Alternatif Finansal Kiralama AS

Update

Ratings

Foreign Currency

Long-Term IDR	BBB-
Short-Term IDR	F3

Local Currency

Long-Term IDR	BBB-
Short-Term IDR	F3

National

Long-Term Rating	AAA(tur)
Support Rating	2

Sovereign Risk

Long-Term Foreign-Currency IDR	BB+
Long-Term Local-Currency IDR	BBB-
Country Ceiling	BBB-

Outlooks

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

Financial Data

Alternatif Finansal Kiralama AS

	31 Dec 17	31 Dec 16
Total assets (USDm)	453	397
Total assets (TRYm)	1,709	1,397
Total equity (TRYm)	164	139
Operating profit (TRYm)	27	27
Published net income (TRYm)	24	23
Operating ROAA (%)	1.7	2.1
Operating ROAE (%)	17.9	20.9
Growth of net receivables (%)	30.8	19.1
Impaired receivables/gross receivables (%)	3.7	5.5
Internal capital generation (%)	17.5	19.5
Debt/tangible equity (x)	9.1	8.6
Equity/assets (%)	9.6	10.0

Related Research

Turkey – March 2018 Global Economic Outlook Forecast (March 2018)

Alternatifbank A.S. - Ratings Navigator (February 2018)

Fitch Affirms 6 Small Foreign-Owned Turkish Banks (January 2018)

Fitch Affirms Turkey at 'BB+'; Outlook Stable (January 2018)

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Key Rating Drivers

IDRs Equalised with Parent: Alternatif Finansal Kiralama AS's (Alternatif Lease) Issuer Default Ratings (IDRs) are driven by potential support from its 100% owner, Alternatifbank A.S. (Alternatif Bank, BBB-/Stable). Fitch Ratings considers Alternatif Lease to be a core subsidiary of Alternatif Bank, based on the entities' shared branding and integration, and Alternatif Lease's role as the sole provider of leasing products within the group.

Alternatif Bank's own support-driven ratings reflect potential support from its parent, The Commercial Bank (P.S.Q.C.) (CBQ; A/Negative). Fitch believes that support for Alternatif Lease would ultimately also be forthcoming from CBQ (via Alternatif Bank), if needed.

Moderate Cost of Support: Supporting Alternatif Lease would represent a manageable burden for Alternatif Bank, as it only accounted for 8% of consolidated assets at end-2017.

Above-Average Growth: Alternatif Lease's receivables growth (2017: 31%; sector: 18%) is likely to remain above average in 2018 (company forecast: 23%), reflecting a partial refocus on larger commercials – in line with Alternatif Bank's strategy – and additional capital support from its parent to fund growth. Alternatif Lease had a 3% market share of sector leases at end-2017.

High Leverage: Debt/tangible equity is above average and has deteriorated to a high 9.1x at end-2017 (end-2016: 8.6x), reflecting high growth and the depreciation of the Turkish lira in 2017. Leverage drops to 7.9x adjusted for a TRY50 million cash capital increase (end-2017: 31% of equity) from Alternatif Bank – planned for 2018 – and management expectations of a TRY15 million (9%) hit from additional general provisions due to IFRS 9 enforcement in 1Q18.

Improving Headline NPL Ratio: Non-performing loans (NPLs, leases overdue by 90 days) dropped to 3.7% of total leases at end-2017 (end-2016: 5.5%), reflecting high growth base effect and TRY18 million of NPL sales (27% of end-2016 NPLs) in 2017. Net NPLs/ equity ratio (20%) is above average, reflecting relatively low specific reserves coverage (46%) and reliance on collateral. Fitch believes high growth could bring credit losses as the leases season.

Concentrated, Foreign-Currency Leases: A high 74% of net leases were foreign-currency denominated at end-2017 in line with the sector, heightening credit risk in light of local-currency depreciation. Single-name concentration is high as the top 25 exposures made up 29% of total leases (2.8x equity) at end-2017. The lease book is concentrated on the risky construction (20% of leases), manufacturing (17%), textile (16%) and metal (15%) sectors.

