

Alternatif Finansal Kiralama AS

Update

Ratings

Foreign Currency

Long-Term IDR	BBB
Short-Term IDR	F2

Local Currency

Long-Term IDR	BBB+
Short-Term IDR	F2

National

Long-Term Rating	AAA(tur)
Support Rating	2

Sovereign Risk

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

Outlooks

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

Financial Data

Alternatif Finansal Kiralama AS

	31 Dec 15	31 Dec 14
Total assets (USDm)	382.3	244.6
Total assets (TRYm)	1,113.6	712.4
Total equity (TRYm)	116.5	79.9
Operating profit (TRYm)	30.0	21.0
Published net income (TRYm)	15.0	9.2
Operating ROAA (%)	3.3	3.2
Operating ROAE (%)	30.6	27.9
Internal capital generation (%)	18.8	13.0
Debt/equity	8.6	7.9
Equity/total assets (%)	10.5	11.2
Impaired receivables/gross receivables (%)	4.8	8.0

Related Research

[Alternatifbank A.S. \(March 2016\)](#)

[Turkey \(March 2016\)](#)

[Alternatifbank A.S. – Ratings Navigator \(February 2016\)](#)

[Fitch Affirms 6 Small Turkish Banks \(February 2016\)](#)

[The Commercial Bank \(Q.S.C.\) \(January 2016\)](#)

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Key Rating Drivers

Support-Driven IDRs: The Issuer Default Ratings (IDRs) of Alternatif Finansal Kiralama AS (ALease) are equalised with those of its parent, Alternatifbank A.S. (ABank, BBB/Stable), reflecting Fitch Ratings' view that it is a core subsidiary. This is based on ALease's 100% ownership, high integration in terms of risk-assessment systems, common branding and shared management/board members. ALease is the only entity within ABank group authorised to offer leasing services. Referrals from ABank branches accounted for 58% of ALease sales in 2015.

ABank's own 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.

Above Sector Average Growth: ALease's gross receivables continued to grow above the sector average in 2015 (up 59% versus sector growth of 25%). This, along with greater scale and a focus on cost efficiency, has supported ALease's performance. ROAE rose to 15.3% in 2015 (2014: 12.2%) and the net interest margin to 3.9% (3.7%). While such growth has been from a low base and the credit costs have been manageable, it could result in asset-quality problems as exposures season.

Rapid Growth Flatters: Reported impaired lease receivables (non-performing loans, 90 days overdue) fell sharply in 2015 to 4.8% of total receivables from 8.0% in 2014 but should be considered in light of rapid portfolio growth (up 59%) and TRY9m of write-offs (equal to 0.9% of total receivables). Bad loans declined by 7% in absolute terms in 2015, although past due but not impaired receivables rose to a high 20% of total lease receivables (from 9% at end-2014).

High Foreign-Currency Lending: Credit risk is heightened by high foreign-currency lending; over 75% of leases at end-2015 were in FC (sector average: 72%). The portfolio is also concentrated by sector with 20% (down from 26% at end-2014) and 15% of lease receivables at end-2015 in the high-risk construction and textile sectors, respectively. However, the monthly amortising repayment structure of leases means any asset-quality problems should be quickly detected.

Mainly Short-Term Funded: ALease's short-term funding (up to three years) comes mainly from large local banks (end-2015: 82% of total liabilities) and to a limited degree from foreign banks. Funding is largely (72%) in foreign currency. Parent funding is also significant (24% of liabilities, of which a third are long-term), somewhat mitigating refinancing risk. Nevertheless, the high level of short-term funding means ALease runs large liquidity gaps to one year, although liquidity is underpinned by potential support from ABank.

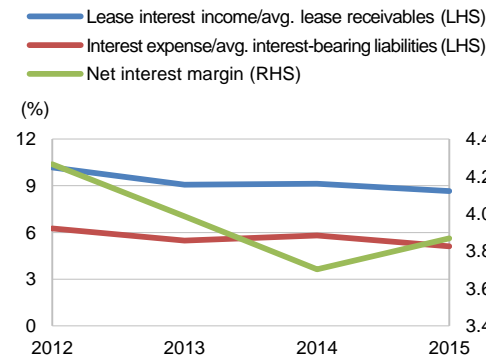
Highly Leveraged: ALease's equity/assets ratio of 10.5% is below the sector average although comfortably above the 3% minimum set by the regulator. However, its debt/equity ratio was 8.6x at end-2015 (end-2014: 7.9x). ABank injected TRY21.5m of capital into ALease in 2015 to fund growth, and Fitch expects further capital support to be forthcoming if needed.

Rating Sensitivities

Changes in Institutional Support: ALease's ratings are equalised with those of its parent, and any changes to its ratings are dependent on ABank's IDRs. ALease's IDRs could also be downgraded if a change of strategy at ABank diminished ALease's strategic importance to the group, but this is not Fitch's base case.

