Tam Faktoring A.S.

Ratings

Foreign Currency	
Long-Term IDR	B
Short-Term IDR	B
Local Currency	
Long-Term IDR	B
Short-Term IDR	B
National	
National Long-Term Rating	BBB(tur)
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	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

National Scale Ratings Criteria (June 2020)

Non-Bank Financial Institutions Rating Criteria (February 2020) (including rating assumption sensitivity)

Related Research

Fitch Publishes Tam Faktoring's Rating at 'B'; Outlook Negative (June 2020)

Lower Interest Rates Should Soften Impact on Turkey's Factoring from Coronavirus (June 2020)

Turkish Factoring Sector Dashboard: 1Q20 (June 2020)

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Key Rating Drivers

Small Independent Factoring Company: Tam Faktoring A.S.'s ratings reflect its small franchise and focus on higher-risk small businesses. The ratings also reflect the record of low credit losses for the business model, liquid balance sheet, low market risk and a largely secured funding profile that is underpinned by the availability of medium-term committed credit lines.

The Negative Outlook on Tam Faktoring's ratings captures the impact of a challenging operating environment, which will be prolonged by the fallout from the coronavirus pandemic depressing new business volume that will adversely affect the company's profitability and asset quality.

IT-Based Tools: Tam Factoring has shown its ability to turn into a profitable business within four years after its first year of operation in 2012. This was supported by the development of a bespoke IT-based scorecard and monitoring tools automatically collecting and analysing large amounts of data on borrowers and originators of receivables.

Focus on High-Risk Segments: Higher-risk underbanked borrowers with short credit histories and small scales expose Tam Factoring to high credit risks. The business model assumes high operating costs due to small ticket sizes and the labour-intensive nature of sales highlighting the importance of scale in the business.

Adequate Record of Credit Losses: Tam Factoring has shown adequate credit losses relative to the sector average. Receivables that are 90+ days overdue have averaged about 4% of the portfolio since end-2016. This is underpinned by the absence of foreign-currency business and low concentrations with regards both to customers and originators of receivables.

Above-Sector Growth: Growth has exceeded the sector average, but the short-term nature of factoring receivables implies that the high growth has not to date translated to high credit losses.

Healthy Margins: The net interest margin has averaged a solid 12.2% during the past five years compared with 6.9% for the sector. Commission income (about 27% of total income in 2019) has grown to become a significant contributor to Tam Factoring's profitability. Bottom-line profitability was sound in 2019 with pre-tax return on average assets at 4.9%. The likely shrinkage of the portfolio will weaken profitability, but we expect the company to remain profitable in 2020 despite rising impairment charges and intensifying competition.

High Leverage: Debt/tangible equity was 7.2x at end-2019 – considerably above the sector average of 3.4x. We believe that increasing risks driven by the pandemic are partly balanced by low market risk, full profit retention and the ability to de-lever from lower business volumes.

