

# Alternatif Finansal Kiralama AS

## Update

### Ratings

<b>Foreign Currency</b>	
Long-Term IDR	BB-
Short-Term IDR	B
<b>Local Currency</b>	
Long-Term IDR	BB
Short-Term IDR	B
<b>National</b>	
Long-Term Rating	AA(tur)
Support Rating	3
<b>Sovereign Risk</b>	
Long-Term Foreign-Currency IDR	BBB
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	Negative
Sovereign Long-Term Local-Currency IDR	Negative

### Financial Data

<b>Alternatif Finansal Kiralama AS</b>		
	<b>31 Dec 18</b>	<b>31 Dec 17</b>
Total assets (USDm)	408	453
Total assets (TRYm)	2,156	1,709
Total equity (TRYm)	208	164
Net income (TRYm)	8	24
ROAA (%)	0.4	1.6
ROAE (%)	4.3	16.1
Impaired loans/gross loans (%)	6.9	3.7
Debt/tangible equity (x)	10.2	10.0
Equity/total assets (%)	9.6	9.6

Source: Fitch Ratings, FitchSolutions

### Related Research

[Fitch Affirms 5 Foreign-Owned Turkish Banks \(October 2018\)](#)

[Alternatif bank A.S. - Ratings Navigator \(February 2019\)](#)

[Fitch Affirms Turkey at 'BB'; Outlook Negative \(May 2019\)](#)

### Analysts

Behruz Ismailov  
+49 69 76 80 76 116  
[behruz.ismailov@fitchratings.com](mailto:behruz.ismailov@fitchratings.com)

Aurelien Mourgues  
+44 20 3530 1855  
[aurelien.mourgues@fitchratings.com](mailto:aurelien.mourgues@fitchratings.com)

### Key Rating Drivers

**IDRs Equalised with Parent:** Alternatif Finansal Kiralama AS's (AL) Issuer Default Ratings (IDRs) are driven by potential support from its parent, Alternatifbank A.S. (BB-/Negative/b-). Fitch Ratings considers AL to be a core subsidiary of Alternatifbank, based on the entities' shared branding and integration as well as AL's role as the sole provider of leasing products within the group. The Negative Outlooks on the IDRs reflect those on its parent.

**Strong Ultimate Parent:** Alternatifbank's own support-driven ratings reflect potential support from its parent, The Commercial Bank (P.S.Q.C.) (CBQ; A/Stable). Fitch believes that support for AL would ultimately also be forthcoming from CBQ (via Alternatifbank), if needed.

**Challenging Macro Environment:** The economic slowdown and sharp depreciation of the Turkish lira weighed on AL's performance in 2018. The lease book decreased by 7% on a foreign-exchange (FX)-adjusted basis following a 16% FX-adjusted growth in 2017. Fitch expects lower demand for leasing and a lower risk appetite by companies in 2019.

**Asset-Quality Risks:** AL's high share of foreign-currency (FC) leases (77% at end-2018) is a significant risk, although broadly in line with the sector average. Fitch believes lessees are generally weakly hedged against FX risks. Credit risk is also heightened by single-name concentrations.

**Sound Efficiency:** AL's strong efficiency is underpinned by Alternatifbank's franchise, from which the company sources most of its business. Its focus on corporates rather than SMEs reduces operating costs, resulting in historically good cost/income ratios (26% in 2018).

**Credit Risks Pressure Profits:** Impairment charges consumed 83% of 2018 pre-impairment operating profit (2017: 25%), partly due to one-off IFRS 9 transitioning impact. Return on average assets declined to 0.4% in 2018 from the four-year average of 1.7%. Fitch expects muted bottom-line profitability in 2019 driven by subdued growth and high loan loss allowances.

**High Leverage:** The debt/tangible equity ratio largely remained stable in 2018, as inflation of FC loans (87% of the borrowings at end-2018), due to lira depreciation, was largely offset by a TRY50 million equity injection from the parent. Fitch estimates that the equity/assets ratio would remain above the loose regulatory minimum of 3% even if a further 7% of the portfolio were provisioned.

**FC Wholesale Funding:** AL's funding is mainly short term (64%), but refinancing risk and maturity gaps are mitigated by the presence of Alternatifbank. Stable parent funding accounted for 22% of total borrowings at end-2018. Local-currency short-term bonds accounted for 11% of borrowings, while the remainder was almost entirely represented by FC bank loans.

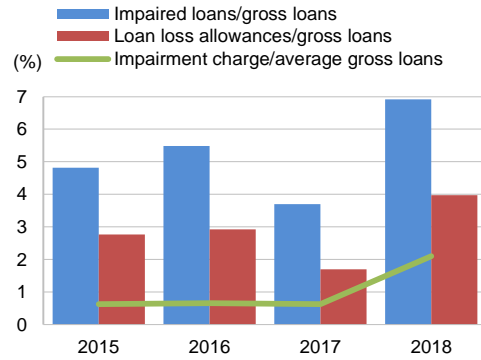
**Low Open FX Position:** AL uses available short-term instruments to hedge its balance-sheet FX position, resulting in a low open FX position (1% of capital at end-2018).

