FitchRatings

Fitch Downgrades TEB Finansman to 'B+'; Outlook Negative

Fitch Ratings has downgraded the TEB Finansman A.S.'s (TEB Cetelem) support-driven Long-Term Foreign-Currency Issuer Default Rating (LT FC IDR) to 'B+' from 'BB-' and Long-Term Local-Currency Issuer Default Rating (LT LC IDR) to 'BB-' from 'BB'. The Outlook on both IDRs is Negative. A full list of rating actions is at the end of this rating action commentary.

The downgrade follows the downgrade of Turkey's sovereign rating (see Fitch Downgrades Turkey to 'BB-'; Outlook Negative { https://www.fitchratings.com/site/pr/10082341}). In Fitch's view TEB Cetelem benefits from the still high propensity of BNPP to provide support to the subsidiary in case of need, given the company's strategic importance to the parent, its ownership, integration and role within the group and shared branding.

KEY RATING DRIVERS
IDRS AND SUPPORT RATING
TEB Cetelem's IDRs are driven by potential support from its ultimate parent, BNP Paribas S.A. (BNPP, A+/Stable). Fitch's view of support is based on TEB Cetelem being a small subsidiary of the wider BNPP franchise. In our view, the propensity of support for TEB Cetelem and its sister bank, Turk Ekonomi Bankasi A.S. (TEB Bank; B+/Negative), are closely aligned. This is based on a common brand association and a significant reputational damage arising in the event of a potential subsidiary default, notwithstanding differences in their respective legal structures.

The Negative Outlook on TEB Cetelem's Long-Term IDRs is aligned with that on its affiliate, TEB Bank, and the wider Turkish banking sector. It reflects the potential for a further deterioration in Turkey's external finances, which could increase the risk of government intervention in the banking sector.

TEB Cetelem is an automotive finance company operating in Turkey, which is a strategically important market for the BNPP, where it is also represented by TEB Bank.

TEB Cetelem's remained profitable in 2018 amid deterioration of the operating environment. Deterioration of TEB Cetelem's asset quality was slower than segment, which supported return metrics.

TEB Cetelem's capital adequacy improved due to shrinking of the loan book, yet gross debt to equity ratio was high 10x at end-2018. Fitch expects a gradual further deleveraging of TEB Cetelem in 2019 however the gross debt to equity ratio will remain high compared to automotive finance companies on emerging markets.

Funding is predominantly wholesale in nature and intergroup exposure is high: around 50% of total debt. Liquidity risk is moderate given relatively short duration of assets, while undrawn facilities (around 30% of total committed funding lines) further enhance financial flexibility.

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RATING SENSITIVITIES
IDRS AND SUPPORT RATING
TEB Cetelem's IDRs are sensitive to a change in the sovereign ratings for Turkey, which are currently on a negative outlook, and the associated potential impact thereof on the wider Turkish financial sector.

A significantly reduced propensity to support by BNPP, for example, as a result of government intervention, could trigger a downgrade. While not expected by Fitch weaker support from BNPP, for example, as a result of divesture or diminishing of importance of the Turkish market could be negative for the ratings.

The rating actions are as follows:

Long-Term Foreign-Currency IDR downgraded to 'B+' from 'BB-'; Outlook Negative
Short-Term Foreign-Currency IDR affirmed at 'B'
Long-Term Local-Currency IDR downgraded to 'BB-' from 'BB'; Outlook Negative
Short-Term Local-Currency IDR affirmed at 'B'
Support Rating downgraded to '4' from '3'

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