

Tunisie Leasing et Factoring

Key Rating Drivers

Stable National Ratings: Tunisie Leasing et Factoring's (TLF) National Ratings are driven by its standalone credit profile. National Ratings reflect the creditworthiness relative to the country's best credit and to peers operating within that country. The Stable Outlook on TLF's National Long-Term Ratings reflect our expectation that upward and downward ratings pressures are equally balanced relative to peers'.

Leading Franchise: TLF's business model is more diversified than most Tunisian non-bank financial institutions (NBFIs) peers. It provides leasing and factoring services in Tunisia and has minority stakes in a large number of small financial services companies in Africa. The company has a leading market position in the leasing (20%) and factoring (40%) sectors, which allows the company to have some degree of pricing power.

Operating Environment Challenges: TLF's assets growth has been slow (2.1% in 6M23) compared to an average of 6% for the sector. This follows three years of contraction (2022: -3%; 2021: -4.5%; 2020: -3.5%). The company has adopted a prudent growth strategy due to operating environment challenges posed by heightened sovereign risks. Fitch downgraded Tunisia's Long-Term Foreign-Currency IDR to 'CCC-' from 'CCC+' in June 2023 reflecting heightened liquidity risks as negotiations with the IMF stalled since November 2022.

Adequate Asset Quality: TLF's asset quality metrics are acceptable compared to the sector average. At end-1H23, TLF's non-performing loans (NPL) ratio was 9.2% compared to 11.0% for the sector average. TLF's lease book is fairly diversified with below-average exposures to Tunisia's riskier construction and tourism sectors.

Adequate Profitability, Liquidity: TLF's profitability improved in 1H23, with the pre-tax income/average assets ratio increasing to 4.2% in 1H23 from 2.5% in 2022. In Fitch's view, TLF's financial profile benefits from adequate liquidity metrics, a stable funding profile and a resilient capital base, compared with domestic peers.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

TLF's ratings are sensitive to further deterioration in Tunisia's operating environment. This could be evidenced by an increase in the sector's and TLF's NPL ratios. TLF's National Ratings are also sensitive to a significant depletion of its capital buffer, leading to lower resilience to asset quality risks. TLF is reliant on continuous access to funding and its ratings are sensitive to changes in its funding profile. Signs of strains in its ability to access funding would likely trigger a downgrade.

The ratings of senior and subordinated debt instruments are sensitive to changes of TLF's National Long-Term Ratings.

A downgrade of the Tunisian sovereign will not necessarily affect TLF's National Ratings because creditworthiness may be preserved relative to peers.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

The potential for TLF's ratings to be upgraded is limited by the challenging operating conditions, making it difficult for TLF to improve its credit profile relative to other Tunisian companies'. The business model and growth are inherently reliant on Tunisia's weak operating conditions for leasing and factoring companies, which, in turn, affect its key performance metrics.

Non-Bank Financial Institutions Finance & Leasing Companies Tunisia

Ratings

National Rating

National Long-Term Rating	BBB-(tun)
National Short-Term Rating	F3(tun)

Sovereign Risk (Tunisia)

Long-Term Foreign-Currency IDR	CCC-
Long-Term Local-Currency IDR	CCC-
Country Ceiling	B-

Outlook

National Long-Term Rating	Stable
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Applicable Criteria

[National Scale Rating Criteria \(December 2020\)](#)

[Bank Rating Criteria \(September 2023\)](#)

[Non-Bank Financial Institutions Rating Criteria \(May 2023\)](#)

Related Research

[Fitch Affirms National Ratings of Eight Tunisian NBFIs; Upgrades Enda to BBB\(tun\) \(October 2023\)](#)

[Fitch Takes Action on Tunisian NBFIs' National Ratings Following Sovereign Downgrade \(July 2023\)](#)

[Tunisie Leasing and Factoring - Update \(August 2023\)](#)

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Key Qualitative Factors

Business Profile:

TLF provides financial leasing and factoring services in Tunisia. It began its leasing activity in 1984 and widened its services to factoring in 1995.

