

Lider Faktoring

LIDFA (the leader) is ready for macroeconomic rematch...

We initiate the coverage of Leader Factoring in our research scope with a target price of TL15.57 for a 12-month period, recommending a BUY with a potential return of 102%. i) The company's and partners' experience of over 30 years in the sector, coupled with a strong know-how capacity, ii) the economic conjuncture creating the optimal environment for factoring companies, iii) Leader Factoring's effective diversification of its portfolio among small/large customers in terms of customer, sectoral, and geographical bases, stands out as the main theme of our valuation. We believe that the high equity profitability realized in the first 9 months of the year will continue to drive revenue and profitability growth in 2024. Positioned as attractive in terms of current Mcap, the company trades at a multiple of 2.8x P/E in our 2023E estimates and 1.3x P/E in our 2024E estimates.

The gradually increasing interest rate environment is supporting the factoring sector... Interest rate hikes implemented during the monetary tightening process strengthen the demand for the factoring sector, which is considered an alternative for companies in need of access to finance. The increasing need for resources as a result of macroeconomic developments highlights the role of factoring companies that provide alternative financing techniques in supporting their income and profitability margins. Considering the sustained strong demand for factoring financing, we expect a robust overall improvement in the sector throughout the year 2024.

Distinguishing itself from competitors with an effective credit portfolio structure... Leader Factoring manages its credit portfolio effectively as part of its credit risk management, diversifying it based on sector, geography, customer, and issuer. The geographical, sectoral, customer, and issuer diversification of the existing customer portfolio gives Leader Factoring an advantage in the balanced management of risk and return compared to its competitors in the sector. With high equity profitability, Leader Factoring penetrates untapped potential with its diverse customer base, where both large and small clients are included, leveraging its strong experience to maintain effectiveness in the market. This contributes to its positive differentiation, particularly against non-bank factoring competitors.

Rating

Buy

Target Price

TL 15.57

Return potential

102%

Share Data

Ticker:	LIDFA TI		
Share price (as of 17.11.2023)	7.70		
Share price (52 week range)	2.4 / 8.7		
Market cap. (TL mn - USD mn)	1954.3 - 68		
# of shares (mn) & free float	253.8 - 40%		
Foreign Ownership Rate	0.00%		
Market	Main		
Industry	Factoring		

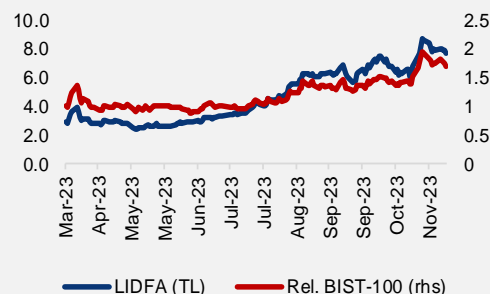
Avg. trading volume	1M	3M	12M
USD mn	0.8	1.7	2.3

Price performance	1M	3M	Y-t-D
TL	17%	32%	127%
USD	14%	25%	48%
Rel. to BIST-100	21%	30%	59%

Forecasts (TL mn)	2022	2023E	2024E
Operating Income	509	1,379	2,468
Net Operating Profit	282	1,047	2,046
Net Earnings	207	705	1,451

Valuation	2022	2023E	2024E
P/E	4.2x	2.8x	1.3x

Balance Sheet	2022	2023E	2024E
Total Assets	2,283	5,720	8,912
Total Liabilities	506	1,475	2,852



Kadirhan Öztürk

+90 212 355 4646

kadirhan.ozturk@tacirler.com.tr

Oğuzhan Kaymak

+90 212 355 2604

oguzhan.kaymak@tacirler.com.tr

Investment Case

High equity profitability contributes to sustainable growth... Leader Factoring has continued to grow over the years through increased factoring volume, capital increases, and strong equity returns. While the total equity of the factoring sector has seen a compounded annual growth rate of 15% to 2022 from 2008, the company's equity has demonstrated a compounded annual growth performance of 20%. In our valuation period covering 2023-2028, we anticipate that the company's equity will reach TL4.6bn with a compounded annual growth rate of 29%. As of 3Q23, the company's annualized asset profitability has risen to 20.13%, and equity profitability has reached 82.60%. Looking ahead to the 2024E period, we forecast an average equity profitability of 70.6%, and for the 2025E period, an average of 56.1%.

The new monetary policy and tightening in Turkey... Factoring companies inherently exhibit a high sensitivity to local economic activity due to their structure. While the recent economic conjuncture has had an impact on the factoring sector as a whole, the economic policy implemented in the second half of 2023 and the associated outlook are organically opening up the return margin of financing provided to meet the capital needs of businesses in a positive direction for factoring companies. With the implementation of new monetary and economic policies and the continuation of determined steps towards achieving deflation, we anticipate a strong trajectory in the equity real returns of factoring companies.

With the experience accumulated over many years in the sector and a strong know-how... Leader Factoring ("LIDFA") was established in 1992 with the aim of providing solutions for the financing of domestic receivables of industrial and commercial companies in Turkey. For over 30 years, it has been offering effective factoring services to a diversified customer portfolio. Being one of the factoring companies with the highest domestic transaction volume, Leader Factoring provides services to a customer base of over 35,000, leveraging its strong industry experience. The accumulated robust know-how over the years and the diversified customer base both in terms of sectors and regions contribute to its low non-performing loan ratio compared to its competitors.

The factoring sector, entering a renewed growth trend... The prolonged period of high inflation in Turkey has exerted pressure on the profitability of the factoring industry. However, thanks to the positive divergence in equity real returns in the first nine months of 2023, the period net profit of factoring companies increased by 245% compared to the same period in 2022, reaching TL9.2bn.

Sustainable income flow with high equity returns... The recent high inflation environment in recent years has had an adverse effect on equity real returns in the factoring sector, leading to high equity costs and weak equity profitability. However, in 2023, this margin reversed in favor of equity profitability, providing factoring companies with the opportunity to achieve positive equity real returns once again. With the new economic management, we believe that the positive outlook in equity returns will continue to improve throughout 2024.