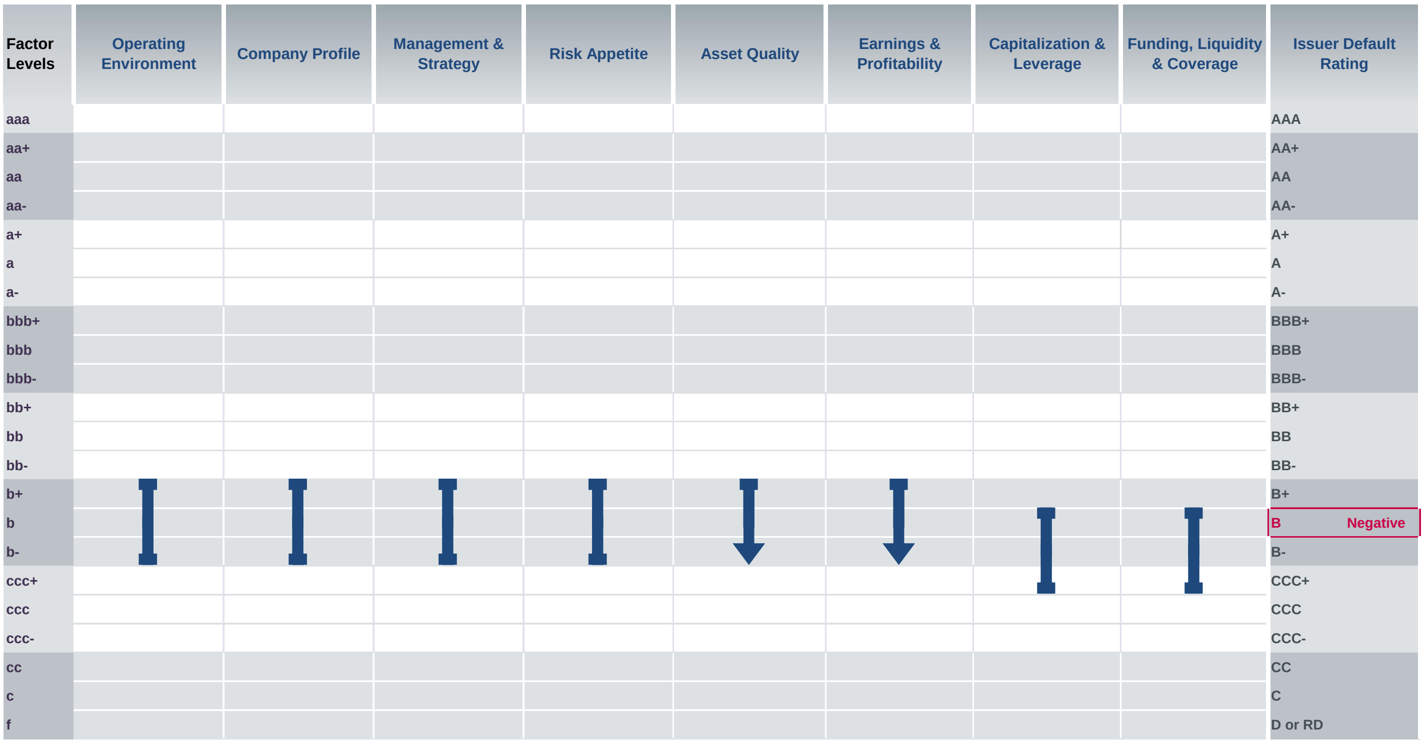
Secured Funding: The high share of secured funding and fully encumbered receivables portfolio constrains the company's funding position. This is partly balanced by the availability of committed credit lines from the European Bank for Reconstruction and Development (EBRD) and negligible maturity mismatches between assets and liabilities.

Rating Sensitivities

Credit Risk, Profitability: A sharp increase in impaired receivables or a deterioration of profitability to below-sector average, which would increase solvency risk, could lead to a negative rating action. A deteriorating operating environment that affects our forward-looking assessment of asset quality and earnings, which in turn would lead to a lower tolerance for leverage, could also lead to a negative rating action.

Larger Scale: A sustained strengthening of the franchise/business scale with maintenance of the current financial performance indicators, underpinned by a stable operating environment, could lead to a positive rating action.

Ratings Navigator



Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

⇧	Positive	⇩	Negative
⇳	Evolving	▫	Stable

Company Summary

Small Franchise

Tam Factoring started its operations in mid-2012 and has achieved its first annual profit in 2016. It has grown to control a market share of about 2.5% in Turkey's competitive factoring sector, which is dominated by bank-owned factoring companies.

The company targets SMEs and has developed competitive advantages to maintain its market niche. It operates in Turkey via 36 branches and had 598 employees at end-2019.

Tam Factoring's closest peer is Lider Factoring (BBB(tur)/Stable), an independent factoring company targeting larger SMEs. Captive factoring companies focus on commercial and corporate customers, with the exception of Garanti Factoring, which also focuses on larger SMEs. However, Tam Factoring operates in the small-ticket segment with high operating costs and credit risks.

Supportive Shareholders

The company has supportive shareholders with long-term objectives, which has underpinned the development of its franchise. The ultimate shareholders of the company are Actera (90.5% via Vector S.A.R.L.) – a private equity group established with the support of reputable international investors as well as international financial institutions – and EBRD (9.5%).

Fintech Factoring Company

Tam Factoring's business model relies on the successful management of high credit risks and high operating costs given its focus on higher-risk micro-businesses and SMEs with small revenue and short credit histories. The company has developed its own scorecard and monitoring tools based on the automated collection and analysis of data, which has allowed it to significantly reduce credit losses and turn to profitability in about four years after its foundation.

The use of enhanced data analytics and in-house developed IT infrastructure for its operations provided Tam Factoring with an edge to manage a large number of transactions (most transactions are below the USD5,000 equivalent) with low final credit losses. The company serves about 35% of Turkish factoring sector customers. About half of Tam Factoring's customers have entered factoring transactions for the first time indicating the company's capability to serve underbanked businesses and develop its own market niche and franchise.

