



# FPN

One asset property / France

## In a surprise move, FIPP has deprived FPN shareholders of control over PAMIER SARL.

Litigation - 03/11/2020

**FIPP has taken full control of FPN's only asset, depriving FPN's shareholders of the recovery potential linked to building refurbishment or a full redevelopment. This may trigger a long and bitter legal battle between FIPP and OTT Group unless a negotiation takes place between the parties.**

### Fact

- In a short press release issued last Friday, FIPP announced that it has taken full control of PAMIER SARL, the latter owning all of FPN's real estate in Le Blanc-Mesnil.
- FIPP exercised pledges on PAMIER shares. As FIPP already has full control over the FPN Board, a related party transaction of this nature should have been ratified by the Annual General Meeting (AGM). The FPN board has repeatedly delayed the AGM, including the last one scheduled on 28 October, just before the take-over decision.
- FIPP should thus take full control of FPN's sole asset without disclosing the terms of this related party transaction and most likely without paying a cent. FPN shareholders could be left with an empty shell, with negative shareholders' equity. The H1 20 report will reveal whether FIPP has a residual shareholder loan in FPN that is likely to be converted in order to avoid a bankruptcy.
- In our Latest of 26 August 2020 "Reference shareholder transferred its risk in FY 19") we had already warned about the mounting risk level due to the increasing guarantees taken by FIPP on the asset itself to the detriment of all the other shareholders.

### Analysis

#### Unusual. The courts will have to rule on the legality of the transaction

FIPP (c. 17% of both shares and voting rights in FPN as of October 2020 – AV estimate – but controlling 100% of the Board prior to the 21 December 2020 AGM) owned a €12.6m shareholder loan in FPN at the end of FY 18. In October 2019, the latter was converted into debt backed by mortgages on Pamier SARL, FPN's 100% subsidiary owning the group's plot and real estate in Le Blanc-Mesnil. This move gave FIPP real guarantees (mortgages) to the detriment of the other FPN shareholders.

This move enabled FIPP to secure its loan through mortgages backed by the asset itself (plot) and 100% of Pamier SARL shares. Starting with an initially naked loan, FIPP's loan was thus secured, depriving the other FPN's shareholders of the remaining portion of the unencumbered asset and its redevelopment potential.

A more usual move would have been to convert the shareholder loan into new FPN shares via a large capital increase, the latter offering other shareholders the opportunity to participate. The consequence would have been a reduction in FPN's consolidated debt and the securing of its balance sheet.

A few months after taking material guarantees on the asset, FIPP last week decided to exercise these guarantees and launch a full take over PAMIER SARL.



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|                         |                     |
|-------------------------|---------------------|
| <b>Buy</b>              | <b>Upside: 118%</b> |
| Target Price (6 months) | € 0.05              |
| Share Price             | € 0.03              |
| Market Cap. €M          | 2.89                |
| Price Momentum          | <b>UNFAVORABLE</b>  |
| Extremes 12Months       | 0.02 ▶ 0.03         |
| Bloomberg               | FPN FP Equity       |
| Reuters                 | FPN.PA              |

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| PERF                | 1w     | 1m     | 3m     | 12m    |
|---------------------|--------|--------|--------|--------|
| Foncière Paris Nord | -5.66% | -12.3% | -5.66% | -16.7% |
| Real Estate         | -2.26% | -3.92% | -5.71% | -25.4% |
| STOXX 600           | -2.27% | -4.09% | -2.38% | -12.9% |

