

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 16	31 Dec 15
Total assets (USDm)	396.6	382.7
Total assets (TRYm)	1,397.1	1,113.6
Total equity (TRYm)	139.2	116.5
Operating profit (TRYm)	26.8	17.8
Net income (TRYm)	22.8	15.0
Operating ROAA (%)	2.0	1.9
Operating ROAE (%)	19.6	18.1
Growth of gross receivables (%)	19.3	53.3
Impaired receivables/gross receivables (%)	5.5	4.8
Internal capital generation (%)	16.4	12.9
Debt/equity (x)	9.0	8.6
Equity/assets (%)	10.0	10.4

Related Research

[Alternatifbank A.S. - Ratings Navigator \(February 2017\)](#)

[Fitch Downgrades Sekerbank and AnadoluBank; Affirms 6 Small Turkish Banks \(February 2017\)](#)

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Key Rating Drivers

Support Drives Ratings: The Issuer Default Ratings (IDRs) of Alternatif Finansal Kiralama AS (ALease) are equalised with those of its 100% owner, Alternatifbank A.S. (ABank, BBB-/Stable). Fitch Ratings views ALease as a core subsidiary of ABank and that the probability of support is high. This is based on ALease's management and IT systems integration, common branding and its role in ABank group as the sole provider of leasing products.

ABank's support-driven ratings reflect potential support from The Commercial Bank (Q.S.C.) (A+/Stable). Fitch believes that support for ALease, if needed, would ultimately also come from The Commercial Bank via ABank.

Stalling Growth: Net receivables growth slowed in 2016 (up 4.2%, FX-adjusted) in line with sector growth. This reflects the challenging operating environment and a fall in SME-related referrals due to ABank's strategy shift towards commercial clients. ROE was still strong (16.7%) supported by a lower cost of risk as well as solid and improved cost-efficiency despite a tightening of the net interest margin. Margins could narrow further given that growth is set to focus on lower-yielding, albeit larger and less risky, commercial clients in line with ABank.

Rising NPLs: Non-performing loans (NPLs, leases overdue by 90 days) rose to 5.5% of total receivables at end-2016 (end-2015: 4.8%), up 36% in absolute terms. The monthly amortising repayment structure of leases means asset-quality problems are quickly detected. Specific NPL reserves coverage was weak, resulting in high net NPLs relative to equity of 23% (sector average: 14%). The NPL ratio is set to improve through write-offs and a focus on less risky larger commercial clients, although this could increase single-name concentration risk.

Heightened Credit Risk: Over 77% of net leases at end-2016 were in foreign currency (sector average: 75%), which heightens credit risk considering the depreciation of the Turkish lira. The lease book was also concentrated on the risky construction and textile sectors (20% each of direct finance leases). Single-name concentration was high with the top 25 exposures representing 31% of total leases at end-2016.

Short-Term, Wholesale Funded: ALease's was 82% financed by short-term, foreign-currency (FC) funding from large local banks and their foreign subsidiaries at end-2016. Refinancing risk is mitigated by the presence of ABank, while long-term related-party funding is also high (end-2016: 17% of liabilities). ALease runs large liquidity gaps up to one year, but this is mitigated by potential liquidity support from ABank.

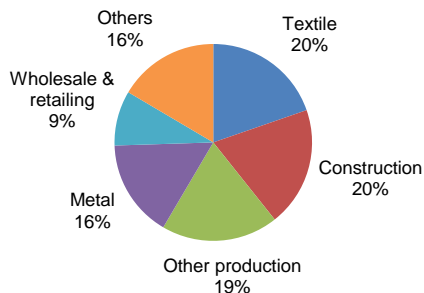
Highly Leveraged: ALease's equity/assets ratio fell to 9.9% at end-2016 (end-2015: 10.5%) due to the lira depreciation (which inflates FC leases) and as its internal capital generation lagged growth. This was comfortably above the 3% regulatory minimum but below the sector average. ALease's debt/equity ratio was also high at 9.1x (sector average: 5.2x). ABank injected TRY21.5 million of capital (18% of end-2015 capital) into ALease in 2015 to fund growth and Fitch believes that further capital support would be forthcoming, if needed.

Rating Sensitivities

Change in Support Stance: ALease's IDRs are equalised with those of its parent and any changes are likely to depend on ABank's IDRs. ALease's ratings could also be downgraded should ABank's propensity to support its subsidiary change or should ALease's strategic importance to the group diminish, neither of which are Fitch's base case.

