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

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JCR Eurasia Rating,

has revised the credit ratings and outlooks of the financial structure of **"MNG Faktoring A.Ş."** and its "**Planned Bond Issuances"** within the scope of the periodic review

and upgraded the Long Term National Rating from **"A (Trk)"** to **"A+ (Trk)"**

and affirmed the Long Term International Foreign and Local Currency ratings as **"BBB-".**

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RATINGS

		Long	Short
International	Foreign Currency	BBB-	A-3
	Local Currency	BBB-	A-3
	Outlook	Stable	Stable
		Stable	Stable
	Issue Rating	N/A	N/A
National	National Rating	A+ (Trk)	A-1 (Trk)
	Outlook	Stable	Stable
	Issue Rating	A+ (Trk)	A-1 (Trk)
Sponsor Support		2	-
Stand Alone		AB	-

Sector: Factoring
Report Date: 09/08/2018

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Press Release

Istanbul - August 9, 2018

JCR Eurasia Rating, in its periodic review, has evaluated the credit ratings and outlooks of the financial structure of **"MNG Faktoring A.Ş."** and the cash flows of its "**Planned Bond Issuances**" in an investment-grade category and upgraded its Long Term National Rating from **'A (Trk)'** to **'A+ (Trk)'**. The Long Term International Foreign and Local Currency Ratings have been affirmed as **'BBB-'**. The outlooks for all ratings were affirmed as "**Stable**".

The Factoring Sector is marked by high level of vulnerability to fluctuations in macroeconomic circumstances and instability. Management policies in the sector are strongly influenced by changes in economic outlook and regulatory procedures from the Banking Regulation and Supervision Agency (BRSA). On the other hand, in line with the undertaken reforms, the sector's legal infrastructure has been 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 the quality, standardization and transparency of financial reporting practices and facilitated fair competition.

Established in 1999, MNG Faktoring A.Ş. has been operating in the factoring sector since 2002 through its headquarters in Elmadağ/Istanbul and 20 branches across Turkey. The Company stands out with its increasing number of customers, robust assets, and profitability growth and operates in a factoring sector known for the existence of intensive price competition dominated by bank-owned factoring companies. The Company mainly focuses on funding micro, small, and medium sized (SME) enterprises, effectively manages its human resources, and actively uses risk management mechanisms and systems.

Continuing to increase its asset size in 2017 in line with the increasing business volume and factoring receivables, the Company also reduced its leverage ratio below the sector average despite the increasing leverage ratio of the sector. The non-performing loan (NPL) ratio was below the sector average as of year-end 2017, similar to the previous years. Despite increasing average borrowing costs in the sector, the Company managed to increase its net interest margin in 2017, in spite of falling average margin in the sector. The Company continued to increase its customer base and effectively managed and diversified its credit risk as observed from the significantly below sector average risk per customer figure and diminished share of the first 10, 20, and 50 customers in total risk as of year-end 2017.

The main factors supporting the upgrade of the Company's Long Term National Rating from '**A (Trk)**' to '**A+ (Trk)**' include the increased and above-sector net interest margin despite the fall in the sector average margin, above-sector average ROAA and ROAE profitability ratios, continuously increasing profits in line with higher operational volume and net interest income, diminished and below-sector average leverage ratio as of 2017 year-end, increasing internal resource generation capacity supported by the policy of not distributing dividends and above sector average standard ratio, the presence of an executive management team with extensive sector experience and the robust financial performance observed during the first half of 2018.

On the other hand, the Company's non-diversified funding structure oriented to short-term bank loans and associated sensitivity of financing expenses to changes in short-term interest rates, intensive competition prevalent in the factoring sector and significant advantages of bank-owned factoring companies compared to non-bank owned companies, existence of significant political and economic risk factors in the country and the region enhancing the inherent risks of real sector and factoring companies, increasing interest rates and thus increasing average borrowing costs of factoring companies and the increase in the share of operational expenses within total income in 2017 suppressing the increase in profitability are the main factors negatively affecting the ratings and outlooks. JCR-ER will continue to monitor MNG Faktoring's asset quality, development of total income, operational volume, factoring receivables, leverage level, operational efficiency, funding structure, interest margin trend and the domestic and global economic environment for the reassessment of the ratings and outlooks.

No separate rating report has been compiled as the resources obtained from the planned 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 collateralization. As such, the notations outlined in the corporate credit rating report also reflect the issue rating but do not cover any structured finance instruments. Issue ratings are assigned for both outstanding and prospective debt instruments and incorporate assessments until their maturities.

The major controlling real person shareholder, **Mehmet Nazif Günal,** and the **MNG Group** companies prevalent in the Company's shareholding structure are considered to have both the willingness and the capacity to provide liquidity and financial support within their financial capability if required. In this regard, the Company's Sponsor Support Grade has been affirmed as (**2**), denoting an '*adequate*' level within the **JCR-ER** methodology. **MNG Faktoring**'s capacity to meet its obligations through its internally generated resources without resorting to its shareholders has been determined as (**AB**) within the Stand Alone Grade, indicating a '*high*' level.

For detailed information regarding the rating results you may visit our internet site http://www.jcrer.com.tr or contact our senior analyst **Mr. Ozan SIVACI**.

JCR EURASIA RATING
Administrative Board