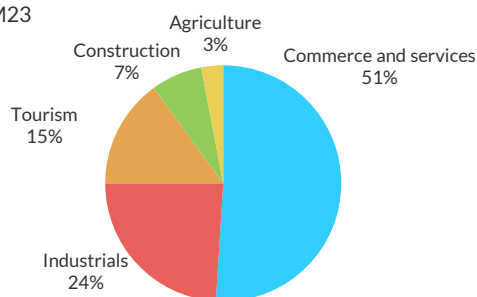
The company has dominant market shares in the leasing (20%) and factoring (40%) sectors in Tunisia. The company has a strong and well-known franchise, which allows it to be more selective in terms of customers.

The leased assets are mainly standardised cars and trucks, and the customer base is comprised of SMEs. TLF is also active in a large number of typically small financial services companies throughout Africa via its holding of several minority stakes.

The portfolio is well diversified with a relatively low exposure to riskier sectors such as construction and tourism.

Portfolio by Sector

End-6M23



Source: Fitch Ratings, TLF

Risk Profile

Exposed to Interest Rates Risk

Interest rate risk is the main market risk faced by TLF. This is a structural risk because assets have longer-term maturities than liabilities, therefore, TLF cannot reprice assets as quickly as funding costs rise. Moreover, lending rates, including leasing contracts rates, are capped by the Central Bank of Tunisia. TLF's funding is obtained at both fixed rates and floating rates. However, against the background of rising interest rates, banks are often reluctant to provide fixed-rate loans. At end-1H23, 61% of the funding – and 100% of leasing contracts – was at fixed-rate.

Moderate FX Risk

TLF's exposure to FX risk is moderate, as assets are wholly denominated in Tunisian dinar, compared to 76% of end-1H23 funding. The currency mismatch is mitigated as FC-denominated funding is hedged with Tunis Re, a state-owned Tunisian reinsurance company (Insurer Financial Strength: AA(tun)/Stable).

Financial Profile

Asset Quality

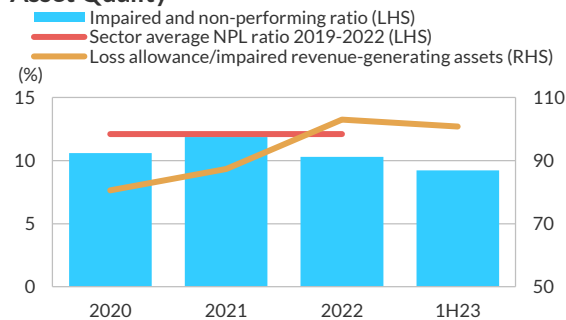
In 2022, the CBT issued a circular requiring financial institutions whose NPL ratio is equal to or higher than 7% to develop a written strategy aiming at reducing these loans to below 7% by 2026.

Fitch estimates that TLF is on track to meet the regulatory requirement as asset quality has improved. Its NPL ratio has decreased to 9.2% at end-1H23 (end-2022: 10.3%), better than all peers.

The company has also written off TND5 million of receivables at-end 1H23. We expect that the company will write-off a further TND 3 million before end-2023. These levels of write-offs are usual for the sector.

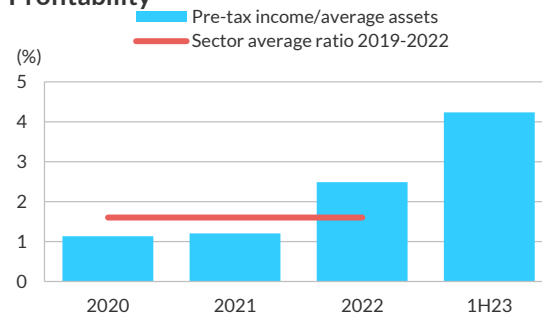
TLF's reserves coverage is good with a loss allowance/NPL ratio of 101% at end-1H23. This level is well above its peers' average, which was around 77% at end-1H23.

Asset Quality



Source: Fitch Ratings, TLF

Profitability



Source: Fitch Ratings, TLF

Earnings and Profitability

TLF’s average return on average assets (ROAA) ratio for the last four financial years was 1.4% at end-2022, which is slightly below the sector average of 1.6%. However, the company’s profitability metrics have proven to be resilient to the challenging operating conditions, reflecting the greater diversification of its business model.