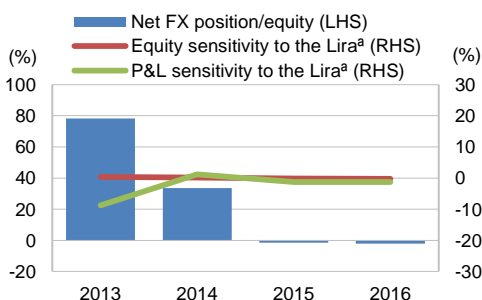
- The Turkish leasing sector is fairly underdeveloped compared with the banking sector. Leasing sector assets accounted for just 1.8% of total banking sector assets at end-2016.
- The top 25 loans at end-2016 (TRY393 million) represented 31% of the total lease book equal to 2.8x equity.
- 82% of lease receivables and 84% of bank loans were fixed rate at end-2016. A 1% upward change in interest rates would have resulted in a moderate 1% decrease (end-2015: 11%) to ALease's net income.
- The high share of past due but not impaired loans (end-2016: 17% of total lease receivables) could indicate deterioration in underlying asset quality.
- ALease's net open currency position is small (end-2016: TRY3 million, equal to 2% of total equity).
- Interbank loans, aside from those sourced from related parties, are mostly from Turkish banks and their foreign subsidiaries.
- ALease ran a TRY323 million liquidity gap up to one year at end-2016.

Lease Portfolio by Industry End-2016



Source: Company data, adapted by Fitch

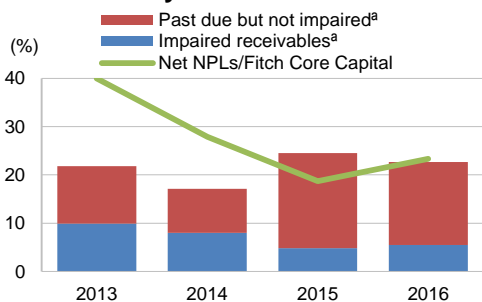
FX Position



^a Impact from a 10% depreciation of the Lira against other foreign currencies

Source: Company data, adapted by Fitch

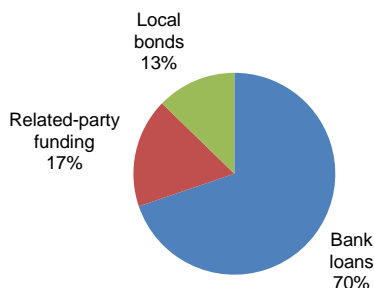
Asset Quality Metrics



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

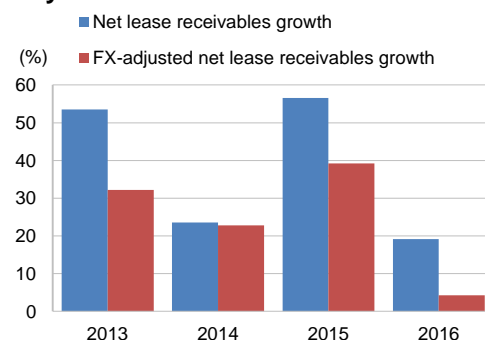
Funding Breakdown

(% of total interest bearing liabilities, end-2016)



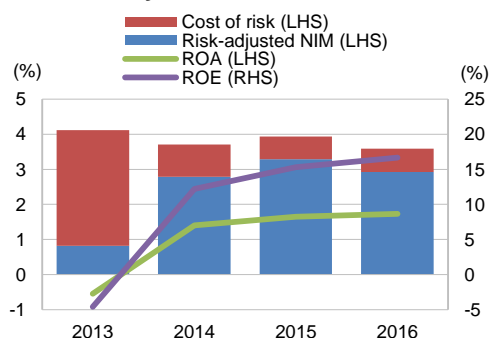
Source: Company data

Key Growth Metrics



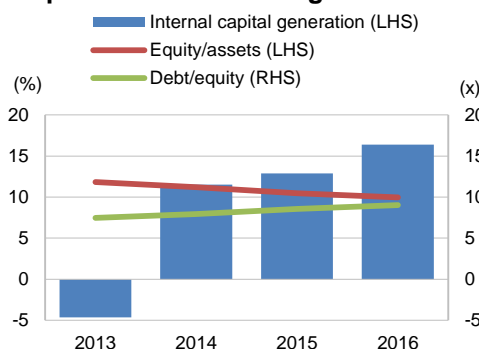
Source: Company data, adapted by Fitch

Profitability



Source: Company data, adapted by Fitch

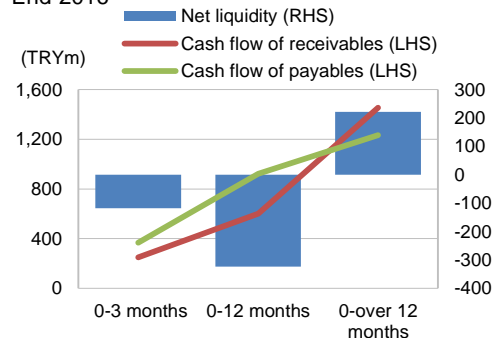
Capitalisation & Leverage



Source: Company data, adapted by Fitch

Liquidity Gap

End-2016



Source: Company data, Fitch

Related Criteria

[Global Non-Bank Financial Institutions Rating Criteria \(March 2017\)](#)