We anticipate that Leader Factoring, with its broad customer base and extensive distribution network, robust risk management practices, high asset quality, and balanced capital structure, will sustain its growth over the years, supported by its strong relationships with Turkish banks.

Risks: The emergence of possible macroeconomic uncertainties in the economic conjuncture or a sharp reversal in current policies could lead to a negative trend in equity returns, directly impacting the profitability of the sector.

Financial incentives supporting the growth of commercial loans provided by banks to meet the capital needs of businesses may be perceived as a constraining factor in terms of the potential market for factoring companies.

Lider Factoring has the capability to reach a diverse range of clients, including large, small, and medium-sized enterprises, thanks to its expansive branch network... As of September 2023, with its headquarters and 15 branches strategically dispersed across various cities/counties, along with a team of 161 professionals, Leader Factoring offers factoring solutions to a clientele exceeding 35,000 SMEs. The well-balanced distribution of customer and receivable volumes among branches serves to mitigate potential risks.

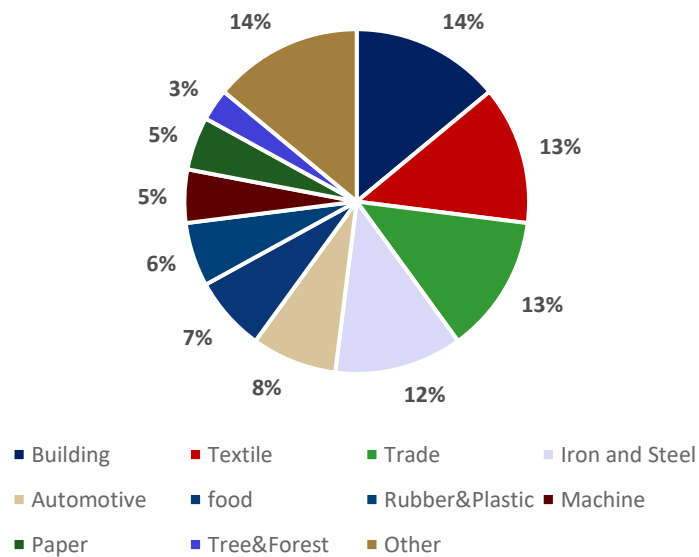
The homogeneous distribution of the customer portfolio across sectors minimizes potential loss risks... Leader Factoring provides solutions to customer needs in more than 16 different sectors, ranging from textiles to automotive. The even distribution of different sectors within the total portfolio not only minimizes portfolio risk but also contributes to Leader Factoring's market penetration. As of 3Q23, when the distribution of factoring receivables is examined by sectors, construction ranks first with a share of 14%, while the tourism sector ranks last with a 0.3% share. The construction & infrastructure, trade, textile, iron, and steel sectors together constitute approximately 52% of the total factoring receivables.

In addition to the geographical diversification of the customer portfolio, achieving distribution among sectors provides effectiveness and advantages in terms of manageable risk. The table below depicts the sectoral distribution of the customer portfolio as of 3Q23, including the factoring receivables of sectors and their factoring volumes.

Table: Sectoral Distribution of Customer Portfolio as of 9M23.

Sectoral Distribution of Total Factoring Receivables as of 9M23 (TL)				
Sector	9M23 Factoring Receivables (thousand TL)	Share	2022 Factoring Receivables (thousand TL)	Share
Building	405,878	13.81%	268,389	13.79%
Textile	391,461	13.32%	259,552	13.34%
Trade	390,252	13.28%	257,077	13.21%
iron and Steel	353,316	12.02%	234,167	12.03%
Automotive	221,836	7.55%	148,592	7.64%
food	216,869	7.38%	142,015	7.30%
Rubber and plastic products	160,104	5.45%	105,707	5.43%
Machine	156,526	5.33%	103,996	5.34%
paper products	151,967	5.17%	100,954	5.19%
Wood and forest products	97,697	3.32%	64,340	3.31%
Agriculture	90,973	3.10%	61,482	3.16%
Electricity and electronics	86,474	2.94%	56,401	2.90%
Chemical	67,531	2.30%	44,799	2.30%
Leather and leather products	32,417	1.10%	21,487	1.10%
Tourism	9,305	0.32%	6,186	0.32%
Other	106,705	3.63%	70,828	3.64%
Total	2,939,311	100%	1,945,972	100%

Source: Company Data, Tacirler Investment

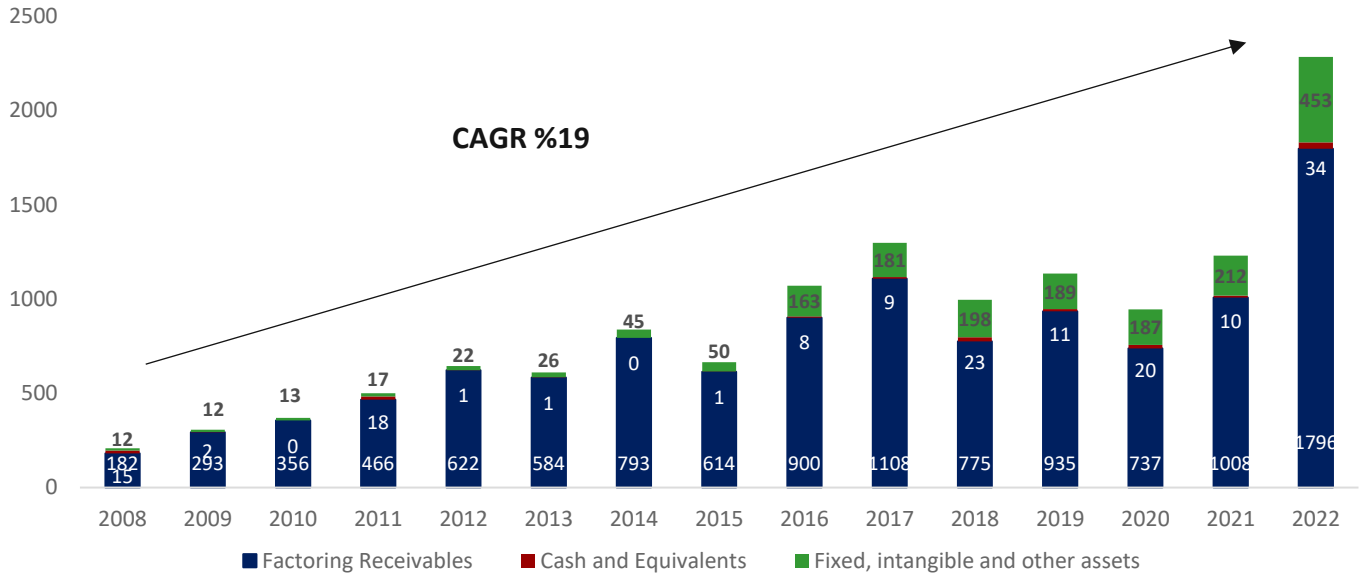
Table: Sectoral distribution of factoring receivables (December 31, 2022)