Minimal Market Risk, Low Concentrations

Tam Factoring provides factoring services for short-term receivables (averaging 106 days in 2019), only in Turkish liras and with minimal single-name concentrations. The maximum risk per customer/borrower is TRY55,000 (about USD 8,500). However, the concentration on the construction sector is high, largely as a function of Turkey's economy with a high share of the construction industry.

Adequate Underwriting Standards, High-Cost Business Model

All factoring is performed on a recourse basis allowing the company to collect debt both from the originator of receivables (debtor) and customers/borrowers. The sales are performed via Tam Factoring's own branch network, which results in relatively high operating costs compared with the sector. However, the sector is dominated by captive factoring companies originating their business via parent franchises.

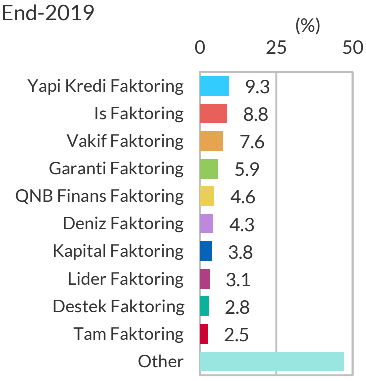
Key Financial Metrics

Adequate Asset Quality for the Risky Segment

Tam Factoring's impaired receivables ratio was 4.2% with provisioning coverage of 111% at end-2019. This compares well with the sector averages of 5.9% and 81%, respectively. Tam Factoring's better results are largely due to the absence of foreign-exchange exposures and the highly granular portfolio.

Market Share by Assets

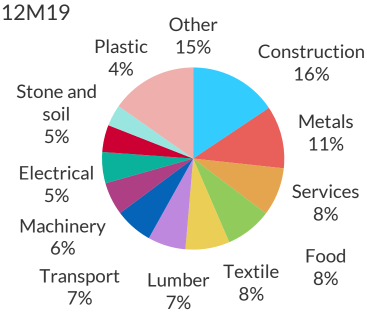
End-2019



Source: Fitch Ratings, BRSA

Transactions by Sector

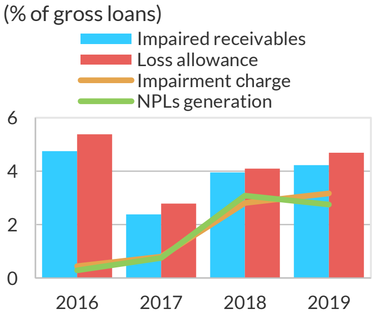
12M19



Source: Fitch Ratings, Tam Factoring

Credit Quality

(% of gross loans)



Source: Fitch Ratings, Tam Factoring

The growth of receivables has exceeded sector averages, but the short-term nature of factoring receivables and Fitch's estimation of impaired receivables generation imply that the seasoning of the portfolio and high growth have not translated to increased credit losses. We expect asset-quality pressure due to lower factoring volumes and stressed environment for Tam Factoring's client segment in light of the coronavirus crisis in 2020. This is reflected in the Negative Outlook.

Tam Factoring's high growth in 2015 and 2016 was driven by the testing of its scoring model following the initial stages of starting the company. Growth has moderated and has not exceeded internal capital generation since 2018. Tam Factoring has low single-name concentrations as part of its business model focusing on SMEs and micro-businesses. This is true for both borrowers and debtors (originators of receivables).

However, concentration on the construction sector is high at 16% (or 28% if lumber and 'stone and soil' are included into the wider construction industry). This is largely reflective of the nature of the Turkish economy where construction plays an important role.

The concentration on construction is partly balanced by the lack of direct exposure to tourism and low exposure to transport, as the latter two sectors have been directly negatively affected by the coronavirus crisis.

Solid Margins, High Operating Costs

Tam Factoring's profitability is supported by high margins that are reflective of its business model targeting higher-risk borrowers. The company has achieved a reasonable level of cost of risk since 2016, which is a key to positive bottom-line profitability. Another important factor was the sufficient scale of volumes to cover operating expenses.

The net interest margin during the past five years has averaged solid 12.2%, compared with 6.9% for the sector. We expect that the fallout from the coronavirus crisis, lower interest rates and increasing competition for good customers will pressure profitability in 2020. This is reflected in the Negative Outlook.

