JCR-ER JCR Eurasia Rating
"JCR-ER, Group of Japan Credit Rating Agency, Ltd." JCR

"JCR Eurasia Rating has affirmed the credit ratings of

Ak Faktoring A.Ş. and "Cash Flows arising from its Bond Issuances" as 'BBB+ (Trk)' on the Long Term National Scale; 'A-2 (Trk)' on the Short Term National Scale; and 'B' on the Long Term International Foreign and Local Currency Scales in the annual periodic review."

RATINGS

		Long	Short
International	Foreign Currency	B	C
	Local Currency	B	C
	Outlook	Negative Negative	Negative Negative
	Issue Rating	n.a	n.a
National	National Rating	BBB+(Trk)	A-2(Trk)
	Outlook	Stable	Stable
	Issue Rating	BBB+(Trk)	A-2(Trk)
Sponsor Support		2	-
Stand Alone		B	-

Sector: Factoring
Report Date: 16/03/2020

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Press Release

Istanbul – March 16, 2020

JCR Eurasia Rating, in its periodic review, has affirmed the credit ratings of '**Ak Faktoring A.Ş.'** at the investment grade of **"BBB+ (Trk)" on the Long Term National scale** and a **Short Term National Credit Rating** of **"A-2 (Trk)",** with **"Stable"** outlooks on both ratings.

The Factoring Sector was marked by a high level of vulnerability to fluctuations in macroeconomic circumstances in 2018. The increase in non-performing loans, collection difficulties, and increased funding costs mainly resulted from rapid credit volume contraction in the banking sector, where the funding requirements were met to a great extent. The effects of this trend was softened to a great extent in 2019 and the growth trend of the sector is evaluated to be accelerated in terms of both the number of customers and transaction volume in 2020. Considering that the main income of factoring companies is from the real sector, the effects of the growth environment supported by the volatility and incentive policies created by the foreign and domestic economic, political, and geopolitical developments in the markets on the factoring sector and the negative impact of high levels of unemployment on the factoring sector along with weakening demand, deserve to be closely monitored. On the other hand, in line with the undertaken reforms, the sector's legal infrastructure has improved with regards to effective surveillance and control. As such, the mandatory installation of information, risk measurement, and internal control systems have made a positive contribution to the improvement of the sector's institutional set-up and to the quality, standardization, and transparency of financial reporting practices and facilitated fair competition.

Ak Faktoring was established in 1992 under the name 'Ak Faktoring Hizmetleri Ticaret Anonim Şirketi'. In 2011, parallel with the change in partnership structure and purchase by Altınhas Holding, activities were again accelerated. The Company has operated in a sector mainly constituted of bank related institutions since 2012 under the title '**Ak Faktoring A.Ş.**' and currently maintains activities through a non-branch office structure on a local basis. Despite non-performing receivables, collection difficulties, rapid credit contraction in the banking sector, rising funding costs and fund supply activities pushed the factoring sector to a great extent in 2018, relievedly continued its restrictive effect on volume growth in 2019.

Due to the general shrinkage in the sector, in line with the declining transaction volume within the Company's cautious growth strategy, the important decline in factoring interest income - the main operating income of Company-, pressured the Firm's profits, and accelerated the profitability ratios below sector averages. In addition, despite the significantly decreasing financing expenses in parallel with falling loan interest rates, the rising rate of operating expenses within total expenses stands out as another factor that suppresses profitability and emphasizes the need to improve the internal resource generation capacity. Although the Company softens the asset quality's negative impact of the rigid exchange rate movements on the real sector balance sheets and the solvency of the factoring companies through transferring its non-performing receivables to an asset management company, the above sector NPL ratio and high customer concentration risk level despite increasing customer numbers continues to suppress asset quality and being stressing issues on the short and long term notes. On the other hand, the Company steadily increases its paid-up capital within the framework of legal obligations and upwardly accelerated its equity quality.

On the other hand, factors such as the above sector averages equity level and interest margins despite a slight drop in 2019; the effect of steady non-collectables receivables sales on the balance sheet; the diversified borrowing profile through bond issuances; re-organized professional management team and experienced shareholder structure; Group financial and operational support; high probability of realization of the Company's future growth plan; and generation of internal resources and cash flows to meet interest expenses are support the affirmation of the Company's Long and Short Term Outlook as **'Stable'** and Long Term National Grade as **'BBB+ (Trk)'**. No separate rating report has been compiled as the resources obtained from the bond issue will be carried in the Company's balance sheet and has been subject to analysis in the corporate credit rating report. The planned bond issue carries no difference in comparison to the Company's other liabilities with respect to its legal standing and collateralisation. As such, the notations outlined in the corporate credit rating report also reflect the issue rating but do not cover any structured finance instruments.

In addition, the growth in the number of customers in the competitive market, improvements in receivable portfolio granularity to reduce the concentration exposure, sector's short borrowing profile, asset and turnover development, continued effects of economic and political turbulence and tensions on the real sector's asset quality, collection performance of problematic receivables, exchange rate movements on asset quality of the customer portfolio, and the NPL level are issues that will be kept under review by JCR Eurasia Rating in the following periods.

On the other hand, it is considered that the major controlling legal entity shareholder, **Altınhas Holding A.Ş.**, along with real person shareholders, the Altınbaş Family, have the willingness and experience to ensure long term liquidity and equity within their financial capability when required and to provide efficient operational support to **Ak Faktoring A.Ş.** Therefore, the Company's Sponsor Support grade has been affirmed as **(2)** in **JCR Eurasia Rating**'s notation.

Besides, taking into account the current risks in the markets and operating environment as well as the Company's projected increase in market efficiency through an increasing customer base and reduced concentration risk, settled internal control system, collateral level, and experienced management staff , are of the opinion that Ak Faktoring A.Ş. has reached the level of adequate experience and facilities to manage the incurred risks on its balance sheet regardless of any assistance from the shareholder, provided that the effective risk management practices are sustained. Within this context, the Stand Alone grade of the Company has been affirmed as **(B)** in the JCR Eurasia Rating notation system.

For more information regarding the rating results, you may visit our internet site **http://www.jcrer.com.tr** or contact our analyst **Mrs. Merve Hayat.**

JCR EURASIA RATING
General Manager