

Garanti Faktoring A.S.

Update

Ratings

Foreign Currency

Long-Term IDR	BBB
Short-Term IDR	F2

Local Currency

Long-Term IDR	BBB
Short-Term IDR	F2

National

Long-Term Rating	AAA(tur)
Support Rating	2

Sovereign Risk

Foreign-Currency Long-Term IDR	BBB-
Local-Currency Long-Term IDR	BBB-

Outlooks

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

Financial Data

Garanti Faktoring A.S.

	30 Jun 16	31 Dec 15
Total assets (USDm)	989.4	1,020.7
Total assets (TRYm)	2,865.4	2,970.5
Total equity (TRYm)	179.5	165.8
Operating profit (TRYm)	19.3	31.8
Published net income (TRYm)	13.7	25.4
ROAA (%)	0.46	0.85
ROAE (%)	15.91	16.61
Equity/assets (%)	6.26	5.58
Debt/equity (x)	14.88	16.83

Related Research

[Fitch Revises 18 Turkish Banks' Outlooks to Negative on Sovereign Change \(August 2016\)](#)

[Fitch Affirms 4 Large Privately-Owned Turkish Banks \(June 2016\)](#)

[Turkiye Garanti Bankasi A.S. – Ratings Navigator \(July 2016\)](#)

[Turkey \(October 2016\)](#)

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Key Rating Drivers

Core Garanti Subsidiary: The ratings of Garanti Faktoring A.S. (GF) are equalised with those of its 82% parent, Turkiye Garanti Bankasi A.S. (Garanti; BBB/Negative/bbb-). Fitch Ratings considers GF to be a core subsidiary of Garanti, as reflected in its key role within the group, high integration and shared branding. Most GF board members are drawn from Garanti's senior executives and risk systems are aligned. The Negative Outlook mirrors that on Garanti.

Moderate Cost of Support: Supporting GF, in the case of need, would represent a moderate burden for Garanti, even allowing for the considerable growth potential. GF's total assets amounted to 1% of Garanti group assets at end-1H16, or about 9% of equity. Failure by Garanti to provide support could affect its own access to, and the cost of, foreign capital.

Largest Turkish Factoring Company: GF was the largest factoring company in Turkey at end-1H16 and controlled about 10% of sector assets and receivables. The receivables book was flat in 2015-1H16 after seeing rapid growth in 2014 (48%). GF targets receivables growth of 25% in 2017, primarily in export activity.

Corporate Customer Focus: GF's customer portfolio is dominated by larger Turkish corporates, while its share of SMEs (companies with up to TRY40m annual turnover) was a moderate 18% at end-1H16. The company benefits from its parent's client base, and 90% of GF's 1H16 sales were originated via Garanti's branches. Cross-border factoring transactions accounted for 16% of factoring receivables at end-1H16.

Reasonable Asset Quality: GF's impaired receivables (overdue by 90 days) ratio of 3.6% was below the sector average of 5.7% at end-1H16, although this has risen from 1.9% at end-2014 driven by large defaults reflecting GF's bulky customer exposures. Riskier non-recourse factoring receivables accounted for 51% of the total book at end-1H16. However, GF's low-risk corporate customer base underpins asset quality, in Fitch's opinion.

High Leverage: GF operates with high leverage – the debt/equity ratio was 15x at end-1H16. This is common for bank-owned subsidiaries as support from parent banks is likely. However, leverage has moderated from 20x at end-2014, reflecting slow growth and full profit retention. The equity/assets ratio was a low 6.3% at end-2015, but above the 3% regulatory minimum.

Wholesale Funded: Bank borrowings made up 82% of non-equity funding at end-1H16 (2015: 75%) and are mostly denominated in Turkish lira. Local debt issuance (short-term bonds) made up the remaining 18%. 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. The company plans to increase bond issuances in 2017 to about 40% of total funding.

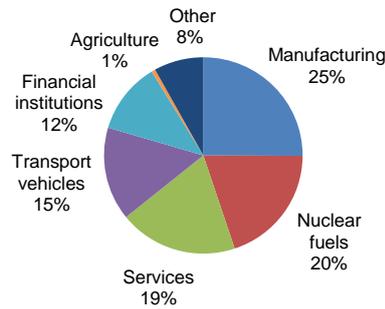
Decent Profitability: GF posted a high 16% return on equity in 1H16 due to business scale, reasonable asset quality and high leverage. However, interest margins remain low at 0.8% in 1H16, although this has increased from 0.1% in 2015.