Decent Performance: ROAE (2017: 16%) has outperformed group metrics since end-2014, partly reflecting higher leverage and volume growth. Sound cost-efficiency and moderate impairment charges support operating profitability, but operating profit/average assets remains modest (2017: 1.7%), dampened by Alternatif Lease's fairly narrow margin of 3.1% (2016: 3.4%).

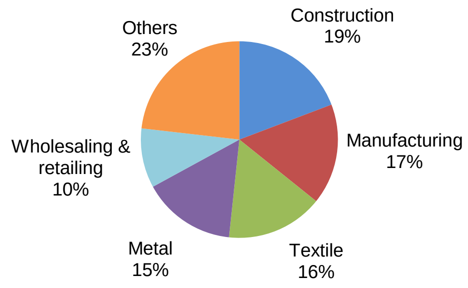
FC Wholesale Funded: Funding was split 84%/16% between bank loans and local-currency short-term bonds, respectively, at end-2017. Interbank borrowings are almost entirely in foreign currency (95%) and include stable funding from related-parties (18% of total funding). Funding is mainly short-term (59%), but refinancing risk is mitigated by the presence of Alternatif Bank.

Rating Sensitivities

Parent Support: Any change in Fitch's view of Alternatif Bank's propensity or ability to support its subsidiary would result in a downgrade of Alternatif Lease's IDRs.

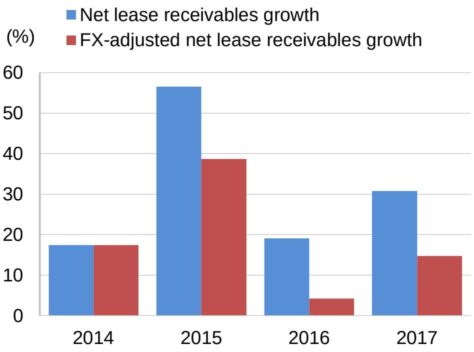
- The Turkish leasing sector is fairly underdeveloped compared with the banking sector as a whole. Leasing sector assets accounted for just 1.8% of total banking sector assets at end-2017.
- At end-2017, the lease book was mainly split between construction (26%), production (26%) and textile (15%) machineries. An additional 19% came from real estate (almost all sale and leaseback transactions).
- A 1% upward/downward change in interest rates would have resulted in a small 2% decrease to Alternatif Lease's equity.
- Alternatif Lease's net open currency position was a moderate 5% of total equity at end-2017.
- Margins could narrow further given that growth is set to focus on lower-yielding, albeit larger and less risky, commercial clients in line with Alternatif Bank.
- A moderate 2.8% of leases were overdue by more than 90 days at end-2017.
- The monthly amortising repayment structure of leases means asset-quality problems are quickly detected.
- The equity/assets ratio (9.6%) is above the 3% regulatory minimum. Profit retention policy is likely to support Alternatif Lease's equity base.
- Interbank loans, aside from those sourced from related parties, are mostly from Turkish banks and their foreign subsidiaries.
- Alternatif Lease runs a TRY157 million liquidity gap up to one year, but this is mitigated by potential liquidity support from Alternatif Bank.