| Last updated: 25/08/2020      | 12/19A | 12/20E | 12/21E | 12/22E |
|-------------------------------|--------|--------|--------|--------|
| Adjusted P/E (x)              | -4.77  | -3.98  | -2.65  | -7.63  |
| Dividend yield (%)            | 0.00   | 0.00   | 0.00   | 0.00   |
| EV/EBITDA(R) (x)              | -8.60  | -10.4  | -12.3  | -37.0  |
| Adjusted EPS (€)              | -0.01  | -0.01  | -0.01  | 0.00   |
| Growth in EPS (%)             | n/a    | n/a    | n/a    | n/a    |
| Dividend (€)                  | 0.00   | 0.00   | 0.00   | 0.00   |
| Sales (€th)                   | 0.00   | 0.00   | 0.00   | 0.00   |
| EBIT margin (%)               | ns     | ns     | ns     | ns     |
| Attributable net profit (€th) | -3,697 | 13,258 | 2,700  | -800   |
| ROE (after tax) (%)           | 27.6   | -171   | -198   | 27.4   |
| Gearing (%)                   |        |        |        |        |

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However, we do not rule-out this move preceding a negotiation phase. In our view, this FIPP move is not wholly rational for a number of reasons: i/ long and expensive future carrying costs; ii/ the cost of legal proceedings; and iii/ the personal risk incurred by the four current FPN Board members.

### **A long legal battle ahead**

We expect the OTT Group to challenge the legality of this transaction. It will take many years (5-7?) before the Commercial Court, then the Appeal Court and then the Cour de Cassation (the French Supreme Court) reach a final decision on whether or not the conditions were legal.

We would highlight that, by depriving FPN's shareholders of the call-option constituting the benefit of a refurbishment or full redevelopment of the site, FIPP risks being retrospectively deemed to have unfairly appropriated a capital gain without any cash counterpart.

Only the Courts can rule on whether or not this transaction is legal.

### **What's next from the shareholder perspective?**

Such a legal proceeding will probably freeze the plot's development for a prolonged period. The latter will accumulate increasing operating losses as both PAMIER SARL and the plot itself could prove unsellable for a long time. Nobody will want to buy or incur expenses on an asset whose long-term ownership is in question.

We expect the OTT Group to request the cancellation of the transaction. The courts usually prefer to award damages rather than cancel a deal. In 5-7 years, a small free option could again progressively emerge as a function of progress on the legal proceedings. During this period, FPN will have to pay its own annual operating costs without the opportunity of significant cash-ins resulting from the sale or refurbishment followed by rental of its subsidiary's buildings.

As a consequence, and should a negotiation not be rapidly forthcoming, we will consider reducing our target price per share to zero due to the time required for legal proceedings. This zero valuation will not include, however, the potential but unpriceable future contribution of penalties awarded to minority shareholders, nor the benefit coming from an agreement between both main parties.

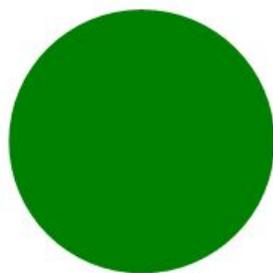
### **■ Impact**

FIPP has played hard ball and secured the value of its shareholder loan without aligning its interests with those of the other shareholders. Talks between the two main parties (Duménil/Ott) as to the future of FPN might thus now be considered to have broken down.

In this taking of control, FIPP has chosen the most aggressive course. With no negotiation, the result will be a significant prejudice to the detriment of both parties. If FIPP is able to keep the asset at the end of the day, it will have to manage a "cold" and costly asset (both in terms of euros and risk) over a prolonged period.

Please note that FPN hasn't yet published its H1 20 accounts and that the AGM convened to approve the accounts has been postponed to 21 December 2020.

## Sales by Geography



France (100.0%)