Rating Sensitivities

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

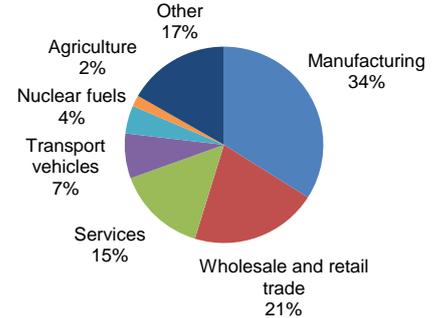
- GF is 81.8% owned by Garanti, the third-largest bank in Turkey, which had total assets of about TRY295bn at end-3Q16. Türkiye İhracat Kredi Bankası A.S. (Turk Eximbank; BBB-/Negative) owns 9.8%, and 8.4% is publicly listed.

Transaction Volume by Sector (End-2015)



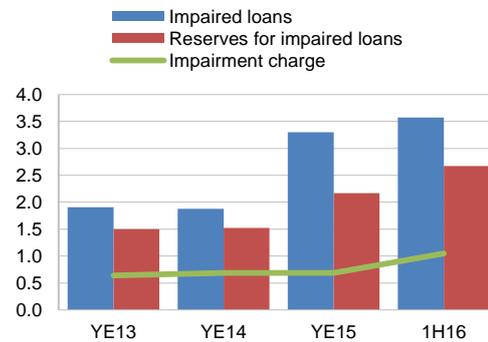
Source: Company data, Fitch

Factoring Receivables by Sector (End-2015)



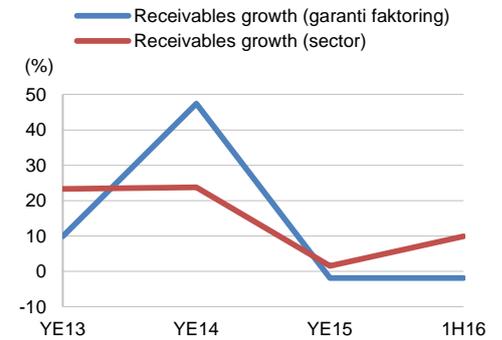
Source: Company data, Fitch

Credit Quality (% of Gross Loans)



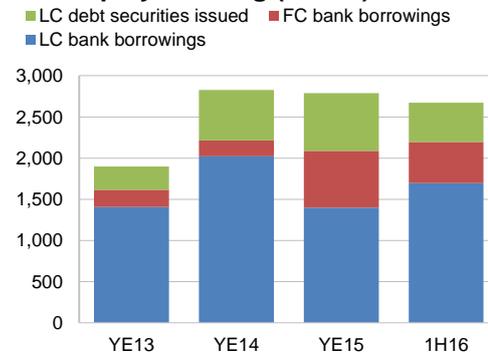
Source: Company data, Fitch

Credit Growth



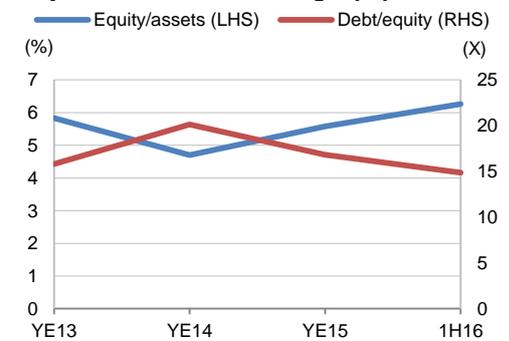
Source: Company data, Fitch

Non-Equity Funding (TRYm)



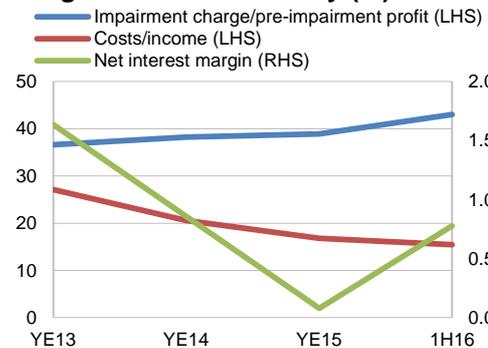
Source: Company data, Fitch

Capitalisation & Leverage (%)



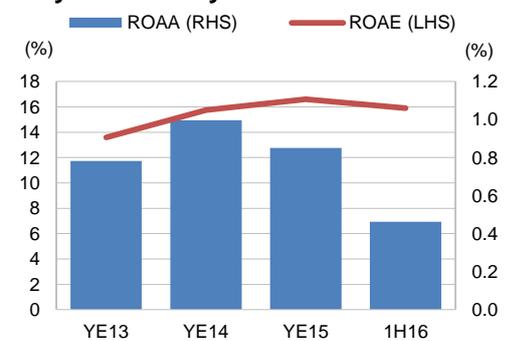
Source: Company data, Fitch

Margins & Cost Efficiency (%)