Source: Company Data, Tacirler Investment

As of 3Q23, total factoring receivables reached TL2.9bn, with total receivables evenly distributed among customers. Thanks to the homogeneous distribution of the customer portfolio, Leader Factoring eliminates the potential loss risk in riskier sectors, where the risk of non-performing loans is high.

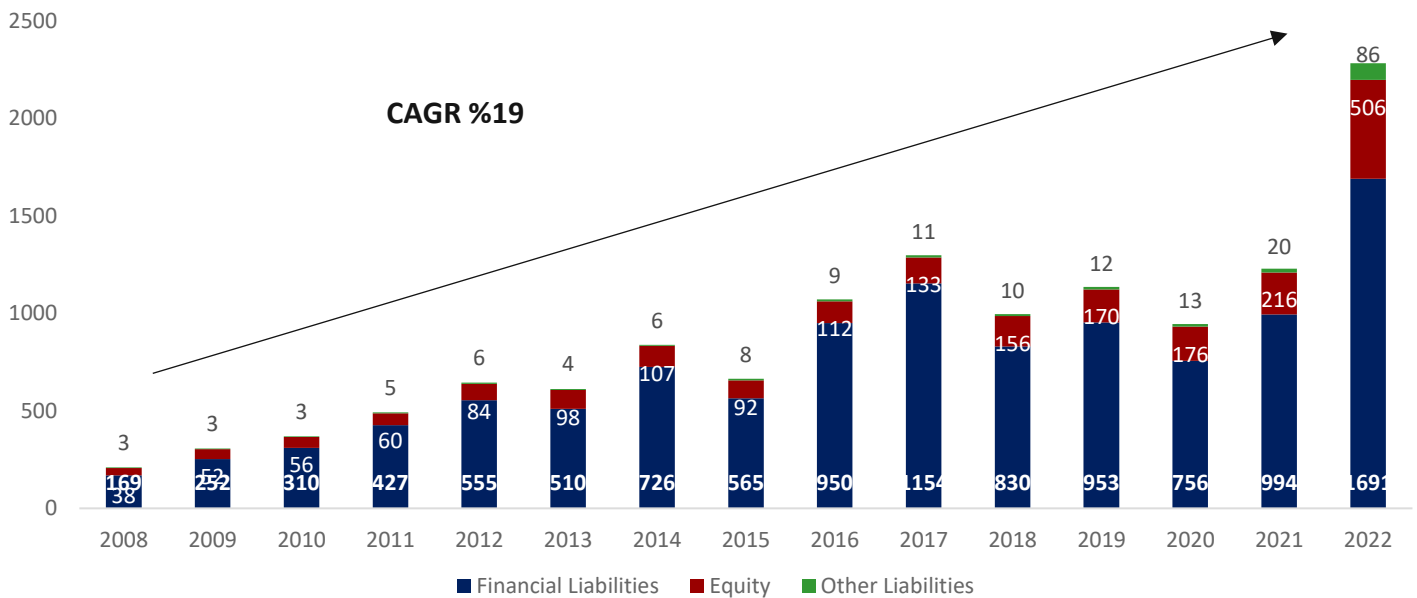
With a diminishing acceptance rate over the years, Leader Factoring places emphasis on quality... While the current economic climate provides a positive backdrop for factoring companies, in the event of an economic shift, Leader Factoring, with its extensive and diverse customer base, possesses the capability to mitigate the impact of a potential negative cycle by enhancing acceptance rates once again. Leader Factoring's total assets demonstrated a compound annual growth rate of 19% from 2008 to 2022

Table: Assets by years (mn TL)



Source: Company Data, Tacirler Investment

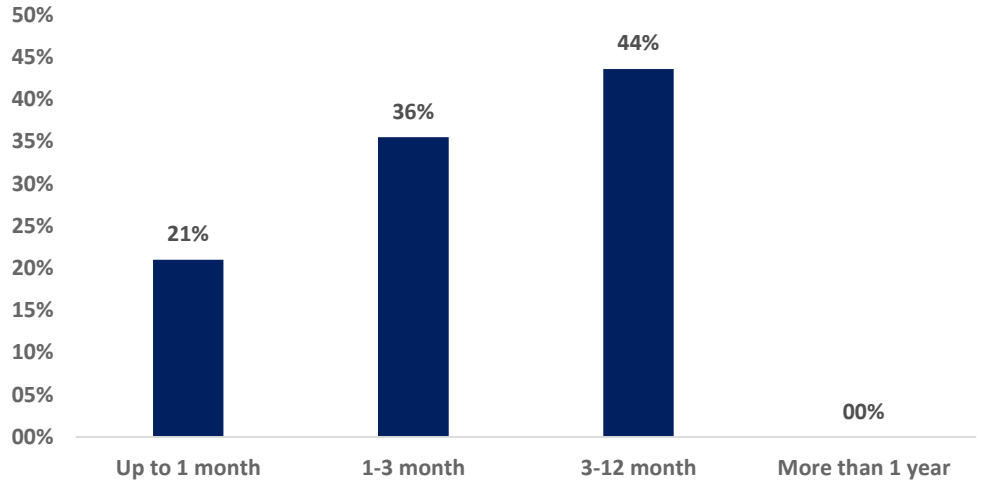
Table: Liabilities by years (mn TL)



Source: Company Data, Tacirler Investment

While the majority of the company's factoring receivables have a maturity period ranging to 100 from 70 days, the funding itself is of a longer duration. The dispersion of factoring receivables over short-term periods, coupled with robust asset growth, serves to increase liquidity. This circumstance bestows upon Leader Factoring the capability to swiftly adapt to potential shifts in economic conditions.