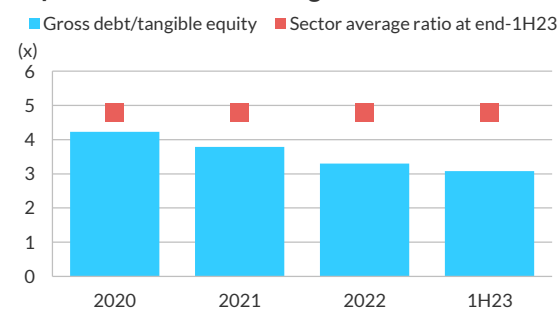
TLF recorded one of the strongest profitability metrics in the sector in 1H23. The annualised pre-tax ROAA was 4.2% in 1H23, compared to the sector average of 2.9%. This was mainly due to efficient cost controls and below-average impairments charges.

Capitalisation and Leverage

The company has consistently posted lower leverage ratios than its peers over the past four years. TLF has been focused on deleveraging since 2018, when the gross debt/tangible equity ratio stood at a high 6.0x. Since then, its gross debt/tangible equity ratio decreased to 3.1x at end-1H23 (end-2022: 3.3x). We expect leverage to remain around that level at end-2023 as the company plans to grow slowly given the operating environment challenges.

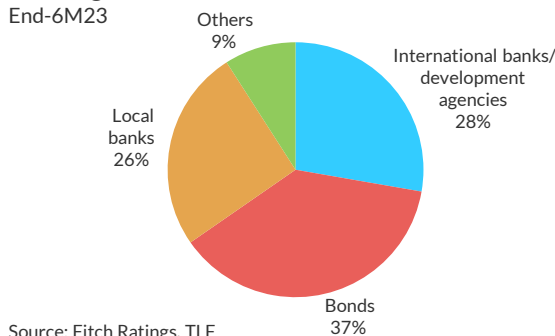
TLF’s capital is also more resilient to asset quality risks with more loss-absorption capacity. Fitch estimates that TLF could record an additional 8% loss in leases before breaching minimum regulatory capital ratios of 10%.

Capitalisation and Leverage



Source: Fitch Ratings, TLF

Funding Breakdown



Source: Fitch Ratings, TLF

Funding, Liquidity and Coverage:

TLF relies less on short-term funding than its Tunisian peers. TLF also benefits from funding from Amen Bank, part of Amen Group, which holds a 36% stake in TLF. However, we do not factor in any support from Amen bank as funding might not be available at times of economic stress.

TLF’s funding is well-diversified between local bonds (37% of non-equity funding at end-1H23), international development agencies (28%), and local bank loans (26%). This split has been stable for several years.

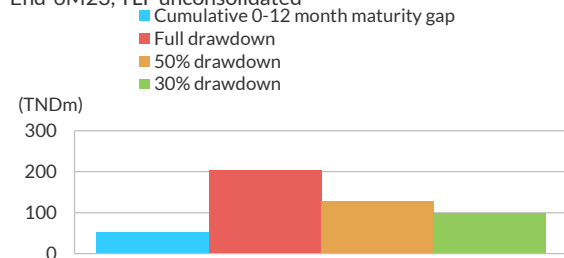
TLF has various sources of new funding. However, this does not exclude that, in our view, a sovereign default could cause severe market uncertainty and liquidity stress, which could materially affect Tunisian NBFIs’ ability to cover their liquidity gaps or to secure funding required for growth.

However, Fitch estimates that TLF may still be able to access funding from international institutions in times of stress due to good relationships and records of partnerships.

TLF's liquidity is sufficient, in Fitch's view. At end-1H23, the asset-liability maturity gap was positive. Additionally, Fitch estimates that TLF has secured adequate committed credit lines to cover potential short-term liquidity gaps.

Short-Term Maturity Gaps

End-6M23, TLF unconsolidated



Short term = 0-12 months
 Source: Fitch Ratings, TLF

Debt Ratings

Debt Ratings: Tunisie Leasing et Factoring

Rating level	Rating
Senior unsecured	BBB-(tun)
Subordinated	BB(tun)

Source: Fitch Ratings

Senior debt instruments issued by TLF are equalised with its National Ratings.