### Rating Sensitivities

**Parent's Ratings:** AL's ratings are sensitive to changes in the ratings of its parent given they are equalised.

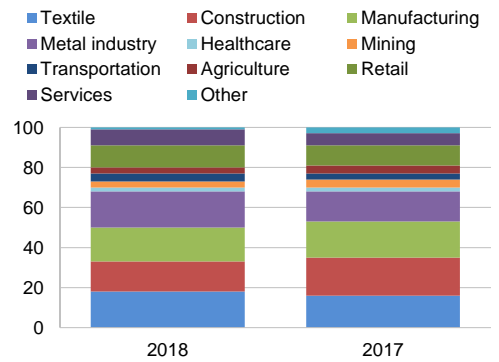
**Change in Support Stance:** AL's ratings could be downgraded if a change of strategy at the parent diminishes the strategic importance of AL or the propensity of Alternatifbank to provide support. This is not Fitch's base case.

**Credit Quality**



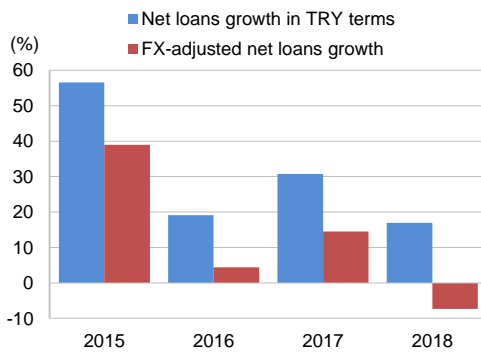
Source: Fitch Ratings, Alternatif Leasing

**Lease Portfolio by Sector**



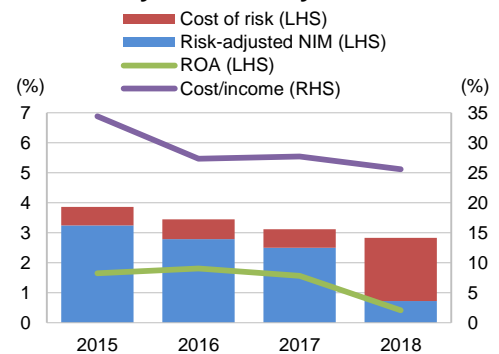
Source: Fitch Ratings, Alternatif Leasing

**Key Growth Metrics**



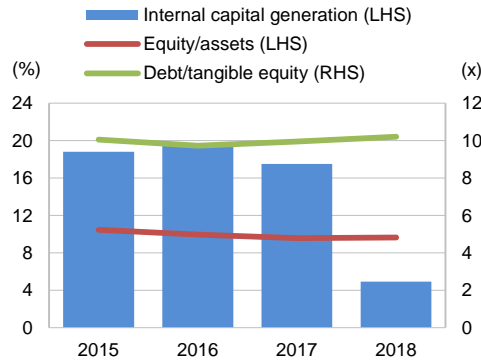
Source: Fitch Ratings, Alternatif Leasing

**Profitability & Efficiency**



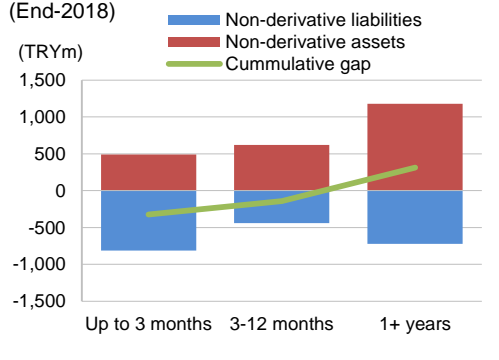
Source: Fitch Ratings, Alternatif Leasing

**Capitalisation & Leverage**



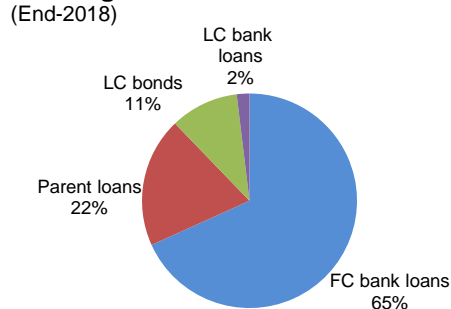
Source: Fitch Ratings, Alternatif Leasing

**Remaining Maturity**



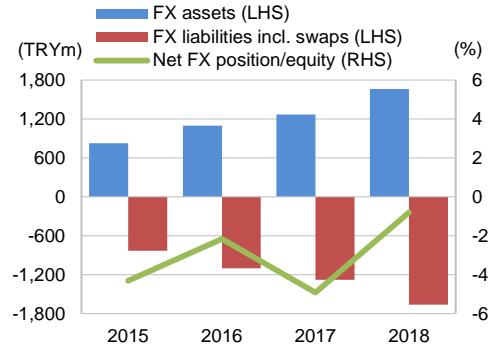
Source: Fitch Ratings, Alternatif Leasing