Source: Company data, Fitch

Key Profitability Metrics



Source: Company data, Fitch

Related Criteria

Global Non-Bank Financial Institutions Rating Criteria (July 2016)

Balance Sheet

(TRY 000)	End-2013	End-2014	End-2015	End-1H16
Assets				
Cash and cash equivalents	45,171	4,815	40,419	6,488
Finance receivables	0	0	0	0
Factoring receivables	1,986,549	2,948,107	2,850,203	2,790,136
Other (problem) receivables	38,870	56,475	97,431	103,262
Total receivables	2,025,419	3,004,582	2,947,634	2,893,398
Allowance for losses on receivables and other	-30,629	-45,635	-64,026	-77,342
Total net receivables	1,994,790	2,958,947	2,883,608	2,816,056
Net property, plant, and equipment	688	680	1,354	1,462
Other intangibles	2,414	3,351	3,751	4,098
Deferred tax asset	13,899	13,637	14,365	12,413
Derivative financial instruments	366	4,814	11,869	14,363
Prepaid expenses	939	1,218	3,210	2,736
Other assets	1,386	2,111	11,945	7,782
Total assets	2,059,653	2,989,573	2,970,521	2,865,398
Total assets (USDm)	1,156	1,399	1,280	989
Liabilities				
Credit facilities (bank borrowings)	1,614,237	2,216,466	2,087,102	2,194,532
Total secured debt	1,614,237	2,216,466	2,087,102	2,194,532
Other short-term debt (local bonds)	284,854	611,843	702,552	476,487
Other long-term debt (local bonds)	0	0	0	0
Total unsecured debt	284,854	611,843	702,552	476,487
Total debt	1,899,091	2,828,309	2,789,654	2,671,019
Derivative financial instruments	24,593	10,249	1,304	512
Deferred income taxes	0	0	0	0
Income taxes payable	4,335	0	0	0
Reserves for pensions and other	2,860	3,732	3,908	4,580
Other liabilities	8,708	6,900	9,893	9,792
Total liabilities	1,939,587	2,849,190	2,804,759	2,685,903
Equity				
Paid-in capital	79,500	79,500	79,500	79,500
Retained earnings	40,566	60,883	86,262	99,995
Total equity	120,066	140,383	165,762	179,495
Total equity (USDm)	67	66	71	62
Total liabilities and equity	2,059,653	2,989,573	2,970,521	2,865,398
	USD1 =	USD1 =	USD1 =	USD1 =
	TRY1.78190	TRY2.13620	TRY2.32100	TRY2.89620

Source: Fitch

Income Statement

(TRY 000)	2013	2014	2015	1H16
Revenue				
Interest income	116,644	171,583	219,605	118,545
Other income & investment income	487	1,333	2,755	3,941
Net fees and commissions	21,994	15,187	16,061	5,450
Total revenue	139,125	188,103	238,421	127,936
Expenses				
Interest expense	85,392	150,340	217,288	107,466
Provision (recoveries) for credit losses	11,062	15,860	20,288	14,555
Loss (gain) on derivative instruments & FX	-14,212	-42,481	-71,114	-33,142
SG&A (operating) expenses	37,720	38,770	40,135	19,802
Total expenses	119,962	162,489	206,597	108,681
Income				
Income before tax	19,163	25,614	31,824	19,255
Income tax	3,861	5,098	6,394	5,522
Income after tax	15,302	20,516	25,430	13,733
Net income	15,302	20,516	25,430	13,733

Source: Fitch

Key Ratios

(%)	2013	2014	2015	1H16
Earnings and profitability				
Cost/income	27.1	20.6	16.8	15.5
Net interest margin	1.6	0.9	0.1	0.8
Return on average assets	0.8	1.0	0.9	0.5
Return on average equity	13.6	15.8	16.6	15.9
Cost of funding	4.5	5.3	7.8	8.0
Receivables yield	6.1	6.9	7.5	8.3
Pre-impairment op. profit/avg. equity	26.9	31.8	34.0	39.2
Loan impairment charges/pre-impairment op. profit	36.6	38.2	38.9	43.0
Receivables quality				
Impaired receivables ratio	1.9	1.9	3.3	3.6
Impaired receivables coverage	78.8	80.8	65.7	74.9
Net impaired receivables/equity	6.9	7.7	20.2	14.4
Receivables growth	8.7	48.3	-2.5	-2.3
Receivables/assets	96.9	99.0	97.1	98.3
Capitalisation and leverage				
Debt/equity (x)	15.8	20.1	16.8	14.9
Debt/tangible equity	16.1	20.6	17.2	15.2
Equity/assets	5.8	4.7	5.6	6.3

Source: Fitch

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