TLF's rated subordinated debt instruments qualify as Tier 2 capital in accordance with Tunisian prudential regulations. As the subordinated debt is not subject to early redemption or coupon deferral clauses, Fitch has not applied additional notches for non-performance risk. The Tier 2 debt is notched down twice from the National Long-Term Rating.

Fitch believes that the default risk on subordinated debt is no different to the default risk on the senior debt, but subordinated debt is rated two notches below senior debt to reflect poorer recovery prospects.

Financials

Income Statement

	30 Jun 23		31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
	6 months - interim (USDm)	6 months - interim (TNDm)	Year end (TNDm)	Year end (TNDm)	Year end (TNDm)	Year end (TNDm)
	Reviewed - unqualified	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Revenues						
Financial lease income	15.5	48.1	95.3	95.7	94.1	91.4
Other operating revenue	4.3	13.5	20.8	18.0	16.6	21.8
Operating revenues	19.9	61.6	116.1	113.7	110.6	113.2
Expenses						
Interest expense	9.1	28.3	58.9	62.5	67.0	71.0
Direct operating expenses	0.2	0.5	1.0	1.0	n.a.	0.9
Impairment charges	0.6	2.0	14.9	18.0	20.0	13.7
Depreciation of revenue-generating assets	n.a.	n.a.	n.a.	n.a.	16.3	3.9
SG&A expenses	3.6	11.2	19.3	17.8	16.2	15.5
Other operating expenses	1.2	3.6	5.9	7.4	9.1	6.1
Operating expenses	14.7	45.6	99.9	106.7	128.5	111.2
Operating income	5.2	16.0	16.1	7.0	-17.9	2.0
Investment income	1.8	5.7	10.5	7.9	27.4	6.2
Non-revenue generating assets depreciation/amortisation	-0.3	-0.9	-2.1	-2.3	0.0	0.0
FX gains/(losses)	n.a.	n.a.	n.a.	n.a.	0.4	n.a.
Other income/(expenses)	0.1	0.2	0.4	-0.0	2.4	1.0
Income tax	2.5	7.7	7.5	3.9	5.0	1.8
Non-recurring gains/(losses)	-0.3	-0.9	-0.8	-0.3	n.a.	0.0
Net income	4.0	12.4	16.6	8.3	7.3	7.4
Memo: dividends paid in the period	3.0	9.2	5.4	3.9	n.a.	6.3
Exchange rate		USD1 = TND3.1048	USD1 = TND3.1101	USD1 = TND2.8865	USD1 = TND2.7047	USD1 = TND2.79847

Source: Fitch Ratings, Fitch Solutions, Tunisie Leasing et Factoring

Balance Sheet

	30 Jun 23		31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
	6 months - interim (USDm)	6 months - interim (TNDm)	Year end (TNDm)	Year end (TNDm)	Year end (TNDm)	Year end (TNDm)
Assets						
Other earning assets (loans and receivables)	323.2	1,003.5	947.3	959.5	1,001.8	1,055.5
Loan loss allowances for receivables and loans	30.0	93.2	100.4	99.5	85.5	60.6
Memo: impaired receivables & loans included above	29.8	92.5	97.5	113.9	106.0	84.1
Operating lease & rental assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net revenue-generating assets	293.2	910.3	846.9	860.0	916.3	994.9
Gross revenue-generating equipment	323.2	1,003.5	947.3	959.5	1,001.8	1,055.5
Cash & equivalents	4.0	12.4	7.6	9.5	14.3	13.9
Advances paid	0.4	1.1	0.7	1.8	n.a.	1.1
Investments in securities	11.0	34.2	88.2	91.7	105.5	59.6
Investments in associated companies	9.8	30.4	30.3	30.3	n.a.	n.a.
Property, plant & equipment	2.9	9.0	9.0	9.4	11.7	10.2
Other intangibles	0.2	0.6	0.9	0.8	n.a.	2.8
Other assets	1.5	4.8	4.1	6.6	26.6	8.4
Total assets	325.3	1,010.0	994.3	1,025.6	1,074.4	1,112.8
Liabilities & equity						
Short-term liabilities (maturing in next 12 months)	66.0	204.9	206.8	207.6	246.3	272.1
Unsecured short-term debt	66.0	204.9	206.8	207.6	246.3	272.1
Long-term liabilities (maturing after 12 months)	119.0	369.4	391.8	437.8	479.0	479.5
Unsecured long-term debt	119.0	369.4	391.8	437.8	479.0	479.5
Total debt	189.6	588.7	619.7	668.1	746.7	797.1
Accounts payable & accrued expenses	63.7	197.6	157.3	157.8	123.1	135.0
Current tax liabilities	2.5	7.9	6.6	3.9	5.4	3.5
Deferred tax liabilities	n.a.	n.a.	n.a.	n.a.	0.2	0.4
Other liabilities	7.7	23.9	22.0	18.4	22.2	6.6
Total liabilities	263.5	818.1	805.6	848.2	897.7	942.5
Share capital & share premium	17.4	54.0	54.0	54.0	54.0	54.0
Other revaluation	13.8	43.0	43.9	46.9	58.9	60.2
Retained earnings	30.6	94.9	90.8	76.4	63.8	56.1
Total equity	61.8	191.9	188.7	177.4	176.8	170.3
Total liabilities & equity & NCI	325.3	1,010.0	994.3	1,025.6	1,074.4	1,112.8
Exchange rate		USD1 = TND3.1048	USD1 = TND3.1101	USD1 = TND2.8865	USD1 = TND2.7047	USD1 = TND2.79847