Alternatif Finansal Kiralama AS

Income statement

As of December 31 (TRYm)	2013	2014	2015	2016
Revenues				
Operating lease & rental income				
Financial lease income	40	54	73	87
Commission income				
Interest income on loans				
Gains on vehicle sales, net				
Interest income (other)	1	1	1	1
Valuation gain				
Other revenue	2	4	2	7
Total revenue	42	59	76	96
Expenses				
Revenue generating equipment depreciation				
Interest expense	22	32	40	48
Direct operating expenses	11	11	12	13
SG&A expenses				
Impairment charges	15	6	5	8
Fees & commission expenses				
Valuation loss				
Other expenses				
Total expenses	48	49	58	69
Equity accounted profit				
Income before taxes	-5	10	18	27
Income tax	-2	1	3	4
Non-recurring items				
Net income	-3	9	15	23

Source: Fitch

Alternatif Finansal Kiralama AS

Balance sheet

As of December 31 (TRYm)	2013	2014	2015	2016
Assets				
Cash & equivalents	16	6	32	99
Restricted cash				
Revenue generating equipment				
Operating lease and rental fleet				
Net investment in lease	533	659	1,031	1,228
Debtors in leasing activities				
Total gross loans				
Other corporate & commercial loans				
Other consumer loans				
Other loans				
Less: reserves for impaired loans				
Total net loans				
Derivatives		1		
At equity investments in associates				
Trade receivables				
Foreclosed assets				
Goodwill & intangibles	1	1	1	1
Other deferred assets				
Deferred tax assets	23	23	20	16
PP&E				
Other assets	25	24	30	53
Total assets	597	712	1,114	1,397
Liabilities				
Secured debt				
Unsecured debt short term	358	370	826	905
Unsecured debt long term	148	244	138	289
Total interest bearing liabilities	505	614	965	1,194
Accounts payable & accrued expenses	7	9	14	40
Current tax liabilities				
Deferred taxes				
Other deferred liabilities				
Other liabilities	14	10	19	24
Total liabilities	527	633	997	1,258
Total shareholder's equity	71	80	116	139
Total liabilities & shareholder's equity	597	712	1,114	1,397

Source: Fitch

Alternatif Finansal Kiralama AS

Key ratios

As of December 31 (TRYm)	2013	2014	2015	2016
Operating profit/average assets (%)	-0.9	1.5	1.9	2.0
Operating profit/average equity (%)	-7.6	12.9	18.1	19.6
Operating margin (%)	-12.8	16.5	23.5	28.0
Return on average assets (%)	-0.5	1.4	1.6	1.7
Return on average equity (%)	-4.6	12.2	15.3	16.7
Risk adjusted return on assets (%)	-1.0	0.9	1.4	1.6
Risk adjusted return on equity (%)	-8.5	8.1	13.5	15.0
Risk adjusted return on net operating revenue (%)	-69.53	52.09	70.75	72.94
Operational expenses/net revenue	-2.00	1.16	0.69	0.48
Impairment charges/pre-impairment operating profit	1.59	0.36	0.24	0.22
Dividends paid and declared/NI	-	-	-	-
EBITDA (annualised)	17	42	58	75
EBITDA margin (%)	40.1	71.4	76.7	78.5
Total debt/EBITDA (x)	29.80	14.54	16.62	15.91
Total debt/equity (x)	7.15	7.68	8.28	8.58
EBITDA/interest expense (x)	0.76	1.30	1.44	1.55
Fixed-charge coverage (x)	0.76	1.30	1.44	1.55
Net debt/equity (x)	6.93	7.60	8.01	7.87
Total liabilities/total equity (x)	7.45	7.92	8.56	9.03
Total debt/tangible equity (x)	7.22	7.74	8.32	8.62
Tangible equity/tangible assets	0.12	0.11	0.10	0.10
Equity/assets	0.12	0.11	0.10	0.10
Secured debt/total debt (%)	0	0	0	0
Unsecured debt/total debt (%)	100	100	100	100
UA/UD (x)	-	-	-	-
Secured debt/unsecured debt	-	-	-	-
Non-recourse debt/total debt	-	-	-	-
Recourse liabilities/total equity (x)	-	-	-	-
Cost of borrowing (%)	4.42	5.29	4.17	4.04
Lease yield (%)	7.49	8.26	7.09	7.12
Depreciation expenses/total revenue	-	-	-	-
Cash flow from operations (annualised)	16	6	32	99
Cash flow from operations/total debt (%)	3.1	1.1	3.3	8.3

Source: Fitch

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