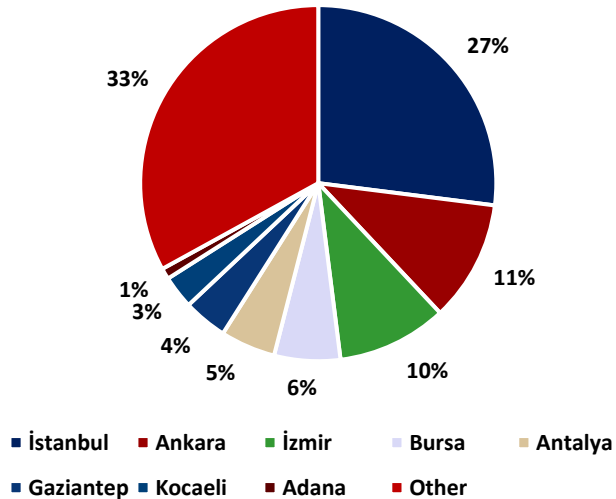
Table: Receivables Maturity (as a % of total factoring receivables)



Source: Company Data, Tacirler Investment

Leader Factoring has expanded its branch network by years to provide services to customers in 50 cities, with its headquarters and 15 branches.

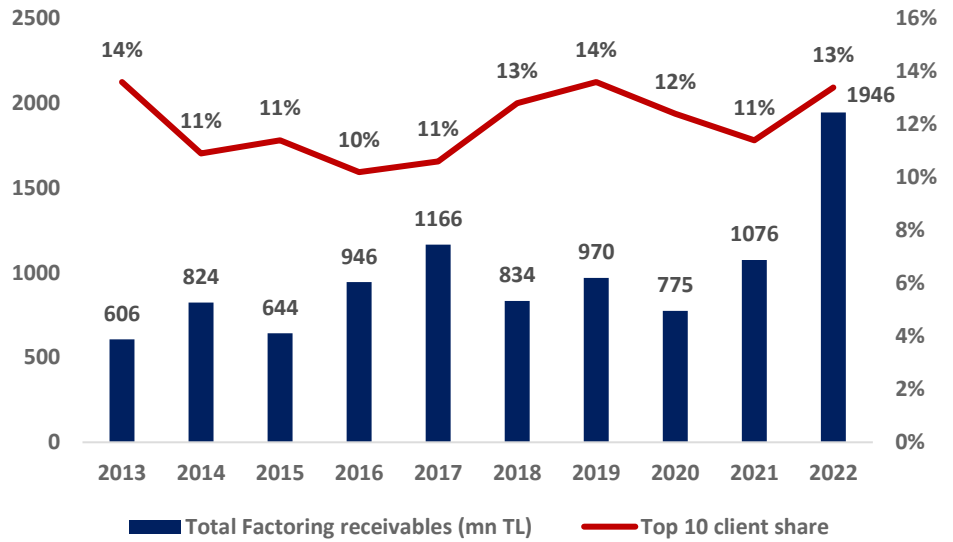
Table: Regional distribution of customer factoring receivables (December 31, 2022)



Source: Company Data, Tacirler Investment

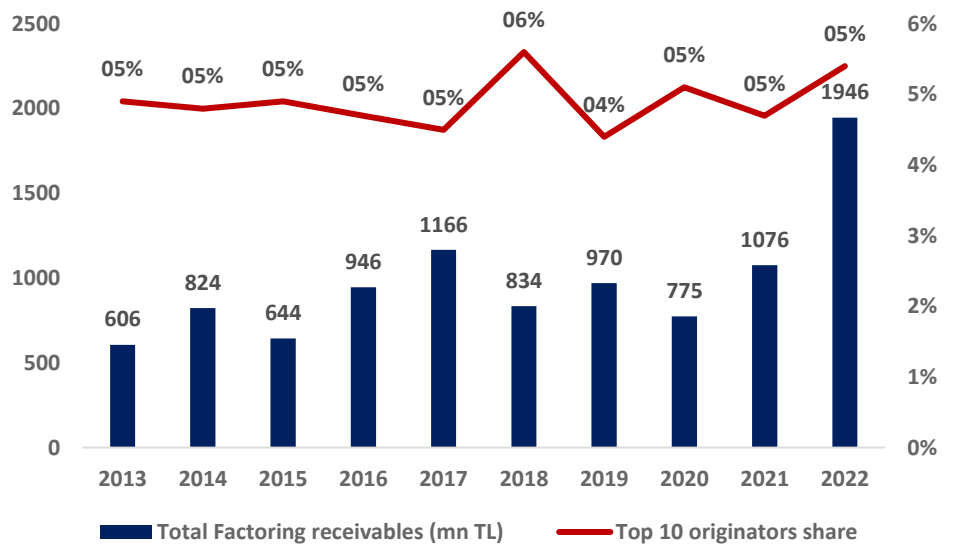
Leader Factoring strategically diversifies its existing customer portfolio on a sectoral, geographical, and customer basis for the effective management of credit risk.