Source: Fitch Ratings, Fitch Solutions, Tunisie Leasing et Factoring

Summary Analytics

	30 Jun 23 6 months - interim	31 Dec 22 Year end	31 Dec 21 Year end	31 Dec 20 Year end	31 Dec 19 Year end
1. Impaired assets/gross revenue-generating assets	9.21	10.29	11.87	10.58	7.96
2. Growth of revenue-generating assets	4.98	-1.27	-4.23	-5.08	-4.08
3. Growth of total assets	2.10	-3.05	-4.55	-3.45	-2.41
4. Loss allowance/impairment revenue-generating assets	100.80	102.99	87.37	80.60	72.05
5. Impairment charges/av. gross revenue-generating assets	0.40	1.56	1.82	2.05	1.27
6. Change in impaired assets plus net charge-offs/av. gross revenue-generating assets	-0.02	-0.02	0.01	0.02	0.03
7. Impaired assets less loss allowances/equity	-0.38	-1.54	8.11	11.64	13.80
Pre-tax income/average assets	4.24	2.48	1.21	1.14	0.81
Operating revenues/av. gross revenue generating assets	12.74	12.17	11.52	11.35	10.51
Impairment charges/pre-impairment op. profit	10.85	48.03	71.89	957.93	87.27
Opex/average assets	2.26	1.92	1.71	1.50	1.37
Opex/operating revenue less interest expense (cost/income)	12.48	11.03	10.09	9.11	8.40
Pre-tax income/average equity	22.30	13.70	7.09	6.96	5.69
Net income/average equity (ROAE)	13.16	9.12	4.72	4.13	4.58
Net income/average assets (ROAA)	2.50	1.65	0.80	0.68	0.65
Pre-tax income/revenues	34.15	21.47	11.01	11.11	8.09
EBIT/revenues	78.60	71.47	65.71	71.67	70.82
1. Debt/tangible equity (x)	3.08	3.30	3.78	4.22	4.76
2. Debt/equity	3.07	3.28	3.77	4.22	4.68
3. Net debt/equity	3.00	3.24	3.71	4.14	4.60
4. Total liabilities/equity	4.26	4.27	4.78	5.08	5.53
5. Equity/assets	19.00	18.98	17.30	16.45	15.31
6. Tangible equity/tangible assets	18.94	18.89	17.22	16.45	15.06
7. Dividends paid and share repurchases/net income	73.89	32.55	46.68	n.a.	85.31
1. Unsecured debt/total debt	97.57	96.58	96.59	97.14	97.23
2. Short-term debt/total debt	34.81	33.36	31.07	32.99	34.14
3. Interest expense/av. total debt	9.44	9.23	8.98	8.81	8.70

Source: Fitch Ratings, Fitch Solutions, Tunisie Leasing et Factoring

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