## Consolidated P&L Accounts

|   |            | 12/19A        | 12/20E        | 12/21E        |
|---|------------|---------------|---------------|---------------|
| Sales                                   | €th        | 0.00          | 0.00          | 0.00          |
| Change in sales                         | %          | -100.0        | 0.00          | 0.00          |
| Change in staff costs                   | %          | 2.04          | 1.50          | 1.50          |
| EBITDA                                  | €th        | -2,899        | -2,584        | -2,300        |
| <b>EBITDA(R) margin</b>                 | %          | <b>ns</b>     | <b>ns</b>     | <b>ns</b>     |
| Depreciation                            | €th        | -2,141        | 0.00          | 0.00          |
| Underlying operating profit             | €th        | -3,592        | 12,416        | -2,300        |
| <b>Operating profit (EBIT)</b>          | <b>€th</b> | <b>-3,592</b> | <b>13,258</b> | <b>-2,300</b> |
| Net financial expense                   | €th        | -105          | -0.01         | -0.01         |
| of which related to pensions            | €th        | 0.00          | 0.00          | 0.00          |
| Exceptional items & other               | €th        | 0.00          | 0.00          | 5,000         |
| Corporate tax                           | €th        | 0.00          | 0.00          | 0.00          |
| Equity associates                       | €th        | 0.00          | 0.00          | 0.00          |
| Minority interests                      | €th        | 0.00          | 0.00          | 0.00          |
| <b>Adjusted attributable net profit</b> | <b>€th</b> | <b>-3,697</b> | <b>-2,584</b> | <b>-2,300</b> |
| NOPAT                                   | €th        | -2,514        | 9,281         | -1,610        |

## Cashflow Statement

|   |            |               |               |               |
|---|------------|---------------|---------------|---------------|
| EBITDA                                    | €th        | -2,899        | -2,584        | -2,300        |
| Change in WCR                             | €th        | 1,572         | 80.0          | 900           |
| Actual div. received from equity holdi... | €th        | 0.00          | 0.00          | 0.00          |
| Paid taxes                                | €th        | 0.00          | 0.00          | 0.00          |
| Exceptional items                         | €th        | 0.00          | 0.00          | 0.00          |
| Other operating cash flows                | €th        | 0.00          | 0.00          | 0.00          |
| Total operating cash flows                | €th        | -1,327        | -2,504        | -1,400        |
| Capital expenditure                       | €th        | 0.00          | 0.00          | 0.00          |
| Total investment flows                    | €th        | 0.00          | 0.00          | 0.00          |
| Net interest expense                      | €th        | -105          | -0.01         | -0.01         |
| Dividends (parent company)                | €th        | 0.00          | 0.00          | 0.00          |
| Dividends to minorities interests         | €th        | 0.00          | 0.00          | 0.00          |
| New shareholders' equity                  | €th        | 0.00          | 1,650         | 0.00          |
| Total financial flows                     | €th        | 2,297         | 2,801         | -3,600        |
| Change in cash position                   | €th        | 970           | -1,237        | -5,000        |
| <b>Free cash flow (pre div.)</b>          | <b>€th</b> | <b>-1,432</b> | <b>-2,504</b> | <b>-1,400</b> |

## Per Share Data

|  |          |              |              |              |
|--|----------|--------------|--------------|--------------|
| No. of shares net of treas. stock (year... | Th       | 82,629       | 115,629      | 115,629      |
| Number of diluted shares (average)         | Th       | 578,876      | 411,490      | 244,105      |
| <b>Benchmark EPS</b>                       | <b>€</b> | <b>-0.01</b> | <b>-0.01</b> | <b>-0.01</b> |
| Restated NAV per share                     | €        | 0.08         | 0.03         | 0.05         |
| <b>Net dividend per share</b>              | <b>€</b> | <b>0.00</b>  | <b>0.00</b>  | <b>0.00</b>  |

## Valuation Summary

| Benchmarks         | Value  | Weight | Largest comparables |
|--------------------|--------|--------|---------------------|
| NAV/SOTP per share | € 0.05 | 75%    | ■ Icade             |
| DCF                | € 0.06 | 25%    | ■ Gecina            |
| TARGET PRICE       | € 0.05 | 100%   | ■ Covivio           |