Tam Factoring's cost/income ratio has consistently improved in line with the growth of business volumes, reaching 58% in 2019. It compares well with Lider Factoring's, but is significantly weaker than the sector average of 31%. Nonetheless, the sector average cots/income ratio is distorted by large captive factoring companies originating a bulk of their business via parent bank franchises.

Pre-tax income/average assets ratio reached 4.9% in 2019 and was in line with the sector average.

High Leverage

Tam Factoring's debt/tangible equity ratio was 7.2x at end-2019. It is comparable to that of Lider Factoring, but the ratio is significantly weaker than the sector average of 3.4x at end-2019.

Equity was strengthened in 2018 with a capital injection of TRY9.5 million (more than 10% of total equity at the time) to support growth. We believe that increasing credit risks driven by the fallout from the coronavirus crisis are partly balanced by the likely deleveraging in 2020 due to the depressed business environment and full retention of sound profits.

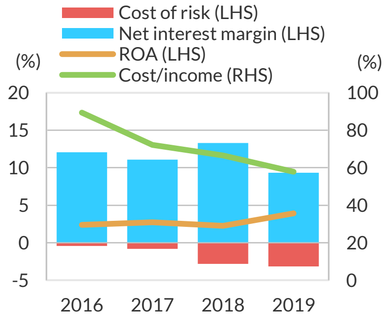
Diversifying Funding Sources

Tam Factoring is reliant on wholesale secured funding sources, as are other independent factoring companies in Turkey. The company has a strategy to increase the share of unsecured domestic bonds in its funding mix.

The funding and liquidity position is supported by a highly liquid balance sheet, where 90% of assets are represented by factoring receivables with average maturity of about 120 days, no currency or maturity mismatch between assets and liabilities and TRYR87 million unutilised committed credit line from EBRD (9.5% shareholder).

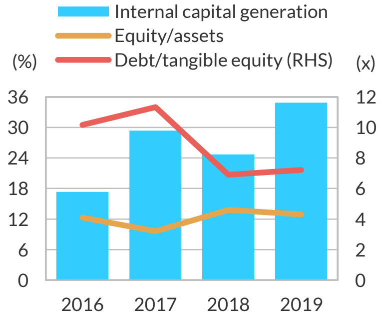
However, the reliance on secured funding (95% of total non-equity funding at end-2019) and fully encumbered receivables portfolio in favour of banks and other factoring companies, constrains Tam Factoring's funding position. The company has been gradually diversifying its funding sources and renewed domestic bond issuance since 2019.

Profitability & Efficiency



Source: Fitch Ratings, Tam Factoring

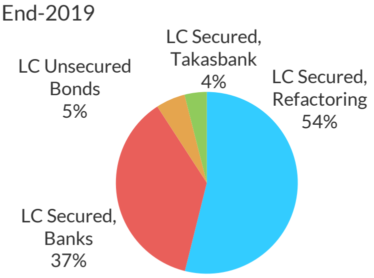
Capitalisation & Leverage



Source: Fitch Ratings, Tam Factoring

Non-Equity Funding

End-2019



Source: Fitch Ratings, Tam Factoring

Summary Analytics

(%)	2015	2016	2017	2018	2019
Asset quality metrics					
Impaired receivables/gross receivables	13.0	4.8	2.4	3.9	4.2
Impaired receivables generation	10.0	0.3	0.8	3.1	2.8
Receivable loss allowances/impaired receivables	107.0	113.0	117.3	103.7	110.8
Impaired receivables less receivable loss allowances/tangible equity	-6.2	-7.1	-5.1	-1.2	-3.8
Receivables impairment charges/average gross receivables	15.1	0.4	0.8	2.8	3.2
Growth of gross receivables	8.0	82.5	65.5	-3.1	39.0
Earnings and profitability metrics					
Pre-tax income/average assets	-16.6	1.2	3.2	2.7	4.9
Pre-tax income/average equity	-78.9	7.8	30.2	23.3	37.1
Net income/average assets	-13.6	2.4	2.7	2.3	3.9
Net income/average equity	-64.7	15.9	25.6	19.4	29.7
Operating expenses/operating revenues	109.1	89.3	72.2	66.6	57.9
Impairment charges/pre-impairment op. profit	-970.9	27.5	19.6	50.2	38.0
Interest income/average gross receivables	24.9	24.3	25.3	38.0	27.9
Interest expense/ average debt	14.5	15.9	16.3	28.4	21.9
Net interest income/ average net receivables (NIM)	15.4	12.1	11.1	13.3	9.3
Risk adjusted NIM	-1.4	11.6	10.3	10.4	6.0
Capitalization and leverage metrics					
Debt/tangible equity (x)	5.2	10.2	11.3	6.9	7.2
Tangible equity/tangible assets	15.3	8.6	7.9	12.4	11.5
Equity/ total assets	20.0	12.3	9.6	13.8	12.9
Internal capital generation	-6.7	17.3	29.4	39.4	34.8
Dividend payout ratio	0.0	0.0	0.0	0.0	0.0
Funding and liquidity metrics					
Unsecured debt/total debt	12.3	0.0	0.0	0.0	5.0
Short-term debt/total debt	97.4	92.9	91.6	99.4	98.7