Table: Top 10 client



Source: Company Data, Tacirler Investment

Table: Top 10 originators

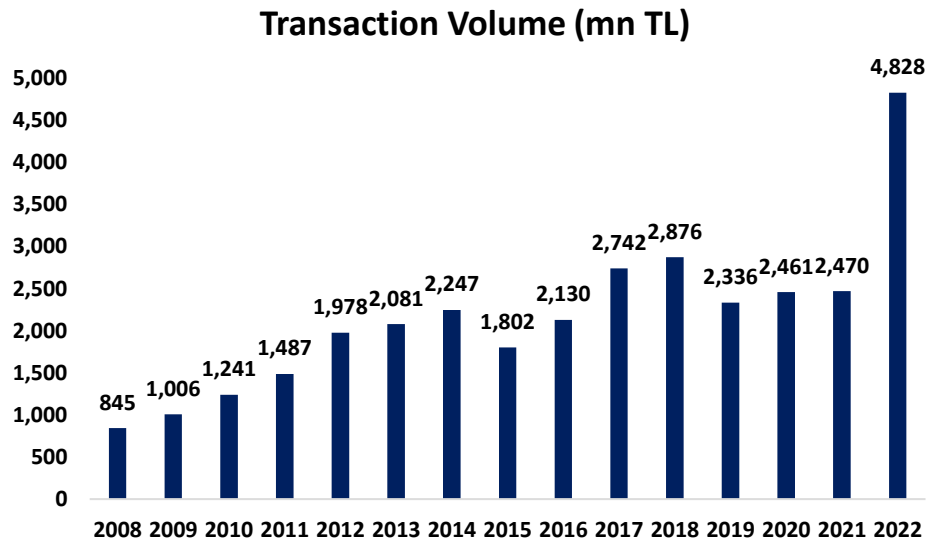


Source: Company Data, Tacirler Investment

Yearly Financial Indicators

As of the year-end periods to 2022 from 2008, Leader Factoring achieved a compound annual growth rate of 13% in its total transaction volume, with the volume reaching TL4.8bn by the end of 2022, marking a 5.7-fold increase compared to the year 2008.

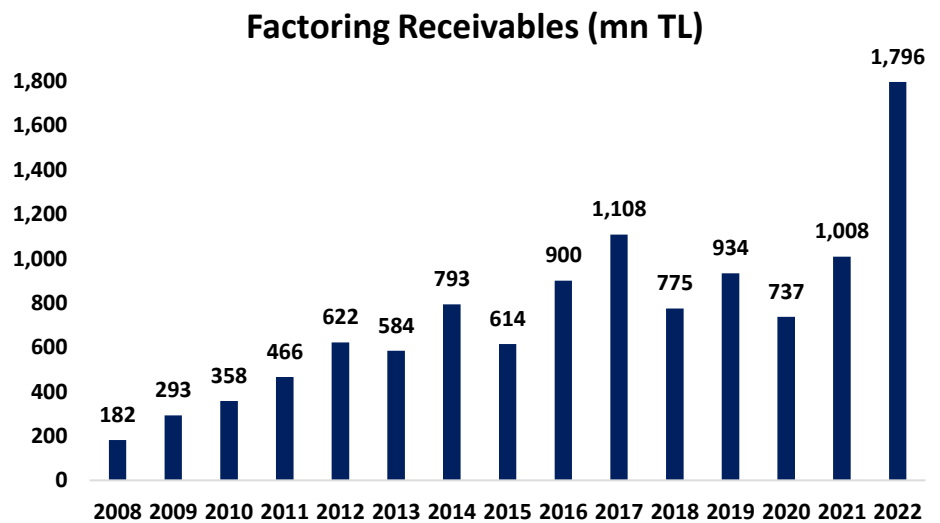
Table: Transaction volume by years



Source: Company Data, Tacirler Investment

When examining Leader Factoring's total factoring receivables for the period 2008 to 2022, it is observed that there has been a compound annual growth rate of 18%, reaching a level of TL1.8bn by the end of 2022, indicating a 9.9-fold increase.

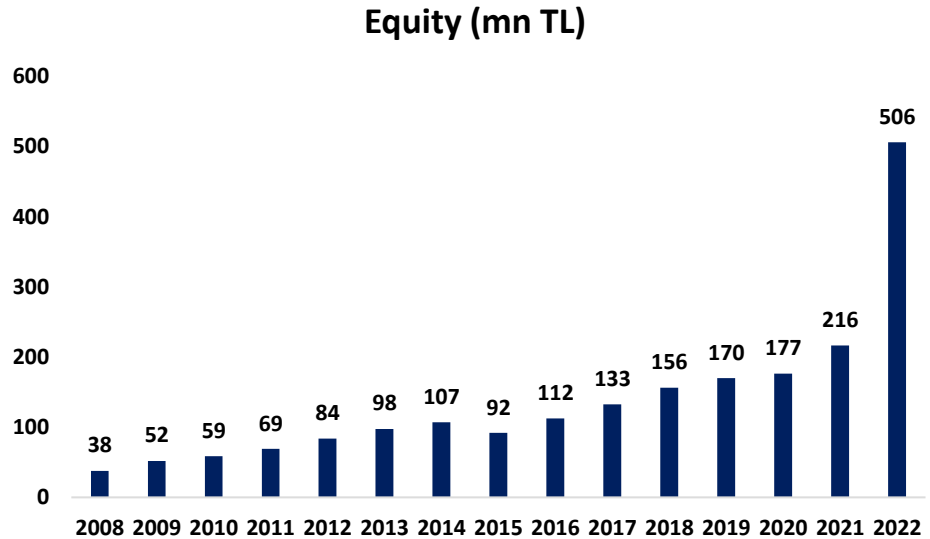
Table: Receivables by years



Source: Company Data, Tacirler Investment

Leader Factoring realized an annual compound growth rate of 20% in its total equity during the period to 2022 from 2008. By the end of 2022, there was a substantial 13.4-fold increase, reaching TL506mn.

Table: Total equity by years



Source: Company Data, Tacirler Investment

About LIDFA

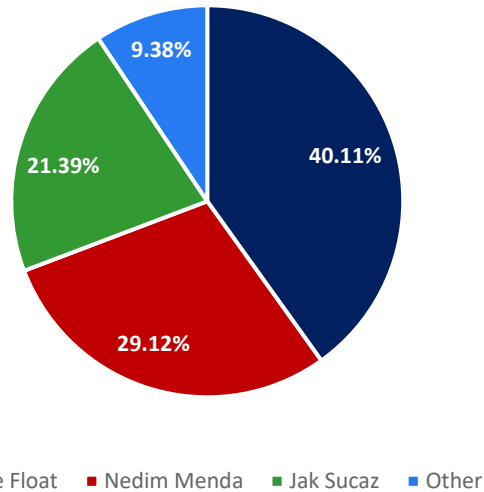
Lider Factoring ("LIDFA") was established in 1992 with the target of providing solutions for the financing of domestic receivables for industrial and commercial companies in Turkey. Operating entirely within the domestic market, Lider Factoring offers factoring services to its customer portfolio. In 2014, 15% of Lider Factoring's capital was listed through an IPO, and the company's shares have been traded on the Borsa Istanbul A.Ş. (BIST) since that date. As of September 2023, with 15 branches and 161 employees, Lider Factoring continues to grow, providing financing for domestic receivables to over 35,000 SME customers, predominantly from industrial sectors. With its broad customer base, extensive distribution network, robust risk management practices, high asset quality, and balanced capital structure, along with strong relationships established with Turkish banks, Lider Factoring has become one of Turkey's leading independent factoring companies, sustaining its growth by the years.