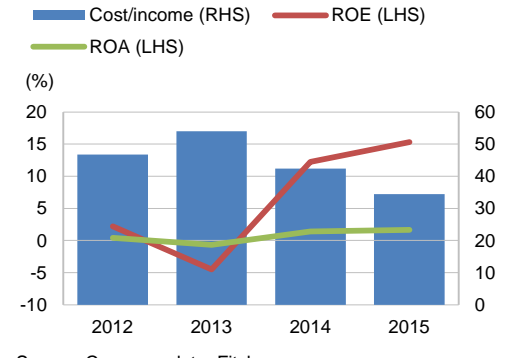
- The Turkish leasing sector is fairly underdeveloped compared with the banking sector. Leasing sector assets accounted for just 1.7% of total banking-sector assets.
- The top 25 loans at end-2015 (TRY323m) represented 30% of the total lease book equal to 2.8x equity.
- 82% of lease receivables and 76% of bank loans were fixed rate at end-2015. A 1% upward change in interest rates would have resulted in a moderate 11% decrease to ALease's net income.
- The high share of past due but not impaired loans (2015: 20% of total lease receivables) could indicate a potential deterioration in underlying asset quality.
- ALease's net open currency position is small (end-2015: TRY2m, equal to 2% of total equity).
- Interbank loans, aside from those sourced from related parties, are entirely from Turkish banks and their foreign subsidiaries.
- At end-2015, ALease ran a TRY404m liquidity gap up to one year.

Figure 1
Margins



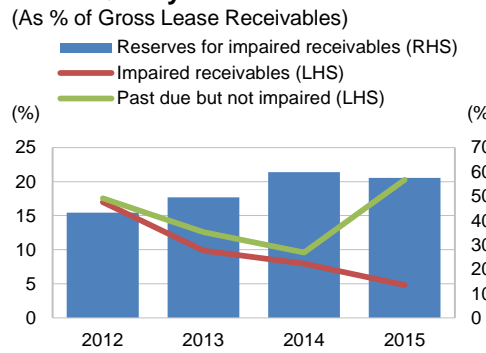
Source: Company data, Fitch

Figure 2
Key Profitability Metrics



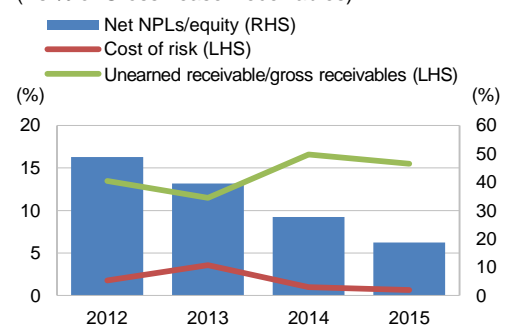
Source: Company data, Fitch

Figure 3
Asset Quality



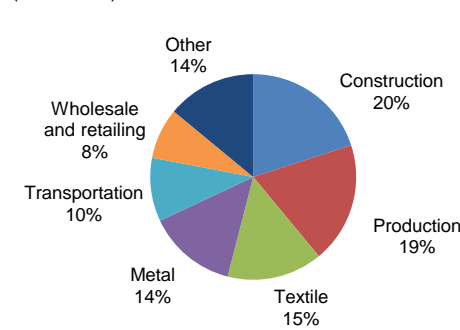
Source: Company data, Fitch

Figure 4
Asset Quality



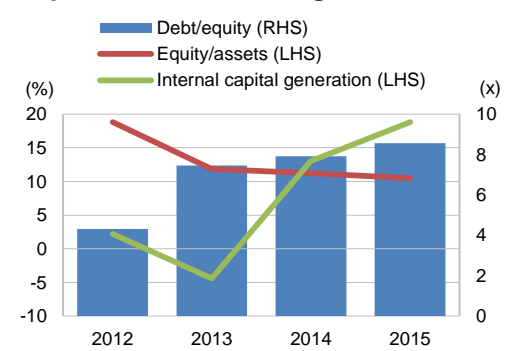
Source: Company data, Fitch

Figure 5
Sectoral Distribution - Receivables



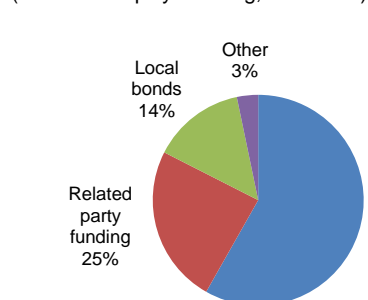
Source: Company data, Fitch

Figure 6
Capitalisation & Leverage



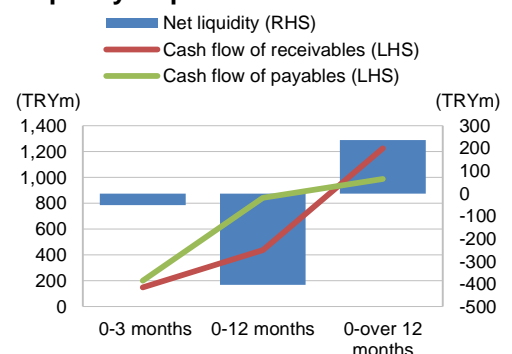
Source: Company data, Fitch

Figure 7
Funding Breakdown



Source: Company data, Fitch

Figure 8
Liquidity Gap



Source: Company data, Fitch

Related Criteria

Global Non-Bank Financial Institutions Rating Criteria (April 2015)