Lease Portfolio by Industry
End-2017



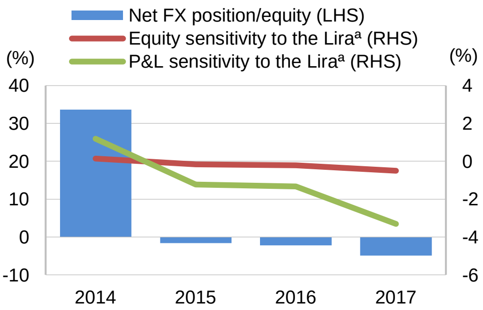
Source: Company data, adapted by Fitch

Key Growth Metrics



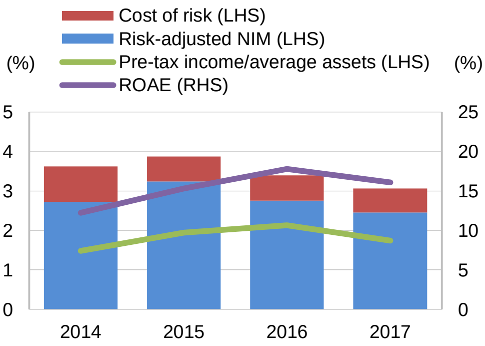
Source: Company data, adapted by Fitch

FX Position



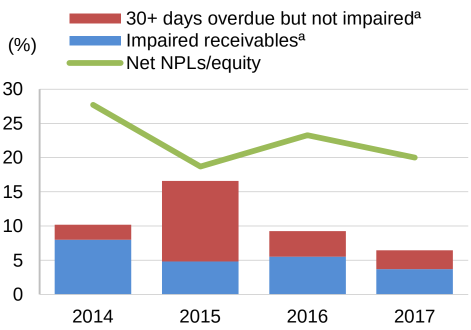
[a] Impact from a 10% depreciation of the Lira against other foreign currencies
Source: Company data, adapted by Fitch

Profitability



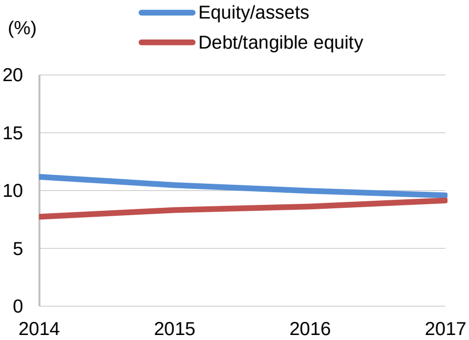
Source: Compamy data, adapted by Fitch

Asset Quality Metrics



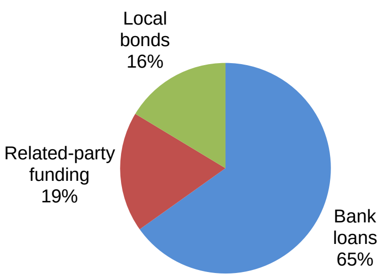
[a] As % of gross lease receivables
Source: Company data, adapted by Fitch

Capitalisation & Leverage



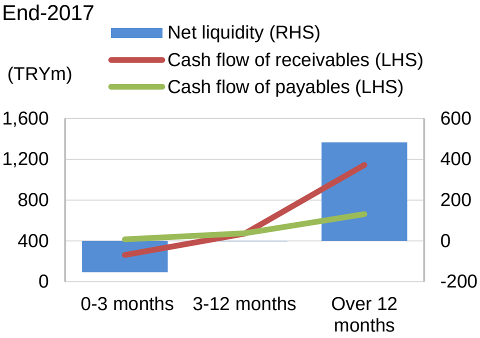
Source: Company data, adapted by Fitch

Funding Breakdown
(% of total interest bearing liabilites, end-2017)



Source: Company data, adapted by Fitch

Liquidity Gap
End-2017



Source: Company data, adapted by Fitch

Related Criteria

Global Non-Bank Financial Institutions Rating Criteria (March 2017)

Alternatif Finansal Kiralama AS

(TRYm, IFRS accounting standards)