### NAV/SOTP Calculation

- Nexity
- Vonovia
- Deutsche Wohnen

## Balance Sheet

|  |            | 12/19A         | 12/20E        | 12/21E        |
|--|------------|----------------|---------------|---------------|
| Goodwill                                   | €th        | 0.00           | 0.00          | 0.00          |
| Total intangible                           | €th        | 0.00           | 0.00          | 0.00          |
| Tangible fixed assets                      | €th        | 17,885         | 34,569        | 34,569        |
| Financial fixed assets                     | €th        | 217            | 217           | 217           |
| WCR  | €th        | -10,962        | -11,042       | -11,942       |
| Other assets                               | €th        | 0.00           | 0.00          | 0.00          |
| Total assets (net of short term liab.)     | €th        | 7,140          | 23,744        | 22,844        |
| <b>Ordinary shareholders' equity</b>       | <b>€th</b> | <b>-15,279</b> | <b>-217</b>   | <b>-2,517</b> |
| Quasi Equity & Preferred                   | €th        | 0.00           | 0.00          | 0.00          |
| Minority interests                         | €th        | 0.00           | 0.00          | 0.00          |
| Provisions for pensions                    | €th        | 0.00           | 0.00          | 0.00          |
| Other provisions for risks and liabilities | €th        | 842            | 0.00          | 0.00          |
| Total provisions for risks and liabilities | €th        | 842            | 0.00          | 0.00          |
| Tax liabilities                            | €th        | 0.00           | 0.00          | 0.00          |
| Other liabilities                          | €th        | 4.00           | 0.00          | 0.00          |
| <b>Net debt (cash)</b>                     | <b>€th</b> | <b>21,573</b>  | <b>23,961</b> | <b>25,361</b> |
| Total liab. and shareholders' equity       | €th        | 7,140          | 23,744        | 22,844        |

## Capital Employed

|                                     |     |       |        |        |
|-------------------------------------|-----|-------|--------|--------|
| Capital employed after depreciation | €th | 7,140 | 23,744 | 22,844 |
|-------------------------------------|-----|-------|--------|--------|

## Profits & Risks Ratios

|                                |   |             |             |             |
|--------------------------------|---|-------------|-------------|-------------|
| <b>ROE (after tax)</b>         | % | <b>27.6</b> | <b>-171</b> | <b>-198</b> |
| ROCE                           | % | -35.2       | 39.1        | -7.05       |
| <b>Gearing (at book value)</b> | % |             |             |             |
| Adj. Net debt/EBITDA(R)        | x | -7.44       | -9.27       | -11.0       |
| Interest cover (x)             | x | -34.2       | 1,241,600   | 230,000     |

## Valuation Ratios

|                                  |          |              |              |              |
|----------------------------------|----------|--------------|--------------|--------------|
| <b>Reference P/E (benchmark)</b> | <b>x</b> | <b>-4.77</b> | <b>-3.98</b> | <b>-2.65</b> |
| Free cash flow yield             | %        | -56.9        | -86.6        | -48.4        |
| P/Book                           | x        | -0.16        | -13.3        | -1.15        |
| <b>Dividend yield</b>            | %        | <b>0.00</b>  | <b>0.00</b>  | <b>0.00</b>  |

## EV Calculation

|   |          |              |              |              |
|---|----------|--------------|--------------|--------------|
| Market cap                              | €th      | 2,515        | 2,891        | 2,891        |
| + Provisions                            | €th      | 842          | 0.00         | 0.00         |
| + Unrecognised actuarial losses/(gains) | €th      | 0.00         | 0.00         | 0.00         |
| + Net debt at year end                  | €th      | 21,573       | 23,961       | 25,361       |
| + Leases debt equivalent                | €th      | 0.00         | 0.00         | 0.00         |
| - Financial fixed assets (fair value)   | €th      |              |              |              |
| + Minority interests (fair value)       | €th      | 0.00         | 0.00         | 0.00         |
| = EV                                    | €th      | 24,930       | 26,852       | 28,252       |
| <b>EV/EBITDA(R)</b>                     | <b>x</b> | <b>-8.60</b> | <b>-10.4</b> | <b>-12.3</b> |
| EV/Sales                                | x        | ns           | ns           | ns           |

Analyst : Christian Auzanneau, Changes to Forecasts : 25/08/2020.