Ownership Structure: 15% of Lider Factoring's capital was listed through an IPO in 2014, and the company's shares have been traded on the Borsa Istanbul A.Ş. (BIST) since that date. As of September 30, 2023, the company's shares are listed on the BIST Main Market. By the years, Lider Factoring has strengthened its capital and ownership structure, and during this period, it also added Credit Suisse, an international banking group (shares sold in September 2018), to its shareholders.

The company shares are divided into three groups: A, B, and C Groups. The fully paid shares consist of 50,000 shares in the A Group, equivalent to TL50,000, 228,623,800 shares in the B Group, equivalent to TL228,623,800, and 25,126,200 shares in the C Group, equivalent to TL25,126,200.

The main stakeholders of Lider Factoring are family members. As of September 30, 2023, the company's issued capital is TL253.8mn. A publicly traded portion of the company, accounting for 40.11%, is listed on the Borsa Istanbul. Family members hold all shares in the A Group, while Nedim Menda holds shares in the C Group. The B Group consists of common shares. B Group shareholders have economic rights and the right to preferential purchase in dividend distributions and share issuances, in addition to the rights held by each common shareholder. A and C group shareholders have privileges such as voting on the selection of Board of Directors candidates and voting on significant decisions. The company's ownership structure is detailed in the table below.

Table: LIDFA ownership structure



Source: Company Data, Tacirler Investment

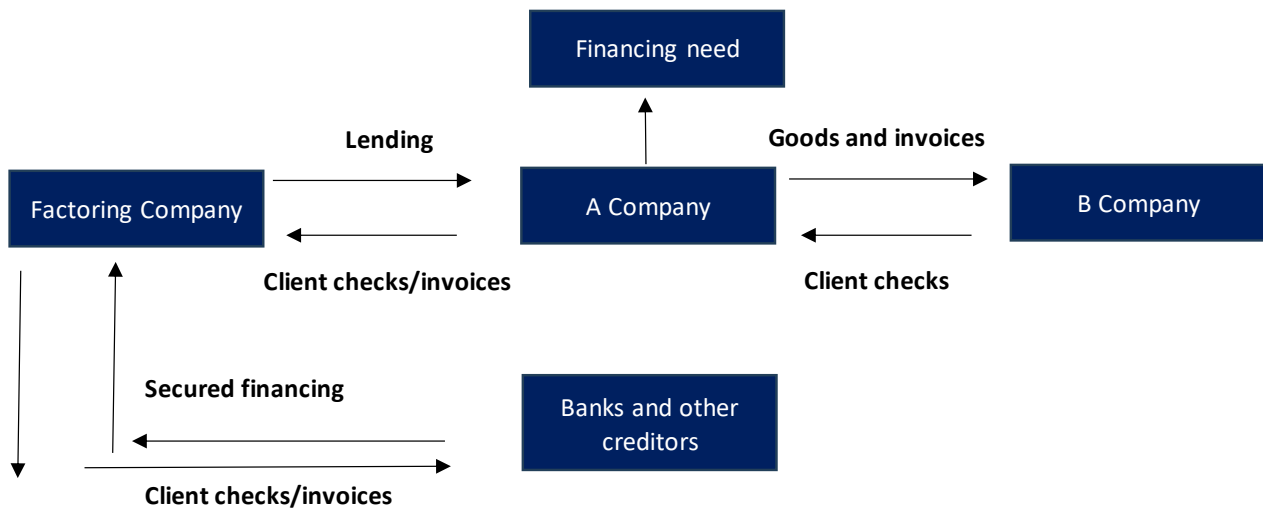
Lider Factoring acquired a 100% stake in Denge Asset Management Inc., established in 2016, whose main business is to buy and sell receivables and other assets of deposit banks, participation banks, and all other financial institutions. Apart from Denge Varlık, Lider Factoring does not have any other group companies.

Sector

Factoring Structure and Operations: Factoring is a financial instrument involving the assignment of receivables arising from the sale of goods or services, whether already incurred or to be incurred. It provides the selling company with a range of services, including guarantees, collection/debt management, and financing (prepayment). There are two primary types of factoring. In recourse factoring, the company retains the right of recourse against the relevant customer, endorsers, and debtors. On the other hand, non-recourse factoring grants the company recourse rights only against endorsers and debtors.

Factoring companies with robust operational systems secure financing for their receivables from various sources, primarily local banks. Since October 2006, the Banking Regulation and Supervision Agency (BRSA) has been responsible for the oversight and control of factoring companies. The funding process in the factoring sector is depicted in the visual below.

Table: Funding process



Source: Company Data, Tacirler Investment

Turkish companies often leverage factoring services, a prevalent financing model in Turkey, to address their working capital requirements. Factoring has emerged as an appealing financing option for Turkish businesses, driven by factors such as the rapid accessibility to financing, the flexibility achieved through the combination of factoring with bank loans, and the inability of banks to fully meet the demand for such credit facilities.

Analyzing the funding process of factoring reveals it as a financial alternative tailored for SMEs, encouraging invoiced trade in compliance with legal requirements, and contributing to increased competitiveness and dynamism in the financial sector.

Factoring companies typically operate with payment terms spanning 90 to 120 days, with a predominant focus on applying discounts for terms shorter than three months.

Lider Faktoring conducts factoring transactions with small and medium-sized manufacturing companies in Turkey. Standard factoring contracts are established with customers, covering guarantees provided by customers for the assigned receivables, the maximum amount subject to factoring, the fully recourse nature of the transaction, obligations related to payment or assignment methods of the customer or guarantor, and termination rules. The contracts are open-ended, but there is a right to terminate the contract immediately in case of certain defaults. Upon termination of the contract, all amounts due to the company (factoring) become immediately payable.

