RATING ACTION COMMENTARY

Fitch Upgrades Tam Finans Faktoring's Long-Term IDRs to 'B'; Outlook Stable

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Fitch Ratings - Frankfurt am Main - 30 Apr 2024: Fitch Ratings has upgraded Tam Finans Faktoring A.S.'s (Tam Finans) Long-Term Foreign-Currency (LTFC) and Local-Currency (LTLC) Issuer Default Ratings (IDRs) to 'B' from 'B-'. The Outlooks on the IDR's are Stable. At the same time, Fitch has revised Tam Finans's National Rating to 'BBB+(tur)' from 'A-(tur)'. A full list of rating actions is detailed below.

The upgrade of the IDRs reflects material improvements in Turkiye's operating environment (as reflected in the Sovereign Rating upgrade on 8 March 2024), coupled with Tam Finans's resilient financial performance. The revision of Tam Finans's National Rating reflects the impact of Fitch's recent recalibration of its National Rating mapping.

KEY RATING DRIVERS

Intrinsic Profile Drives Ratings: Tam Finans's ratings are driven by its intrinsic credit profile, reflecting the company's small franchise and a business model that is focused on higher-risk small businesses operating in an improving but still-challenging operating environment, as well as its high leverage. The ratings also reflect its consistently strong profitability, limited credit losses despite the inherently high-risk business model, granular portfolio, low market risk, a liquid balance sheet and diversified, albeit largely secured, funding sources.

High Leverage a Rating Constraint: Tam Finans's gross debt/tangible equity ratio (end-2023: 9.5x) is considerably higher than the sector average (5.0x) and reflects its high tolerance for leverage, but also limited availability of capital sources. Capital is tightly managed as its shareholder (a private equity firm) is focused on optimising Tam Finans's return on equity (ROE).

Tam Finans's total equity has grown by close to 3.8x in absolute terms since end-2021, with the help of strong profitability and full profit retention; however, the high leverage weakens its buffer against potential losses in Turkiye's improved but still volatile

Limited Market Risk, Funding Constraints: Tam Finans's highly liquid balance sheet supports its funding and liquidity position. About 90% of the assets are short-term factoring receivables with an average maturity of around 92 days. Exposure to market risk is low given Tam Finans's predominantly lira-denominated balance sheet and low sensitivity to interest-rate risk, as both assets and liabilities are short-dated and broadly matched in maturities. However, funding is a constraint as it is predominately secured by receivables, and mostly attracted from local banks.

Stable and Sound Profitability: Tam Finans's pre-tax income/average assets ratio averaged 6.4% in 2020-2023, in line with the sector average (6.4%). It was able to widen its interest margin (adjusted by net fee income) in 2023. Its average cost/income ratio in 2020-2023 was 52%, considerably higher than the sector average of 30%.

Its business model is labour-intensive due to small-ticket sizes, which highlights the importance of gaining further scale. Its solid ROE of around 63% should be viewed in light of its high leverage and high inflation in Turkiye. Profitability is strong, but we expect it to moderate in 2024, particularly in the second half, due to a gradual rise in impairment charges and lower margins.

Adequately Managed Credit Risk: Tam Finans's impaired receivables/gross receivables ratio was low at 1.5% at end-2023. Impaired assets were 1.3x covered by loss provisions. Impairment charges at 2.3% of average receivables in 2023 were in line with the 2020-2023 average of 2.2%, and still comfortably within its wide operating margins. Impairment charges amounted to a modest 20% of 2023 pre-impairment profit. We believe that its asset quality is adequately managed for its high-risk business model, but we expect rising non-performing loans in 2024 from higher interest rates and anticipated economic slowdown.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A deterioration in the domestic operating environment affecting asset quality and earnings, would lead to a further lower tolerance for leverage and, consequently, a downgrade.

A material and sustained increase in gross debt/tangible equity to above 10x, combined with a weakened operating environment, could lead to downgrade of the Long-Term

Deterioration of the above factors relative to domestic peers' could lead to a downgrade of the National Rating. Also, Fitch's recalibration of its National Rating mapping, after a sovereign rating action, may result in a downward revision of its National Ratings.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Continued improvements in Turkiye's operating environment, coupled with Tam Finans's resilient performance and further improvements in the business profile might lead to a rating upgrade, although Fitch views this unlikely in the medium term given Tam Finans's small size in the Turkish financial system as well as its still high leverage. A significantly improved creditworthiness relative to domestic peers', could also result in an upgrade of the National Rating.

Fitch's recalibration of its National Rating mapping, after a sovereign rating action, may result in an upward revision of its National Ratings.

ADJUSTMENTS

The 'b' sector risk operating environment score is below the 'bb' category implied score due to the following adjustment reason(s): sovereign rating (negative), macroeconomic stability (negative).

The 'b' funding, liquidity & coverage score is above the 'ccc' category implied score due to the following adjustment reason: business model/funding market convention (positive).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating

ENTITY / DEBT	RATING			PRIOR
Tam Finans Faktoring A.S.	LT IDR	B Rating Outlook Stable	Upgrade	B- Rating Outlook Stable
	ST IDR	B	Affirmed	B
	LC LT IDR	B Rating Outlook Stable	Upgrade	B- Rating Outlook Stable
	LC ST IDR	B	Affirmed	B
	Natl LT	BBB+(tur) Rating Outlook Stable	Revision Rating	A-(tur) Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Non-Bank Financial Institutions Rating Criteria (pub. 18 Jan 2024) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Tam Finans Faktoring A.S.	EU Issued, UK Endorsed

https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

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