Figure 9
Alternatif Finansal Kiralama
Income statement

As of 31 December (TRYm)	2012	2013	2014	2015
Revenues				
Operating lease & rental income				
Financial lease income	32	40	54	73
Commission income				
Interest income on loans				
Gains on vehicle sales, net				
Interest income (other)	1	1	1	1
Valuation gain				
Other revenues	6	2	4	2
Total revenues	39	42	59	76
Expenses				
Revenue generating equipment depreciation				
Interest expense	19	22	32	40
Direct operating expenses	9	11	11	12
SG&A expenses				
Impairment charges	5	15	6	5
Fees & commission expenses				
Valuation loss				
Other expenses				
Total expenses	33	48	49	58
Equity accounted profit				
Income before taxes	6	(5)	10	18
Income tax	4	(2)	1	3
Non-recurring items				
Net income	2	(3)	9	15

Source: Fitch

Figure 10
Alternatif Finansal Kiralama
Balance Sheet

As of 31 December (TRYm)	2012	2013	2014	2015
Assets				
Cash & equivalents	15	16	6	32
Restricted cash				
Revenue generating equipment				
Operating lease and rental fleet				
Net Investment In Lease (NIL)	347	533	659	1,031
Debtors In Leasing activities				
Total gross loans				
Other corporate & commercial loans				
Other consumer loans				
Other loans				
Less: reserves for impaired loans				
Total net loans				
Memo: impaired loans included above				
Derivatives				
At equity investments in associates				
Trade receivables				
Foreclosed assets				
Goodwill & intangibles	1	1	1	1
Other deferred assets				
Deferred tax assets	21	23	23	20
PP&E				
Other assets	8	25	24	30
Total assets	393	597	712	1,114
Liabilities				
Secured debt				
Unsecured debt short term	310	505	614	965
Unsecured debt long term				
Total interest bearing liabilities	310	505	614	965
Accounts payable & accrued expenses	2	7	9	14
Current tax liabilities				
Deferred taxes				
Other deferred liabilities				
Other liabilities	6	14	10	19
Total liabilities	319	527	633	997

Source: Fitch

Figure 11
Alternatif Finansal Kiralama
Key ratios

As of 31 December (TRYm)	2012	2013	2014	2015
Operating profit/average assets (%)	1.5	-0.9	1.5	1.9
Operating profit/average equity (%)	7.9	-7.6	12.9	18.1
Operating margin (%)	15.1	-12.8	16.5	23.5
Return on average assets (%)	0.4	-0.5	1.4	1.6
Return on average equity (%)	2.2	-4.6	12.2	15.3
Risk adjusted return on assets (%)	1.18	-1.00	0.93	1.45
Risk adjusted return on equity (%)	6.27	-8.46	8.07	13.47
Risk adjusted return on net operating revenue (%)	48.47	-69.53	52.09	70.75
Operational expenses/net revenue	1.62	(2.00)	1.16	0.69
Impairment charges/pre-impairment op. profit	0.46	1.59	0.36	0.24
Dividends paid and declared/NI	-	-	-	-
EBITDA (annualized)	24	17	42	58
EBITDA margin (%)	63.0	40.1	71.4	76.7
Total debt/EBITDA (x)	12.69	29.80	14.54	16.62
Total debt/equity (x)	4.20	7.15	7.68	8.28
EBITDA/interest expense (x)	1.31	0.76	1.30	1.44
Fixed charge coverage (x)	1.31	0.76	1.30	1.44
Net debt/equity (x)	3.99	6.93	7.60	8.01
Total liabilities/total equity (x)	4.31	7.45	7.92	8.56
Total debt/tangible equity (x)	4.24	7.22	7.74	8.32
Tangible equity/tangible assets	0.19	0.12	0.11	0.10
Equity/assets	0.19	0.12	0.11	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 (%)	5.99	4.42	5.29	4.17
Lease yield (%)	9.25	7.49	8.26	7.09
Depr. exp/total revenue	-	-	-	-
Cash flow from ops (annualized)	15	16	6	32
Cash flow from ops/total debt (%)	4.9	3.1	1.1	3.3

Source: Fitch

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