Factoring contracts are structured to be fully recourse, involving the possibility of recourse and chain liability between the parties. If the cheques, for which the drawer is liable, are not collected through the cheque clearing system, recourse is made to the customer. In case the customer does not make the payment, and if there are endorsers, they are jointly and severally liable in a chain-like manner. Not every transaction may involve chain endorsers; it can vary between cheque drawer-customer-factoring company.

Lider Faktoring engages with its clients, who sell their products to their own customers. In return for these sales, Lider Faktoring receives post-dated checks, with the customer or the drawer being the relevant party. The checks typically have a maturity date of 90 to 100 days, and the check date is considered the maturity date.

Lider Faktoring obtains information about the payment of each check related to receivables from banks that provide electronic check services. The company also monitors this information electronically. Various departments enter payment details into the system, and if the payment is not made, they inform about the original copy of the check for the recourse and follow-up process.

Lider Faktoring's credit review procedure during the approval process of financing primarily involves examining the issuer and, subsequently, the endorser of the cheque to be used for the payment of the receivable. If the cheque, for which the issuer is a debtor, cannot be collected through the cheque clearing system, recourse is made to the customer. If the customer fails to pay, endorsers are jointly and severally liable in a chain-like manner.

In the factoring process, seller companies transfer their receivables arising from deferred sales to the factoring company. The factoring company monitors the collection of these receivables and makes cash payments to the seller company. By delegating the collection follow-up to the factoring company, seller companies can focus on their core activities, enabling them to grow sustainably and securely.

Seller companies can transfer their receivables arising from deferred sales to the factoring company, allowing them to use a portion of these receivables as cash before their due dates. This accelerates the conversion of receivables into cash, providing the necessary funds for business growth without relying on external sources.

Factoring not only facilitates the growth of the business but also provides working capital, reducing companies' overall working capital needs.

Lider Faktoring actively manages its credit portfolio within the scope of credit risk management by diversifying it across sectors, regions, customers, and drawers. The focus is primarily on regions with demand for factoring, proximity to industrial centers, and low factoring penetration. Various targets are set for effective credit risk management. The targets for effective credit risk management include:

- **Factoring receivables from any sector should not exceed 20% of total receivables.**
- **Receivables from any single customer should not exceed 10% of total receivables.**
- **Receivables from any single drawer should not exceed 4% of total receivables.**
- **Receivables from the three largest cities outside Istanbul should not exceed 12.50% of total receivables, while for Istanbul, this ratio is set at 50%.**

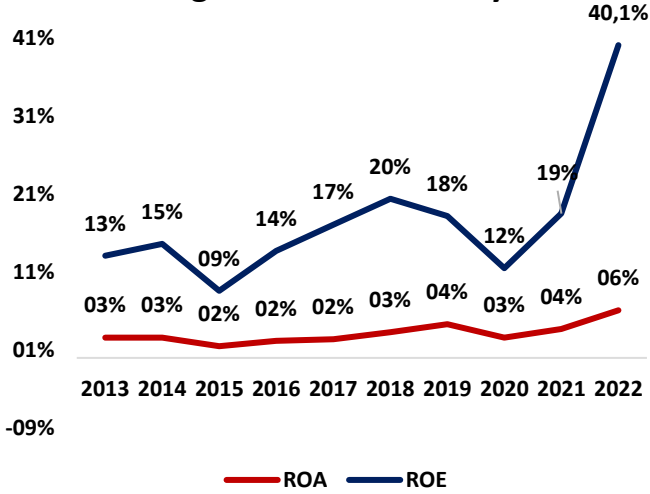
Factoring Sector in Turkey

As non-banking financial sectors crucially contribute to the diversification, development, and deepening of financial services in Turkey, their progress has continued over the years, steadily increasing their share within the financial system day by day.

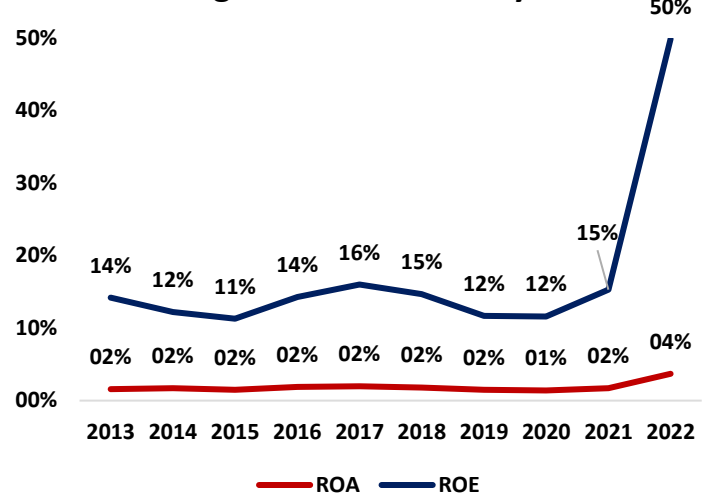
As of 2022 there are 49 companies operating in the Turkish factoring sector, including Lider Faktoring, and all these companies are members of the Financial Institutions Association.

