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CREDIT OPINION
2 May 2017

Update

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Ekspo Faktoring A.S.

Periodic Update

Summary Rating Rationale

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

» Challenging 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 aand 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

Detailed Rating Considerations

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

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.

At end 2016 Ekspo's total balance sheet size was at TL342 million (USD97 million) with total factoring receivables at TL332 million (USD94 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. 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.

CHALLENGING OPERATING ENVIRONMENT IN TURKEY

A number of negative factors coincide to make the operating environment challenging for financial institutions in Turkey. Political, security and geopolitical tensions will weaken investor confidence thus increasing volatility of foreign currency (FX) wholesale funding, particularly in the context of rising global interest rates. Low economic growth and high inflation will also increase problem loans, while increasing loan loss provisions and reduced lending volumes will dampen profitability. If the currency depreciates further, problem loans will increase and capitalisation reduce, given the dollarisation of financial institution's balance sheets.

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) of1.3% at end 2016, compared to 1.5% at year-end 2015. This NPL ratio compares well with the 4.8% average for the factoring sector in Turkey at end 2016.

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 equity-to-total assets ratio was at 33% at end 2016, double the system average of 16.4% (including bank-affiliated factoring companies, which need less capital because of access to a bank parent). At end 2016 Ekspo's net balance-sheet FX position was manageable at 2.1% of its capital.

STRONG PROFITABILITY

Ekspo's profitability is strong and improving. Net income was TRY17 million at end-2016, or 5.4% of net income-to-average assets, compared with 3.6% at end-2015. The company's pre-provision income over average assets also increased, reaching 7.3% at end 2016 from 5.4% at year-end 2015. 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 33% at end-2016, compared with 40% at year-end 2015, with operating expenses growing less than 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

The CFRs incorporate the affected finance companies' standalone credit profiles, as well as any parental or affiliate support. In contrast to issuer ratings, which represent our opinion of credit risk equivalent to the companies' senior-unsecured debt obligations, the CFRs represent the rating agency's opinion of the companies' consolidated credit risk, equivalent to the weighted average of all debt classes within the companies' capital structure. Ekspo's debt structure consists of senior-unsecured obligations, hence the similar seniority between the credit risk indicated by its issuer rating and by its CFR.

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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