**Funding Breakdown**



Source: Fitch Ratings, Alternatif Leasing

**Net FX Position**



Source: Fitch Ratings, Alternatif Leasing

**Related Criteria**

Non-Bank Financial Institutions Rating Criteria (October 2018)

**Balance Sheet**

(TRYm)	2014	2015	2016	2017	2018
<b>Assets</b>					
Cash & equivalents	6	32	99	49	200
Net Investment In Lease (NIL)	692	1,061	1,265	1,634	1,956
Memo: Impaired loans included above	55	51	69	60	135
Less: Loan loss allowances	33	29	37	28	78
<b>Net loans</b>	<b>659</b>	<b>1,031</b>	<b>1,228</b>	<b>1,606</b>	<b>1,878</b>
Derivatives	1	0	0	0	11
Goodwill and intangible assets	1	1	1	1	1
Deferred tax assets	23	20	16	13	19
PP&E	2	1	0	1	20
Other assets	21	29	53	38	27
<b>Total assets</b>	<b>712</b>	<b>1,114</b>	<b>1,397</b>	<b>1,709</b>	<b>2,156</b>
<b>Liabilities</b>					
Short term unsecured debt	370	826	905	874	1,234
Long term unsecured debt	244	138	289	611	681
<b>Total borrowings</b>	<b>614</b>	<b>965</b>	<b>1,194</b>	<b>1,486</b>	<b>1,915</b>
Other liabilities	19	33	63	59	33
<b>Total liabilities</b>	<b>633</b>	<b>997</b>	<b>1,258</b>	<b>1,545</b>	<b>1,948</b>
<b>Total equity</b>	<b>80</b>	<b>116</b>	<b>139</b>	<b>164</b>	<b>208</b>
<b>Total liabilities and equity</b>	<b>712</b>	<b>1,114</b>	<b>1,397</b>	<b>1,709</b>	<b>2,156</b>

Source: Fitch Ratings, Alternatif Finansal Kiralama A.S.

**Income Statement**

(TRYm)	2014	2015	2016	2017	2018
Finance lease income	54	73	87	115	172
Other revenues	5	3	8	6	10
<b>Total revenues</b>	<b>59</b>	<b>76</b>	<b>96</b>	<b>120</b>	<b>182</b>
<b>Expenses</b>					
Interest expense	32	40	48	70	121
SG&A expenses	11	12	13	14	16
Impairment charges	6	5	8	9	38
<b>Total expenses</b>	<b>49</b>	<b>58</b>	<b>69</b>	<b>93</b>	<b>175</b>
Pre-tax income	10	18	27	27	8
Income tax	1	3	4	3	-1
<b>Net income</b>	<b>9</b>	<b>15</b>	<b>23</b>	<b>24</b>	<b>8</b>

Source: Fitch Ratings, Alternatif Finansal Kiralama A.S.

Summary Analytics

	2014	2015	2016	2017	2018
<b>Asset quality metrics</b>					
Impaired loans/gross loans (%)	8.0	4.8	5.5	3.7	6.9
Loan loss allowances/impairment loans (%)	59.9	57.5	53.3	45.8	57.4
Impaired loans less loan loss allowances/tangible equity (%)	39.1	22.7	26.4	21.9	30.7
Loan impairment charges/average gross loans (%)	0.9	0.6	0.7	0.6	2.1
Growth of gross loans (in TRY terms) (%)	23.4	53.3	19.3	29.1	19.7
<b>Earnings and profitability metrics</b>					
Pre-tax income/average assets (%)	1.5	1.9	2.1	1.7	0.4
Pre-tax income/average equity (%)	12.9	18.1	20.9	17.9	4.0
Net income/average assets (%)	1.4	1.6	1.8	1.6	0.4
Net income/average equity (%)	12.2	15.3	17.8	16.1	4.3
Operating expenses/operating revenues (%)	42.4	34.4	27.3	27.7	25.6
Impairment charges/pre-impairment op. profit (%)	36.5	23.5	22.1	25.1	83.4
Interest income on loans/average gross loans (%)	8.7	8.3	7.5	7.9	9.6
Interest expense/average debt (%)	5.8	5.1	4.5	5.2	7.1
Net interest income/average net loans (NIM), net of FX swaps (%)	3.7	3.9	3.5	3.1	2.9
Risk adjusted NIM, net of FX swaps (%)	2.7	3.2	2.8	2.5	0.7
<b>Capitalization and leverage metrics</b>					
Debt/tangible equity (x)	10.8	10.0	9.7	10.0	10.2
Tangible equity/tangible assets (%)	8.2	8.8	8.9	8.8	8.8
Equity/total assets (%)	11.2	10.5	10.0	9.6	9.6
<b>Funding and liquidity metrics</b>					
Unsecured debt/total debt (%)	100.0	100.0	100.0	100.0	100.0
Short-term debt/total debt (%)	60.3	85.7	75.8	58.8	64.4
Dividends/net income (%)	0.0	0.0	0.0	0.0	0.0

Source: Fitch Ratings, Alternatif Finansal Kiralama A.S.

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