	0.7	0.9	0.6
Return on average equity	16.6	11.2	13.9	8.9
Cost of funding	7.7	7.3	8.1	11.5
Receivables yield	7.5	7.8	8.5	13.1
Pre-impairment op. profit/avg. equity	34.0	30.7	27.9	17.4
Loan impairment charges/pre-impairment op. profit	38.9	55.8	37.4	65.6
<b>Receivables quality</b>				
Impaired receivables ratio	3.3	2.5	2.8	7.0
Impaired receivables coverage	65.7	77.3	79.3	51.4
Net impaired receivables/equity	20.2	8.9	9.3	42.3
Receivables growth	-2.5	-1.1	18.5	-20.9
Receivables/assets	97.1	98.3	97.9	95.7
<b>Capitalisation and leverage</b>				
Debt/equity (x)	16.8	14.3	15.1	11.4
Debt/tangible equity	17.2	14.7	15.5	11.7
Equity/assets	5.6	6.4	6.2	8.0

Source: Financial statements, Fitch

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