Source: Fitch Ratings, Fitch Solutions, Tam Factoring

Income Statement

(IFRS)

(TRYm)	2015	2016	2017	2018	2019
Revenues					
Interest income	52	75	133	245	212
Net fees and commissions	6	12	20	24	80
Other revenues	1	1	1	1	2
Total revenues	**58**	**87**	**154**	**271**	**294**
Expenses					
Interest expenses	23	41	77	163	144
SG&A expenses	39	42	56	72	87
Impairment charges	32	1	4	18	24
Total expenses	**93**	**84**	**137**	**253**	**255**
Pre-tax income	**-35**	**4**	**17**	**18**	**39**
Income tax	-6	-4	3	3	8
Net income	**-28**	**7**	**15**	**15**	**31**
Memo: Common Dividends Relating to the Period	0	0	0	0	0

Source: Fitch Ratings, Fitch Solutions , Tam Factoring

Balance Sheet

(IFRS)

(TRYm)	2015	2016	2017	2018	2019
Assets					
Cash & equivalents	0	3	1	2	21
Gross receivables	**217**	**396**	**655**	**635**	**883**
Memo: Impaired receivables included above	28	19	16	25	37
Less: Receivable loss allowances	30	21	18	26	41
Net receivables	**187**	**375**	**637**	**609**	**842**
Goodwill and intangible assets	4	4	6	9	15
Deferred tax assets	10	14	11	8	12
Fixed assets	9	8	12	16	39
Other assets	2	2	3	8	10
Total assets	**212**	**406**	**669**	**653**	**938**
Liabilities					
Short-term secured debt (refactoring)	0	246	381	362	392
Short-term secured debt	140	79	163	183	326
Short-term unsecured debt	20	0	0	0	38
Long-term secured debt	4	25	50	3	10
Total borrowings	**164**	**350**	**595**	**549**	**766**
Other liabilities	5	6	10	14	51
Total liabilities	**170**	**356**	**605**	**563**	**817**
Total equity	**42**	**50**	**64**	**90**	**121**
Total liabilities and equity	**212**	**406**	**669**	**653**	**938**
Exchange rate, USD/TRY	2.91	3.52	3.78	5.29	5.94

Source: Fitch Ratings, Fitch Solutions, Tam Factoring

Environmental, Social and Governance Considerations

FitchRatings **Tam Faktoring A.S.**

Non-Bank FI Ratings Navigator
Finance & Leasing Companies

Credit-Relevant ESG Derivation

Tam Faktoring A.S. has 5 ESG potential rating drivers

- Tam Faktoring A.S. has exposure to fair lending practices; pricing transparency; repossession/foreclosure/collection practices; consumer data protection; legal/regulatory fines stemming from any of the above but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	Regulatory risks, emissions fines or compliance costs related to owned equipment, which could impact asset demand, profitability, etc.	Operating Environment	5
Energy Management	1	Investments in or ownership of assets with below-average energy/fuel efficiency which could impact future valuation of these assets	Risk Appetite	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	n.a.	n.a.	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Fair lending practices; pricing transparency; repossession/foreclosure/collection practices; consumer data protection; legal/regulatory fines stemming from any of the above	Operating Environment; Risk Appetite; Asset Quality	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy; Earnings & Profitability; Capitalization & Leverage; Funding, Liquidity & Coverage	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core activities	Company Profile; Earnings & Profitability	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and timing of financial reporting and auditing processes	Management & Strategy	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Priniciples for Responsible Investing (PRI) and the Sustainability Accounting Standards Board(SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE
How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity.

For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.