MOODY'S
INVESTORS SERVICE

CREDIT OPINION
2 November 2017

Update

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Ekspo Faktoring A.S.

Update to credit analysis

Summary

Ekspo Faktoring A.S.'s (Ekspo) local-and foreign-currency issuer ratings and corporate family rating (CFR) of B2, with a stable outlook, are driven by low problem loans, strong profitability, sound capital and adequate liquidity. The ratings are constrained by Ekspo's monoline business model and the challenging operating environment in Turkey.

The B2 issuer ratings do not incorporate any probability of affiliate or government support and are aligned with Ekspo's standalone credit profile.

Credit Strengths

» Low problem loans, although with significant borrower concentration

» Sound capitalisation

» Strong profitability

» Adequate liquidity

Credit Challenges

» Potential risks from the operating environment in Turkey

» Monoline business model

Rating Outlook

The outlook on all ratings is stable. The stable outlook already incorporates our expectation of gradual improvements in profitability and liquidity as well as the challenges faced by the issuer in expanding its business in Turkey's challenging and volatile operating environment.

Factors that Could Lead to an Upgrade

» Lower financial leverage

» Significant business diversification

» Decreasing borrower concentration

Factors that Could Lead to a Downgrade

» Asset quality and profitability deteriorate

» Capitalisation declines

Profile

At June 2017 Ekspo's total balance sheet size was at TL322 million (USD91 million) with total factoring receivables at TL311 million (USD88 million). Ekspo has established a stable market presence, with a modest market share (in total assets) of around 1% of the factoring market in Turkey. Most of the larger competitors in the industry tend to be subsidiaries of Turkish commercial banks, whereby the largest market share of a firm is approximately at 10% of total assets.

Ekspo is a finance company without a banking license, however its factoring activities are more comparable to banks than to finance companies. As a result, rating considerations are more bank-like rather than considering pure finance companies' ratios such as Debt/EBITDA or interest cover.

Detailed credit considerations

Monoline Business Model

Ekspo's rating is constrained by its monoline factoring business model, with a strict focus on corporate and commercial customer base, as opposed to a more diversified banking business.

The company's core customer base is composed of mid to large size Turkish companies with existing bank facilities to which it extends short-term finance secured by post-dated cheques and assignments. Ekspo diversifies its product range by offering guarantee schemes for Turkish importers of products mainly from Korea, USA, UK, Canada and China. This diversification was achieved through collaboration with international institutions. In 2013, the Black Sea Trade and Development Bank entered its first business partnership in the factoring sector by providing a revolving trade finance facility to Ekspo and increased its exposure in 2015. Recently Export Credit Bank of Turkey (Ba1, negative) mandated a few factoring companies including Ekspo as intermediary to lend to exporters.

As per the regulation by the Banking Regulation and Supervision Agency (BRSA), factoring companies needed to have paid in capital of at least TL20 million by the end of 2015, up from TL5 million previously. Some small players left the market, and we expect consolidation in the market to affect Ekspo positively.

The main drivers of the structure of the Turkish factoring industry are market liquidity, the strategies of bank-affiliated competitors and the macroeconomic environment in the country.

Potential risks from the operating environment in Turkey

We acknowledge that the factoring industry's asset quality and profitability are currently improving, owing to the liquidity injected by Turkey's Credit Guarantee Fund into the small and medium-sized enterprises that are the clients of factoring companies.

Nevertheless, despite the liquidity injection and the current growth in the Turkish economy, there are potential downside risks in the operating environment in Turkey. These risks include (1) a combination of political, security and geopolitical tensions; (2) a volatile Turkish lira; (3) high inflation; (4) fragile investor confidence; and (5) rising global interest rates.

Low Problem Loans, although with significant Borrower Concentration

Ekspo's asset quality is good, with a non-performing loans to gross loans ratio (NPL ratio) unchanged at 1.3% as of June 2017 from end 2016 (1.5% at year-end 2015). This NPL ratio compares well with the 4.4% average for the factoring sector in Turkey at June 2017.

Ekspo maintains a relatively large single-name credit concentration when measuring the top 20 exposures to its equity, although this risk is somewhat mitigated by the short maturity (average of about three months) of Ekspo's loan portfolio.

Sound Capitalisation

We believe that Ekspo's capital position provides good loss-absorption capacity. We note that Ekspo's shareholders' equity-to-total assets ratio was at 37% at June 2017 from 33% at end 2016, double the system average of 15.3% (including bank-affiliated factoring companies, which need less capital because of access to a bank parent). At June 2017 Ekspo's net balance-sheet FX position was manageable at 1.8% of its capital.

Strong Profitability

Ekspo's profitability is strong and improving. Net income was TRY10 million at June 2017, or 6.3% of net income-to-average assets, compared with 4.2% at June 2016. The company's pre-provision income over average assets also increased, reaching 8% at June 2017 from 6.1% at June 2016. Despite the competitive factoring sector in Turkey, Ekspo's profitability has been improving, supported by its innovative and diversified product offerings and disciplined cost management.

Ekspo's cost-to-income ratio was 32% at June 2017, unchanged from June 2016, with operating expenses growing broadly in line with revenues.

Adequate Liquidity

We note Ekspo's risks associated with the high dependence on short-term wholesale funding. However, these risks are partly mitigated by the company's ability to reduce significantly maturity gaps between liabilities and assets (on a monthly basis).

Additionally, the amount of credit lines provided to Ekspo is fairly ample and also includes international export-import agencies. Ekspo has been gradually diversifying its funding counterparties, with the three largest counterparties accounting for 32% of total bank lines in use at end 2016.

As a non-bank financial institution, Ekspo does not have access to the Central Bank of Turkey's liquidity, another factor constraining its ratings.

Notching Considerations

National Scale Rating

The Ba1.tr National Scale Rating (NSR) is derived directly from the B2 local currency issuer rating. The B2 issuer rating reflects the company's overall default risk, whereas the NSRs rank Turkish issuers relative to each other and not relative to overall default risks. National scale ratings isolate systemic risks: they do not address loss expectations associated with systemic events that could affect all issuers, even those that receive the highest ratings on the national scale.

Corporate Family Rating

Ekspo's CFR is B2. The CFRs incorporate the affected finance companies' standalone credit profiles, as well as any parental or affiliate support. The CFRs represent our opinion of the companies' consolidated credit risk, equivalent to the weighted average of all debt classes within the companies' capital structure.

Ratings

Exhibit 1

Category	Moody's Rating
EKSPO FAKTORING A.S.	
Outlook	Stable
Corporate Family Rating	B2
Issuer Rating	B2
NSR Issuer Rating	Ba1.tr

Source: Moody's Investors Service

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