As of 31 December	2014	2015	2016	2017
Income statement				
Revenue				
Operating lease & rental income				
Financial lease income	54	73	87	115
Commission income				
Interest income on loans				
Gains on vehicle sales, net				
Interest income (other)	1	1	1	1
Valuation gain				
Other revenue	4	2	7	4
Total revenue	59	76	96	120
Expenses				
Revenue generating equipment depreciation				
Interest expense	32	40	48	70
Direct operating expenses	11	12	13	14
SG&A expenses				
Impairment charges	6	5	8	9
Fees & commission expenses				
Valuation loss				
Other expenses				
Total expenses	49	58	69	93
Equity accounted profit				
Income before taxes	10	18	27	27
Income tax	1	3	4	3
Non-recurring items				
Net income	9	15	23	24
Memo: Weighted average common shares outstanding (in 000)	28,463	28,504	50,000	50,000
Memo: Dividends related to the period	-	-	-	-

Source: Fitch

Alternatif Finansal Kiralama AS

(TRYm, IFRS accounting standards)

As of 31 December	**2014**	**2015**	**2016**	**2017**
Balance sheet				
Assets				
Cash & equivalents	6	32	99	49
Restricted cash				
Revenue generating equipment				
Operating lease and rental fleet				
Net investment in lease	637	1,010	1,196	1,573
Debtors in leasing activities				
Other corporate & commercial loans				
Other consumer loans				
Other loans				
Less: Reserves for impaired loans	33	29	37	28
Total net loans	659	1,031	1,228	1,606
Total gross loans	692	1,061	1,265	1,634
Memo: Impaired loans included above	55	51	69	60
Derivatives	1			
At equity investments in associates				
Trade receivables				
Foreclosed assets				
Goodwill & intangibles	1	1	1	1
Other deferred assets				
Deferred tax assets	23	20	16	13
PP&E	2	1	0	1
Other assets	22	29	53	38
Total assets	714	1,114	1,397	1,709
Liabilities				
Secured debt				
Unsecured debt (short-term)	370	826	905	874
Unsecured debt (long-term)	244	138	289	611
Total interest bearing liabilities	614	965	1,194	1,486
Accounts payable & accrued expenses	9	14	40	28
Current tax liabilities				
Deferred taxes				
Other deferred liabilities				
Other liabilities	10	19	24	32
Total liabilities	633	997	1,258	1,545
Total shareholders' equity	80	116	139	164
Total liabilities & shareholders' equity	712	1,114	1,397	1,709

Source: Fitch

Alternatif Finansal Kiralama AS

(TRYm, IFRS accounting standards)

As of 31 December	2014	2015	2016	2017
Key ratios				
Operating profit/average assets (%)	1.5	1.9	2.1	1.7
Operating profit/average equity (%)	12.9	18.1	20.9	17.9
Operating margin (%)	16.5	23.5	28.0	22.5
Pre-tax income/average assets (%)	1.5	1.9	2.1	1.7
Return on average assets (%)	1.4	1.6	1.8	1.6
Return on average equity (%)	12.2	15.3	17.8	16.1
Risk adjusted operating return on average assets (%)	2.3	2.5	2.7	2.3
Risk adjusted operating return on average equity (%)	20.3	23.7	26.9	23.9
Risk adjusted return on average net operating revenue (%)	52.1	70.8	72.6	73.3
Operational expenses/net revenue	116.1	68.6	48.3	51.1
Impairment charges/pre-impairment operating profit	36.5	23.5	22.1	25.1
Dividends paid and declared/net income	-	-	-	-
Total debt/equity (x)	7.7	8.3	8.6	9.1
Net debt/equity (x)	7.6	8.0	7.9	8.8
Total liabilities/total equity (x)	7.9	8.6	9.0	9.4
Total debt/tangible equity (x)	7.7	8.3	8.6	9.1
Tangible equity/tangible assets (x)	11.1	10.4	9.9	9.5
Equity/assets (x)	11.2	10.5	10.0	9.6
Net interest margin (%)	3.6	3.9	3.4	3.1
Risk-adjusted net interest margin (%)	2.7	3.2	2.8	2.5
Cost of borrowing (%)	5.3	4.2	4.0	4.7
Lease yield (%)	8.5	7.2	7.3	7.3

Source: Fitch

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.