Table: Factoring and Banking Sector Indicators

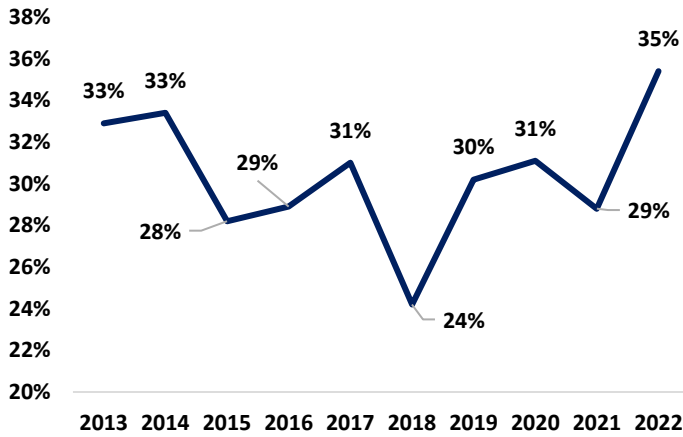
Factoring Sector Profitability Rates



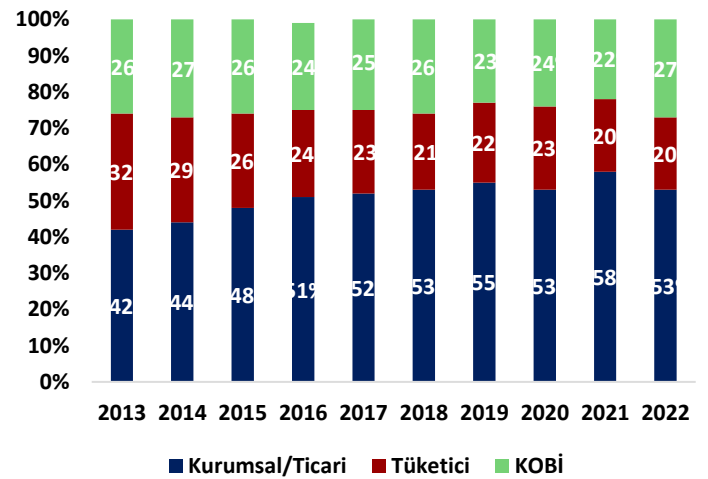
Banking Sector Profitability Rates



Factoring sector non-bank financial sector share (% of assets)



Distribution of Bank Loans



Valuation

We evaluate Lider Faktoring based on the future net profit and average return on equity projections within the financial sector structure. Calculating our 12-month target price per share as TL15.57, our target price indicates a 102% return potential.

Exhibit: Table: Lider Faktoring Economic Value Added (EVA) Valuation

Valuation Model	1905	2023E	2024E	2025E	2026E	2027E	2028E
TL mn							
Operating Income	509.17	1,379.04	2,467.92	2,947.05	3,477.95	4,034.70	4,559.56
<i>Annual Growth</i>		171%	79%	19%	18%	16%	13%
Gross Profit (Loss)	205.55	750.20	1,394.35	1,586.88	1,873.83	2,174.87	2,458.90
<i>Annual Growth</i>		265%	86%	14%	18%	16%	13%
Net Period Profit	206.88	704.82	1,451.05	1,653.12	1,883.75	2,149.19	2,385.89
<i>Annual Growth</i>		241%	106%	14%	14%	14%	11%
Equity	506.48	1,474.83	2,852.32	3,331.90	3,868.29	4,426.36	4,962.45
<i>Annual Growth</i>		191%	93%	17%	16%	14%	12%
Average Equity	361.47	990.66	2,163.57	3,092.11	3,600.09	4,147.32	4,694.41
Return on Equity Ratio	57.2%	71.1%	67.1%	53.5%	52.3%	51.8%	50.8%
Cost of Equity		36%	37%	35%	32%	29%	26%
Yield Spread		35.4%	30.3%	18.7%	20.6%	23.1%	25.1%
Economic Added Value		351	656	578	740	956	1,177
Present Value of Economic Added Value		337	511	359	333	411	471
Infinite Growth Rate		7%					
Infinite Growth Value		3,828					
Infinite Growth Value (PV)		1,531					
Present Value of Economic Added Value		2,422					
Infinite Growth Value (PV)		1,531					
Total Economic Value Added		3,953					
Paid-in capital		254					
Target Share Price		15.57					
Share Price		7.70					
Return Potential		102%					

Source: Company Data, Tacirler Investment

Projected Financials

Balance Sheet	2018	2019	2020	2021	2022	2023E	2024E	2025E
Cash and equivalents	8	11	20	10	34	116	162	193
Factoring receivables	775	934	737	1,008	1,796	4,181	5,817	6,947
Non-performing loans	0	31	29	30	18	27	38	45
Expected loss provisions	0	0	-29	-30	-17	-29	-40	-48
Tangible fixed assets	69	60	60	67	176	388	539	644
Total assets	996	1,135	945	1,231	2,283	5,720	8,912	10,643
Credits	713	804	710	918	1,480	2,977	4,142	4,946
Factoring debts	3	2	2	2	2	3	3	3
Payables from rental transactions	22	48	44	28	107	326	454	542
Securities issued (net)	92	99	0	47	101	405	564	673
Debt and expense provisions	6	7	9	9	22	37	52	62
Liabilities	840	965	768	1,014	1,777	4,094	5,876	7,105
Shareholders' equity	156	170	176	216	506	1,475	2,852	3,332
Paid in Capital	45	45	90	90	135	254	254	254
Other Equity	111	125	86	126	371	1,221	2,599	3,078
Total liabilities & equity	996	1,135	945	1,231	2,283	5,720	8,912	10,643
Income statement	2018	2019	2020	2021	2022	2023E	2024E	2025E
Operating income	299	205	144	223	509	1,379	2,468	2,947
Financing expenses	-260	-162	-124	-168	-304	-629	-1,074	-1,360
Gross profit	39	43	19	55	206	750	1,394	1,587
Core operating expenses	-54	-50	-51	-56	-115	-292	-376	-525
Gross operating profit	-15	-7	-31	0	91	458	1,018	1,062
Net operating profit	25	25	7	50	282	1,047	2,046	2,288
Pre-tax profit	25	25	7	50	282	1,047	2,046	2,288
Tax expense	-5	-7	0	-12	-75	-342	-595	-635
Net earnings	20	18	6	38	207	705	1,451	1,653

Source: Company Data, Tacirler Investment

* All figures are stated in millions of TL unless otherwise stated.

Important Disclosures

Rating Methodology

Stock ratings are based on absolute return potential of the stock, which is defined as the percentage change in target price from the current share price. All recommendations and target prices are set with a 12-month horizon. Target prices are set by using one or more of the following methodologies: DCF, Net Asset Valuation, sum of the parts model and multiple comparison.

Rating Definition

Buy: The stock is expected to generate a return of more than 30% in TL terms.

Hold: The stock is expected to generate a return of less than 15% in TL terms.

Sell: The stock is expected to generate a negative return within the forecast horizon.

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